Württembergische Versicherung AG

Building for the future.
Annual Report 2017.

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

I hereby certify this is a correct translation, however as per the above disclaimer the German original is legally binding.

ppa Dittmar

Juergen Dittmar, Permanent Representative for and behalf of Wuerttembergische Versicherung Aktiengelellschaft UK Branch

Axel Spille, Head of Accounting Dept. Wuerttembergische Versicherung Aktiengesellschaft

württembergische

Ihr Fels in der Brandung.

Württembergische Versicherung AG
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Württembergische Versicherung AG
Executive Board and Supervisory Board

Executive Board

Norbert Heinen – Chairman
Investments Audit
Customer Data and Brands

Dr Michael Gutjahr
Finance Risk Management

Franz Bergmüller
Corporate and Retail Customers, Claims,
Actuarial Services & Reinsurance
(until 30 June 2017)

Dr Susanne Pauser
Human Resources Compliance
Complaint Management

Thomas Bischof
(starting 1 July 2017)
Tied Agents & Broker Sales

Jens Wieland
IT Operations

Retired from the Executive Board
Dirk Hendrik Lehner (until 30 Jun3 2017)

Supervisory Board

Dr Alexander Erdland
Chairman
(until 9 February 2017)
Former Chairman of the Executive Board of
Wüstenrot & Württembergische AG

Jürgen A. Junker
(from 10 February 2017)
Chairman
(from 22 February 2017)
Chairman of the Executive Board
Wüstenrot & Württembergische AG

Hubert Sebold[1]
Deputy Chairman (from 22 February 2017)
Deputy Chairman of the Group Works Council Württembergische Versicherung AG/Württembergische Lebensversicherung AG Deputy Chairman of the Works Council Württembergische Versicherung AG/ Württembergische Lebensversicherung AG, Karlsruhe site

Nicolé Benzinger-Henzler[1]
Insurance employee Württembergische Versicherung AG
Trade union member
DHV – Die Berufsgewerkschaft e. V.

Prof. Dr Nadine Gatzert
Chair of Insurance Economics and Risk Management at Friedrich Alexander University in Erlangen-Nuremberg

Jochen Haller
Former Managing Director of IHK Ludwigsburg district chamber of commerce

Gisbert Hasenfuss[1]
Head of the Regional Head Office Stuttgart/Rems-Murr
Württembergische Versicherung AG

Ulrich Kraft
Managing Director KRAFT Baumanagement GmbH

Hans Peter Lang
Member of the Executive Management
W&W Asset Management GmbH

Werner Emil Roth[1]
(until 28 February 2018) Insurance employee
Württembergische Versicherung AG

Petra Sadowski[1]
Trade union secretary
Vereinte Dienstleistungsgewerkschaft ver.di
Stuttgart district

Dr Heiko Winkler
Former Chairman of the Executive Boards of Westfälische Provinzial Versicherung AG, Westfälische Provinzial Lebensversicherung AG, Provinzial NordWest Holding AG

Gerold Zimmermann[1]
(from 16 January 2017)
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

1 Employee representatives.

Württembergische Versicherung AG
Management report

Fundamentals

Business model

Overview of Württembergische Versicherung AG

Württembergische Versicherung AG, based in Stuttgart, Germany, is one of Germany's most venerable insurance companies. It was founded in 1828 as „Württembergische Privat-Feuer-Versicherungs-Gesellschaft". Today, the company offers customised property and personal accident insurance products. Because of the wide selection of products that it offers, Württembergische is one of Germany's largest property and personal accident insurers. Germany is the company's core market.

Since the merger of the tradition-rich companies Wüstenrot and Württembergische in 1999, Württembergische Versicherung AG has been a part of the Wüstenrot & Württembergische Group in the Insurance division. The W&W Group brings together the Home Loan and Savings Bank and Insurance divisions as equally strong pillars and offers financial planning solutions for retail and commercial customers from a single source. It positions itself and its subsidiaries as a financial planning specialist for financial security, property investment, risk protection and private wealth management. Wüstenrot & Württembergische AG holds 100% of the share capital of Württembergische Versicherung AG.

The Executive Board of Württembergische Versicherung AG experienced one change during the reporting year. Effective 1 July 2017, Thomas Bischof assumed responsibility for the sales department. In addition, it is planned to appoint him Chairman of the Executive Board of Württembergische Versicherungen during 2018 and at the same time to the Management Board of the W&W Group as Head of Division. Bischof will replace Norbert Heinen as Chairman of the Executive Board of Württembergische Versicherungen, who has held that position since 2010 and is voluntarily stepping down as part of the transition to the next generation.

In order to enhance the interplay between all parts of the Group, the executive structures in the W&W Group were realigned in October 2017. This is intended to combine and accelerate decision-making paths.

The Management Board was strengthened by enabling proposed decisions to be submitted to it that are relevant to Group-wide and strategic issues. The Group Board was eliminated. In addition to the members of the Executive Board of W&W AG, the Management Board includes the Heads of Division Bernd Hertweck (Wüstenrot), Norbert Heinen/Thomas Bischof (Württembergische Versicherungen) and Jürgen Steffan, General Representative for Risk Management and Mergers & Acquisitions. Operational and company-specific issues of Württembergische will continue to be handled by the Insurance Division Board.

By building the new campus at the Kornwestheim location, W&W AG as owner is investing in the future of the Group. Modern workstations facilitate more intensive collaboration, a modern innovation culture and future-oriented working methods. Approximately 1,200 employees began moving into the first section of the building in November 2017. Full relocation into the new premises is expected to be completed by 2023. With a total of seven new buildings, the Kornwestheim location will be home to 4,000 employees of Wüstenrot and Württembergische within a few years. The image on the cover of this Annual Report provides a small glimpse of the W&W campus.

The business model of Württembergische Versicherung AG again proved successful in the 2017 financial year and is being continually enhanced.

From "W&W@2020" to "W&W Better!"

Württembergische Versicherung AG provides insurance services as a part of the financial planning specialist W&W. The vision of W&W is "Creating value, securing value". In that spirit, we further sharpened our business model again in 2017. In doing so, we want to make good things even better, both in our current business model and also with regard to new initiatives. We combined the previous "W&W@2020" programme with the new strategic measures to create "W&W Better!". With regard to "W&W Better!" as the new standard, the focus is on the benefits for the customer and the unique W&W concept of financial planning from a single source.

The six action fields associated with "W&W Better!" are:

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

A number of promising new initiatives were launched in 2017, and important successes were achieved in implementation. In this regard, we are expediting the digital transformation.

- For instance, in connection with our strategic objectives, we successfully introduced our new digital brand **"Adam Riese"** on the market in the fourth quarter of 2017. Customers can obtain flexible, affordable general liability insurance at www.adam-riese.de, through brokers or using comparison portals. The aim is to gradually expand the range of products.

- In addition, we have created a digital financial assistant for our customers – the **FinanzGuide**. This app gives users digital access to all their financial products (accounts, custodial accounts, insurance policies, home loan savings contracts).

We are not restricting ourselves merely to building and expanding digital communication channels. The W&W Group can also be reached personally by its customers at all times. For instance, we are **strengthening our level of service** and advice at the local level by continuing our skills-development offensive and promoting mutual collaboration among mobile sales organisations. More than 500 tied agents are now working with the common sales format "Tandem", which enables them to offer their customers tailored advice for all life situations. At the same time, we succeeded in expanding the number of large financial planning centres from 30 to 49. We also increased the number of certified financial planning specialists by 12% to 2,125.

Our principle of **increasing customer satisfaction** paid off in 2017: Württembergische Versicherung AG received an award for customer satisfaction from MSR Consulting. In the surveys, it was rated "very good" for "overall satisfaction", "service quality", "telephone service" and "value for money" as a branch-based insurer. In addition, all Württembergische customers benefit from the **customer portal "Meine Württembergische".** This allows our customers to access their policies digitally around the clock.

Product mix

To be able to offer its customers high-quality products that are geared to their individual needs, Württembergische draws on a broad product portfolio covering virtually all business lines of property and personal accident insurance. This includes:

- Personal accident insurance
- Liability insurance
- Motor insurance
- Fire insurance
- Household insurance
- Residential building insurance
- Other property insurance (including technical insurance)
- Transport and aviation insurance
- Legal expenses insurance
- Travel assistance insurance

In the year under review, the portfolio share of premium car policies remained at a very high level in the motor business segment. Following a successful field test in the previous year, the area of motor insurance was expanded to include a new policy with a telematics solution via app. This is designed to attract a clearly defined target group in the youth segment. Likewise, as a supplement to comprehensive motor insurance, the component "Schaden-service+" was introduced, which offers expanded services in the event of a claim.

In the year under review, demand in the field of classic and exotic cars again exceeded the market average. Here, we made it possible to obtain insurance through our website, and a separate Facebook page was set up for classic car enthusiasts.

In 2017 Württembergische Versicherung AG mostly sold premium services in the retail customer business segment.

A new private liability policy was developed with new, more customer-friendly terms, and it was awarded the product rating "outstanding" in the premium protection category by Franke und Bornberg. The range of benefits was considerably expanded. For instance, claims associated with the use of insured vehicles are covered up to €5,000 (damages from loading and unloading, coverage of the premium increase following an accident, use of the wrong fuel).

Growth also continued in the corporate customer business segment in 2017. It was again mainly supported by the core "company policy" product. The range was further enhanced in 2017 with the introduction of a new liability policy, which likewise has new, more customer-friendly terms. The cyber policy was also revised, representing an important step forward. Moreover, the focus on target group products continued in the financial year under review.

Sales channels

In selling our products, we place great emphasis on the competence and reliability of personal advice. This is mainly provided by our own tied agents with approximately 3,000 mobile sales partners. This sales force is supported by some 3,000 Wüstenrot consultants. In order to give our customers digital access to Württembergische Versicherung AG products, we are also increasingly offering them online. In addition, we are selling them under the new online brand Adam Riese. In addition, broker sales and strong collaborations with the banking and insurance sector are making a key contribution to our success.

Commitment to sustainability

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

Württembergische Versicherung AG meets these criteria for non-financial reporting. Because Württembergische Versicherung AG is included in the W&W combined management report, it is exempt pursuant to Section 289b, HGB (2) sentence 1, no.1 HGB from the duty to prepare its own non-financial report.

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

Regulatory requirements

The quarterly notifications required under Solvency II and the annual reporting by the insurance companies were sent to BaFin on time. The requirements for coverage ratios were more than satisfied.

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 used to establish the main metrics for management to use as quantitative targets. The most important performance indicators are derived on this basis.

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

Key performance indicators have been defined to properly guide Württembergische Versicherung AG.

For the 2017 and 2018 financial years, these are net income for the year before taxes and profit transfer in accordance with the German Commercial Code (HGB) and the combined ratio (net). The combined ratio describes the ratio of expenses for insurance business and expenses for insurance claims to premiums earned.

In addition, we report new business (according to annual portfolio contributions) under business development and in the outlook.

Employees

As at 31 December 2017, the Württembergische Versicherungsgruppe had 3,218.8 employees (previous year: 3,283.7 employees), calculated based on full-time equivalents, excluding trainees.

Ratings

In the year under review, Standard & Poor's (S&P) again confirmed the ratings of all core companies in the W&W Group with a stable outlook. Thus, Württembergische Versicherung AG continues to have a rating of A-. The risk management of the W&W Group continues to be classified in the "strong" category.

Business report

Business environment

Macroeconomic environment

The German economy continued its growth in 2017. According to preliminary calculations, gross domestic product rose by 2.5%. The most important support for the economy was the brisk consumer demand of private households. Also, investments contributed to the positive economic situation. Whereas the construction sector continued to trend in a dynamic direction, equipment investments by companies also began to pick up speed. Foreign trade made only a minor contribution to growth, since markedly rising imports stemming from brisk domestic demand nearly offset the growth in exports. In 2017 the W&W Group operated in a very dynamic economic environment.

Capital markets

Bond markets

Over the course of 2017, long-term interest rates (10-year German government bonds) fluctuated mostly between 0.15% and 0.5%. On the one hand, the economy grew at an increasing rate over the course of the year, and the ifo Business Climate Index reached a record level. On the other, inflation remained at an unexpectedly low level. This caused interest rates to fall again. At the end of 2017, however, the yield on 10-year German government bonds stood at 0.43%, roughly 22 basis points higher than at the end of 2016.

In the short-term maturity range, yields once again fell noticeably at the start of 2017. For instance, in late February the yield on two-year German government bonds fell to a new record low of −0.95%. The two-year yield at the end of 2017 stood at −0.63%, which was only 14 basis points higher than at the end of 2016.

Equity markets

European equity markets posted considerable growth in prices in 2017. In early November, the Euro STOXX 50 stood at roughly 3,700, which was a new two-year high. The German benchmark index DAX again showed strong growth in prices, hitting a new all-time high at 13,500. Following moderate price consolidation, the Euro STOXX 50 closed the year at 3,504, equating to price growth of 6.5%. The German benchmark index

At year-end, the German benchmark index DAX stood at 12,918, with price growth of 12.5%.

Industry trends

In 2017, despite persistently low interest rates and regulatory requirements, the insurance industry again adjusted well to the Solvency II provisions. The path of insurance supervision at the EU level has become less clear due to the Brexit negotiations. For this reason, regulatory implications resulting from this cannot be ruled out.

According to provisional calculations by the German Insurance Association (GDV), premium income at year-end was up about 2.8%, reaching €68.3 billion (previous year: €66.3 billion). Private property insurance posted the highest growth at 4.5%. Motor insurance also contributed to the premium growth at a higher rate than in the previous year (+ 4.1%). At 4.0%, legal expense insurance grew less strongly than in the previous year.

Claims expenses in the financial year also increased by 2.3%, a figure that is below the growth rate for premiums. At 75%, the loss ratio for the financial year is slightly below the previous year's level. Overall, the industry's gross underwriting income for the year as a whole was higher than the previous year's level, coming in at €4.1 billion (previous year: €3.5 billion). The combined ratio (ratio of claims and expenses to premiums earned) improved to approximately 94%.

Business development and position of the company

Business development

The 2017 financial year was characterised by a very positive trend in claims. The claims equalisation provisions were further strengthened through an addition of €4.2 million (previous year: €43.2 million). In 2017, Württembergische Versicherung AG achieved a combined ratio of 90.9% for direct domestic business, more than 4 percentage points below the average of competitors. This reflects our cautious, income-oriented underwriting policy. Our gross premiums rose by 4.3%, a rate higher than that of the market (2.9%).

New business clearly exceeded the previous year's figure, coming in at €232.0 million (previous year: €207.9 million). Net income from investments improved by 28.6% to €103.9 million (previous year: €80.8 million).

Net income before taxes and profit transfer rose to €169.6 million (previous year: €110.3 million). The main reason for this was the smaller amount added to the claims equalisation provisions.

Underwriting income marked by positive claims development

With claims expenses for damages from natural disasters coming in somewhat lower at €73.6 million (previous year: €79.8 million), the claims development of Württembergische Versicherung AG deteriorated only slightly in the 2017 financial year. Underwriting income before the allocation to the claims equalisation provisions increased from the already high amount of €134.9 million in the previous year to €151.7 million. After the allocation to the claims equalisation provisions, which was smaller than in the previous year, underwriting income amounted to €147.5 million (previous year: €91.7 million).

Improvement in investment income

Net income from investments increased by 28.6% to €103.9 million (previous year: €80.8 million). Although current investment income declined to €93.1 million (previous year: €99.9 million), this was more than offset by, above all, higher disposal gains from the sale of interests in investment assets. The write-up/write-down balance improved significantly from –€12.9 million to €4.6 million.

The net interest rate on investments stood at 3.9% (previous year: 3.1%).

Net profit, profit transfer to W&W AG

Gross premiums written in motor insurance increased by 4.4% from €733.5 million to €765.5 million.

In retail customer business, premium income rose by 3.0% compared with the previous year and amounted to €606.9 million (previous year: €589.5 million). In corporate customer business, Württembergische Versicherung AG's gross premium income written rose by 6.6% to €378.8 million (previous year: €355.2 million).

Claims development in the financial year

In the financial year under review, the gross loss ratio for domestic business came in at 72.1%, which was only slightly higher than the likewise very good figure for the previous year (71.6%). Gross claims expenses for damage from natural disasters declined to €73.6 million (previous year: €79.8 million).

Claims expenses for own account in Germany rose from €866.3 million to €899.5 million. The net loss ratio fell slightly to 63.6% (previous year: 63.7%). The amount of €4.2 million (previous year: €43.2 million) was added to the claims equalisation provisions.

Continued robust reserves

In 2017, net technical provisions increased from €2,299.2 million to €2,330.1 million. The main reason for this change was the increase in the provision for outstanding insurance claims.

Technical provisions for own account

	2017	2016	Change
			in %
Provisions for claims			
in € million	1,773.8	1,751.5	1.3
in % of premiums written	125.2	128.7	
in % of claims payments	204.8	205.4	
Claims equalisation provisions			
in € million	411.3	407.2	1.0
in % of premiums written	29.0	29.9	
Technical provisions			
Total in € million	2,330.1	2 299.2	1.3
in % of premiums written	164.5	168.9	

Due in particular to the excellent actuarial development over the year, net income from normal operating activities rose from €142.4 million to €169.6 million. Following a profit transfer of €77.8 million (previous year: €113.5 million) to the sole shareholder, W&W AG, net profit amounted to €88.0 million (previous year: –). In connection with formally approving the net profit figure, the Executive Board and the Supervisory Board allocated €44.0 million to retained earnings, which resulted in an unappropriated surplus of €44.0 million (previous year: –).

Measured in terms of the annual contribution to the portfolio, new business amounted to €232.0 million, which was clearly above the level of the previous year.

With a decline of –0.9%, the cancellation rate in the portfolio of Württembergische Versicherung AG remained at the level of the previous year.

Württembergische Versicherung AG also achieved premium growth in 2017. Gross premium income increased by 4.4% to €1,751.2 million (previous year: €1,678.1 million). Württembergische Versicherung AG's premium income for own account increased by 4.1% to €1,416.8 million (previous year: €1,361.0 million).

The net share after accounting for the reinsurers' portion fell slightly to 80.9% (previous year: 81.1%).

The expense ratio (gross) in Germany again fell slightly to 26.7% (previous year: 26.9%). Remuneration paid to the mobile sales force increased by 5.2%. Total expenses for insurance business rose by 3.6% from €451.5 million to €467.8 million, an increase below the growth rate of the premiums.

Other expenses

Other expenses increased from €231.9 million to €322.8 million. This includes a voluntary contribution to the Württembergische Pensionskasse.

Combined ratio better than strategic goal

In domestic business, the good trend in claims and the positive cost development also had an impact on the combined ratio of Württembergische Versicherung AG. In the 2017 financial year, the combined ratio (gross) came in at 90.9%, which was slightly higher than the outstanding level of the previous year (90.2%) and thus remained significantly below the new strategic goal of 94%. The strategic goal was lowered from 96% to 94% in the current year.

The business segments of Württembergische Versicherung AG

Gross premium income by business segment

	2017	Share
	in € million	in %
Motor	765.5	43.7
Retail customers	606.9	34.7
Corporate customers	378.8	21.6
Total	**1,751.2**	**100.0**

Motor

This business segment comprises the business lines motor liability, motor comprehensive insurance, motor personal accident insurance and traffic service insurance of Württembergische Versicherung AG. In 2017 premiums written increased by 4.4% to €765.5 million (previous year: €733.5 million).

Both the company's tied-agents organisation and the broker sales channel posted an increase in new business. Measured in terms of the annual contribution to the portfolio, new business in motor insurance increased by 7.9% year-on-year to €167.9 million (previous year: €155.5 million).

The loss ratio for the financial year remained stable at 84.0%. (previous year: 84.1%). Net income from the previous year's claims amounted to €44.1 million (previous year: €43.4 million). Net underwriting income from the motor business segment rose from €20.2 million to €24.9 million.

The company thus again achieved positive net underwriting income and even slightly increased it compared with the previous year.

Retail customers

This business segment mainly comprises the business lines residential buildings, household, general personal accident insurance, legal expenses and liability business involving private households. Gross premiums written rose by 3.0% to €606.9 million (previous year: €589.5 million).

Net income from the retail customer segment came in at €86.2 million, which exceeded the very good level of the previous year (€83.3 million). With strong premium increases in the retail customer segment, general personal accident insurance and household insurance made the largest contributions to net income. All business lines recorded positive results in the 2017 financial year.

In the business line for residential building insurance, the measures to enhance profitability were again highly successful. Following on the profit of €1.7 million posted in the previous year, net income came in at €12.0 million for 2017. The combined ratio (net) was considerably below 100%, coming in at 88.7% (previous year: 96.1%). Gross premiums written increased 6.1%, which was particularly attributable to a higher average premium.

Corporate customers

This business segment includes the commercial and industrial property and liability business lines. Income in this segment from gross premiums written rose by 6.6% from €355.2 million to €378.8 million.

Due to several large loss events combined with only moderately higher net income from the previous year's claims, the gross loss ratio in corporate customer business rose from 54.0% to 57.0% in the 2017 reporting year. Net income increased from €34.0 million to €41.4 million.

Business line reports

This report presents the results described in the segment report in a different way. Depending on the individual business line, the results are consolidated across all business segments – motor, retail customers, corporate customers and non-German business.

Direct business

Personal accident insurance

Personal accident insurance comprises the business lines general personal accident insurance, aviation personal accident insurance and motor personal accident insurance. In the year under review, gross premiums increased by 2.1% from €133.4 million to €136.2 million. The number of claims rose to 14,653 (previous year: 14,246). Due to the sharp increase in claims expenses, the loss ratio for the financial year rose to 49.2% (previous year: 34.2%). In the technical account, personal accident insurance generated net income of €23.8 million (previous year: €39.6 million).

- Liability insurance
  This business line consists of general liability business involving retail and corporate customers, as well as the aviation liability business. Gross premium income from this business line rose by 2.4% from €194.5 million to €199.2 million. The loss ratio for the financial year improved from 57.2% to 52.3%. In the liability business line, net underwriting income after the claims equalisation provision increased to €66.9 million (previous year: €48.8 million).

- Motor insurance
  In the year under review, gross premium income increased by 4.4% to €754.3 million (previous year: €722.7 million). Motor insurance posted positive net underwriting income before claims equalisation provisions of €24.8 million (previous year: €20.5 million). The amount of €2.7 million was released from the claims equalisation provisions (previous year: addition of €15.6 million).

- Motor liability insurance
  In 2017, the motor liability insurance of Württembergische Versicherung AG covered 1,712,707 insured risks (previous year: 1,675,876). This corresponds to an increase of 2.2%. Year on year, the number of reported claims remained virtually unchanged at 89,961 (previous year: 89,949). In 2017, gross premiums written increased by 4.2% from €418.6 million to €436.1 million. The average claim rose by 1.8% to €3,592 (previous year: €3,527). The loss ratio for the financial year improved to 85.9% (previous year: 88.3%). The run-off gain in motor liability insurance amounted to €35.3 million, which was slightly more than in the previous year. Underwriting income before claims equalisation provisions stood at €22.2 million (previous year: €11.2 million). The amount of €5.8 million was released from the claims equalisation provision (previous year: addition of €4.9 million).

- Other motor insurance
  Other motor insurance includes comprehensive and partial cover insurance. Gross premium income from this business line rose by 4.7% from €304.1 million to €318.2 million. The loss ratio for the financial year increased slightly to 82.4% (previous year: 79.3%). In Württembergische Versicherung AG's other motor insurance business line, income before the claims equalisation provision stood at €2.6 million (previous year: €9.3 million). In the 2017 financial year, the amount of €3.1 million (previous year: €10.8 million) was added to the claims equalisation provisions.

- Fire insurance
  This business line comprises industrial fire insurance, general fire insurance and agricultural fire insurance. Gross premium income increased by 3.5% from €65.6 million to €67.9 million. The gross loss ratio for the financial year increased significantly to 106.8% (previous year: 71.8%). One of the reasons for this development was the substantially higher impact from individual major claims. Underwriting income before claims equalisation provisions improved somewhat from –€1.8 million to –€1.1 million.

- Household insurance
  In 2017, gross premium income from household insurance increased by 2.2% to €91.2 million (previous year: €89.3 million). The claims situation improved significantly. The loss ratio for the financial year fell from 42.2% to 35.8%. Net underwriting income improved to €23.4 million (previous year: €18.3 million).

- Residential building insurance
  As was the case in the previous year, premiums increased moderately. In 2017 gross premiums rose by 6.1% to €172.7 million (previous year: €162.7 million), even though the number of policies increased only slightly by 0.6% to 451,392. Because of an increased number of natural disaster claims, reported claims rose considerably by 18.4% from 37,086 to 43,898. However, the average claim fell by 20.7% from €2,985 to €2,367. The loss ratio for the reporting year improved to 61.5% (previous year: 70.4%). Net underwriting income rose to €12.0 million (previous year: €1.7 million).

- Other property insurance
  This business line comprises insurance for burglary and damage from ruptured water lines, glass breakage, storms and natural disasters, as well as technical insurance, extended coverage and products that span multiple business lines in the commercial and industrial area. The entire business line posted a gross premium increase of 8.8% to €170.5 million (previous year: €156.8 million). The loss ratio for the financial year improved to 66.0% (previous year: 67.3%). As a result, net underwriting income before the claims equalisation provision amounted to €3.7 million (previous year: €6.3 million). The amount of €2.9 million (previous year: €4.0 million) was added to the claims equalisation provisions.

- Transport and aviation insurance
  Gross premiums written in transport and aviation insurance increased by 3.2% to €19.2 million (previous year: €18.5 million). The gross loss ratio fell slightly from 64.0% to 62.3%. Whereas net underwriting income before the claims equalisation provision came in at €0.2 million in the previous year, a net loss of –€0.8 million was posted for the year under review. The amount of €0.5 million was released from the claims equalisation provision (previous year: addition of €0.4 million).

- Legal expenses insurance
  Gross premium income from legal expenses insurance increased by 3.0% to €114.9 million (previous year: €111.5 million). The number of reported claims increased by 1.3% from 105,414 to 106,816. The average claim rose slightly from €687 to €700. The loss ratio for the financial year improved from 64.8% to 62.2%. Underwriting income before the claims equalisation provision came in at €6.2 million (previous year: €2.6 million). The amount of €1.9 million was added to the claims equalisation provision (previous year: release of €0.5 million).

- Travel assistance insurance
  This business line consists solely of travel service insurance. Gross premium income increased by 4.5% from €9.8 million to €10.3 million. The gross loss ratio for the financial year improved to 62.6% (previous year: 66.0%). Net underwriting income before the claims equalisation provision improved somewhat from –€0.6 million to –€0.2 million. The amount of €0.8 million (previous year: €0.1 million) was allocated to the claims equalisation provision.

- Other insurance
  This business line comprises fire business interruption insurance and other products that span multiple business lines. In the 2017 financial year, gross premiums in this area increased by 11.3% to €14.9 million (previous year: €13.4 million). Owing to major claims, the loss ratio deteriorated to 71.5% (previous year: 51.2%). The business line posted net underwriting income before the claims equalisation provision of €0.1 million (previous year: –€3.0 million). The amount of €1.3 million (previous year: €0.1 million) was released from the claims equalisation provision.

Assumed reinsurance business
Until the end of 2007, assumed reinsurance business had been underwritten almost exclusively by the London branch of Württembergische Versicherung AG. It mainly comprises the processing of policies from the business lines technical insurance, transport insurance, liability insurance, fire insurance and other insurance. Assumed reinsurance business posted net underwriting income of €0.0 million (previous year: –€0.7 million).

Assets Investments Low interest rates persist
The challenges facing investment policies persisted during the 2017 financial year. The front and back offices coordinated closely at all times. For instance, we continued to ensure that the high requirements were met with respect to the quality of our investments.

We met the diverse challenges through active duration management of interest-bearing investments and through the use of suitable investment instruments and strategies.

In the financial year, the total carrying amount of investments increased by 1.7% to €2,699.4 million (previous year: €2,655.2 million).

Development of the bearer bonds in the direct portfolio
New investments in the amount of €307.3 million were made mainly in bearer bonds in the direct portfolio.

Taking repayments and sales into consideration, the carrying amount of these securities increased from €448.0 million to €560.6 million. Their share of the total investments increased to 20.8% (previous year: 16.9%).

In the financial year just ended, the portfolio of registered bonds, promissory notes, loans and other loans decreased slightly. Their carrying amount fell from €642.7 million to €603.4 million. Their share in the total investment portfolio declined from 24.2% to 22.4%.

We acquired interests in investment assets amounting to €52.1 million. Taking into account certificate redemptions, their carrying amount fell from €900.3 million to €859.3 million, and their share of the portfolio from 33.9% to 31.8% of all investments.

Clear increase in the equity ratio
In light of the positive trends on the equity markets, Württembergische Versicherung AG further increased its equity exposure. Taking into account the futures entered into and the market value of the option positions, the equity ratio thus amounted to 11.0% (previous year: 2.6%). As at year-end, 83.4% of the equity exposure was hedged.

Participations continue to grow
Notwithstanding disposals, the carrying amount of participations and interests in affiliated companies nevertheless increased from €360.6 million to €401.8 million. Participations were acquired in the fields of renewable energies, private equity, private debt, infrastructure and real estate.

Real estate
In the 2017 financial year, the carrying amount of real estate directly held by Württembergische Versicherung AG decreased to €83.1 million (previous year: €84.1 million) due to scheduled depreciation.

Our property management subsidiary, Württembergische Immobilien AG, which is accounted for under the item "Interests in affiliated companies", increased its investments by €10.9 million.

Based on market value, directly and indirectly held real estate increased slightly as a share of total investments from 10.2% to 10.6%.

Higher valuation reserves

Although interest rates on the capital markets rose moderately during 2017, net reserves (i.e. reserves less liabilities) increased year-on-year from €242.2 million to €257.0 million. This was attributable, in particular, to increases in the value of participations. As in previous years, the valuation option pursuant to Section 341b (2) of the HGB (German Commercial Code) was not exercised.

Derivative financial instruments

As in previous years, Württembergische Versicherung AG made use of derivative financial instruments to manage and hedge the equity exposure as well as interest rate and currency risks. In this context, regulatory provisions and internal regulations were complied with. The required organisational structures, especially the strict separation of trading and settlement, were in place at all times.

Financial position

Capital structure

Due to the business model for property insurance and personal accident insurance, technical provisions predominate on the liabilities side.

These amounted to €2,330.1 million (previous year: €2,299.2 million) and thus accounted for 76.8% (previous year: 77.6%) of the liabilities. Of this amount, the provision for outstanding insurance claims accounted for €1,773.8 million (previous year: €1,751.5 million), the claims equalisation provision and similar provisions, €411.3 million (previous year: €407.2 million), the provision for unearned premiums, €114.4 million (previous year: €112.8 million) and the provision for future policy benefits and miscellaneous provisions, €30.5 million (previous year: €27.8 million).

Equity increased from €262.6 million to €350.6 million. This consists of an unappropriated surplus of €44 million and the allocation to retained earnings of €44 million by the Executive Board and the Supervisory Board. Subordinated liabilities again amounted to €30.0 million.

Details about the structure of the liabilities side and about the residual terms to maturity are provided in the notes to the annual financial statements.

Liquidity

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. In 2017 our liquidity was always sufficient. For further information about the liquidity position, please see the opportunity and risk report.

Overall view

The net assets, financial position and financial performance of Württembergische Versicherung AG are stable and orderly. Following the successful year 2016, actuarial performance in 2017 was also marked again by excellent claims development. Net income from investments increased by 28.6% year on year. We are highly satisfied with the results achieved.

Comparison of business development with outlook

The following comparison of current business performance with the forecasts made in last year's annual report shows that Württembergische Versicherung AG on whole achieved positive performance.

In terms of new business, we substantially exceeded the previous year's figures in 2017. In particular, new business in motor and corporate customer business increased moderately in comparison to the new business forecast made in 2016. With regard to retail customer business, we fell considerably short of the new business forecast made in 2016. In terms of value-oriented net sales performance, we had forecast an increase over the previous year. That value was significantly exceeded in 2017. As a result of the good claims development and moderate growth in expenses, which was lower than the growth rate for premiums, the former strategic goal of 96% for the combined ratio (net) was exceeded to an extent much greater than expected.

Net underwriting income was very good and reflects the extraordinarily good claims development in 2017. It was better than expected. This was also attributable to the risk-conscious underwriting policy that we have pursued in recent years. In addition net investment income developed positively. With pre-tax net income of €169.6 million, we clearly surpassed the previous year's figure, although we had cautiously forecast a moderate decline in net income.

Opportunity and risk report

Opportunity report

Recognising and exploiting opportunities is a fundamental requirement for the successful development of Württembergische Versicherung AG. Consequently, Württembergische Versicherung AG pursues the goal of systematically identifying, analysing and evaluating opportunities and initiating suitable measures to utilise them.

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

We have sound governance and control structures in place in order to evaluate and pursue opportunities on the basis of their potential, the required investment and the risk profile. For further information, please refer to the risk report in this management report.

In the following, we concentrate on the main opportunities, distinguishing between opportunities arising from developments outside the company's control ("external influences") and opportunities resulting from our specific strengths as part of the W&W Group ("internal influences").

External influences

Company and customers

Opportunities through changed customer needs and changed values

Württembergische Versicherung AG wants to make financial planning from a single source an everyday reality. To ascertain all of 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 of Württembergische Versicherung AG. Our sales organisations and partners also provide valuable impetus for changes in customer needs and trends.

The dissemination and use of digital media enable more intensive and targeted customer contact along with corresponding sales potential. Our customers increasingly demand 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.

With its sustainable, integrated advisory approach and its target group concepts and solutions, Württembergische Versicherung AG adapts strategically to the changed financial planning market.

Especially in times of uncertainty, there is great demand for a stable financial provider with a high degree of credibility. This represents a special opportunity for the Württembergische Versicherung Group with its long-standing tradition and insurance expertise. We combine this outstanding foundation with our personal advisory approach and new digital possibilities. Digital advances have materially changed the expectations of many existing and potential customers. Communication between customers, sales and back office is increasingly taking place on the basis of digital technology. In the age of the internet and social media and the intensified use of diverse devices such as 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 are rolling out.

Opportunities through demographic change and the dynamics of change

Demographic change and a changed society offer new growth opportunities.

Society is demanding more flexibility in regard to products, consulting and communication due to a change in lifestyle habits. In view of the expertise of Württembergische Versicherung AG in the field of insurance, this points to significant market potential for its services, advisory approach and target-group concepts. By continuously developing new products and using various communication channels, we are quick to adapt to these changes.

Economy

Opportunities through interest rate trends and capital markets

The low interest rate policy in Europe continues to pose challenges for financial services providers, but also offers opportunities.

On the one hand, the importance of effective capital investment is rising. As a traditionally large investor, we have long-standing capital market expertise and a comprehensive risk management system. Our capital investment is based on a strategic asset allocation, which 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.

Politics

Opportunities through increasing regulation and consumer protection

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

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

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 expand digital consulting. Moreover, faster service and new kinds of products can be created.

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

In the fourth quarter of 2017, we introduced our new digital brand "Adam Riese". Since October 2017, customers now have the ability to obtain general liability insurance online. The range of products will be expanded in the first quarter of 2018 to include legal expenses insurance.

Opportunities in the data age

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

Opportunities through digital networking

Creating collaboration networks allows us to better serve customer needs. Digital networking can dramatically reduce response times, which in the event of a claim, for instance, makes it possible to limit consequential damages or even to avoid them altogether.

Internal influencing factors

Opportunities through market position

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

Multi-channel sales via the tied-agents organisation of Württembergische, the tied-agents organisation of Wüstenrot and numerous cooperation arrangements with banks and brokers give Württembergische Versicherung AG stability and a good market position. The great trust that Württembergische Versicherung AG enjoys among its customers is based on the service quality, the competence and customer proximity of our in-house and mobile sales force as well as the cooperative and partner sales.

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

In particular, the consistent digitisation of the customer contact points offers opportunities for the optimisation of sales channels.

Opportunities through our employees

As a sound, attractive employer, we are able to retain highly qualified employees and executives on a long-term basis. By acquiring new employees, we constantly expand 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 minds and the most talented people through flexible working time models, the compatibility of work and private life, diverse development opportunities and adaptable career paths.

Risk report

Risk management system of Württembergische Versicherung AG

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

As an insurance company, the management of risks is one of our core competencies. Thus, our risk management system is an element of our business organisation.

It comprises all internal and external regulations that ensure the structured handling of risks. In accordance with the principle of proportionality, we determine the scope and intensity of our risk management activities according to the risk level of the business engaged in. As part of the W&W Group, we consistently derive our risk management system from the Group requirements and are integrated in the risk management system of the W&W Group.

Core functions and objectives

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.
- **Value creation:** Governance and action impulses in the case of deviations from the risk profile, impulses for risk hedging and conservation of value, promotion and assurance of effective value creation for shareholders, perception of opportunities.

In addition, risk management pursues the aim of protecting the reputation of Württembergische Versicherung AG and the new digital brand “Adam Riese” as part of the financial planning specialists Wüstenrot & Württembergische AG. The reputation of the company as a sound, reliable, trustworthy partner for our customers is a material factor for our lasting success.

The principles and configuration elements of our risk management system as well as our general handling of material risks are described below.

Risk management framework

The risk strategy establishes minimum requirements for the direction and framework of the risk policy. It is derived from the business strategy and the risk strategy of the W&W Group and describes the type and scope of the material risks at Württembergische Versicherung AG. It defines goals, risk tolerance, limits, measures and instruments to handle assumed or future risks. The risk strategy is adopted by the Executive Board and is discussed in the Supervisory Board at least once a year.

As a matter of principle, we strive to balance business opportunities with the associated risks. We always endeavour to secure the company’s continued existence as a going concern. The objective is to avoid taking risks that endanger existence or that are incalculable.

In our Group Risk Policy, we translate the risk strategy requirements into an organisational framework of the risk management system that considers both the specific needs of Württembergische Versicherung AG and those of the W&W Group. In this way, we establish the preconditions for effective, holistic risk governance.

Capital management

Württembergische Versicherung AG maintains risk capital. It serves to cover any losses from assumed risks. Risk management controls and monitors capital adequacy and risk-bearing capacity. This indicator represents the ratio of risk capital to the risk capital requirement.

It is controlled in parallel from two perspectives:

1. **Regulatory capital adequacy**
   Regulatory capital adequacy has to do with examining the ratio of eligible own funds to the solvency capital requirements. To do so, we use the standard model of the European Insurance and Occupational Pensions Authority (EIOPA). Based on this indicator, we also present our risk position to the public.

2. **Economic capital adequacy**
   Within the scope of the company’s internal risk and solvency assessment, the economic risk capital requirement is determined on the basis of an economic risk-bearing capacity model and compared with the available economic capital. The available risk capital is allocated on the basis of these calculations, and suitable limits are derived. We use the economic model for our risk governance.

These perspectives furnish evidence of our creditworthiness (“gone-concern perspective”).

Responsibilities in the risk management system/ risk governance

The duties and responsibilities of all persons and committees involved in risk management issues are clearly defined.

The Executive Board bears overall responsibility for the proper organisation of the business of Württembergische Versicherung AG and thus also for an appropriate, effective risk management system.

Accordingly, the Executive Board ensures that the risk management system is effectively implemented, maintained and enhanced. This also includes developing, promoting and integrating an appropriate risk culture.

Under the standing agenda item “risk management”, the Supervisory Board of Württembergische Versicherung AG regularly examines the current risk situation. In its role as the control body overseeing the Executive Board, the Supervisory Board also monitors the appropriateness and effectiveness of the risk management system.

The Audit Committee regularly assures itself that the organisation of risk management in each area of responsibility is appropriate and effective. It reports to the Supervisory Board on this. At Württembergische Versicherung AG, an Audit Committee was reinstated in December 2017. Prior thereto, this responsibility was handled by the Supervisory Board over the course of 2017.

As the central body for the coordination of the risk management of the Insurance division, the Risk Board Insurance supports the Executive Board in risk issues. The Executive Board members and the managers responsible for risk management and related areas in the Insurance division as well as representatives of risk controlling are permanent members of the Risk Board Insurance. The body meets once a month and, where necessary, on an ad-hoc basis. The Risk Board Insurance monitors the risk profile of the Insurance division, its appropriate capitalisation and its liquidity. Moreover, solution proposals are elaborated, recommendations are submitted to the Executive Board and the further development of the entire risk management system is advanced under the supervision of the Chief Risk Officer (CRO).

The Controlling/Risk Management department of Württembergische Versicherung AG provides advice and support to the Risk Board Insurance in determining risk management standards. In collaboration with Group Risk Management, it develops methods and processes for identifying, evaluating, managing, monitoring and reporting risks. Moreover, the department creates qualitative and quantitative risk analyses.

The operational business units responsible for decentralised risk governance make informed decisions about whether to take or avoid risks. In this context, they observe centrally determined standards, risk limits and investment lines, as well as the adopted risk strategy.

We ensure compliance with internal governance rules by means of our internal governance body structure.

The Group Board Risk is key element of this structure. This central body coordinates risk management and monitors the risk profile in the W&W Group. Moreover, it deliberates on Group-wide risk organisation standards and the use of risk management methods and instruments that are uniform throughout the Group. Other central bodies are the Group Liquidity Committee, the Group Compliance Committee, the Group Credit Committee and the Group Security Committee.

In addition to these bodies, our business organisation has certain key functions for particular subjects. These are structured in the form of three lines of defence.

- The operational business units (e.g. sales, application processing, investments) form our first line of defence. These units are responsible for individual risks and are permitted to assume risks in line with their competencies. In this context, they observe centrally determined standards, risk limits and risk lines. Compliance with these competencies and standards is monitored by means of internal controls.

- The following functions are associated with the second line of defence:
  The risk management function coordinates all risk management activities. The actuarial function ensures correct calculation of the technical provisions and assists the risk management function in the risk assessment. The compliance function monitors compliance with all internal and external regulations. It thus assists the risk management function with respect to compliance issues and legal risks.

- The Internal Audit department represents our third line of defence. It independently reviews the appropriateness and efficiency of the Group's internal control system as well as the effectiveness of company processes.

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

Our structural and procedural organisation clearly defines the individual duties of all of the aforementioned bodies, committees and key functions, as well as their connections and reporting lines among each other. This guarantees the regular, timely flow of information both within Württembergische Versicherung AG and across all levels of the W&W Group.

In its capacity as the risk management function, the Controlling/Risk Management department is in charge of operational risk management for Württembergische Versicherung AG. The department head serves as the responsible holder of the key function. The risk management function is involved in all risk-relevant decisions. To fulfil its tasks, it has a right to complete, unlimited information at all levels within Württembergische Versicherung AG, which is ensured by means of corresponding information and reporting paths as well as escalation and decision-making processes.

Risk management process

The risk management process takes the form of an iterative control loop with five process steps.

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 classify our risks as material or 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 companies may experience individual risks.

Risk assessment

To assess material risks, we use various risk measurement procedures. Economic capital adequacy is generally determined with the help of stochastic procedures and the risk measure value at risk (VaR) with a confidence level of 99.5% and a time horizon of one year. Where this procedure cannot be applied for certain risk areas, we use analytical computing procedures and qualitative instruments (e.g. expert estimates). Additionally, we conduct sensitivity and scenario analyses for material risks.

Risk taking and risk governance

In our risk strategy, we define how assumed and future risks are to be handled. On this basis, the operational business units decide whether a risk conforms to these requirements and should be assumed (risk taking). During the year, we manage the risk positions we assume with the help of the methods determined in the risk strategy.

Methods. This includes thresholds, signal systems and limit and line systems (risk governance). The regulatory and economic risk-bearing capacity as well as division-specific indicators are used as key management parameters. These perspectives examine our ability to comply with our obligations towards all claimants ("gone-concern perspective").

Risk monitoring

We constantly monitor compliance with the basic requirements of the risk strategy and risk organisation and whether the quality and grade of risk governance are appropriate. Compliance with the limits and lines determined within the scope of risk governance forms the key basis for monitoring the risk profile and the capitalisation.

Risk reporting

We regularly report to the Risk Board, the Executive Board and the Supervisory Board in a timely manner about the risk position of Württembergische Versicherung AG. Among other things, these reports depict the amount of available capital, 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. Ad-hoc risk communication takes place when material events occur.

Risk profile and material risks

To present our risks transparently, we uniformly group similar risks throughout the Group into risk areas. The following risk areas are relevant for the Insurance division:

- Market price risks
- Counterparty risks
- Insurance risks
- Operational risks
- Business risks
- Liquidity risks

The risk areas are quantified according to our economic model. Market price risks accounted for 46.0% (previous year: 42.0%), counterparty risks for 9.7% (previous year: 12.6%), insurance risks for 38.5% (previous year: 39.0%) and operational risks for 5.8% (previous year: 6.4%). We take business risks into consideration in our calculation of risk-bearing capacity by applying a discount when determining the capital available for risk coverage. For Württembergische Versicherung AG, the main liquidity risk pertains to the inability to settle claims after unusually high losses. As these are already shown as part of the insurance risk, no separate risk capital requirement is presented.

The individual risk areas and – where relevant to the overall assessment – the individual risk types are described in the following sections.

Market price risks

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 include interest rates, share prices, exchange rates, commodities prices, real estate prices and corporate values, as well as risk premiums (credit spreads) for a given credit risk.

Strategic asset allocation forms the basis of our investment policy, making it one of the most significant factors that influence our situation with respect to market price risks. In this context, we place emphasis on an appropriate mix and spread of asset classes, as well as on broad diversification by industry, region and investment style. With our investments, we pursue a security-oriented investment policy. The "prudent person principle", which is codified in the German Act on the Supervision of Insurance Undertakings (VAG) and constitutes a principles-based approach, forms the regulatory framework for our investment policy. When making investments, the security, quality, liquidity and profitability of the portfolio as a whole must be ensured. This principle is at the heart of our internal capital investment guidelines, which contain precise rules concerning compliance with investment policies and a company-specific schedule of investments with respect to both quality and quantity.

Interest rate risk

If interest rates remain persistently low, this can pose income risks, since new investments and reinvestments can be made only at lower interest rates, To assess market price risks, we regularly perform simulations for our fixed-income investments (including interest-based derivatives), which show us how the value of our portfolio changes depending on market fluctuations. Where the respective yield curve changes by +/– 50 or +/– 100 basis points, the market value of all securities would change as follows:

- Increase by 50 basis points –€54.1 million
- Increase by 100 basis points –€108.1 million
- Decrease by 100 basis points +€111.4 million
- Decrease by 50 basis points +€54.2 million

Share risk

Sudden and severe price slumps on stock markets may impair risk-bearing capacity in the form of write-downs through profit or loss. Share risks are reduced with corresponding hedging strategies using derivatives (e.g. put options, short futures). We continued to maintain a high hedging level in our equity portfolio in 2017. Further disclosures concerning hedges are presented in the chapter "Notes concerning assets".

To assess market price risks, we regularly conduct simulations for our share portfolios (including share-based derivatives). Where the price fluctuates by +/–10% or +/–20%, the market value of all equities would change as follows:

- Increase by 20% +€49.8 million
- Increase by 10% +€24.2 million
- Decrease by 10% –€22.1 million
- Decrease by 20% –€41.2 million

Real estate risk

Sudden and severe real estate price slumps may impair the income situation and risk-bearing capacity. Our diversified real estate portfolio supplements our capital investment portfolio. As we mainly invest in prime locations, we consider the risk to be generally low.

Foreign currency risk

Foreign exchange risks may result from open net foreign exchange positions in globally aligned investment funds, as well as from foreign currency bonds or equity instruments. In accordance with our strategic orientation, our foreign exchange exposure is concentrated in U.S. dollars and Danish kroner. We also have a small exposure in other currencies. To date, open foreign currency investments have merely been of secondary significance to our overall investment portfolio. In addition, our foreign business results in liabilities denominated in foreign currency, which we cover congruently with investments.

Credit spread risk

Credit spread risk comprises the risk that the value of receivables may change when the applicable credit spread for the respective issuer or counterparty experiences a change. Credit spread means a risk premium in the form of an interest rate for a security characterized by a credit risk that is higher than one for a comparable security with no risk. Thus, a clear distinction is made between credit spread risk, migration risk and expected default risk. Accordingly, for securities, the only credit spread changes that are taken into consideration are those that do not result in a change (migration including default) in the rating. Risk capital requirements are calculated as value at risk with a confidence level of 99.5% on the basis of changes in the credit spread over a one-year period.

The key elements of our risk management methods and our risk controlling in the area of market price risks mainly consist of: asset liability management, limit system and economic risk-bearing capacity model, risk line system, participation controlling, congruent coverage, new products process and market monitoring.

Counterparty credit risk

Counterparty credit risk means losses that may result from the default or deterioration of the credit rating of borrowers, investments or other debtors (e.g. reinsurers, agents).

We limit counterparty credit risk through the careful selection of issuers and reinsurance partners, as well as through broadly diversified investments. In this context, we observe the regulations applicable to insurance companies for handling counterparty credit risk. This includes making our own assessments of credit risk as required. Contracting partners and securities are mainly limited to top credit ratings in the investment grade range. Counterparty credit risks are strategically and structurally managed by the risk bodies at Württembergische Versicherung AG on the basis of the specifications adopted in the risk strategy.

Apart from reviewing credit risks at an individual level, we also assess them at the portfolio level with our Group-wide credit portfolio model. In the economic risk-bearing capacity model, the securities held are evaluated by means of a credit-value-at-risk model that is common in the industry. The loss distribution is generated with Monte Carlo simulations. The stochastic model is based on market data and takes default probabilities as well as the probability of migrations between different credit rating classes into consideration. Risk capital requirements are calculated as value at risk with a confidence level of 99.5% on the basis of one-year default/migration probabilities. As a governance toolkit, our continually enhanced credit portfolio model enables us to dynamically adapt credit lines to rating changes.

Counterparty credit risks associated with investments
Pursuant to our strategic orientation, our bond portfolio has a conservative credit rating structure, with 92.8% (previous year: 95.0%) of investments being in the investment grade area. Our bond exposure generally has a good collateralisation structure. Most of the investments with financial institutions are secured by government guarantees or by liens.

With regard to government bonds issued by peripheral EEA countries, Portugal, Italy and Spain are still subject to special monitoring. Württembergische Versicherung AG does not hold any investments in Greece. As at 31 December 2017, the carrying amount of the exposure in Portugal, Italy and Spain totalled €78.8 million (previous year: €64.0 million). Of this amount, Spain accounted for €42.4 million (previous year: €17.7 million), Italy, for €20.8 million (previous year: €31.2 million) and Portugal, for €15.7 million (previous year: €15.1 million). Thus, compared with the end of 2016, the exposure was expanded in connection with normal market activities, as the situation in this market segment had since relaxed due to the extensive bond purchases by the ECB. Although a sustainable solution is not yet in sight, yield opportunities on the market make further involvement conceivable.

The exposure in the three aforementioned countries represents 2.9% of our investment portfolio.

Other counterparty risks
The risk of receivables default in reinsurance business has consistently remained at a low level. Currently, no material risks are foreseeable. Also, our retrocessionaires have good credit ratings. As at the end of the reporting period, recognised receivables from reinsurance business amounted to €33.6 million (previous year: €42.8 million). Of these, 6.8% (previous year: €12.0%) were owed by companies with an "A–" or better rating and 93.2% (previous year: 88.0%), by companies with a "BBB" rating as classified by Standard & Poor's. Disclosures concerning receivables from policyholders, insurance agents and others are presented in the chapter "Notes concerning assets".

Insurance risks

In property and personal accident insurance, insurance risks arise from premium and reserve risks. We define these as potential losses that may result from uncertain future developments with regard to claims, benefits and costs under concluded insurance contracts in connection with premiums calculated in advance.

Württembergische Versicherung AG conducts primary insurance business in property and personal accident insurance for retail and commercial customers in its core market Germany. In doing so, it also relies on digital sales channels (e.g. the digital brand "Adam Riese"). The discontinuation of new underwriting at the UK branch of Württembergische Versicherung AG at the end of 2007 has greatly reduced the international risk exposure of our company. In accordance with internal provisions, we only enter into insurance transactions whose risks do not pose a threat to the company as a 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).

In addition, industrial risks are underwritten only in a limited and clearly defined scope, meaning that we do not jeopardise our portfolio with large individual risks.

Württembergische Versicherung AG no longer actively engages in reinsurance business. Terrorism risks have been largely excluded from policies or passed on to the special insurer Extremus.

Facts and analysis results that have a bearing on risk are depicted in the quarterly risk report and discussed in the Executive Board, in bodies that meet on a regular basis and in diverse workgroups and projects.

We use a stochastic model to measure insurance risks in the economic model. We collaborate with specialised reinsurance companies and brokers for the purpose of simulating natural disaster events.

The loss from insurance risks is limited by means of defined risk limits. The limit utilisation is monitored continually. 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. Risks are underwritten according to defined guidelines and under consideration of business line-specific maximum underwriting amounts.

For instance, natural disaster risk is countered with risk-oriented prices, contract terms and conditions in line with critical disaster zones and risk exclusions. Apart from risk balancing through our mix of business lines and products, gross insurance risk is limited by efficient loss management and a cautious loss reserve policy. Appropriate reinsurance coverage for individual risks and for accumulation risks across business lines significantly reduces the insurance risks in property and personal accident insurance. The reinsurance programme is adjusted on a yearly basis under consideration of risk-bearing capacity.

Once claims occur, Württembergische Versicherung AG promptly creates individual and collective provisions, which are checked by actuaries. The risk limit was consistently complied with.

Premium risk
If premiums fall or are not calculated in line with needs, underwriting losses may result if costs and claims remain stable or increase. Premium risk mainly results from natural disasters, accumulation risks and catastrophes. The principle source of accumulation risks are natural disasters, like storms, hail or flooding.

The long-term development of the net loss ratios (ratio of net expenses for insurance claims to earned net premiums) and the net run-off ratios (ratio of net run-off results for provisions for outstanding insurance claims to initial loss provisions) AG is as follows:

	Loss ratios	Run-off ratios
in %		
2007	68.1	7.9
2008	72.0	5.9
2009	63.3	9.7
2010	69.5	7.8
2011	64.4	8.7
2012	67.2	7.5
2013	74.1	6.8
2014	68.5	4.9
2015	65.8	6.8
2016	63.8	6.7
2017	63.8	6.6

The effects of natural disasters and accumulation events are hardly noticeable in our net loss ratios or net run-off ratios.

Reserve risk
A reserve risk exists in the event of inadequate claims reserves. The settlement of claims can fluctuate in terms of time and amount, meaning that the created reserves may not be sufficient if benefits to be paid for past claims increase significantly. Moreover, even though new underwriting has been discontinued at its branch in the UK, Württembergische Versicherung AG remains liable for the business underwritten up to and including 2007. While the resulting reserve risk is virtually unchanged, it is still significant due to the volume of claims reserves to be settled, €77.7 million (previous year: €88.3 million).

The key elements of our risk management methods and our risk controlling in the area of insurance risk mainly consist of: asset liability management, limit system and economic risk-bearing capacity model, risk line system, participation controlling, congruent coverage, new products process and market monitoring.

Operational risk

We define operational risk as losses that may be incurred as a result of the unsuitability or failure of internal processes, people and systems or externally driven events. This also includes legal and tax risks. In order to capture operational risks, experts regularly assess them in connection with a materiality inventory. In the economic model, these risks are evaluated by means of a factor approach.

Operational risks are unavoidable when engaging in general business activities.

The key elements of our risk management methods and our risk controlling in the area of operational risks mainly consist of: risk assessments, claims database, information security management, business continuity management, internal control system, personnel management, compliance management system, limit system and economic risk-bearing capacity model.

Business risk

We define business risk 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 risks on sales and procurement markets, as well as cost and income risks. Apart from these strategic risks, we consider the risks that could arise from a changed legal, political or social environment and from reputation.

Business risks are unavoidable when engaging in general business activities or in the event of changes in the industry environment. We regularly analyse all business risks in connection with a materiality inventory.

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 financial planning specialists, we greatly depend on our reputation among customers and business partners as a sound, secure company. We continuously monitor Württembergische Versicherung AG's public image, and when critical events occur, we strive to maintain our reputation through transparent communication policies.

The strategic goals of Württembergische Versicherung AG are operationalised and advanced by means of strategic measures. In connection with "W&W Better!", Württembergische Versicherung AG is meeting the challenge of effectively ensuring income targets in an increasingly dynamic market environment and the growing effect of digitisation on customer behaviour. 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 Executive Board is responsible for managing business risks. Depending on the reach of a decision, coordination with the W&W Group and with the Supervisory Board may be necessary.

Liquidity risk

Liquidity risk refers to the danger that liquid resources are insufficient, that they can be obtained only at a higher cost (refinancing risk) or that they can be converted into cash only with discounts (market liquidity risk) in order to be able to satisfy payment obligations when they mature (avoidance of insolvency risk).

Market liquidity risks mainly arise due to inadequate market depth or market disruptions in crisis situations. When crises occur, it may possible to sell investments, if at all, only in small volumes or subject to discounts. It does not appear from the current situation on the capital markets that our investments are subject to any acute, material market liquidity risks.

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 this context, we observe and always comply with existing statutory, supervisory and internal provisions. Through forward-looking planning and operational cash management, the established systems are designed to identify liquidity shortages and respond to expected liquidity shortages with suitable measures at an early stage.

Assessment of the overall risk profile

As in the previous year, economic and regulatory risk-bearing capacity was sufficient in the year under review.

Württembergische Versicherung AG has a risk management and risk controlling system in place that, within the limits examined, enables existing and foreseeable future risks to be identified, appropriately assessed, managed and communicated in a timely manner.

As at the reporting date, no risks were evident that would endanger the existence of Württembergische Versicherung AG as a going concern.

Developments and outlook

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

Systematic advancement of the existing Group-wide risk management system is intended to ensure the stable, sustained development of Württembergische Versicherung AG in future as well. In the 2018 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 addition, the W&W Group is making targeted preparations for future regulatory requirements through extensive Group-wide projects.

All told, Württembergische Versicherung AG is well equipped to successfully implement the internal and external requirements for risk management.

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 and the EMU in 2018 remains favourable. Growth for 2018 is now forecast to exceed 2%. For instance, for 2018 the Deutsche Bundesbank forecasts that the German economy will grow by 2.5% and thus that economic output will continue to rise.

In Germany the main driver of growth is private consumption. Although inflation is expected to rise slightly in the second half of 2018, we expect that any income losses in real terms will be offset by higher wage growth. Private consumption is again expected to account for roughly two-thirds of growth. The second largest driver of growth will be investments. Construction investments in conurbation areas have been posting high growth rates for some time now. We expect this to slow down in 2018 as a result of a lack of developable land, as well as lower demand due to rising prices. Investments are expected to account for about one-third of economic growth in Germany. As was the case last year, foreign trade is not expected to contribute significantly to growth.

Capital markets

Bond markets

Negative yields on short-term German government bonds are not expected to change much until the end of the year, at the earliest, when yields could begin to rise.

With regard to long-term bonds, we expect a somewhat stronger rise in yields, although we do not believe that this signals an end to the period of historically low interest rates. If, however, it becomes apparent during the year that the ECB's policy of low interest rates is coming to an end, a stable growth outlook, at least slightly rising inflation and corresponding targets of the U.S. bond market could have an effect and lead to an increase in yields. Because of the expected stronger rise in long-term yields, the yield curve will once again get somewhat steeper. However, this scenario presupposes that the political situation will remain stable. At the moment, the mostly likely outlook is a gradual though limited rise in yields.

Equity markets

The fundamental economic prospects for the European equity markets remain favourable for 2018. Prolonged, dynamic economic growth will make it possible for the company to expand its profits, which in turn should have a positive impact on its stock price. Moreover, since the period of low interest rates will continue to make bonds an unattractive investment alternative, interest in equities is expected to remain high. All of these factors indicate that gains in stock prices will be at least moderate. However, political risks remain high in the form of potentially detrimental U.S. government policies (particularly trade policy), unfavourable election results in important EMU countries (such as Italy) and difficult Brexit negotiations between the EU and the UK, with the result that at least temporary price declines could occur on the stock markets at any time.

Industry outlook

The economic development of private households, which continues to be positive as a result of the good situation on the labour market, and increased real purchasing power combined with a positive global economic environment will contribute to favourable economic development in Germany in the coming year as well. The strong economic growth posted in the previous year is expected to slow somewhat due to anticipated capacity bottlenecks.

Further growth in property and personal accident insurance is limited by the high degree of market penetration that has already been achieved in many branches. Moreover, the current challenges (e.g. lower investment income, need for investments in digitisation) could impact the development of business. But since a positive economic environment usually has a delayed impact on premium growth in the industrial/commercial branches, we continue to expect stable scope for growth. Premium growth of about 3.0% is expected on the property/personal accident insurance market.

Growth rates in private property insurance are expected to reach high levels similar to those of the previous year. An increase of 4.0% is conceivable, particularly in view of increasing insurance amounts and expanded coverage. The German Insurance Association (GDV) expects that legal expenses insurance will also to continue to post high premium growth of 4.0% in 2018. In the motor insurance business line, the growth dynamic that emerged at the start of the year is likely to continue. For 2018, GDV predicts premium growth of just 3.5%. Premium growth of 2.0% is expected for general liability insurance. Moderate premium growth is anticipated in all other business lines.

Future business performance

The following outlook relates to the coming financial year and is based on estimates made in the chapter “Macroeconomic outlook”. For the company forecasts, our planning assumptions included moderately increasing interest rates and stock prices.

With “W&W Better!” the focus is on the benefits for the customer and the unique W&W concept of financial planning from a single source. We continue to strive for profitable portfolio growth. For that reason, we expect that new business will come in significantly ahead of the previous year. Claims development in the 2017 financial year was extraordinarily good. We expect claims development in 2018 to continue to be good, but normalised. We anticipate that the combined ratio (net) will be lower than the current strategic goal of 94%.

In particular, because we are expecting less investment income, we anticipate that net income before taxes and profit transfer will decline considerably in 2018. The profit transfer is expected to remain at a high level. For our forecasts, we assume a normal claims development and no extraordinary events on the capital markets. Opportunities and risks may result from the further development of claims, interest rates, capital markets, the economy and the political climate. The strategic alignment, e.g. in relation to additional sales channels or cost optimisation, represents an additional opportunity. Other risks may arise from counterparty defaults and increased regulatory or statutory requirements.

Overall view

In terms of future performance, persistently low interest rates, increasing expenses for implementing additional statutory and regulatory requirements as well as rising capital requirements continue to pose a great challenge to the entire financial services industry and thus also to Württembergische Versicherung AG.

Other disclosures

Relationships with affiliated companies

W&W AG, Stuttgart, Germany, holds 100% of our share.

The non-profit Wüstenrot Stiftung Gemeinschaft der Freunde Deutscher Eigenheimverein e. V. holds its indirect stake in W&W AG of 66.31% through two wholly owned holding companies. Wüstenrot Holding AG holds 39.91% of the shares and WS Holding AG holds 26.40%, based on the total number of shares issued. Of the issued shares, 0.21% are non-voting treasury shares.

Since 1 January 2009, a control and profit transfer agreement has been in place between Württembergische Vertriebspartner GmbH (WVVP) – formerly Württembergische Vertriebsservice GmbH für Makler und freie Vermittler (WVMV) – and Württembergische Versicherung AG, under which WVVP undertakes to transfer its profits to Württembergische Versicherung AG.

In connection with the introduction of the digital brand "Adam Riese", Württembergische Versicherung AG and Adam Riese GmbH concluded a control agreement and a profit transfer agreement on 9 June 2017.

On 5 November 2014, WürttVers Alternative Investments GmbH (WVAI) was established for the purpose of making alternative investments, especially in the fields of private equity, renewable energies and infrastructure. On 10 December 2014, a control agreement was concluded between Württembergische Versicherung AG and WVAI.

Since 1999, Württembergische Versicherung AG has been party to a control agreement with W&W AG, which was supplemented with a profit transfer agreement with W&W AG in 2005.

Under service and outsourcing agreements, close relationships exist with W&W AG, Württembergische Lebensversicherung AG, Württembergische Krankenversicherung AG, Allgemeine Rentenanstalt Pensionskasse AG, Karlsruher Lebensversicherung AG, Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank, W&W Informatik GmbH, W&W Service GmbH, Württembergische Vertriebspartner GmbH, Altmark Versicherungsmakler GmbH, Altmark Versicherungsvermittlung GmbH, Adam Riese GmbH, Württfeuer Beteiligungs-GmbH, Württembergische Immobilien AG, Württembergische KÖ 43 GmbH, Asset Management GmbH, W&W Gesellschaft für Finanzbeteiligungen mbH, W&W Digital GmbH, W&W Produktion GmbH, Wüstenrot Immobilien Gesellschaft mbH, Wüstenrot Grundstücksverwertungs-Gesellschaft mbH, Miethaus und Wohnheim GmbH i. L. and Nord-Deutsche AG Versicherungs-Beteiligungsgesellschaft.

These agreements regulate the fully or partially transferred services, including source-related allocation of costs. By contrast, the remuneration paid to Asset Management GmbH is volume-dependent.

Claims settlement in the area of the legal expenses insurance has been transferred to Württembergische Rechtsschutz Schaden-Service-GmbH under a service agreement that addresses services and billing in accordance with the full cost principle.

Our company belongs to the W&W Group, whose parent company is Wüstenrot & Württembergische AG, Stuttgart, Germany. Therefore, the conditions for the exemption of the company from the group accounting obligation pursuant to Section 291 (2), no. 4 of the HGB (German Commercial Code) are met.

Domestic insurance business is largely reinsured through W&W AG, which in turn passes on some of the assumed risks to external reinsurers via retrocession. A portion of the insurance transactions underwritten outside of Germany, small portions of domestic insurance business and the business reinsured via the German market pool are excluded from this arrangement.

Corporate governance statement

In September 2015, the company's Supervisory Board set a target of 25% for the proportion of women on the Supervisory Board and 20% for the Executive Board. The company's Executive Board 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.

Württembergische Versicherung AG
Report on equality and equal remuneration pursuant to the German Transparency in Remuneration Act (EntgTransG) Transparency in Remuneration Act

The W&W Group and thus also Württembergische Versicherung AG value the diversity of employees, because diverse teams are successful. As a result of their different perspectives, they are in a position to address the needs and requirements of customers.

For this reason as well, there has been a voluntarily imposed quota in place since 2012 for the purpose of supporting the advancement of women. Associated with this, corresponding measures have been enacted. These include:

- quota achievement as target agreement for managers,
- duty to provide justification for not placing women in management positions,
- events for managers on the topic of "unconscious biases", held in collaboration with social institutions and, group-wide, with the X-Company-Netzwerk of the Stuttgart region,career advice and mentoring programmes for women,
- department-specific workshops on the topic of advancement of women/career and profession,
- various working-time models and other support measures designed to ensure the compatibility of family and work.

For some companies in the W&W Group, a statutorily mandated percentage of women has been in effect, which ranges between 15% and 30%, depending on the company. At the top management level, this quota is 25% across all W&W companies. In addition, the voluntarily agreed quota of 30% applies for the second and third management levels.

Moreover, the women's network "FiT" (Frauen in Top-Positionen, or "Women in Top Positions") has been playing a role since 2012. The agenda here includes such measures as workshops, network meetings, expert discussion rounds on innovation topics and initiatives to strengthen women in sales.

In 2017 the average headcount at Württembergische Versicherung AG was 3,107 (previous year: 3,255) employees, of which 1,430 (previous year: 1,496) were women and 1,677 (previous year: 1,759) were men. Among the women, 822 (previous year: 877) worked full time and 608 (previous year: 619) worked part time. This corresponds to a part-time share of 43%. Among the men, 1,626 (previous year: 1,712) worked full time and 51 (previous year: 47) worked part time.

This corresponds to a part-time share of 3%.

Share of women in management positions

As at 31 December 2017. the share of women in management positions at Württembergische Versicherung AG stood at 15.7% (previous year: 14.8%).

Equal remuneration of women and men

The companies of the Württembergischer Gemeinschaftsbetrieb are subject to the collective bargaining agreement of the private insurance industry. Classification into a pay group is made solely on the basis of the position, irrespective of the gender of the person holding it.
For manager positions, particularly in the area of senior executives, an external position assessment system is applied, which uses various criteria to determine the position's value, likewise irrespective of the gender of the person holding it.

Württembergische Versicherung AG
Annual financial statements

Balance sheet as at 31 December 2017

Assets

in € thousands	See notes, no.[1]	31.12.2017	31.12.2017	31.12.2017	31.12.2016
A. Intangible assets					
Licenses acquired against payment, industrial property rights and similar rights and assets, as well as licenses for such rights and assets	1			30	45
B. Investments					
I. Land, land-type rights and buildings, including buildings on third-party land	2		82,123		84,146
II. Investments in affiliated companies and participations	3				
1. Interests in affiliated companies		206,661			183,921
2. Loans to affiliated companies		52,050			29,879
3. Participations		195,150			176,654
			453,861		390,454
III. Other investments					
1. Shares, interests or shares in investment assets and other variable-yield securities		859,721			901,629
2. Bearer bonds and other fixed-income securities	4	560,616			448,036
3. Mortgage debt claims, mortgage loans and annuities	5	89,736			78,335
4. Other loans	6	603,382			642,719
5. Deposits with credit institutions		49,909			109,851
6. Other investments	7	2			2
			2,163,366		2,180,572
				2,699,350	2,655,172
C. Receivables					
I. Receivables from direct insurance business due from:	8				
1. Policyholders		19,121			18,794
2. Insurance brokers		31,104			28,376
			50,225		47,170
II. Amounts receivable on reinsurance business			36,628		42,834
thereof from affiliated companies: €34,131 thousand (previous year: €37,685 thousand)					
III. Other receivables	9		146,113		138,804
thereof from affiliated companies: €126,618 thousand (previous year: €108,646 thousand)				232,966	228,808
Carryover				**2,932,346**	**2,884,025**

1 See numbered explanation in the notes starting from “Notes concerning assets”

Assets

in € thousands		31.12.2017	31.12.2017	31.12.2017	31.12.2016
Carryover				**2,932,346**	**2,884,025**
D. Other assets					
I. Property, plant and equipment and inventories	10		11,526		12,032
II. Current accounts with banks, cheques and cash			64,617		42,141
thereof with affiliated companies: €11,768 thousand (previous year: €10,949 thousand)				76,143	54,173
E. Deferred assets					
I. Deferred interest and rental income			19,293		20 147
II. Other deferred assets	11		2,143		1 670
				21,436	21,817
				4,617	3,152
F. Excess of plan assets over pension liabilities	12				
Total				**3,034,542**	**2,963,167**

Liabilities

in € thousands		31.12.2017	31.12.2017	31.12.2017	31.12.2016
A. Equity					
I. Called-up capital	13				
Share capital			109,312		109,312
II. Capital reserve	14		76,694		76,694
III. Retained earnings	15				
Other retained earnings			120,557		76,557
IV. Unappropriated profit	16		44,000		–
				350,563	262,563
B. Subordinated liabilities	17			30,000	30,000
C. Technical provisions	18				
I. Provision for unearned premiums					
1. Gross amount		131,508			129,869
2. Thereof to: portion for ceded reinsurance business		17,094			17,062
			114,414		112,807
II. Provision for future policy benefits					
1. Gross amount		71			68
2. Thereof to: portion for ceded reinsurance business		11			10
			60		58
III. Provision for outstanding insurance claims					
1. Gross amount		2,289,333			2,249,031
2. Thereof to: portion for ceded reinsurance business		515,505			497,532
			1,773,828		1,751,499
IV. Claims equalisation and similar provisions			411,311		407,150
V. Other technical provisions					
1. Gross amount		35,818			33,638
2. Thereof to: portion for ceded reinsurance business		5,373			5,915
			30,445		27,723
				2,330,058	2,299,237
Carryover				**2,710,621**	**2,591,800**

Liabilities

in € thousands		31.12.2017	31.12.2017	31.12.2017	31.12.2016
Carryover				**2,710,621**	**2,591,800**
D. Other provisions					
I. Tax provisions			6,567		3,544
II. Other provisions	19		58,387		62,850
				64,954	66,394
E. Deposits retained from ceded reinsurance business				119	125
F. Other liabilities					
I. Liabilities from direct insurance business owed to:	20				
1. Policyholders		52,823			60,281
2. Insurance brokers		33,432			33,822
			86,255		94,103
II. Accounts payable on reinsurance business			8,079		9,443
thereof to affiliated companies: €7,875 thousand (previous year: €9,236 thousand)					
III. Miscellaneous liabilities	21		164,397		201,302
thereof for taxes: €20,333 thousand (previous year: €19,169 thousand) thereof in connection with social security – (previous year: €7 thousand) thereof to affiliated companies: €119,352 thousand (previous year: €160,632 thousand)				258,731	304,848
G. Deferred liabilities	22			117	–
Total liabilities				**3,034,542**	**2,963,167**

Personal accident and liability insurance

We confirm that the provision for future policy benefits as presented in the balance sheet under the liability items C. II.1 and C.III.1 in the amount of €148,885 thousand was recognised pursuant to Section 341 f of the HGB (German Commercial Code) and on the basis of the legal regulations issued on the basis of Section 88 (3) of the German Insurance Supervision Act (VAG) (actuarial confirmation). For the legacy portfolio within the meaning of Section 336 of the VAG, the provision for future policy benefits was calculated according to the business plan last approved on 10 July 1992 and supplemented on 21 January 1997.

Stuttgart, 18 January 2018

Responsible actuary
Daniel Männle

Income statement
for the period 1 January to 31 December 2017

in € thousands		1.1.2017 to 31.12.2017	1.1.2017 to 31.12.2017	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
I. Technical account					
1. Premiums earned for own account	23				
a) Gross premiums written		1,751,211			1,678,101
b) Premiums ceded to reinsurers		334,383			317,111
			1,416,828		1,360,990
c) Change in the gross provision for unearned premiums		– 1,639			– 802
d) Change in the reinsurers' portion of the gross provision for unearned premiums		33			
			– 1,606		– 605
2. Technical interest income for own account	24			1,326	1,237
3. Other technical income for own account				2,430	2,523
4. Expenses for insurance claims for own account					
a) Payments for insurance claims					
aa) Gross amount		1,066,074			1,056,884
bb) Reinsurers' portion		201,057			207,041
			865,017		849,843
b) Change in the provision for outstanding insurance claims	25				
aa) Gross amount		52,950			3,296
bb) Reinsurers' portion		18,016			– 15,077
			34,934		18,373
				899,951	868,216
5. Change in other net technical provisions					
a) Net provision for future policy benefits			– 2		6
b) Other net technical provisions			– 2,723		– 1,239
				– 2,725	– 1,233
6. Expenses for insurance business for own account					
a) Gross expenses for insurance business	26		467,957		451,580
b) Thereof less: received commissions and profit participations from ceded reinsurance business			110,346		98,660
				357,611	352,920
7. Other technical expenses for own account				7,030	6,909
8. Subtotal				151,661	134,867
9. Change in the claims equalisation provision and similar provisions				– 4,161	– 43,164
10. Underwriting income for own account				147,500	91,703
Carryover				**147,500**	**91,703**

in € thousands		1.1.2017 to 31.12.2017	1.1.2017 to 31.12.2017	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Carryover				**147,500**	**91,703**
II. Non-technical account					
1. Income from investments					
a) Income from participations there of from affiliated companies: €1,046 thousand (previous year: €3,173 thousand)			14,450		20,668
b) Income from other investments there of from affiliated companies: €8,556 thousand (previous year: €8,507 thousand)					
aa) Land, land-type rights and buildings, including buildings on third-party land		10,026			10,022
bb) Income from other investments		68,570			68,753
			78,596		78,775
c) Income from write-ups	27		23,924		13,677
d) Gains from the disposal of capital investments	28		26,590		13,395
e) Income from profit pools, profit transfer agreements and partial profit transfer agreements			54		467
			143,614		126,982
2. Expenses for investments					
a) Investment management expenses, interest expenses and other expenses for investments		8,068			11,156
b) Write-downs on investments	29	19,339			26,543
c) Losses from the disposal of investments	30	1,639			8,439
d) Expenses from loss assumption		10,629			–
			39,675		46,138
			103,939		80,844
3. Technical interest income			1,326		1,237
				102,613	79,607
4. Other income	31		242,261		203,009
5. Other expenses	32		322,775		231,927
				– 80,514	– 28,918
6. Net income from operations				169,599	142,392
7. Extraordinary expenses	33		–		32,108
8. Net extraordinary income				–	– 32,108
9. Income taxes	34		1,062		365
10. Other taxes			2,709		– 3,627
				3,771	– 3,262
11. Profits transferred under a profit transfer agreement				77,828	113,546
12. Annual profit				88,000	–
13. Allocation to retained earnings				44,000	–
14. Unappropriated profit				44,000	–

Notes

Notes concerning the annual financial statements

Accounting policies for assets

Intangible assets

Purchased intangible assets, primarily standard software, are measured at cost less scheduled straight-line amortisation.

We have elected not to capitalise self-created intangible assets as permitted by Section 248 (2) sentence 1 of the HGB (German Commercial Code).

Land, land-type rights and buildings, including buildings on third-party land

Assets recognised under the item „Land, land-type rights and buildings, including buildings on third-party land“ are measured at cost less permissible straight-line or fixed-percentage depreciation or at fair value, whichever is lower. Unscheduled depreciation takes place only in the event of expected permanent impairment, and the lower fair value is recognised. If the reasons for a lower carrying amount no longer exist, the asset is written up to a maximum of its historical depreciated cost.

Interests in affiliated companies

Interests in affiliated companies are measured at cost. Pursuant to Section 341b (1) in conjunction with Section 253 (3) sentence 5 of the HGB (German Commercial Code), 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

The item "Loans to affiliated companies" comprises bearer bonds. These receivables are measured according to the rules applicable to fixed assets. Further disclosures concerning measurement can be found in the comments on the items below.

Participations

Participations are measured at cost. Pursuant to Section 341b (1) in conjunction with Section 253 (3) sentence 5 of the HGB (German Commercial Code), unscheduled write-downs to the lower fair value take place only in the event of expected permanent impairment (moderate lower-value principle). If the reasons for a lower carrying amount no longer exist, the asset is written up to a maximum of its historical cost.

Shares, interests or shares in investment assets and other variable-yield securities

Pursuant to Section 341b (2) in conjunction with Section 253 (4) of the HGB (German Commercial Code), shares, interests or shares in investment assets and other variable-yield securities 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 HGB (German Commercial Code), 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.

Mortgage debt claims, mortgage loans and annuities

Recognised under the item „Mortgage debt claims, mortgage loans and annuities“ are predominantly receivables for which encumbrances on real property have been furnished. These receivables are measured according to the rules applicable to fixed assets. In departure from this, pursuant to Section 341c (3) of the HGB (German Commercial Code), these receivables are measured at amortised cost by spreading the difference between cost and the repayment amount over the remaining term using the effective interest method.

Individual and collective impairment provisions are created for discernible risks, with the amount of the provision being deducted directly from the carrying amount. In the case of mortgage debt claims, mortgage loans and annuities, individual impairment provisions are created in order to cover current default risks. In addition, collective impairment provisions are created on a portfolio basis in accordance with experience gained in recent years.

Individual and collective impairment provisions are offset against assets.

Other loans

The item „Other loans“ contains registered bonds, promissory notes, loans receivable and other loans. These receivables are measured according to the rules applicable to fixed assets.

In departure from this, pursuant to Section 341c (1) of the HGB (German Commercial Code), registered bonds are recognised at their nominal value less repayments made. Premiums and discounts are spread on a straight-line basis over the term.

Pursuant to Section 341c, para. 3 of the HGB (German Commercial Code), 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, in the case of registered bonds, collective impairment provisions are created on a portfolio basis in accordance with experience in recent years.

Deposits with credit institutions

Deposits with credit institutions are generally recognised in their nominal amounts.

Other investments

Other investments are measured at cost.

Other assets

Property, plant and equipment are measured at cost less scheduled straight-line depreciation over their normal useful life. Assets with a net cost of up to €150 are depreciated in full in the year of acquisition. In accordance with tax regulations, 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.

Receivables and other assets are measured at cost or in their nominal amounts. Individual and collective impairment provisions are recognised for discernible risks and deducted from the assets.

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 HGB (German Commercial Code) 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 HGB (German Commercial Code).

Reversals

For assets that were written down in previous years to a lower fair value, the impairment loss must be reversed if the reasons for taking the impairment no longer exist. In conformity with the principles in Section 253 (5) of the HGB (German Commercial Code), impairment losses are reversed to a maximum of amortised cost.

Derivatives

Currency forwards are concluded in order to economically hedge participations, interests in investment assets and securities. They are measured on a transaction-specific basis. Provisions are created for contingent losses from these transactions.

Valuation units

Interest rate swaps are consolidated exclusively with the underlying receivables and securities to form valuation units pursuant to Section 254 of the HGB (German Commercial Code).

In the accounts, these valuation units are presented according to the „freeze method“ pursuant to Section 254 of the HGB (German Commercial Code). According to this method, the values of the individual components of the valuation unit are „frozen“ from the date on which the valuation unit was created. Subsequent effective value changes with respect to the hedged risk are not accounted for. Value changes resulting from ineffectiveness are accounted for pursuant to Sections 252 et seq. HGB.

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. Properties newly acquired during the financial year are measured on the basis of external appraisals.

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, we also use cost or the liquidation value.

The most recently available exchange price or a market value determined on the basis of recognised mathematical models that are customary on the market are recognised as the fair value of the other investments.

Interests in investment assets are recognised at the most recently available redemption price.

Accounting policies for liabilities

Subordinated liabilities

Subordinated liabilities are recognised at their settlement value.

Technical provisions

The provision for unearned premiums is calculated per insurance policy subject to deduction of external expenses. In the business line transport, the provision is included in the provision for outstanding insurance claims. The reinsurers‘ share is calculated analogously on the basis of the individual insurance policy under consideration of the allocable external expenses.

The premium reserves for premium-exempt children‘s personal accident insurance that are recognised in the provision for future policy benefits for direct insurance business are calculated per individual policy in accordance with actuarial principles.

The provisions for outstanding insurance claims for direct business are measured according to the prospective expenses for each claim. In assumed business, the claims reserves largely correspond to the information provided by the prior insurers. For the London branch of Württembergische Versicherung AG, provisions are created in accordance with actuarial methods plus a security margin. The reinsurers‘ portion is calculated on the basis of the individual reinsurance policies.

For claims that have not yet been reported, a collective provision for late outstanding claims is created in accordance with experience in recent years.

For transport, including secondary business lines, a collective reserve is created for direct German business on the basis of expected values that are calculated for the first four run-off years of an underwriting year, taking supplementary premiums into consideration. From the fifth run-off year, the claims reserve is calculated on the basis of the individual claim reserves, taking subsequent premiums and subsequent claims into consideration.

Pension reserves are calculated on a per-policy basis in accordance with actuarial principles. The provisions for outstanding redemptions, refunds and exit compensations are recognised at the repayment amounts. The reinsurers‘ share is calculated on the basis of the individual reinsurance policies.

Claims resulting from recourse, salvages and distribution agreements are recognised at their expected values and are deducted from the provision for outstanding insurance claims of the insurance branch.

We take into consideration the anticipated expenses for the settlement of outstanding claims by creating a provision pursuant to the guidance note of the German Federal Ministry of Finance dated 2 February 1973. In the transport business line, lump-sum procedures are applied for the first four years of an underwriting year. The reinsurers' portion is calculated in accordance with the quota share.

The claims equalisation provision contained in item C.IV was created in accordance with the annex to Section 29 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV). We recognise the amounts presented under "Other technical provisions" as follows:

The provision for unused premiums from dormant motor insurance is calculated per policy, and the provision for cancellations is calculated on the basis of statistical surveys. The provision for the „Unfall 60 plus" policy, which covers claims requirements that increase with age, is calculated actuarially per policyholder. For obligations resulting from membership in Verkehrsopferhilfe e. V., a provision for outstanding claims is created in accordance with the association‘s mandate. The reinsurers' portions are deducted from the aforementioned provisions as contractually agreed.

Other provisions

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 outstanding settlement amounts 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 2.5% p.a. is taken into account during measurement. Biometric factors are taken into account when calculating the provision via a flat-rate discount of 2%. In addition, pursuant to Section 285, no. 25 of the HGB (German Commercial Code), pledged reinsurance policies are taken into account at fair value, which corresponds to cost, and netted against phased-in early retirement obligations as coverage assets. Fair value is composed of the coverage capital plus irrevocably committed surplus participation.

In accordance with Section 253 (1) sentence 2 of the HGB (German Commercial Code), the provisions for social affairs and for long-term service emoluments are calculated in the amount needed to satisfy the obligations by applying the Heubeck mortality tables 2005 G and an interest rate of 1.89% under the projected benefit obligation method. Fluctuation and future salary increases are taken into account.

Miscellaneous other provisions and tax provisions are created in the amount needed to satisfy the obligations. In accordance with Section 253 (1) sentence 2 of the HGB (German Commercial Code), provisions with a term of more than one year are generally calculated 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 1.75%. The rate used to discount miscellaneous provisions corresponds to the average rate of the past seven years published by the German Bundesbank pursuant to the German Regulation on the Discounting of Provisions (RückAbzinsV) for the respective assumed remaining term to maturity.

Results from discounting and compounding, from changes in the discounting rate, and from the interest rate effects of a changed estimate of remaining term to maturity are recognised as interest income or interest expenses under „Other income" or „Other expenses", as the case may be. Tax interest accrued as at the reporting date is recognised under

„Miscellaneous provisions". The terms of the tax provisions are usually less than one year and are not discounted (pursuant to the German Fiscal Code (AO), interest starts to apply after 14 months).

Retained deposits and other liabilities

The deposits retained from ceded reinsurance business concern the passive reinsurance business of the London branch.

Accounts payable on reinsurance business, liabilities from direct insurance business and miscellaneous liabilities are recognised in the amount need 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 HGB (German Commercial Code), translation gains and losses are recognised in the income statement where the remaining term to maturity is one year or less.

Currency translation gains and losses from underwriting are recognised in the general section of the income statement under „Other income" or „Other expenses", as the case may be.

Exchange rate gains and losses from capital investments denominated in foreign currency are recognised under „Income from write-ups" and „Gains from the disposal of capital investments", while the corresponding losses are recognised under „Write-downs on capital investments" and „Losses from the disposal of capital investments".

Currency exchange rate gains and losses from current bank account balances denominated in foreign currency are recognised under „Other income" and „Other expenses".

Recording of income and expenses on an accrual basis

To a minor extent, some transport insurance from German business is not included in the year under review, as we received the required accounting documents after the preparation of the annual financial statements.

As a result of later posting, premium income for 2016 in the amount of €1,103 thousand was recognised in the 2017 reporting year.

Notes concerning assets

A. Intangible assets (1)[1]

The cost for purchasing data-processing software is recognised under this item.

The change in intangible assets is depicted in the notes under “Individual disclosures concerning assets”.

B. Investments

The development of investments is depicted in the notes under „Individual disclosures concerning assets“.

I. Land, land-type rights and buildings, including buildings on third-party land (2)

As at the reporting date, our land consisted of 20 (previous year: 20) properties with a carrying amount of €82,123 thousand (previous year: €84,146 thousand). The fair value of our land and buildings amounted to €121,277 thousand (previous year: €120,716 thousand).

No properties were acquired or sold during the reporting year.

Of our property, shared ownership interests accounted for €3,752 thousand (previous year: €3,866 thousand).

Of our real estate portfolio, land and buildings with a carrying amount of €69,269 thousand (previous year: €70,961 thousand) are used by the Group.

II. Investments in affiliated companies and participations (3)

Pursuant to Section 285, no. 11 in conjunction with Section 271 (1) of the HGB (German Commercial Code), the disclosures concerning participations are set forth in the table „List of ownership interests“. The list sets forth all companies in which Württembergische Versicherung AG owns at least 5% of the interests. Furthermore, we made use of the exemptions granted by Section 286 (3), no. 1 HGB.

III. Other investments

2. Bearer bonds and other fixed-income securities (4)
We invest in securities denominated in foreign currency, which serve as congruent cover for our obligations under direct insurance business that we engage in outside of Germany.

3. Mortgage debt claims, mortgage loans and annuities (5)
At the end of the year under review, a mortgage was involved in pending forced sale proceedings.

4. Other loans (6)

in € thousands	31.12.2017	31.12.2016
Registered bonds	293,946	334,928
Promissory notes and loans receivable	287,430	285,786
Miscellaneous loans	22,006	22,005
Total	**603,382**	**642,719**

The item „Miscellaneous loans“ contains a non-negotiable profit participation certificate in the amount of €10,006 thousand (previous year: €10,005 thousand).

1 See balance sheet and income statement chapters.

6. Other investments (7)

in € thousands	31.12.2017	31.12.2016
		–
Cooperative interests	2	2

Fair value of investments

This item consists of:

Valuation reserves

in € thousands	Carrying amount 2017	Fair value 2017	Valuation reserves, by liability[1] 2017	Carrying amount 2016	Fair value 2016	Valuation reserves, by liability[1] 2016
Land, land-type rights and buildings, including buildings on third-party land	82,123	121,277	39,154	84,146	120,716	36,57
Interests in affiliated companies	206,661	225,486	18,825	183,921	196,069	12,148
Loans to affiliated companies	52,05	55,124	3,074	29,879	29,879	–
Participations	195,15	240,702	45,552	176,654	218,286	41,632
Shares, interests or shares in investment assets and other variable-yield securities	859,721	881,432	21,711	901,629	920,998	19,369
Bearer bonds and other fixed-income securities	560,616	575,79	15,174	448,036	461,961	13,925
Mortgage debt claims, mortgage loans and annuities	89,736	92,272	2,536	78,335	81,59	3,255
Other loans						
Registered bonds	293,946	335,112	41,166	334,927	385,097	50,17
Promissory notes and loans receivable	287,43	341,234	53,804	285,786	351,302	65,516
Miscellaneous loans	22,006	37,978	15,972	22,006	21,623	-383
Deposits with credit institutions	49,909	49,912	3	109,851	109,86	9
Other investments	2	2	–	2	2	–
Total	**2,699,350**	**2,956,321**	**256,971**	**2,655,172**	**2,897,383**	**242,211**
Carrying amount of all investments, in %			**9,52**			**9,12**

1 Net perspective, balance of valuation reserves and hidden liabilities

2

Disclosures pursuant to Section 285, no. 18 of the HGB (German Commercial Code) concerning investments recognised at greater than fair value

With regard to other loans in the form of registered bonds and promissory notes, these positions have a carrying amount of €75,000 thousand and market values that are €1,980 thousand below the carrying amount. They were not written down, because the impairment is expected to be merely temporary. Interest and amortisation payments are expected be made as scheduled.

Disclosures pursuant to Section 285, no. 19 of the HGB (German Commercial Code) concerning derivative instruments not recognised at fair value

Derivative instrument/ grouping	Type	Nominal value	Fair value	Measurement method applied	Carrying amount and item[1]
		in € thousands	in € thousands		in € thousands
Share/index-related transactions	Option-OTC	136	– 1,512	Option-price model	– 1,512
Currency-related transactions	Currency forwards	352,128	1,213	Discounted cash flow method	–

1 Derivatives have to do with pending transactions that are not accounted for.

This table focuses on derivatives whose carrying amount does not correspond to fair value on the reporting date. Derivatives have to do with transactions to be satisfied at a future point in time whose value is based on the change in the value of an underlying pursuant to the agreed contractual terms. Normally, there are no or only minor acquisition costs for these.

If on the reporting date the carrying amount of a derivative corresponds to fair value, it is nevertheless taken into account in the table if the recognised value is based on the imparity principle or results from the creation of a loss provision.

§ 285, no. 23 HGB – disclosures concerning valuation units recognised pursuant to Section 254

1. Disclosures concerning hedged items and securities

Type of valuation unit created	Type of risk hedged	Type of included assets, liabilities and pending transactions not accounted for	Carrying amount of the included hedged items	Amount of risks hedged[1] (nominal)
			in € thousands	in € thousands
Mikro-Hedge	Risk of changes in interest rates	Securities (HI), swaps (HE)	9,155	– 1,43

1 Corresponds to the total of omitted write-downs of assets and omitted creation of provisions for impending losses resulting from hedges.

2. Disclosures concerning the effectiveness of valuation units

Cash flows in opposite directions offset each other – reasons why the hedged item and the hedge are exposed to the same risk	To what extent do cash flows in opposite directions offset each other	In what period do cash flows in opposite directions offset each other	Disclosure concerning the method for determining the effectiveness of the valuation unit
HI + HE: ident. nominal, term, interest payment date and fixed interest rate	Largely	Until maturity of the HI	Prospective: Critical term match (CTM)/ Critical term Match (CTM)/ Retrospective: Cumulative dollar offset method

Abbreviations:

HE = hedge
HI = hedged item
CTM = critical term match method

Definition of the critical term match method:

If, in the case of perfect micro hedges, all value-determining factors between the hedged portion of the hedged item and the hedging portion of the hedge correspond (e.g. currency, nominal, term to maturity, identical fixed interest rate for swaps) and all value components of the hedged item and the hedge that do not correspond (e.g. credit risk-related value changes of the hedged item and/or hedge) are allocated to the value components not included in the valuation unit, a comparison of these parameters is sufficient for the prospective and retrospective evaluation of the effectiveness of the valuation unit (CTM).

The assumption that future value changes will effectively offset each other based on these conditions is implicit to the CTM.

Definition of micro hedge:

A „micro hedge" means the hedging of an individual item by means of a single hedge.

Definition of macro hedge:

A „macro hedge" means the hedging of one or more similar items by means of one or more hedges.

Disclosures pursuant to Section 285, no. 26 of the HGB (German Commercial Code) concerning shares, interests or shares in investment assets

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					
LBBW AM-USD Corporate Bond Fonds 2	Pension fund	224,114	224,114	–	5,381
LBBW AM-EMB2	Pension fund	194,09	194,076	14	9,142
LBBW AM-WV Corp Bonds fund	Pension fund	83,375	77,64	5,735	1,996
LBBW AM-WV P&F		116,262	114,159	2,103	2,68
W&W Flexible Premium II Fund		70,943	70,943	–	827
LBBW AM-567		71,229	71,229	–	1,943
LBBW AM Covered Call USA Fund	Equity fund	47,154	36,865	10,289	792
W&W South East Asian Equity Fund	Equity fund	42,656	39,47	3,186	267

None of the funds has any restrictions with respect to the daily sell option or to the termination notice period of three months in the event that all fund units are sold.

C. Receivables

I. Receivables from direct insurance business due from (8):

1. Policyholders

A collective impairment provision of €1,896 thousand (previous year: €2,092 thousand) was created for outstanding amounts on the basis of statistical surveys.

2. Insurance brokers

Receivables from direct insurance business due from insurance brokers amounted to €31,104 thousand (previous year: €28,376 thousand).

III. Other receivables (9)

in € thousands	31.12.2017	31.12.2016
Loans and advances to employees and agents	205	526
Submission of claims settled for the account of foreign companies	1,963	1,27
Receivables from coinsurance business for third-party account	2,348	3,612
Current tax assets	15	3,197
Interest and rent arrears	294	263
Assets that have been pledged, deposited or assigned for the purposes of security[1]	7,63	14,94
Miscellaneous other receivables	7,04	6,35
Receivables from affiliated companies and participations	126,618	108,646
Total	**146,113**	**138,804**

1 These are pledged cash securities from margin exposures relating to OTC derivatives.

Miscellaneous other receivables consist of accrued, unbilled, allocable operating expenses of €307 thousand (previous year: €315 thousand).

Remaining term to maturity of receivables
Receivables with a remaining term to maturity of more than one year amounted to €126.6 thousand (previous year: €108.6 thousand). They consist of the asset value from reinsurance policies for pension commitments and relate to the item “Other receivables”.

D. Other assets

I. Property, plant and equipment and inventories (10)

Depreciation of €815 thousand (previous year: €781 thousand) was applied to durable assets at the rates permissible under tax regulations. A compound item that is depreciated over five years was recognised for medium-value assets. In the financial year, depreciation of this item amounted to €164 thousand.

E. Deferred assets

II. Other deferred assets (11)

The premium from the purchase of registered bonds is recognised here in the amount of €1,972 thousand (previous year: €1,550 thousand).

F. Excess of plan assets over pension liabilities (12)

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 HGB (German Commercial Code) of claims under reinsurance policies in the amount of €11,908 thousand (previous year: €12,174 thousand) with partial amounts of the phased-in early retirement provisions for satisfaction arrearages in the amount of €7,291 thousand (previous year: €9,022 thousand) resulted in an excess of €4,617 thousand (previous year: €3,152 thousand).

Notes concerning liabilities

A. Equity

I. Share capital (13)

As at 31 December 2017, the company's share capital amounted to €109,312 thousand. It is divided into 4,270,000 registered no-par-value shares and is fully paid up, with each share mathematically representing €25.60 of the share capital.

II. Capital reserve (14)

This item relates to the premium from capital contributions.

III. Retained earnings (15)

Retained earnings

in € thousands	
As at 31 December 2016	76,557
Allocation to retained earnings	44,000
As at 31 December 2017	120,557

In connection with their approval of the annual financial statements, the Executive Board and the Supervisory Board allocated one-half of net profit to retained earnings.

IV. Unappropriated surplus (16)

Proposal for the appropriation of unappropriated surplus.

The unappropriated profit amounts to €44,000,000.00 We propose that it be appropriated as follows:

in €	2017
Allocation to retained earnings	44,000,000.00
Carry forward to new account	–
Total	**44,000,000.00**

B. Subordinated liabilities (17)

On 7 July 2010, a subordinated fixed-interest promissory note with a term of 10 years was issued for €30 million. The loan has an interest rate of 5.869% on the nominal amount.

C. Technical provisions (18)

Disclosures concerning these provisions are presented in the notes under „Individual disclosures concerning liabilities".

D. Other provisions

II. Other provisions (19)

in € thousands	31.12.2017	31.12.2016
Phased-in early retirement	5,444	9,027
Restructuring measures	7,737	4,806
Expenses for the annual financial statements	1,201	1,025
Holiday obligations and flex-time credits	9,409	9,915
Bonuses and performance incentives	12,171	12,234
Profit shares and competition awards	16,291	14,787
Outstanding trade payables relating to land ownership	167	74
Expenses for omitted land maintenance	410	159
Employee long-term service obligations and sales agent compensation obligations	2,011	2,63
Provision for impending losses from derivatives	844	5,374
Interest expense under Section 233a of the German Fiscal Code (AO)	188	188
Contributions to the employers' liability insurance scheme, compensatory levy for disabled persons, etc.	2,514	2,631
Total	**58,387**	**62,85**

A future target structure with personnel management measures was defined for the modern alignment and continual strengthening of sales in the digital realm for customers and agents. For this purpose, €6,616 thousand was allocated to the restructuring provisions in the financial year.

Since 2010, the provision for phased-in early retirement has contained the portion that is not outsourced in an insolvency-proof manner in the form of reinsurance.

Pledged reinsurance policies for the credit balances under phased-in early retirement agreements, which are inaccessible to all other creditors and serve solely to satisfy phased-in early retirement obligations, are netted with these pursuant to Section 246 (2) sentence 2 of the HGB (German Commercial Code). Expenses from compounding and income from discounting and from the assets to be offset are are handled in an analogous manner. Pledged reinsurance policies are recognised at their fair value. This is composed of the coverage capital plus irrevocably committed surplus participation.

The item „Phased-in early retirement“ is calculated as follows:

in € thousands	31.12.2017	31.12.2016
Amount needed to satisfy vested claims	12,736	18,049
thereof capable of being netted with the coverage capital of reinsurance[1]	7,292	9,022
Carrying amount	**5,444**	**9,027**

1 Der Zeitwert des Deckungskapitals entspricht den Anschaffungskosten.

The total carrying amount of the reinsurance policies pledged for the purpose of protecting phased-in early retirement assets against insolvency amounted to €11.9 million (previous year: €12.2 million).

F. Other liabilities

I. Liabilities from direct insurance business to (20):

1. Policyholders

Among other things, this item includes advance payments for newly requested policies and premiums not yet due.

2. Insurance brokers

Liabilities to insurance brokers from direct insurance business amounted to €33,432 thousand (previous year: €33,822 thousand).

III. Miscellaneous liabilities (21)

in € thousands	31.12.2017	31.12.2016
Taxes	20,333	19,169
Trade payables	1,33	532
Coinsurance business for third-party account	500	38
Other miscellaneous liabilities	22,882	20,931
Miscellaneous liabilities to affiliated companies	119,352	160,632
Total	**164,397**	**201,302**

In the financial year, advance payments of operating expenses accrued in the amount of €452 thousand (previous year: €470 thousand) and were recognised under the item „Miscellaneous liabilities“.

Remaining term to maturity of the liabilities

Most of these liabilities have a remaining term to maturity of up to one year. Liabilities with a remaining term to maturity of more than five years amounted to €285 thousand (previous year: €279 thousand). They pertain to the item „Miscellaneous liabilities“.

G. Deferred liabilities (22)

The amount recognised in the financial year related to discounts for registered bonds.

Notes concerning the income statement

I. Technical account

1. Premiums earned for own account (23)

Pursuant to Section 51 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV), the premiums are described in the notes under „Individual disclosures concerning the income statement". Domestic gross premiums written amounted to €1,751,111 thousand (previous year: €1,678,171 thousand). Premiums from indirect business amounted to €92 thousand (previous year: –€85 thousand). The number of at least one-year insurance policies is shown in the notes under „Annex to the notes".

2. Technical interest income for own account (24)

Pursuant to Section 38 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV), recognised under this item is the interest earned on pension and premium reserves, less the pro-rata costs of the asset manager and the reinsurer.

4. Expenses for insurance claims for own account

Pursuant to Section 51 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV), the gross expenses for insurance claims are described in the notes under „Individual disclosures concerning the income statement".

b) Change in the provision for outstanding insurance claims (25)
The run-off of the provision for outstanding insurance claims, which was carried forward from the previous year, resulted in run-off gains for own account in the amount of €115,023 thousand (previous year: €116,417 thousand) due to the uncertainty of the claims.

6. Expenses for insurance business for own account

a) Gross expenses for insurance business (26)
The breakdown of this item is shown in the notes under „Individual disclosures concerning the income statement". Expenses for the annual financial statements amounted to €146,387 thousand (previous year: €142,626 thousand), and administrative expenses, to €321,570 thousand (previous year: €308,954 thousand).

II. Non-technical account

1. Income from investments

c) Income from write-ups (27)
Income from write-ups includes exchange rate gains of €1,368 thousand (previous year: €326 thousand). The breakdown of this item is depicted in the notes under „Individual disclosures concerning assets".

d) Gains from the disposal of investments (27)

in € thousands	2017	2016
Land, land-type rights and buildings, including buildings on third-party land	–	162
Participations[1]	5,984	3,23
Bearer bonds and other fixed-income securities[2]	8,56	2,879
Registered bonds and promissory notes	–	1,876
Shares, interests or shares in investment assets and other variable-yield securities	12,046	5,248
Total	**26,59**	**13,395**

1 Thereof exchange rate gains of €244 thousand (previous year: €–)
2 Thereof exchange rate gains of €90 thousand (previous year: €1,840 thousand)

2. Expenses for investments

b) Write-downs on investments (29)

Pursuant to Section 253 (3) sentences 5 and 6 in conjunction with Section 277 (3) sentence 1 of the HGB (German Commercial Code) and pursuant to Section 253 (4) HGB, this item also contains unscheduled write-downs in the amount of €17,258 thousand. Of this amount, affiliated companies and participations accounted for €6,218 thousand, and securities and interests or shares in investment assets accounted for €11,040 thousand.

Write-downs on affiliated companies and participations involve balance-sheet items that are measured like fixed assets, while write-downs on securities and interests or shares in investment assets concern balance-sheet items classified as current assets. Currency write-downs amounted to €9,252 thousand.

c) Losses from the disposal of investments (29)

in € thousands	2017	2016
Affiliated companies	–	61
Participations[1]	266	1,59
Shares and variable-yield securities	362	6,02
Bearer bonds and fixed-income securities[2]	1,011	768
Total	**1,639**	**8,439**

1 Thereof exchange rate losses of €164 thousand (previous year: €—)
2 Thereof exchange rate losses of €5 thousand (previous year: €2 thousand)

4. Other income (31)

Material items are:

Commissions from the brokering of insurance policies and home loan savings contracts for other companies in the amount of €14,214 thousand (previous year: €15,487 thousand), other cost refunds (management tasks, etc.) in the amount of €189,107 thousand (previous year: €148,510 thousand), exchange rate gains in the amount of €12,084 thousand (previous year: €10,715 thousand), income from the pension scheme in the amount of €16,665 thousand (previous year: €14,389 thousand), income from the release of miscellaneous provisions in the amount of €1,301 thousand (previous year: €1,425 thousand).

In the previous year, the discount rate used for the provision for pensions and similar obligations was changed from a seven-year average to a ten-year average, and this resulted in interest income accruing in 2016 in the amount of €8,822 thousand. When netted against other net interest income from the provision for pensions and similar obligations, other income from interest amounted to €3,930 thousand.

5. Other expenses (32)

Material items are:

in € thousands	2017	2016
Commission payments, competition awards and sales expenses from the brokering of insurance policies and home loan savings contracts for other companies	24,886	25,675
Expenses for other services (e.g. management tasks)	187,514	147,016
Interest expenses from the compounding of long-term provisions	69	157
Addition of interest to the pension provision[1]	30,168	–
Exchange rate losses	7,905	12,143
Interest on subordinated liabilities	1,761	1,763
Expenses for the pension scheme	10,307	16,985
Voluntary special contribution to WürttPK[2]	35,01	3,243
Other expenses that affect the company as a whole:		
Costs of preparing the annual financial statements	1,871	1,45
Contributions to professional associations, chambers of industry and trade and insurance supervision fees	1,711	1,754
Legal and tax consulting expenses	628	515
Projects	8,937	5,433

1 For the previous year, please see the remarks on the effect of changes in interest rates on other income (item no. 4)
2 In connection with a flat-rate strengthening of the provision for future policy benefits in the 2017 financial year

Altersteilzeitvereinbarungen betreffend wurden Aufwendungen aus der Aufzinsung und Erträge aus der Abzinsung und aus dem zu verrechnenden Vermögen in Höhe von 166 (Vj. 325) Tsd € gemäß § 246 Abs. 2 Satz 2 HGB miteinander verrechnet.

7. Extraordinary expenses (33)

As a result of the conversion to the BilMoG (German Accounting Law Modernisation Act) effective 1 January 2010, the following amounts for Württembergische Versicherung AG-related employees were recognised under "Extraordinary expenses" in the previous year:

in € thousands	2017	2016
Pension commitment expenses passed on from the reconciliation of intercompany services	–	35 037

The conversion expense from the first-time application of the BilMoG amounted to €58.4 million, which was permitted to be allocated over a period of up to 15 years. In the years up to and including 2015, use was made of this allocation option, with one-fifteenth of this amount being recognised as an extraordinary expense. The nine outstanding instalments of €35.0 million were recognised in full as an extraordinary expense in 2016, meaning there was no longer any under-coverage in the 2016 financial year.

9. Income taxes (34)

Taxes in the amount of €1,061 thousand (previous year: €365 thousand) included foreign income and withholding taxes of €1,154 thousand and tax income of €93 thousand from the compounding of the corporation tax credit.

The carrying amounts for land, land-type rights and buildings, participations, shares and interests in investment assets and other variable-yield securities, bearer bonds, provisions for outstanding insurance claims and provisions for pensions differ from one another under commercial law and tax law accounting rules. This resulted in deferred tax assets, which were offset, i.e. netted against deferred tax liabilities (e.g. from interests in affiliated companies). Deferred taxes were calculated using a tax rate of 30.6%. Since, after netting, deferred tax assets exceeded deferred tax liabilities, the option in Section 274 (1) sentence 2 of the HGB (German Commercial Code) was exercised, and the deferred tax assets were not capitalised.

Other mandatory disclosures

Mandates

The members of the Executive Board and of the Supervisory Board are listed on pages 4 and 5. These pages are part of the notes.

Legal bases

Württembergische Versicherung Aktiengesellschaft maintains its registered office in Stuttgart, Germany, and is recorded in the Commercial Register of the Local Court of Stuttgart under Number HRB 14327.

Events after the reporting date

No events of special significance to the net assets, financial position and financial performance of Württembergische Versicherung AG occurred between the end of the financial year and the preparation of the annual financial statements.

Supplementary disclosures

Commissions and other remuneration paid to insurance agents, personnel expenses

in € thousands	2017	2016
Commissions of any nature paid to insurance agents within the meaning of Section 92 of the HGB (German Commercial Code) for direct business	277,052	263,739
Other remuneration paid to insurance agents within the meaning of Section 92 HGB	35,587	29,629
Wages and salaries	172,36	175,094
Social remittances and expenses for support	32,911	33,391
Expenses for the pension scheme	49,445	25,245
Total	**567,355**	**527,098**

Employees

Number[1]	2017	2016
Back office	2,334	2,384
Mobile sales force	773	872
Waged employees	–	–
Trainees	132	132
Total	**3,239**	**3,388**

1 Average employee headcount for the year pursuant to Section 285, no. 7 of the HGB (German Commercial Code).

Total remuneration paid to Supervisory Board, Executive Board and former Executive Board members as well as advances and loans granted to these persons

The remuneration paid to the members of the Supervisory Board amounted to €233 thousand (previous year: €227 thousand), and that paid to the members of the Executive Board, to €1,568 thousand (previous year: €1,353 thousand). Former members of the Executive Board were paid €1,135 thousand (previous year: €1,272 thousand). In the financial year, the pension commitments for former members of the Executive Board amounted to €16,533 thousand (previous year: €16,972 thousand) As at the reporting date, no loan claims existed against members of the Executive Board. As at the reporting date, no loan claims existed against members of the Supervisory Board.

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 Vertriebspartner GmbH and WürttVers Alternative Investments GmbH remain in place. A control and profit transfer agreement has been in place with Adam Riese GmbH since 9 June 2017.

Expenses for the auditor

In addition to auditing the annual financial statements of Württembergische Versicherung AG, KPMG AG Wirtschaftsprüfungsgesellschaft also audited the annual financial statements of its subsidiaries, as well as conducting a statutory audit in accordance with the German Act on the Supervision of Insurance Undertakings (VAG).

Disclosures concerning auditor fees are contained in the consolidated financial statements of Wüstenrot & Württembergische AG. Based on the exemption for groups set forth in Section 285, no. 17 of the HGB (German Commercial Code), we have elected to dispense with publication here.

Contingent liabilities and other financial obligations

As a member of Verkehrsopferhilfe e. V., an association that assists road accident victims through a guarantee fund established by German motor liability insurers, we are obligated to provide the association with the resources necessary for carrying out its purpose, namely in accordance with our share of the premium revenue that member companies generated from direct motor liability insurance business in the calendar year before last.

Outstanding contribution obligations for participation commitments entered into amounted to €94.2 million (thereof to affiliated companies: €10.0 million).

Irrevocable loan commitments in the amount of €6.5 million (previous year: €24.0 million) consist of remaining obligations under loans that have been granted but not yet drawn down or fully drawn down. The risk of a change in interest rates is low for irrevocable loan commitments due to their short terms.

Another liability exists in connection with the occupational pension scheme. Employees who joined one of the two sponsoring companies, Württembergische Versicherung AG or Württembergische Lebensversicherung AG, prior to 1 January 2002 could be accepted as members of the pension fund of Württembergische 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. According to the Articles of Association, the sponsoring undertakings are obligated to make contributions. In accordance with the business plan, the sponsoring undertakings handle administration at no cost. In addition, there is secondary liability in some cases under the BetrAVG (German Occupational Pensions Act).

Under the contract of December 1991, the pension commitments were transferred to Württembergische AG Versicherungs-Beteiligungsgesellschaft (predecessor company of W&W AG) in exchange for a one-time compensation payment in the amount of the partial value at the time, which thus assumed joint liability and responsibility for fulfilment. Württembergische Versicherung AG settles income and expenses from the change in the pension obligations annually in cash with W&W AG. The pension obligation owed to employees of Württembergische Versicherung AG in the amount of €515,070 thousand is offset by an indemnification claim against W&W AG in the same amount.

Since the 2016 financial year, the actual interest rate that has been applied pursuant to Section 253 (2) sentence 1 of the HGB (German Commercial Code), in accordance with the revised law, has been the average market interest rate over the past 10 years.

The discount rates published by the German Bundesbank on 31 October 2017 with a 10-year average interest rate were modified by taking the average monthly decline in interest rates from 1 January to 31 October 2017 and extrapolating it for the months of November and December 2017.

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 HGB amounted to €76.2 million. The conversion expense from the first-time application of the BilMoG (German Accounting Law Modernisation Act) amounted to €58.4 million and may be allocated over a period of up to 15 years. In the previous year, the instalments that were still outstanding were recognised as an extraordinary expense, meaning that there was no longer any under-coverage.

In the years up to and including 2015, use was made of this allocation option, with one-fifteenth of this amount being recognised as an extraordinary expense each year.

Other financial obligations under real estate leases currently amount to about €73 thousand per month. Moreover, minor obligations exist under various leases for property, plant and equipment.

Expenses for internal Group services are expected to amount to €169.8 million in 2018.

In connection with the sale of Württembergische U.K. Limited in 2008, we assumed financial obligations to the extent customary in business.

WV indemnifies WBP with respect to the liability for faulty product presentations of WV products on the WBP online platform.

Pursuant to the waiver of recourse and indemnification agreement that exists in the W&W Group, in the event that an agent provides 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 general 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 within the W&W Group, by a collaboration partner or in the course of further advice, the company has also agreed to grant indemnity where 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 €1.23 million per claim and €1.85 million per year.

In connection with the 2018 the motor loyalty campaign, long-standing motor customers received personal vouchers in 2017 for reduction of the deductible by €100 for partial and comprehensive insurance claims that arise between 1 January 2018 and 31 December 2018. A total of 240,090 vouchers were sent out, which represents a maximum financial obligation of €24.0 million, with potential extra expenses of €0.2 million.

Apart from these liability and collateral arrangements, there are no other liability arrangements, granted pledges, assignments for the purposes of security or liabilities under bills of exchange that are not shown in the balance sheet or the above notes.

Group affiliation

Pursuant to Section 20 of the AktG (German Stock Corporation Act), Wüstenrot & Württembergische AG, Stuttgart (W&W AG) notified us that it is the sole shareholder of our company

Württembergische Versicherung AG, Stuttgart, Germany, is part of the W&W Group, whose parent company is W&W AG. The consolidated financial statements of the W&W Group are published in the German Federal Gazette (Bundesanzeiger).

Therefore, the conditions for the exemption of the company from the group accounting obligation pursuant to Section 291 (2), no. 4 of the HGB (German Commercial Code) are met.

The accounting and valuation methods applied in departure from German law in the separate consolidated financial statements include, in particular, the prohibition of creating a claims equalisation provision and the recognition of certain financial assets at fair value, whereas the German Commercial Code (HGB) provides for uniform measurement at amortised cost. As a rule, measurement of the fair value of financial assets in the category „Financial assets held for sale“ has no impact on profit or loss.

Stuttgart, 19 February 2018 The Executive Board

Norbert Heinen	Franz Bergmüller	Dr. Michael Gutjahr
Dirk Hendrik Lehner	Dr. Susanne Pauser	Jens Wieland

Individual disclosures concerning assets

Notes concerning assets

	Carrying amounts 2016	Additions	Reclassifi-cations	Disposals	Write-ups[1]	Write-downs[1]	
in Tsd €							
A. Intangible assets							
Licenses acquired against payment, industrial property rights and similar rights, as well as licenses for such rights and assets	45	12	–	–	–	27	30
B.I. Land, land-type rights and buildings, including buildings on third-party land	84,146	–	–	–	–	2,023	82,123
B.II. Investments in affiliated companies and participations							
1. Interests in affiliated companies	183,921	20,884	–	–	1,923	67	206,661
2. Loans to affiliated companies	29,879	22,05	–	–	121	–	52,05
3. Participations	176,654	40,479	–	18,538	2,705	6,15	195,15
4. Total B.II.	**390,454**	**83,413**	**–**	**18,538**	**4,749**	**6,217**	**453,861**
B.III. Other investments							
1. Shares, interests or shares in investment assets and other variable-yield securities	901,629	52,881	–	104,688	16,822	6,923	859,721
2. Bearer bonds and other fixed-income securities	448,036	307,304	–	192,883	2,275	4,116	560,616
3. Mortgage debt claims, mortgage loans and annuities	78,335	17,131	–	5,730	–	–	89,736
4. Other loans							
a) Registered bonds	334,927	114	–	155,000	77	58	293,946
b) Promissory notes and loans receivable	285,786	10,354	–	8,710	–	–	287,43
c) Loans and advance payments on	–	–	–	–	–	–	–
d) Miscellaneous loans	22,006	–	–	–	–	–	22,006
5. Deposits with credit institutions	109,851	–	–	57,580	–	2,362	49,909
6. Other investments	2	–	–	–	–	–	2
7. Total B.III.	**2,180,572**	**501,670**	–	**524,591**	**19,174**	**13,459**	**2,163,366**
Total	**2,655,217**	**585,095**	–	**– 543,129**	**23,923**	**21,726**	**2,699,380**

1 “Other net income/expense” includes write-downs from currency translation in the amount of €2,362 thousand.

Individual disclosures concerning liabilities

C. Technical provisions[1]

in € thousands	Provisions (gross) for outstanding insurance claims		Claims equalisation provision and similar provisions		Total technical provisions (gross)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
1. Direct insurance business						
Personal accident insurance	191,733	175,522	–	–	211,710	195,485
Liability insurance	444,115	463,788	57,820	65,245	529,815	557,261
Motor liability insurance	1,052,480	1,048,548	106,748	112,524	1,177,159	1,177,925
Other motor insurance	58,338	48,560	80,168	77,099	150,529	136,571
Fire and property insurance						
Fire insurance	94,757	70,120	15,259	15,060	117,550	92,863
Combined household insurance	16,699	17,337	–	–	30,937	31,588
Combined building insurance	73,086	72,042	69,707	59,440	171,968	159,273
Other property insurance	81,842	71,528	55,012	52,107	158,474	144,729
	266,384	231,027	139,978	126,607	478,929	428,453
Transport and aviation insurance	21,264	23,990	5,966	6,436	28,757	32,155
Legal expenses insurance	168,251	161,748	14,623	12,710	196,990	188,359
Travel assistance insurance	811,000	808,000	5,755	4,981	6,820	6,029
Other insurance	40,294	41,461	253,000	1,548	41,670	43,939
Total	**2,243,670**	**2,195,452**	**411,311**	**407,150**	**2,822,379**	**2,766,177**
2. Assumed insurance business	45,663	53,579	–	–	45,663	53,578
3. Total insurance business	2,289,333	2,249,031	411,311	407,150	2,868,042	2,819,755

1 See „Notes concerning liabilities“ in the notes

Individual disclosures concerning the income statement[1]

	Gross premiums written		Earned premiums (gross)		Earned premiums (net)	
in € thousands	2017	2016	2017	2016	2017	2016
1. Direct insurance business						
Personal accident insurance	136,229	133,428	136,448	133,422	115,787	113,303
Liability insurance	199,193	194,520	199,928	195,014	168,206	164,235
Motor liability insurance	436,054	418,615	436,002	418,569	368,924	354,183
Other motor insurance	318,249	304,094	318,256	304,086	264,702	253,123
Fire and property insurance						
Fire insurance	67,901	65,596	67,775	65,563	38,409	38,062
Combined household insurance	91,235	89,261	91,229	89,380	76,920	75,444
Combined building insurance	172,668	162,706	171,282	161,946	138,184	130,917
Other property insurance	170,486	156,761	169,897	156,632	114,593	106,213
	502,290	474,324	500,183	473,521	368,106	350,636
Transport and aviation insurance	19,058	18,466	19,058	18,466	15,885	15,429
Legal expenses insurance	114,861	111,512	114,650	111,221	97,414	94,529
Travel assistance insurance	10,255	9,817	10,256	9,812	8,717	8,340
Other insurance	14,930	13,409	14,699	13,272	7,487	6,803
Total	**1,751,119**	**1,678,185**	**1,749,480**	**1,677,383**	**1,415,228**	**1,360,581**
2. Assumed insurance business	92,000	– 84,000	92,000	– 84,000	– 6,000	– 196,000
3. Total insurance business	1,751,211	1,678,101	1,749,572	1,677,299	1,415,222	1,360,385

1 See „Notes concerning the income statement“ in the notes

in € thousands	Gross expenses for insurance claims 2017	Gross expenses for insurance claims 2016	Gross expenses for insurance business 2017	Gross expenses for insurance business 2016	Reinsurance balance saldo[1] 2017	Reinsurance balance saldo[1] 2016
1. Direct insurance business						
Personal accident insurance	67,179	45,620	45,898	43,523	– 150,000	– 5,206
Liability insurance	60,309	69,235	68,508	66,322	– 11,569	– 9,543
Motor liability insurance	339,096	335,965	76,992	75,288	2,005	2,935
Other motor insurance	253,495	231,333	64,052	62,259	2,489	– 1,344
Fire and property insurance						
Fire insurance	65,070	41,552	18,685	18,409	–	–
Combined household insurance	30,191	34,723	32,002	32,149	–	–
Combined building insurance	105,395	113,948	45,711	44,073	–	–
Other property insurance	100,066	91,462	60,138	55,471	–	–
	300,722	281,685	156,536	150,102	1,741	– 9,450
Transport and aviation insurance	11,875	11,818	7,188	6,857	– 967,000	560,000
Legal expenses insurance	71,285	72,018	38,142	37,718	775,000	970,000
Travel assistance insurance	6,244	6,428	4,448	4,269	205,000	229,000
Other insurance	10,507	6,794	6,174	5,262	2,279	– 4,108
Total	**1,120,712**	**1,060,896**	**467,938**	**451,600**	**– 3,192**	**– 24,957**
2. Assumed insurance business	– 1,688	– 716,000	19,000	– 20,000	– 1,739	– 1,333
3. Total insurance business	1,119,024	1,060,180	467,957	451,580	– 4,931	– 26,290

1 From the perspective of Württembergische Versicherung AG

in € thousands	Net underwriting income/ expense f. o. a. (before claims equalisation provision) 2017	Net underwriting income/ expense f. o. a. (before claims equalisation provision) 2016	Change in the claims equalisation provision and similar provisions 2017	Change in the claims equalisation provision and similar provisions 2016	Net underwriting income/ expense f. o. a. (after claims equalisation provision) 2017	Net underwriting income/ expense f. o. a. (after claims equalisation provision) 2016
1. Direct insurance business						
Personal accident insurance	23,783	39,570	–	–	23,783	39,570
Liability insurance	59,520	50,195	7,425	– 1,365	66,945	48,830
Motor liability insurance	22,157	11,234	5,776	– 4,867	27,933	6,367
Other motor insurance	2,643	9,281	– 3,068	– 10,774	– 425,000	– 1,493
Fire and property insurance						
Fire insurance	– 860,000	– 134,000	– 199,000	– 1,637	– 1,059	– 1,771
Combined household insurance	23,437	18,301	–	–	23,437	18,301
Combined building insurance	12,020	1,659	– 10,266	– 20,694	1,754	– 19,035
Other property insurance	3,703	6,275	– 2,905	– 3,991	798,000	2,284
	38,300	26,101	– 13,370	– 26,322	24,930	– 221,000
Transport and aviation insurance	– 805,000	229,000	469,000	– 405,000	– 336,000	– 176,000
Legal expenses insurance	6,155	2,606	– 1,914	540,000	4,241	3,146
Travel assistance insurance	– 228,000	– 646,000	– 774,000	– 104,000	– 1,002	– 750,000
Other insurance	113,000	– 3,022	1,295	133,000	1,408	– 2,889
Total	**151,638**	**135,548**	**– 4,161**	**– 43,164**	**147,477**	**92,384**
2. Assumed insurance business	23,000	– 681,000	–	–	23,000	– 681,000
3. Total insurance business	151,661	134,867	– 4,161	– 43,164	147,500	91,703

Annex to the notes

Number of at least one-year insurance policies

in units	31.12.2017	31.12.2016
Personal accident insurance	720,370	708,373
Liability insurance	1,183,453	1,181,380
Motor liability insurance	1,712,707	1,675,876
Other motor insurance	1,244,263	1,206,529
Fire and property insurance		
Fire insurance	174,791	172,099
Combined household insurance	730,637	735,029
Combined building insurance	451,392	448,646
Other property insurance	941,833	921,492
	2,298,653	2,277,266
Transport and aviation insurance	26,112	25,059
Legal expenses insurance	699,713	689,951
Travel assistance insurance	614,047	606,496
Other insurance	98,322	88,485
Total	**8,597,640**	**8,459,415**

List of ownership interests

Name and registered office of the company	Direct interest in equity	Indirect interest in equity	Currency	Reporting date	Equity[1]	Net income/ expense after taxes[1]
	in %	in %				
Germany						
Adam Riese GmbH, Stuttgart[2]	100.00		€	31.12.2017	25,000	–
Altmark Versicherungsmakler GmbH, Stuttgart	100.00		€	31.12.2017	1,883,382	374,812
Altmark Versicherungsvermittlung GmbH, Stuttgart	100.00		€	31.12.2017	228,960	32,820
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	17.50		€	31.12.2016	260,692,860	18,107,166
BWK Holding GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	17.50		€	31.12.2016	8,868,480	745,631
Deutsche Makler Akademie (DMA) gemeinnützige Gesellschaft mbH, Wiesbaden	7.14		€	31.12.2016	67,620	2,263
Elvaston Capital Fund III GmbH & Co. KG, Berlin		10.00	New investment 19.9.2017			
NORD KB Micro-Cap V GmbH & Co. KG, Hannover		6.94	New investment 1.3.2017			
Nord-Deutsche AG Versicherungs-Beteiligungsgesellschaft, Stuttgart	100.00		€	31.12.2017	10,864,936	719,160
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart	25.00		€	31.12.2016	795,959	– 923,329
Württembergische Immobilien AG, Stuttgart	100.00		€	31.12.2017	119,666,490	2,365,113
Württembergische Kö 43 GmbH, Stuttgart		94.00	€	31.12.2017	23,481,620	1,185,156
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart	100.00		€	31.12.2017	99,571	22,877
Württembergische Vertriebspartner GmbH, Stuttgart[2]	100.00		€	31.12.2017	74,481	–
WürttVers. Alternative Investments GmbH, Stuttgart[2]	100.00		€	31.12.2017	20,025,000	–
YIELCO Special Situations GmbH & Co. KG, Munich		5.05	€	31.12.2016	16,134,970	– 124,351
France						
Württembergische France Immobiliere SARL, Strasbourg[3]		100.00	€	30.9.2017	15,420,355	1,495,444
Württembergische France Strasbourg SARL, Strasbourg	100.00		€	30.9.2017	48,134,152	2,655,351
Ireland						
BlackRock NTR Renewable Power Fund plc, Dublin	22.39		US$	31.12.2016	60,329,000	2,173,000
White Oak Summit Fund ILP, Dublin	6.02		US$	31.12.2016	93,711,644	4,214,739

List of ownership interests

Name and registered office of the company	Direct interest in equity	Indirect interest in equity	Currency	Reporting date	Equity[1]	Net income/ expense after taxes[1]
	in %	in %				
Luxembourg						
AMP Capital Infrastructure Debt Fund (EUR) III L.P., Luxembourg	10.47		€	31.12.2016	21,558	– 1,206,827
DB Secondary Opportunities SICAV-SIF – Sub Fund DB SOF II Feeder USD, Luxembourg	7.63		US$	31.12.2016	74,565,756	9,275,989
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxembourg	6.11		€	31.12.2016	170,443,886	9,027,056
IKAV SICAV-FIS SCA – ecoprime TK I, Luxembourg	10.86		€	30.9.2017	45,639,549	2,437,904
IKAV SICAV-FIS SCA – Global Energy (Ecoprime III), Luxembourg	15.12		€	30.9.2017	54,534,078	395,642
InfraVia European Fund III SCSp, Senningerberg	7.48		€	31.12.2016	18,615,644	– 7,111,866
Secondary Opportunities SICAV-SIF – Sub-fund SOF III Feeder USD, Luxembourg	16.77		US$	31.12.2016	27,924,959	– 43,455
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxembourg		10.21	US$	31.12.2016	434,813,326	36,469,634
Austria						
G6 Zeta Einrichtungs- und VerwertungsGmbH & Co OG, Vienna		99.90	€	31.12.2016	24,461,555	1,635,869
United Kingdom						
ASF VII Infrastructure L.P., Edinburgh	6.11		New investment 30.12.2016			
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh	8.47		US$	31.12.2016	130,555,964	– 516
EIG Global Private Debt (Europe UL) L.P., London	8.09		US$	31.12.2016	21,121	515
United States						
ARDIAN North America Fund II L.P., Wilmington		9.44	New investment 1.3.2017			

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 The direct interest amounted to less than 0.01%.

Württembergische Versicherung AG
Auditor's report

Audit opinion

We have audited the annual financial statements of Württembergische Versicherung AG, Stuttgart, comprising the balance sheet as at 31 December 2017, the income statement for the financial year from 1 January to 31 December 2017 and the notes, including the depiction of the accounting and valuation methods. In addition, we have audited the management report of Württembergische Versicherung AG for the financial year 1 January to 31 December 2017. In accordance with German statutory provisions, we have not audited the content of the corporate governance statement, which is contained in the section "Other disclosures" in the management report.

In our opinion, based on the knowledge acquired in connection with the audit,

- the attached annual financial statements comply in all material respects with the requirements of the HGB (German Commercial Code) applicable to insurance undertakings and present a true and accurate view of the company's net assets and financial position as at 31 December 2017 and its financial performance for the financial year 1 January to 31 December 2017 in accordance with the German standards of proper accounting, and

- the attached management report on whole presents a true and accurate view of the company's position. The management report is consistent with the annual financial statements in all material respects, complies with German legal requirements and accurately depicts the opportunities and risks of future development. Our audit opinion concerning the management report does not cover the content of the aforementioned corporate governance statement.

Pursuant to Section 322 (3) sentence 1 of the HGB (German Commercial Code), we declare that our audit has not led to any reservations concerning the regularity of the annual financial statements or the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and the management report in conformity with Section 317 of the HGB (German Commercial Code) and with Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities (hereinafter, the "EU Audit Regulation"), as well as in accordance with the German standards for the proper auditing of financial statements promulgated by the Institute of IDW (Public Auditors in Germany). Our responsibility in accordance with those provisions and standards is described extensively in the section of our audit report entitled "Responsibility of the statutory auditor for the audit of the annual financial statements and the management report".
We are independent of the company in accordance with the requirements of European and German commercial law, as well as professional rules, and we we have fulfilled our other German professional duties in accordance with these requirements and rules. In addition, pursuant to Article 10(2)(f) of the EU Audit Regulation, we declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions concerning the annual financial statements and the management report.

Key audit matters in connection with the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of other loans

The company holds bonds for the purposes of investment (primarily registered bonds and promissory notes). They are are recognised under the item "Other loans".

With respect to accounting standards, we refer to the notes concerning the accounting policies for assets as applied to other loans and determination of fair value. Risk disclosures can be found in the opportunity and risk report, which is part of the management report, in the sections on market price risk and counterparty risk.

Risk for the financial statements

Other loans are unlisted and amount to €603.4 million. This constitutes 19.9% of total assets.

Investments are associated with the fundamental risk that fair value was determined incorrectly, such that a write-down or write-up was omitted.

With unlisted other loans, there is an increased risk that fair values will be unable to be ascertained on active markets on the reporting date. For these investments, complex measurement methods are necessary. In addition, these measurement methods include parameters that are derived from market data and are subject to discretion.

Our audit approach

Our audit of other loans consisted, in particular, of the following key activities:

- We audited the process for recording the portfolio data and the parameters (in particular, yield curves, spreads, exchange rates, volatilities and termination rights) in the portfolio management system, including the controls put in place for this purpose. Using functional audits, we assured ourselves of the effectiveness of the installed controls.
- For other loans, we compared the parameters that were applied with those that are observable on active markets. If parameters could not be observed, then among other things, we gained an understanding of the yields and spreads that were applied for certain other loans and evaluated those yields and spreads. We audited the measurement methods that were applied.
- In addition, for a selection of other loans, we likewise calculated fair value with our own EDP programs and compared the results with the figures shown by the company.
- We audited whether write-downs and write-ups were undertaken accurately.

Our conclusions

The measurement of unlisted other loans is on the whole in conformity with the requirements of commercial law. On the whole, the measurement methods and parameters that were employed are appropriate. Write-downs and write-ups were undertaken where necessary.

Measurement of the gross provision for outstanding insurance claims in direct insurance business

With respect to accounting standards, we refer to the notes concerning the accounting policies for liabilities as applied to technical provisions. Risk disclosures can be found in the opportunity and risk report, which is part of the management report, in the section on underwriting risk.

Risk for the financial statements

The gross provisions for outstanding insurance claims amounted to €2,289.3 million. This constitutes 75.4% of total assets.

The gross provision for outstanding insurance claims is spread over various sub-provisions. The provisions for reported and unreported insurance claims make up the largest portion of the gross provision for outstanding insurance claims.

The provision for reported and unreported insurance claims is subject to uncertainties with respect to the amount of the losses and is therefore highly subject to discretion. Pursuant to Section 341e (1) sentence 1 of the HGB (German Commercial Code), the estimate may not be made in a risk-neutral manner, i.e. by assigning equal weight to risks and opportunities, but instead must pay regard to the principle of prudence in accounting.

The provisions for reported insurance claims are estimated in accordance with the expected expense for each individual claim. For claims that are still unreported, provisions for late outstanding claims are created, which are calculated based on experience. Recognised actuarial methods are used for this purpose.

With regard to insurance claims that have been reported as at the reporting date, there is a risk that an insufficient amount will have been set aside for claim payments that are still outstanding. With regard to insurance claims that have occurred but not yet been reported (unreported late outstanding claims), there is also a risk that they will not have been taken into account, or not to a sufficient extent.

Our audit approach
In connection with the audit of the provision for reported and unreported insurance claims, part of our audit team included claims actuaries, and we performed the following significant audit procedures:

- We examined the process for calculating the provisions, identified the key controls and tested them for their appropriateness and effectiveness. We assured ourselves that the controls, which are designed to ensure the timely processing of insurance claims and thus their correct valuation, were appropriately set up and effectively carried out.
- For a sub-group of insurance claims, we used the records for various insurance branches and types to gain an understanding of the amount of the individual provisions for reported insurance claims.
- We audited the calculations made by the company to ascertain unreported late outstanding claims. In doing so, we reviewed, in particular, the derivation of the estimated number of claims and their amount based on historical experience and current developments.
- We performed our own actuarial reserve calculations for certain segments, which we selected on the basis of risk considerations. In doing so, we used statistical probabilities to define a point estimate and an appropriate range and then compared these with the company's calculations.
- Using settlement results, we analysed the actual change in the provision for outstanding insurance claims that had been created in the previous year.
- We analysed the change in the provision for claims on the basis of a time-series comparison of, in particular, the number and average amount of claims and the ratio of claims reported in the financial year to premiums received in the financial year, as well as ratio of claims reported in the financial year to premiums received in the financial year, less income attributable to the previous financial year.

Our conclusions

The provisions for reported and unreported insurance claims were measured in conformity with commercial law requirements. On whole, the applied methods and the underlying assumptions were appropriate.

Other information

The Executive Board is responsible for the other information. The other information comprises:

- the corporate governance statement and
- the other parts of the annual report, with the exception of the audited financial statements and the management report, as well as our audit report.

Our audit opinions concerning the annual financial statements and the management report do not cover the other information, and as a result, we do not provide an audit opinion or any other form of audit conclusion concerning it.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

- is materially inconsistent with the annual financial statements, the management report or our knowledge obtained in the audit or
- otherwise appears to be materially misstated.

Responsibility of the Executive Board and the Supervisory Board for the annual financial statements and the management report

The Executive Board is responsible for preparing the annual financial statements in a manner that conforms in all material respects with the provisions of the HGB (German Commercial Code) applicable to insurance undertakings and for ensuring that they present a true and accurate view of the company's net assets, financial position and financial performance in accordance with the German standards of proper accounting. Furthermore, the Executive Board is responsible for the internal controls that it has specified as necessary in accordance with the German standards of proper accounting in order to facilitate the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the Executive Board is responsible for assessing the company's ability to continue as a going concern. In addition, it is responsible for disclosing, as applicable, matters related to the going concern. Moreover, it is responsible for applying the going-concern basis of accounting, unless factual or legal circumstances prevent this.

Furthermore, the Executive Board is responsible for preparing the management report that as a whole presents a true and accurate view of the company's position and that in all material respects is consistent with the annual financial statements, complies with German legal requirements and accurately depicts the opportunities and risks of future development. In addition, the Executive Board is responsible for the arrangements and measures (systems) that it considers necessary in order to facilitate the preparation of a management report in conformity with applicable German legal requirements and to enable sufficient and appropriate evidence to be provided for the statements in the management report.

The Supervisory Board is responsible for monitoring the company's accounting process with respect to the preparation of the annual financial statements and the management report.

Responsibility of the statutory auditor for the audit of the annual financial statements and the management report

Our objective is to obtain to obtain reasonable assurance about whether the annual financial statements on the whole are free from material misstatement, whether due to fraud or error, and about whether the management report on the whole presents a true and accurate view of the company's position and in all material respects is consistent with the annual financial statements and the knowledge gained in the audit, complies with German legal requirements and accurately depicts the opportunities and risks of future development, as well as to issue an audit report containing our audit opinions concerning the annual financial statements and the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in conformity with Section 317 of the HGB (German Commercial Code) and with the EU Audit Regulation, as well as in accordance with the German standards for the proper auditing of financial statements promulgated by the Institute of IDW (Public Auditors in Germany), will always detect a material misstatement. Misstatements may be the result of non-compliance or inaccuracies and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users that are taken on the basis of these annual financial statements and the management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement is higher in the case of fraud than in the case of error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of the arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of the accounting policies used by the Executive Board and the reasonableness of the estimates and related disclosures made by the Executive Board.
- Draw conclusions on the appropriateness of the Executive Board's use of the going-concern basis of accounting and, based on the audit evidence obtained, about whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements depict the underlying business transactions and events in such a

way as to present a true and accurate view of the company's net assets, financial position and financial performance in accordance with the German standards of proper accounting.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with the law and its depiction of the view of the company's position.
- Perform audit procedures concerning the forward-looking statements made by the Executive Board in the management report. In doing so, on the basis of sufficient and appropriate audit evidence, we gain an understanding, in particular, of the key assumptions underlying the Executive Board's forward-looking statements and evaluate whether the forward-looking statements were properly derived from those assumptions. We do not provide a separate audit opinion concerning the forward-looking statements or the underlying assumptions. There is a substantial, unavoidable risk that future events may significantly deviate from the forward-looking statements.

We meet with the individuals responsible for monitoring in order to discuss, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in internal control that we identify during our audit.

We provide the individuals responsible for monitoring with a statement that we complied with the relevant independence requirements, and we discuss with them all relationships and other matters that may reasonably be presumed to influence our independence and the steps we have taken to guard against this.

From the matters that we discussed with the individuals responsible for monitoring, we determine those matters that were of most significance in the audit of the annual financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Other statutory and legal requirements

Other disclosures pursuant to Article 10 of the EU Audit Regulation

We were selected as the statutory auditor at the meeting of the Supervisory Board on 29 March 2017. We were given a mandate by the chairman of the Supervisory Board on 14 June 2017. We have served as the statutory auditor of Württembergische Versicherung AG without interruption since the 2011 financial year.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the Supervisory Board's Audit Committee in accordance with Article 11 of the EU Audit Regulation.

Responsible auditor

The auditor responsible for the audit is Arne Stratmann. Stuttgart, 7 March 2018
KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Hasenburg	Stratmann
German public auditor	German public auditor

Württembergische Versicherung 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 2017 financial year. The Supervisory Board monitored the management of business and was directly involved in all matters of fundamental importance for the company.

Composition

In accordance with the Articles of Association, the Supervisory Board of Württembergische Versicherung AG is composed of 12 members. Pursuant to Section 111 (5) of the AktG (German Stock Corporation Act), the Supervisory Board, as the organ of a company subject to co-determination, has set a goal of having women make up at least 25% of the Supervisory Board. Currently, three women serve on the Supervisory Board.

Over the course of the 2017 financial year, the Supervisory Board experienced the following changes in its membership:

Effective 16 January 2017, Gerold Zimmermann was appointed to the Supervisory Board to succeed Uwe Ilzhöfer.

Effective 1 January 2017, Jürgen A. Junker was appointed to the Supervisory Board. He accordingly succeeds Dr Erdland, who had stepped down from the Supervisory Board effective 31 December 2016. By resolution of the Supervisory Board of 22 February 2017, he was elected as Chairman of the Supervisory Board effective 1 January 2017.

By resolution of the Supervisory Board of 22 February 2017, Hubert Sebold was elected Deputy Chairman of the Supervisory Board. Thus he is also a member of the Personnel Committee.

Gerold Zimmermann was elected to the Conciliation Committee effective 22 February 2017.

Full Supervisory Board

In the previous year, the Supervisory Board held two ordinary meetings and one extraordinary meeting. At these meetings, it considered at length the development of the company and the Group based on reports of the Executive Board, written presentations and documentation, which were submitted to it in 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 concerning its strategy, planning, business performance, capital investment management and risk position. In addition, the issue of risk management was addressed at length by 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 Internal Audit department and the report of the Compliance Officer to the Supervisory Board and the Audit Committee, and in both cases it reported on annual planning for 2018. The head of Internal Audit and the Compliance Officer took part in the meeting of the Audit Committee. Furthermore, strategic asset allocation and the amended internal capital investment guidelines were submitted for decision, and the amendments to the special internal capital investment guidelines were brought to the attention of the Supervisory Board. The Chairman of the Executive Board and the Chairman of the Supervisory Board exchanged information on an ongoing and, where necessary, prompt basis about all key developments and decisions.

Over the course of the year, by means of seven resolutions adopted by unanimous written consent, the Supervisory Board dealt in particular with the adoption of non-audit services and the internal capital investment guidelines, the election of the Chairman of the Supervisory Board, the extension of the appointment of one member of the Supervisory Board, the introduction of an Audit Committee, and the convening of an extraordinary General Meeting.

At the forefront of the meetings of the Supervisory Board of Württembergische Versicherung AG in this financial year was the transformation programme “W&W@2020”, as well as the new programme “W&W Better!” that emerged from it.

The discussions focused on the strategic orientation of Württembergische Versicherung AG and of the Insurance division to ensure sustainable earning power. In particular, the new sales strategy "Vertrieb.Besser!!", increasing regulation and changed customer behaviour in the „new digital reality" were addressed.

Moreover, a key subject before the Supervisory Board was the performance of investments in the previous year. In this context, the performance of the valuation reserves, as well as risk-bearing capacity, was discussed in detail.

Business performance and trends in results in the individual segments of Württembergische Versicherung AG were addressed at length, as were the current situation on the capital markets and current regulatory developments. The Supervisory Board had detailed discussions about operational planning for 2018 and further medium-term planning,

All measures requiring approval by statute or under the company's rules were submitted to the Supervisory Board.

In addition, the Supervisory Board concerned itself with central issues of corporate governance. It discussed all relevant amendments to the law and their implementation. The Supervisory Board concerned itself in detail with the implementation of the new legislation regarding the German Auditor Reform Act (AReG), audits, the EU General Data Protection Regulation and the CSR Directive, as well as with the expertise profile for the full Supervisory Board and the development plan based on it. The bylaws for the Supervisory Board and for the Executive Board were modified to conform to regulatory changes.

The Supervisory Board reviewed the efficiency of its work by means of a self-assessment, and at its meeting in March 2018 it concerned itself extensively with the results.

At the December meeting, the members of the Supervisory Board evaluated their strengths in the fields of investment, actuarial practice and accounting by means of a self-assessment. This forms the basis for a development plan that the Supervisory Board prepares each year. The plan identifies areas where the Supervisory Board as a whole or its individual members wish to acquire more in-depth knowledge. The self-assessment and the development plan were forwarded to the supervisory authority.

There were no conflicts of interest requiring disclosure in 2017.

Efficient work of committees

In order to enable it to efficiently perform its duties, the Supervisory Board created three committees, which are able to prepare resolutions for deliberation and adoption by the full Supervisory Board as well as adopt resolutions themselves. These are the Audit Committee, the Personnel Committee and the Conciliation Committee.

In 2017 the Audit Committee had one ordinary meeting. The Committee was established in September 2017. The committee also adopted by way of unanimous written consent a resolution concerning the approval of so-called "non-audit services". The Personnel Committee had two ordinary meetings and one extraordinary meeting. The Conciliation Committee did not meet. The issues falling within the purview of the respective committees were thoroughly discussed at committee meetings. The committee chairs reported to the Supervisory Board about the work of the committees at ensuing meetings.

Based on recommendations by the 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 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 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 Audit Committee also concerned itself with the new provisions under the German Auditor Reform Act (AReG), as well as those concerning audits. It monitored the auditor with respect to so-called "non-audit services". The committee reviewed the report at its meeting on 22 March 2018, which included verbal and written input from the auditor about the methodology and key results of its audit. The audit report was sent to each member of the committee.

Audit of the annual financial statements and the consolidated financial statements

The Supervisory Board thoroughly examined the annual financial statements and the management report for the 2017 financial year. The annual financial statements and the management report are complete and in conformity with the estimates made by the Executive Board in the reports to be issued in accordance with Section 90 of the AktG (German Stock Corporation Act).

KPMG AG Wirtschaftsprüfungsgesellschaft, Stuttgart, which was appointed auditor by the Supervisory Board, duly audited the annual financial statements prepared by the Executive Board for the 2017 financial year, as well as the management report, and it issued an unqualified audit report.

The auditor reported the material results of its audit to the Supervisory Board orally and in writing. The audit report was sent to each member of the Supervisory Board. In addition, the auditor reported both at the meeting of the Audit Committee on 22 March 2018 and at the accounting meeting of the Supervisory Board on 23 March 2018. The submitted audit report meets the statutory requirements of Section 321 of the HGB (German Commercial Code) and was taken into account by the Supervisory Board in connection with its own audit. There were no circumstances that could call into question the auditor‘s independence.

Following the final result of the audit of the annual financial statements and of the management report, the Supervisory Board did not raise any objections and approved the annual financial statements prepared by the Executive Board at its meeting on 23 March 2018. Accordingly, the annual financial statements are deemed approved pursuant to Section 172 sentence 1 of the AktG (German Stock Corporation Act).

The Supervisory Board discussed the solvency overview for Württembergische Versicherung AG as at 31 December 2016, as well as the auditor‘s report on it.

Composition of the Executive Board

The Executive Board experienced one change in its membership in the 2017 financial year. Dirk Hendrik Lehner stepped down from the Executive Board effective 30 June 2017. Thomas Bischof was appointed to the Executive Board for three years effective 1 July 2017.

Dr Pauser was reappointed to the Executive Board for the period 1 June 2018 to 31 May 2023.

The Supervisory Board expresses its gratitude and appreciation to the Executive Board and all employees of Württembergische Versicherung AG for their work and their tireless commitment.

Stuttgart, 23 March 2018 The Supervisory Board

Jürgen A. Junker Chairman

Württembergische Versicherung AG
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Ihr Fels in der Brandung.