Annual Report 2017

Wüstenrot & Württembergische 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

wüstenrot württembergische

Wüstenrot & Württembergische AG
Key figures of W&W Group

W&W Group (according to IFRS)

Consolidated balance sheet		FY 2017	FY 2016
Total assets	€ bn	72.0	72.3
Capital investments	€ bn	45.8	45.8
Financial assets available for sale	€ bn	23.9	24.6
First tier loans and advances to institutional investors	€ bn	14.1	14.3
Building loans	€ bn	23.5	23.7
Liabilities to customers	€ bn	23.8	25.4
Technical provisions	€ bn	33.8	33.3
Equity	€ bn	4.0	3.8
Equity per share	€	42.16	40.56

Consolidated profit and loss statement		FY 2017	FY 2016
Net financial result (after credit risk adjustments)	€ mn	1,832.3	1,817.7
Premiums/contributions earned (net)	€ mn	3,809.3	3,932.8
Insurance benefits (net)	€ mn	– 4,030.4	– 4,080.1
Earnings before income taxes from continued operations	€ mn	292.5	291.6
Consolidated net profit	€ mn	258.0	235.3
Total comprehensive income	€ mn	208.2	230.9
Earnings per share	€	2.74	2.49

Other information		FY 2017	FY 2016
Employees (Germany)[1]		6,603	6,745
Employees (Group)[2]		8,166	8,395

Key sales figures		FY 2017	FY 2016
Group			
Gross premiums written	€ mn	3,873.4	3,988.8
New construction financing business (including brokering for third parties)	€ mn	5,517.5	5,388.5
Sales of own and third-party investment funds	€ mn	443.4	381.2
Home Loan and Savings Bank			
New home loan savings business (gross)	€ mn	13,569.2	13,550.8
New home loan savings business (net)	€ mn	11,520.8	11,901.7
Life and Health Insurance			
Gross premiums written	€ mn	2,128.4	2,315.8
New premiums	€ mn	477.6	659.2
Property/Casualty Insurance			
Gross premiums written	€ mn	1,751.0	1,678.3
New premiums (measured in terms of annual contributions to the portfolio)	€ mn	232.0	207.9

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

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

		FY 2017	FY 2016
Net income	€ mn	80.0	62.9
Dividend per share[1]	€	0.65	0.60
Share price at year-end	€	23.36	18.57
Market capitalisation at year-end	€ mn	2,185.4	1,735.4

1 Subject to approval by the Annual General Meeting.

Financial calendar

Annual General Meeting

Annual General Meeting	Wednesday, 13 June 2018

Financial reports

2017 Annual Report	Wednesday, 28 March 2018
Interim management statement as at 31 March	Tuesday, 15 May 2018
Half-yearly financial report as at 30 June	Monday, 13 August 2018
Interim management statement as at 30 September	Tuesday, 13 November 2018

Wüstenrot & Württembergische AG
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Letter to shareholders
Wüstenrot & Württembergische AG

"Our explicit goal is to have W&W emerge as a winner from the upheaval in the financial industry."

Ladies and gentlemen,

In 2017 your company, the Wüstenrot & Württembergische Group, made important, clearly discernible strides, particularly in terms of dynamism and speed. We substantially strengthened our sales and marketing activities and expanded our digital services, and in light of the growing importance of digitalisation, we launched the largest investment programme in our company's history. We successfully introduced new products in order to keep in step with customer needs, which have changed dramatically. And we streamlined our structures and processes so as to enable us to operate in future more productively and efficiently. In making all of these changes, we were guided by one absolute principle: Getting "better" at everything we do and increasing the benefit for our customers.

All of this took place on the solid foundation that has characterised the W&W Group ever since its inception. We are a stable, listed financial services provider whose Home Loan and Savings Bank and Insurance divisions are equally strong pillars. Some six million customers value our attractive range of financial planning services, our advisory expertise and our award-winning products.

Particularly in light of the extremely challenging environment that financial services providers have faced for years, we stand to benefit greatly from this solid foundation that we have developed over the years. Earnings growth in the past year, as well as the further bolstering of equity, is the best evidence of this. In 2017 consolidated net profit after taxes rose to €258 million (previous year: €235.3 million), which clearly exceeded our original expectations. This success can also be traced to the impact of the changes we made. It motivates us, and challenges us, to continue pursuing this path.

The highest income contribution once again came from our property and casualty insurance, which benefited from a moderate loss ratio and our risk-conscious underwriting policy. Moreover, we were also able to further strengthen our technical provisions in life insurance through higher allocations to the additional interest rate reserve. The good results were also supported by one-off income earned from the sale of a company share and by a lower tax rate.

We are also pleased that new home loan savings business came in at the high level of the previous year, this primarily being due to a dynamic second half of the year. This shows that home loan savings is a popular form of contemporary savings and investment that is suitable for nearly every life situation.

Owing to the positive trend in results in 2017, we are once again able to offer our shareholders an attractive dividend. The Executive Board and the Supervisory Board will propose to the Annual General Meeting that the dividend for the 2017 financial year be increased to €0.65 (previous year: €0.60) per share. That corresponds to a dividend yield of 2.78%, which takes into account that the W&W stock price rose by 25.8%, thus outperforming the benchmark indexes DAX and SDAX.

We are certain that 2018 will pose challenges for us that exceed those we faced in 2017. Financial services providers will be forced to deal with a massive upheaval over the next five years. Competition will intensify still further, completely new players will enter the market while existing competitors will leave it, and customer behaviour will continue to change. Digitalisation will result in a complete revolution – in business models, production processes and interaction with customers and partners.

For the W&W Group, this means that, operating from a position of strength, we will methodically continue to pursue our successful path, each day becoming better, smarter, more efficient, more agile, more imaginative and even more focused on our customers. Our explicit goal is to have W&W emerge as the winner from the upheaval in the financial industry, because it will create special opportunities for us that we can exploit by implementing intelligent digital concepts, taking quick action in the market and using our rigorously customer-focused approach and capacity for innovation.

In this respect, we will continue to aim to always grow more strongly than the market. To do so, an important role will be played not merely by core business areas but also by new initiatives. We have already demonstrated that we are capable of innovating: In October 2017 we launched our new digital brand “Adam Riese”, which has resonated very positively with customers. In January 2018 “Wüstenrot Wohnwelt” (online housing portal) went live. At virtually the same time, Württembergische Lebensversicherung brought its new product line KlassikClever onto the market. Shortly thereafter, we launched our digital service “FinanzGuide”, which enables customers to view, manage and optimise their personal insurance, home loan savings and banking portfolio with their smartphone. And last year, we introduced “tandem” models, which pool our home loan savings and insurance expertise at a customer advisory centre for the benefit of customers even more than before.

All technical innovations aside, our business is still a “people’s business”. I am certain that our employees, with their impressive abilities, have a strong will to succeed and to work toward a promising future, which they persuasively demonstrated last year. I would like to sincerely thank all of them for their dedication and their hard work.

The earnings strength of the W&W Group ensures that we have the leeway that we need in a challenging market environment and in view of the required investments. Between 2018 and 2020, our Group plans to make investments of €820 million, the highest amount in the company’s history. They are designed to improve our processes, increase efficiency and strengthen our market position. The success of the digital transformation depends ultimately, but not exclusively, on the available financial resources: Our ambition must be to exploit opportunities more spiritedly, swiftly and skilfully than the competition.

Because of the substantial investments that are being planned, it is clear that the results for 2018 will not reach the level of the previous year. For 2018 we expect consolidated net profit after taxes to come in at €200 million at least, which is once again a good, solid earnings level.

On behalf of the executive boards of all W&W companies, I would like to thank you for your trust and support. We will continue to focus our efforts on further increasing the value of your investment in the W&W Group and on guiding the Group toward a successful future.

Sincerely yours,

Jürgen A. Junker, Chairman of the Executive Board

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

Executive Board of W&W AG

Jürgen A. Junker
Chairman of the Executive Board
Corporate Legal, Audit, Communication, Strategy

Dr. Michael Gutjahr
Human Resources, Finance, Risk Management, Compliance

Jens Wieland
IT, Operations

Division Heads

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

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

Divisions of the W&W-Group:

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

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

Supervisory Board

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

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

Peter Buschbeck
Former Member of the Executive Board
UniCredit Bank AG

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

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

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

Gudrun Lacher[1]
Insurance clerk
Württembergische Versicherung AG

Corinna Linner
Linner Wirtschaftsprüfung

Marika Lulay
Managing Director & CEO
GFT Technologies SE

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

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

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

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

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

Jutta Stöcker
Former Member of the Executive Board
RheinLand-Versicherungsgruppe

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

1 Employee representatives.

Combined Management Report
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Wüstenrot & Württembergische AG
Combined Management Report

Group Fundamentals

Business model

Overview of the Group and W&W AG

The W&W Group develops and provides the four components of modern financial planning: financial security, property investment, risk protection and private wealth management. In the Home Loan and Savings Bank division, the focus is on home loan savings business and construction financing, whereas in the Insurance division, a wide range of insurance products are offered for life and health as well as for property/casualty. The Group came into existence in 1999 as a result of the merger of the two long-standing companies Wüstenrot and Württembergische. W&W focuses on omni-channel sales. Of greatest importance are their own two sales forces. In addition, there are brokers, numerous collaborations and online sales activities.

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

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

In order to enhance the interplay between all part of the Group, the executive structures in the W&W Group were realigned in October 2017. The Management Board was strengthened by enabling it to discuss Group-wide and strategic issues. The Group Board was eliminated. This is intended to combine and accelerate decision-making paths. In addition to the members of the Executive Board of W&W AG, the Management Board include 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 companyspecific issues of Württembergische will continue to be handled the respective division board.

The Management Board now serves as the central steering entity of the W&W-Group. It discusses among other things the management of the Group and specifies and develops its strategy.

The corporate governance section in this Management Report provides details about the composition of the boards and how they conduct business.

The business model of the W&W Group and W&W AG did not change in the 2017 financial year and is being enhanced on an ongoing basis. For instance, in the reporting year the W&W Group rigorously exploited the expanded room for manoeuvre afforded by the amended German Building Societies Act (BausparkG) and harnessed its strengths: In April 2017, Wüstenrot Bank AG Pfandbriefbank transferred its construction financing operations (including issues of German covered bonds, overnight money and short-term money) to Wüstenrot Bausparkasse AG, retroactive to 1 January 2017. In 2017, Pfandbriefe worth nominal 390 million Euro have been emitted. Centralisation of construction financing business at the home loan bank will lead to considerable advantages in the Group, such as the elimination of interfaces and the simplification of IT processes.

The W&W Group is proceeding with its overhaul and new beginning, and consolidates new business models in the brandpool division. Daniel Welzer will become the Head of Division and Chairman of the Board at W&W brandpool. Welzer will also become a member of the W&W Management Board. In this way, the W&W Group is continuing to press ahead with the digitalisation of its business.

From “W&W@2020” to “W&W Besser!”

The vision of the W&W Group is “Creating value, securing value”. In that spirit, we further sharpened our business model in 2017 as well. 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 have combined the previous “W&W@2020” programme and the new strategic measures to create “W&W Besser!” With regard to “W&W Besser!” as the new standard for our Group, the focus is on the benefits for the customer and the unique W&W concept of financial planning from a single source.

The six action fields associated with “W&W Besser!” 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 in all segments.

- 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 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).

- In addition to comprehensive service for financial planning, our “Wüstenrot” brand is in future to stand for all matters involving the home. To that end, a new **Web-based residential platform** (Wüstenrot Wohnwelt) has been created, which launched in early 2018.

- In addition, **we are strengthening our property subsidiaries** Wüstenrot Haus- und Städtebau GmbH and Wüstenrot Immobilien GmbH. For instance, Wüstenrot property brokers are now also integrated into Württembergische’s mobile sales force organisation in order to service the market together.

- Württembergische Krankenversicherung AG is successfully expanding its portfolio further, **including in the digital area.** In addition to being named a TOP financial power by the magazine Focus Money, the supplementary insurers in particular were able to distinguish themselves with a number of awards. In the fall of 2017, Württembergische Krankenversicherung AG won the Insurance Innovation Prize for digitalisation: When meeting with customers, brokers can also conclude digital contracts with Württembergische Krankenversicherung AG by using a tablet or smartphone.

- In connection with digitalisation, Wüstenrot Bank AG Pfandbriefbank successfully migrated its **IT core banking system** to the standard system of Fiducia GAD in mid-2017.

- Particularly as a result of the increased use of new media (such as video consulting and webinars), **gross fund sales** rose by a total of 16% compared with the previous year.

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.

W&W Besser!

Besser!

Digital transformation in all segments

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

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

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

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

Inspiring employees!	Laying the IT foundation!
Structure personnel planning in a far-sighted manner Further develop employees	Ensure future viability through IT strategy Set up IT in a lean manner

Our principle of **increasing customer satisfaction** paid off in 2017: In 2017, Württembergische Versicherung AG received an award for customer satisfaction from MSR Consulting. In the surveys, it was rated “very good” for its “overall satisfaction”, “service quality”, “telephone service” and “value for money” as a high-service 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.

Wüstenrot earned the designation “highest confidence” from Focus Money in its Germany test. The portfolio includes online offers for building and other savings, housing finance, as well as the online platform “mein.wuestenrot.de”. More than 1,500 brands in over 100 different industries were reviewed. Wüstenrot was the industry leader among home loan and savings banks.

Product mix

Roughly six million W&W customers value the excellent service, skills, expertise and close personal service provided by our employees, both in the mobile sales force and internally. Our customers are both private individuals and businesses. Customers receive financial planning for all developmental phases from a single source.

Wüstenrot Bausparkasse AG continued to diligently fine tune its range of products to match market developments and trends in the 2017 financial year, such as the persistently low level of interest rates and increasing digitalisation. It provides an attractive range of financing and home loan savings products for every need: from near-term construction, acquisition and modernisation projects to long-range plans.

Wüstenrot Bank AG Pfandbriefbank offers its customers needs-oriented, attractive and simple banking products such as current accounts, credit cards and security investments. In the previous year, an added service was introduced that allows customers to switch their custodial accounts online. Since January 2017, the bank has moreover been offering a separate credit line as a supplement to construction financing. This allows customers to bridge an additional liquidity need without overdrawing their account.

With the Wüstenrot ETF Managed Depot, the bank has since 2017 been offering standardised asset management – which combines the expertise of experienced portfolio managers with an easy-to-use online application.

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

Premium car policies continued to have a high share of the motor vehicle segment in 2017. The range was extended in the area of motor insurance to include a policy with a telematics solution via app, and in comprehensive motor insurance, a component was introduced for claims service+ with expanded services in the event of a claim. We made it possible to obtain insurance for classic and exotic cars on 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 private 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.

Growth also continued in the corporate customer business segment in 2017. It was 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 marked focus on target group products continued in this financial year.

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

Since 2017 a new occupational disability direct insurance strengthens the occupational pension scheme portfolio of Württembergische Lebensversicherung AG. The rating agency Morgen & Morgen gave our occupational disability insurance five stars in the previous financial year, which is the highest rating possible.

At the start of the year, a new, modern annuity insurance policy (KlassikClever) was introduced as part of the traditional world of products. It will replace the conventional annuity. Customers can choose between KlassikClever, IndexClever and the unit-linked annuity insurance policy Genius in connection with savings products.

On 1 January 2018, Württembergische Lebensversicherung AG began strengthening its occupational pension products by offering KlassikClever and IndexClever, modern versions of traditional products.

In addition to modifying products to comply with statutory requirements, such as those in the German Act on the Strengthening of Occupational Pensions (BetrRSG), the German Investment Tax Reform Act (InvStRefG) and the EU Insurance Distribution Directive, the range of products offered by Württembergische Lebensversicherung AG is once again being geared to current customer needs in 2018.

In addition to comprehensive health insurance, **Württembergische Krankenversicherung AG** offers a broad portfolio of products in supplementary insurance and long-term care insurance. In addition to private insurance, there is a broad product offer for corporate customers in the area of occupational health insurance.

In the previous financial year, supplementary in-patient insurance was redesigned and successfully introduced on the market. In response to the second German Act on the Strengthening of Nursing Care (PSG II), all long-term care plans were revised and brought into line with the new definition of "long-term care need". The quality of our products is evident from the numerous awards by rating agencies. For example, Focus Money in collaboration with the rating agency Franke und Bornberg named our supplementary in-patient insurance as the top supplementary health insurance in this segment.

In addition, we further expanded the options for our customers to conclude policies online. Services were broadened to include dental plans, long-term care plans and the new supplementary in-patient insurance.

In 2018 Württembergische Krankenversicherung will continue to align and enhance its spectrum of products to meet current customer needs, with the aim of successfully pursuing ongoing growth.

Sales channel mix

Our wide distribution network, comprising partners, brokers and our own mobile sales force, gives us access to a market of more than 40 million people across Germany. In this regard, we especially count on the competence and reliability of personal advice. Our mobile sales force, the main pillar in our sales organisation, consists of the two own sales forces at Wüstenrot and Württembergische.

In addition, strong cooperation partners from the banking and insurance sector have played a big part in our success. Partners for home loan and savings products include three large private banking groups, Commerzbank, HypoVereinsbank (Member of UniCredit) and Santander. Exclusive sales agreements have also been signed with Allianz, Oldenburgische Landesbank and the ERGO Group. The sales force is supplemented by relationships with other banks, brokers, sales teams of other insurance companies and unions, such as the German civil servants' union DBB.

The traditional sales channels are complemented by the tenacious exploitation of digitalisation opportunities. This includes direct sales platforms, such as the online banking portal operated by Wüstenrot Bank AG Pfandbriefbank, and the new online brand Adam Riese.

Commitment to sustainability

In 2014 the EU enacted the so-called "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 German Commercial Code (HGB), 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 an annual average number of employees in excess of 500 and a balance sheet total of more than € 20 million or net turnover of more than € 40 million.

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

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

Regulatory requirements

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

In 2017 the financial services industry was again faced with strict regulatory requirements. The revision of the Basel specifications concerning capital requirements, which was finalised at the end of the year, will be one of the key regulatory challenges for credit institutions in the financial years to come. It is associated with comprehensive requirements with respect to adjustment of the Standardised Approach for credit risks, as well as with respect to internal models.

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.

In connection with the realignment of Wüstenrot Bank AG Pfandbriefbank, the supervisory authority granted permission to dispense with use of the approach based on internal ratings. Wüstenrot Bausparkasse AG became subject to additional capital requirements through the national implementation of the SREP (Supervisory Review and Evaluation Process).

The ability of banks to be wound up has recently been the focus of structural reforms in the EU for the financial industry. As a result, the requirements for the form of the restructuring plans were further specified. In addition, we are addressing implementation of the minimum requirements for risk management, which were amended in the financial year. Furthermore, the consequences of the increasing digitalisation of the industry are manifesting themselves in additional (banking) supervisory requirements for IT. The heightened transparency and disclosure requirements resulting, inter alia, from the introduction of MiFID II and PRIIPs pose challenges.

Reporting segments

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

Business management system

The W&W Group's integrated business management system is designed to retain value. A three-year plan is drawn up on the basis of the business strategy and presented to the Supervisory Board for approval. The plan approved by the Supervisory Board for the following financial year is 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.

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

For the 2017 and 2018 financial years, consolidated net profit (IFRS) and general administrative expenses in the Group are used as key performance indicators. Segments, by contrast, are managed using segment earnings after taxes, as well as general administrative expenses including service income. General administrative expenses include internal eliminations with other segments within the Group. These key figures appear in the W&W Group's consolidated financial statements.

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

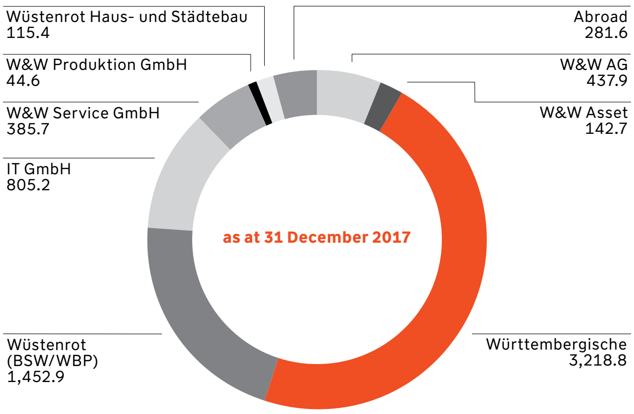
In addition, we report net new business by home loan savings volume and new construction financing business (approvals) in the home loan and savings bank segment, total premium in the life and health insurance segment as well as new business (according to annual portfolio contributions) in the property/casualty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

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

Employees

As at 31 December 2017, the W&W Group had 6,885 employees (previous year: 7,020) in Germany and abroad, calculated based on full-time equivalents, excluding trainees.

Employees in W&W Group including abroad



The restructuring of the W&W Group to safeguard its future continued in the 2017 financial year. In addition to the construction of the W&W campus, the issue of digitalisation was also increasingly the focal point in 2017: In order to increase the digitalisation skills of employees, we held two interactive trade fairs with keynote addresses, discussion rounds and workshops, which signifies agility and digitalisation for the company and the individual departments. In the training sessions following from this, and in connection with higher education partnerships, employees will also continue to receive support in digital transformation going forward.

The W&W Group offers attractive career opportunities: In 2017, 126 new trainees began their training in 12 career fields. Upon completion of their training, the year's top 30% in each job description are given a permanent employment contract. In addition to an executive career track, the W&W Group also offers experienced employees a professional career track and corresponding opportunities to obtain additional qualifications.

Satisfied employees are important to us – for that reason we offer not only advanced professional training but also many employer benefits to facilitate a healthy work-life balance: We help employees to reconcile their personal and career objectives more easily with flexible working hours and workplace models, as well as professional childcare and wellness assistance. For instance, we offer mobile working throughout the Group, which makes it possible to work flexibly and independent of location.

As part of the W&W health management initiative, employees also have the chance to take advantage of the numerous health-promoting measures. They include corporate sports offers, partnerships with fitness studios and seminars on health issues. In addition, the company medical service at the Stuttgart, Ludwigsburg and Karlsruhe locations offers preventive medical procedures and general health consultations, as well as a health check, vaccinations, and various therapies. In this way, we enable our employees to make use of an extensive offer of preventive healthcare at a high level.

Acknowledgement

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

Ratings

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

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

Because the W&W Group has very good liquidity, the short-term rating of Wüstenrot Bausparkasse AG was raised from A-2 to A-1 in the year under review.

After they were transferred by Wüstenrot Bank AG Pfandbriefbank in April 2017, the German mortgage bonds of Wüstenrot Bausparkasse AG were assigned the top rating of “AAA” and a stable outlook.

The subordinated debt of Wüstenrot Bausparkasse AG, which was placed on the stock market in October 2017, is rated “BBB”.

The subordinated debt of Württembergische Lebensversicherung AG placed on the stock market continued to be rated “BBB”.

In connection with the spin-off of the construction financing business (including issues of German covered bonds) and the transfer of the portfolios from Wüstenrot Bank AG Pfandbriefbank to Wüstenrot Bausparkasse AG, the external ratings of Wüstenrot Bank AG Pfandbriefbank were terminated.

Standard & Poor‘s Ratings

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

Share

Share performance

W&W shares once again performed well in the 2017 financial year. After trading almost exclusively between €18.00 and €19.70 during the first half of the year, the stock price jumped impressively to €22.00 at the start of the second half of the year. This was mainly attributable to an increase in the profit forecast for the current financial year, which was also viewed positively by analysts. Over the remainder of the year, the stock price ranged between €21.00 and €23.50, trending slightly upward with moderate fluctuation to end the year at €23.36. This equated to a price increase of 25.8% for 2017. Including the dividend payment of €0.60 per share, the overall performance was 29.1%. The SDAX closed the 2017 calendar year up by 24.9%. The DAXsector Insurance Index posted a performance of 20.23%, and the DAXsector Banks Index, 20.16 %. Accordingly, W&W stock outperformed the benchmark indices.

Shareholders

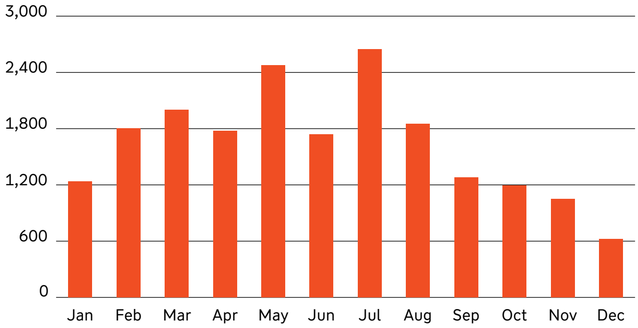
The shareholder structure of W&W AG remained stable during the year under review. The non-profit Wüstenrot Stiftung Deutscher Eigenheimverein e.V. holds its indirect stake in W&W AG of 66.31% in two holding companies, which are to a hundred percent each owned by Wüstenrot Stiftung. Wüstenrot Holding AG holds 39.91% and WS Holding AG owns 26.40% of the shares, based on the total number of shares issued. Another principal shareholder of W&W AG is Horus Finanzholding GmbH, with more than 10% of the shares. Of the issued shares, 0.21% are non-voting treasury shares. The free float amounts to 23.48%. Approximately 11% (previous year: 10%) of the shares are held by foreign shareholders.

Trading volume

The average number of W&W shares traded per trading day in 2017 increased to 78,100 (previous year: 45,925).

Trading volume of the W&W share

2017 in thousand units



Dividend policy

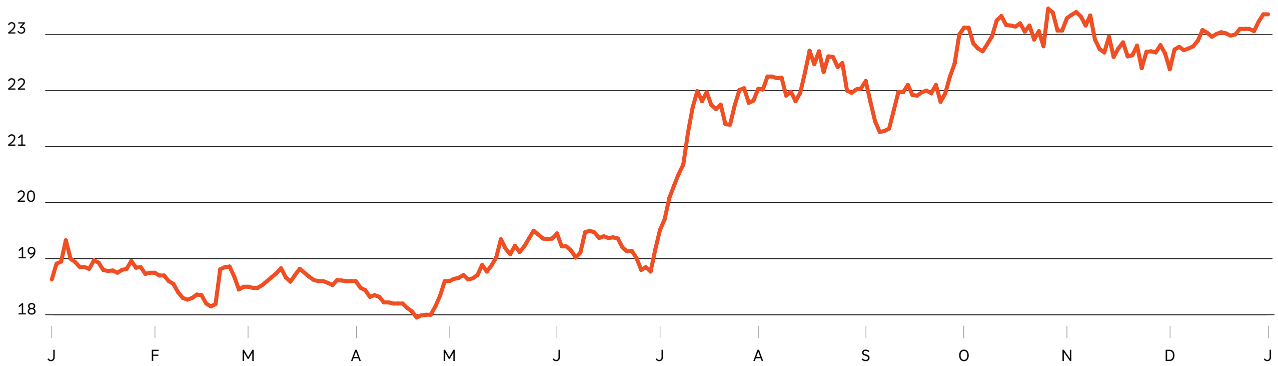
W&W AG aims to distribute a reliable dividend to our shareholders that is at least equal to that of the previous year. Thanks to our positive results, the Management Board proposes an increased dividend of €0.65 (previous year: €0.60) per share to the Annual General Meeting. Based on this proposal of €0.65, the dividend yield amounts to 2.78%. We thus outperform the prospected weighted dividend yields of MDAX (2.59%) as well as SDAX (1.79%).

Annual General Meeting

The Annual General Meeting will be held on Wednesday, 13 June 2018, at 10 a.m., at the Forum am Schlosspark in Ludwigsburg.

Share price

2017 in €



Employee shares

In April 2017 W&W AG issued employee shares across the whole Group. Eligible employees received a €5.00 discount on the XETRA closing price on 3 April 2017 for a maximum of 40 shares. In this regard our company is continuing a solid tradition and seeks to further develop the shareholder value orientation among staff and boost employer attractiveness and employee loyalty. W&W AG, the Württembergische insurance companies and Leonberger Bausparkasse AG successfully issued employee shares in previous years. In total just under a third of the staff who were eligible took advantage of the offer.

Investor Relations

W&W AG aims to continue raising investor interest in its stock and to expand our capital market presence. Our responsibility is to increase awareness of W&W AG and its equity story in the capital market, develop new investor contacts and intensify existing contacts. In the 2017 financial year, we continued our intensive dialogue with institutional investors, private investors and financial analysts. These activities focused on individual and group meetings with institutional investors in connection with roadshows and conference visits at national and international financial centres. The annual and half-year figures were presented to analysts in connection with teleconferences. For more information, please visit the Investor Relations area at www.ww-ag.de.

Basic information on W&W shares

Securities identification number		WKN 805100, ISIN DE0008051004	
Exchanges		Stuttgart (Regulated Market), Frankfurt (Regulated Market) Düsseldorf (Open Market), Berlin (Open Market), Xetra	
Stock exchange segment		Prime Standard of the Frankfurt Stock Exchange	
Xetra trading symbol		WUW	
Bloomberg trading symbol		WUW GY	
Reuters trading symbol		WUWGn.DE	
Share class		No-par value registered shares (individual share certificates)	
Number of shares	in units	93,749,720, thereof 198,765 treasury shares	
Share capital	in €	490,311,036	
		2017	2016
Year-end price[1]	in €	23.36	18.57
Annual high[1]	in €	23.45	20.05
Annual low[1]	in €	17.95	15.61

1 Xetra.

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 compensated for 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) mostly fluctuated 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, the yield on 10-year German government bonds however 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%. At year-end, the German benchmark index DAX stood at 12,918, with price growth of 12.5%.

The SDAX index continued its upward trend until June, reaching 11,887. This constitutes a considerable rise of 24.9% for the year as a whole.

Industry trends

The financial services industry was dominated by the continuing low interest rate environment again in 2017, as well as regulatory requirements. The course of European banking and insurance supervision has become less clear due to the EU exit negotiations with the UK. For this reason, regulatory implications resulting from this cannot be ruled out. The implementation of some changes proposed by the Basel Committee on Banking Supervision and those resulting from EU legislation represents a key challenge for the European banking sector and will also play a major role in 2018.

Wüstenrot Bausparkasse AG is no. 2 in the home loan and savings rankings, measured by new business (gross). It also expanded its market share. According to industry estimates, the contract volume from new business (net) in the sector fell by 6% to around €85 billion in 2017.

New business in private residential financing declined in 2017. According to the German Bundesbank, private households took out around €230 billion (previous year: roughly €235 billion) in building loans. This equates to a fall of 2%. Market volume nevertheless continued to range at a high level, from which Wüstenrot Bausparkasse was able to benefit. The persistently low mortgage interest rates had a favourable effect in this respect. More homes were completed. The declining volume of new loans can be attributed to the supply shortages of building land and existing properties, and to the fact that available liquidity and inherited money are increasingly being used to fund property.

In the bank's industry environment, more and more banks are recognising the benefits of joint ventures with innovative fintech firms. By opening its doors to digital partnerships, the sector is responding actively to the needs of its customers, who want modern, uncomplicated products and services. As a result, the new digital products are being well received. This demonstrates that financial services, in particular those which are offered in a cooperative venture between banks and fintechs, enjoy greater acceptance than pure fintech products. In addition, emerging technologies such as artificial intelligence, robotics and chatbot solutions will play an important role in cutting costs and boosting efficiency in the sector. This opens up other interesting growth opportunities for established banks, in view of the persistently low level of interest rates and changes in customer behaviour.

Württembergische Lebensversicherung AG recently came in 13th among its benchmark group of German life insurers based on gross premiums written. The life insurance industry posted a decline in new business in 2017. The sector's ongoing new premiums fell by 4.4% to €5.1 billion, while the single-premium business was down 1.1%. New premiums of life insurers declined in 2017 by 1.7% to

€29.7 billion (previous year: €30.2 billion). Relative to total premiums for new life insurance business, a fall of 2.4% to €144.7 billion (previous year: €148.2 billion) was reported.

Life insurers' gross premiums written amounted to €86.6 billion (previous year: €86.7 billion), on virtually the same level as that of the previous year.

The following data for the insurance industry are based on preliminary figures for the year 2017, as published by the German Insurance Association (GDV).

Württembergische Versicherung AG occupies the 9th spot in the current ranking list for property/casualty insurers in the domestic direct business, based on gross premiums written. In the area of property/casualty insurance premium income rose by 3.0% compared with the same period last year, according to provisional calculations by the German Insurance Association (GDV). The largest rates of growth were again posted by private property insurance at 4.5%. The rate of growth for motor insurance was higher than in the previous year at 4.1%, with quite a sharp increase in the average premiums in some cases. The cost of claims in the financial year also increased 2.3%, a figure that is below the growth rate of the premiums. At 75%, the loss ratio of the financial year is slightly below the previous year's level. Overall, the industry's gross underwriting income over the whole year was €4.1 billion (previous year: €3.5 billion), higher than the previous year's level. The combined ratio (combined ratio of claims and expenses) improved to approximately 94%.

Business development and position of the W&W Group

Business development

In 2017, the W&W Group increased its consolidated net profit to €258,0 million (previous year: €235,3 million). This positioned it above the figure for the 2017 financial year as forecast in the 2016 annual report, which had predicted income to be about the same as the previous year.

Income from property/casualty insurance was especially noteworthy. In addition, lower impairments and the sale of shares in V-Bank contributed to the result. The financial substance in life insurance was also strengthened further through the high allocation to the additional interest reserve.

The Group-wide construction financing business posted an increase; at a good €5.5 billion, it is 2.4% above the previous year's figure. The new home loan savings business reached the already high level of the previous year, even though the previous year had benefited from the introduction of a new savings plan. A lot of ground was made up here in the course of the year.

New business in property/casualty insurance and in health insurance performed well. In contrast, single premiums for life insurance declined

New business key figures (Group)

	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	Change
	in € million	in € million	in %
Construction financing business (including brokering for third parties)	5,517.5	5,388.5	2.4
Net new home loan and savings business	13,982.1	13,988.8	0.0
Gross premiums written (Property/Casualty Insurance)	1,751.0	1,678.3	4.3
Gross premiums written (Life and Health Insurance)	1,883.6	2,087.6	– 9.8
of which regular premiums	1,529.3	1,558.4	– 1.9
Gross premiums written (health insurance)	232.0	215.8	7.5

Wüstenrot Bank AG Pfandbriefbank was assigned to the "held for sale" category effective 31 December 2017. The sale is being sought for strategic reasons.

Earnings performance

Total comprehensive income

Consolidated income statement

As at 31 December 20172017, consolidated net profit after taxes rose to €258,0 million (previous year: €235,3 mil-lion). Earnings per share stood at €2.74 (previous year: €2.49).

Composition of consolidated net profit

in € million	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Home Loan and Savings Bank segment	58.5	58.7
Life and Health Insurance segment	31.8	49.7
Property/Casualty Insurance segment	125.8	108.3
Other segments/consolidation	41.9	18.6
Consolidated net profit	**258.0**	**235.3**

Net financial income was €1 832,3 million (previous year: €1 817,7 million). In the financial year, financial instruments were subject to much lower impairment, and unit-linked life insurance policies recorded stronger performance. In contrast, year-to-date income declined as a consequence of the environment of low interest rates. Income from disposals was also lower than in the previous year.

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

- Net income from financial assets available for sale (AfS) fell by €521,2 million to €593,5 million (previous year: €1 114,7 million). The decline was caused by the aforementioned net currency income and lower income from disposals.

- Net income from financial assets accounted for under the equity method stood at €21,8 million (previous year: €8,1 million). The sale of shares in V-Bank AG had a positive effect on this item.

- Net income from financial assets measured at fair value through profit or loss (FVtPL) improved €695.2 million to €468,8 million (previous year: €-226,6 million). This is essentially due to interest rate and currency-related derivatives used as hedges. Higher net investment income for unit-linked life insurance policies also contributed to the increase.

- Net income from receivables, liabilities and subordinated capital amounted to €722,2 million (previous year: €833,4 million). Net interest income included charges resulting from a voluntary grant to the Württembergische Pensionskasse (pension fund). Income from disposals was also down. By contrast, the interest rates, which rose slightly, had a positive impact due, in particular, to the valuation of the interest bonus provision.

- The hedge income dropped €54,7 million to €16,2 million (previous year: €70,9 million). This was due to discontinuation of the portfolio fair value hedges in the previous year and lower reversals of the provision (OCI) from cash flow hedges.

- Net income from risk provision amounted to €9,7 million (previous year: €17,2 million). The good economic situation in the core market Germany and risk-conscious lending contributed to the continuing positive result

Net premiums earned were €3 809,3 million in the past year (previous year: €3 932,8 million). The encouraging increase in property/casualty insurance and in health insurance was unable to balance the decline in life insurance.

Net insurance benefits fell to €4 030,4 million (previous year: €4 080,1 million). Claims development in property insurance was once again very good, despite an increase in major claims. In health and life insurance, the provision for unit-linked life insurance policies increased as a consequence of the increased value of the underlying investments. By contrast, the decline in single premiums had a negative effect.

General administrative expenses totalled €1 099,4 million (previous year: €1 075,3 million). The main factors in the rise are investments in future-oriented projects such as developing the new digital brand “Adam Riese”. Due to a lower headcount, personnel expenses increased only slightly despite collectively bargained pay raises. Our objective of an annual increase in productivity was achieved with a figure of around 5%.

Other operating income increased to €70,0 million (previous year: €-0,5 million). This is largely the result of a change to the surplus declaration in life insurance. There is a contrary effect in insurance benefits. The improvement is also attributable to higher income from the property development business and lower miscellaneous provisions in comparison with the previous year.

Tax expenses in the year under review amounted to €34,4 million (previous year: €56,3 million). In the financial year, the specific reasons for the decrease are capitalisation of tax receivables resulting from the offsetting of withholding tax for previous years based on case law handed down by the tax courts, the settlement of taxes from previous years as a result of the tax audit and tax-free equity gains.

Consolidated statement of comprehensive income

As at 31 December 2017, total comprehensive income stood at €208,2 million (previous year: €230,9 million). It consists of consolidated net profit and other comprehensive income (OCI).

As at 31 December 2017, OCI stood at €-49,8 million (previous year: €-4,4 million). It was essentially shaped by two effects: the actuarial gains from defined benefit plans for pension schemes amount to €13,3 million (previous year: €-98,9 million).

The unrealised net income from financial assets available for sale is the second noteworthy effect. After additions to the provision for premium refunds and to deferred taxes, it declined to €-62,0 million (previous year: €104,3 million). The decline is due to sales of securities whose reserves were previously recognised in equity, thus increasing consolidated net income. In addition there was a decline in prices of bearer instruments due to the increased interest rate level since the start of the year.

The valuation effects recognised directly in equity mainly reflect the interest rate sensitivity of the assets side (of the balance sheet) and of the pension provisions. However, in accordance with IFRS, developments in the opposite direction in the area of underwriting and deposits are not presented in total comprehensive income.

Home Loan and Savings Bank

Net income in the Home Loan and Savings Bank segment amounted to €58,5 million (previous year: €58,7 million). New business (gross) remained at the high level of the previous year. The segment's total assets decreased to €30,8 billion (previous year: €31,7 billion).

New business

Gross new business in home loan and savings stood at €13,6 billion (previous year: €13,6 billion) in the 2017 financial year, the same very good level of the previous year. The second half of 2017 posted stronger performance. In the previous year, one-off effects from the recently introduced savings plan, "Wüstenrot Wohnsparen", increased the bank's gross new business. The net new business (paid-in new business) by contract volume amounted to €11,5 billion (previous year: €11,9 billion). Although this represented a slight decline, this item did outperform the market. Home Loan and Savings expanded its market share in terms of both the gross and net new business.

New business key figures

	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	Change
	in € million	in € million	in %
Gross new business	13,569.2	13,550.8	0.1%
Net new business (paid-in new business)	11,520.8	11,901.7	– 3.2%
New construction financing business (approvals)	2,798.1	2,812.9	– 0.5%

New construction financing business (approvals) in the segment amounted to €2 798,1 million (previous year: €2 812,9 million). This includes €339,0 million in follow-up financing (previous year: €350,7 million), while new lending business reached €2 459,1 million (previous year: €2 462,2 million). Home Loan and Savings continued to perform above the market level in new construction financing business, while sustaining the value retention of the products. In new construction financing business, taking into account brokering for third parties, the segment posted €4,839.3 million (previous year: €4,641.0).

Earnings performance

As at 31 December 2017, the net income of the Home Loan and Savings Bank segment was €58,5 million (previous year: €58,7 million). A lower net financial income was offset by reduced general administrative expenses and much improved net other operating income.

The net financial income in the Home Loan and Savings Bank segment reached €414,9 million (previous year: €438,0 million). As in the previous year, the 2017 financial year was marked by the strategic restructuring of the segment, with the centralisation of construction financing business at Home Loan and Savings. The related reduction of total assets led to significantly higher income from disposals in the previous year.

Within the scope of the interest book management, especially interest rate risks are hedged in order to counteract the effect on net income, both from financial instruments and from the discounting of the provisions for loan savings business (bonus provisions). Interest rates in medium to long-term maturities increased in 2017 after declining significantly in the same period the previous year.

- Net income from available-for-sale financial assets was almost unchanged at €177,9 million (previous year: €177,6 million). The decline in current interest income and the rise in net income as a result of the discontinuation of fair value hedges essentially offset each other.

- The free-standing derivatives used for interest book management improved the net income from the financial assets measured at fair value to €-23,9 million (previous year: €-65,8 million) as a result of the rise in the level of interest rates in 2017.

- Hedge income showed a clear decline at €16,2 million (previous year: €70,9 million), which is due to the discontinuation of the portfolio fair value hedge and lower releases of reserves (OCI) from cash flow hedges.

- The lower discounting of the interest bonus provision compared with the previous year due to higher interest rates provided substantial relief for net income from receivables, liabilities and subordinated capital. This was offset by the significantly lower income from disposals year-on-year and the lower current net interest income. Overall, this income rose slightly to €231,7 million (previous year: €230,8 million).

- Net income from risk provision amounted to €13,0 million (previous year: €24,4 million). Both the positive macroeconomic situation and the very good quality of the credit portfolio contributed to a further reduction of the risk provision.

General administrative expenses improved to €360,2 million (previous year: €363,8 million). While personnel expenses were lower, especially for pension schemes due to outsourcing of a major part of the pension obligations to a pension fund, depreciation and material costs increased. A new allocation model for internal IT product costs had an effect in this respect. In contrast, the performance of deposit guarantee premiums and lower marketing expenditures had a positive impact.

Other operating income increased significantly to €29,7 million (previous year: €1,5 million). This was mainly due to higher allocations to miscellaneous provisions in the previous year. Among other things, restructuring expenses were incurred in the previous year as a result of the centralisation of the service telephony.

Tax expenses rose to €31,5 million (previous year: €24,1 million). This year-on-year increase was primarily due to higher segment pre-tax income.

Life and Health Insurance

Net segment income fell as of 31 December 2017 to €31.8 million (previous year: €49.7 million). New premiums in Life and Health Insurance were lower than in the previous year. The segment's total assets increased slightly to €33.8 billion (previous year: €33.5 billion).

New business

Total premiums for new life insurance business were below the previous year's level, at €3,318.6 million (previous year: €3,674.4 million). There was an increase in total premiums for company pension schemes and term insurance.

2017 new premiums in the Life and Health Insurance segment fell to €477.6 million (previous year: €659.2 million) as a result of the lowering of the maximum actuarial interest rate adopted by the legislator with effect from 1 January 2017. New regular/continued premiums dropped in line with the market trend to €110.8 million (previous year: €116.6 million) and single premiums fell to €366.8 million (previous year: €542.6 million). We are pleased to report that new health insurance business again increased.

Gross premiums written went down to €2,128.4 million (previous year: €2,315.8 million). The decline was mainly attributable to the drop in single-premium business.

New business key figures

	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	Change
	in € million	in € million	in %
New premiums (segment)	**477.6**	**659.2**	**– 27.5**
Single premiums, life	366.8	542.6	– 32.4
Regular premiums, life	98.9	105.5	– 6.3
Annual new premiums, health	11.9	11.1	7.2

Earnings performance

Segment net income decreased to €31,8 million (previous year: €49,7 million). This was due to the lower underwriting income, for which the rising net financial income and real estate income were unable to compensate.

The net financial result in the Life and Health Insurance segment increased by €37,2 million to €1 318,1 million (previous year: €1 280,9 million). This was driven mainly by higher net income from investments for unit-linked life insurance policies and lower impairments. It was offset by lower income from disposals. Current income also declined as a consequence of the low interest rate environment. In addition, the results for the individual categories include currency effects, which had a slightly negative impact on net financial income.

- Net income from financial assets available for sale fell significantly by €456,0 million to €400,8 million (previous year: €856,8 million). There were several reasons for this: first, the lower net currency income as a result of the euro rate rising during the financial year and the accompanying currency losses with respect to investments in foreign currency, and second, the significant reduction in the scope of realised gains. In contrast, lower impairments on equity instruments had a positive effect.

- Net income from financial assets at fair value increased to €439.1 million (previous year: €-129,2 million). This is due to higher derivatives income from currency hedges as a result of the rise in the euro rate. The net income from investments to cover unit-linked life insurance policies also performed positively, due to the year-on-year higher equity price rises in the market segments in which the funds invest.

- Net income from receivables, liabilities and subordinated capital fell to €476,6 million (previous year: €548,0 million). Interest income declined because of volume and also lower interest rates for new investments and reinvestments.

Net income from investment property rose €23,3 million to €107,7 million (previous year: €84,4 million). This was due to higher gains from disposals.

Net commission income grew to €-131,6 million (previous year: €-140,9 million). Among other things, this was due to lower commission expenses as a result of the reduced new business and the reduced portfolio.

Net premiums earned fell year on year. They stood at €2 149,9 million (previous year: €2 337,4 million). The contributing factors were a lower volume of new business and a decline in the portfolio of regular/continuing premiums.

Net insurance benefits fell to €3 152,1 million (previous year: €3 222,3 million). This decline is primarily due to the lower allocation to the provision for premium refunds. The provision for unit-linked life insurance policies posted a contrary trend as a result of more positive performance by the underlying investments. Benefits to our customers were secured further through the regular increase of the additional interest reserve (including interest rate reinforcement). At €446.2 million, additions exceeded the previous year's level (€290.5 million). The additional interest reserve as a whole thus now totals €2,045.9 million.

General administrative expenses in the Life and Health Insurance segment increased to €265,3 million (previous year: €261,0 million). This is largely due to higher personnel expenses and material costs.

Other net operating income increased to €-25,5 million (previous year: –€56.9 million). This was primarily because of a change to the surplus declaration for 2017. Since 2017, surplus that had formerly been allocated as direct credits is now being granted through the provision for premium refunds. The related expenses are therefore now recognised under "Insurance benefits" instead of under "Other net operating income/expense" as before.

A tax gain of €30.7 million (previous year: €28.0 million) accrued in the financial year. This was due, in particular, to lower pre-tax income and tax receivables resulting from the recognition of withholding tax for previous years based on tax court decisions. Taxes in the previous year were also marked to a large extent by exceptional effects (positive outcome of a tax court case).

Property/Casualty Insurance

Net segment income in the financial year 2017 rose to €125,8 million (previous year: €108,3 million). New business also increased significantly. The segment's total assets were €4.5 billion (previous year: €4.4 billion).

New business/premium development

New business developed very positively, coming in at €232,0 million (previous year: €207,9 million). This growth was fuelled by all of the business segments. The performance of the corporate customers business line was especially good. An encouraging start has also been made with our new digital brand "Adam Riese".

New business key figures

	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	Change
	in € million	in € million	in %
Annual contributions to the portfolio (segment)	**232.0**	**207.9**	**11.6**
Motor	167.9	155.5	8.0
Corporate customers	36.9	27.6	33.7
Retail customers	27.2	24.8	9.7

Business in force in all segments increased due to very strong net sales in the current financial year, which takes account of replacement business and cancellations in addition to new business. Despite the still challenging market environment, gross premiums written thus increased significantly once again, by €72.7 million to €1,751.0 million (previous year: €1,678.3 million). As in previous years, this meant that a profitably growing insurance portfolio was achieved.

Earnings performance

Segment net income grew to €125.8 million (previous year: €108.3 million). Higher net financial income, the sustained very good underwriting income and a lower tax rate contributed to this.

Net financial income rose by €10.1 million to €54.0 million (previous year: €44.0 million). Lower impairments and higher income from disposals more than compensated for the decline in net interest income. The individual earnings in net financial income include a high level of currency effects, although they largely offset one another.

- Net income from available-for-sale financial assets declined to €19.7 million (previous year: €50.6 million). Higher net income from disposals and lower impairments on equity instruments had a positive impact. Because the price of the euro rose significantly during the financial year, high currency losses were experienced with respect to investments in foreign currency.

- Net income from financial assets at fair value increased sharply by €77.1 million to €45.6 million (previous year: €-31.5 million). This was mainly attributable to currency derivatives used to hedge the aforementioned securities in the available-for-sale portfolio.

- The net income from receivables, liabilities and subordinated capital fell to €-14.4 million (previous year: €19.5 million) as a result of payment of a voluntary subsidy to the Württembergische Pensionskasse (pension fund).

Net commission income stood at €-225.0 million (previous year: €-217.2 million). This was mainly due to commission paid in connection with the higher insurance portfolio.

Net premiums earned continued to perform very well. They rose significantly by €54.4 million to €1,415.0 million (previous year: €1,360.6 million). Growth was achieved in all business lines.

Net insurance benefits stood at €743.1 million (previous year: €713.2 million). Several major losses in the corporate customers area adversely affected the financial year. Growth in net premiums nevertheless remained greater than the rise in benefits. A key reason for this positive trend is a sustainable, risk-conscious underwriting policy. As a result, the combined ratio (gross) remained at the very good level of 90.7% (previous year: 90.1%).

General administrative expenses rose to €373.9 million (previous year: €351.0 million). Personnel expenses went up slightly, mainly as a result of restructuring. One of the factors in the increased material costs is the investment made in the digital brand "Adam Riese", which has been launched on the market with a modern personal liability product.

Tax expenses amounted to €44.7 million (previous year: €50.9 million), although earnings before taxes rose to €170.5 million (previous year: €159.2 million). This is attributable to tax-free equity gains.

All other segments

"All other segments" covers the divisions that cannot be allocated to any other segment. This includes W&W AG, W&W Asset Management GmbH, the Czech subsidiaries and the Group's internal service providers. The total assets of the other segments amounted to €6.4 billion (previous year: €6.2 billion).

All other segments posted net income after taxes of €4.8 million (previous year: €103.8 million).

Net financial income went down significantly year on year to €77.7 million (previous year: €183.5 million). It was mainly shaped by long-term equity investment income from within the Group received by W&W AG, which is included in net income from financial assets available for sale and was considerably below the level of the previous year due to lower profit transfers and dividend distributions in the financial year, among other reasons. This equity investment income is eliminated in the consolidation/reconciliation column in order to obtain values for the Group. By contrast, the sale of shares in V-Bank AG, which is accounted for under the equity method, had a positive effect on net income.

Net commission expense declined to €-49,2 million (previous year: €-41.5 million). This was mainly due to the rise in claims-dependent commission expenses of W&W AG for property and casualty insurance, which were incurred within the scope of the cross-segment reinsurance.

Earned premiums rose by €10.0 million to €257.,2 million (previous year: €247.2 million). The volume ceded to W&W AG for reinsurance within the Group increased as a result of positive business development of Württembergische Versicherung AG.

Net insurance benefits stayed at prior-year levels, at €157.5 million (previous year: €156.5 million).

General administrative expenses increased slightly to €97.8 million (previous year: €96.0 million). This was chiefly due to higher personnel expenses as a result of increases under collective pay agreements. Material costs and depreciation were about the same year on year.

The improvement in net other operating income to €32.1 million (previous year: €20.5 million) is mainly the result of a rise in net income from property development activities.

Tax expenses in the segment rose to €58,258.2 million (previous year: €54,054.0 million). Although profit transfers from the other segments have fallen substantially, the net tax result remained high in the consolidated tax group. A table summarising all the segments of the W&W Group is provided in the chapter "Segment reporting" in the notes.

Net assets

Asset structure

In the financial year ended, the consolidated total assets of the W&W Group decreased slightly to €72.0 billion (previous year: €72.3 billion).

Receivables still represented the bulk of assets. They are dominated by the portfolio of promissory notes and registered bonds in the amount of €14.1 billion (previous year: €14.3 billion) and by building loans totalling €23.5 billion (previous year: €23.7 billion). Financial assets available for sale still consist mainly of fixed-income securities. Year on year, their balance decreased slightly to €19.4 billion (previous year: €20.0 billion).

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

Valuation reserves

Valuation reserves are formed if the current fair value of an asset is higher than the value at which it is carried in the balance sheet (carrying amount).

The valuation reserves are still high because of the continuing low interest rates. Year on year, however, the interestbearing securities component declined slightly as interest rates rose at a low level over the course of the year. The valuation reserves were mainly for first-tier loans and advances to institutional investors in the amount of €2,328.2 million (previous year: €2,973.9 million), for building loans in the amount of €357.5 million (previous year: €612.9 million) and for investment properties in the amount of €461.9 million (previous year: €430.8 million).

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

Financial position

Capital structure

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

Technical provisions – including those for unit-linked life insurance policies – totalled €33.8 billion (previous year: €33.3 billion). This includes €28.9 billion (previous year: €28.3 billion) for the provision for future policy benefits, €2.1 billion (previous year: €2.2 billion) for the provision for premium refunds, and €2.5 billion (previous year: €2.5 billion) for the provision for outstanding insurance claims.

The liabilities are primarily liabilities to customers amounting to €23.8 billion (previous year: €25.4 billion). They largely consist of deposits from the home loan savings business amounting to €19.0 billion (previous year: €18.4 billion) and savings deposits of €4.7 million (previous year: €6.8 million).

As at 31 December 2017, the W&W Group's equity rose by €153.3 million to stand at €3,964.9 million, compared with €3,811.63 million as at 31 December 2016. The consolidated net profit and the net income included in equity of €208.3 million had an increasing effect. The dividend payout, by contrast, reduced the equity by €56.1 million. Moreover, other effects of €1.1 million had an upside impact.

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

Liquidity

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

The cash flow statement shows inflows of cash amounting to €296.9 million (previous year's outflow of cash €1,558.0 million) from operating activities and inflows of cash amounting to €74.4 million (previous year: €1,878.9 million) for investing activities, including capital investments. Financing activities resulted in an outflow of cash of €26.9 million (previous year: €236.9 million). This results in a net change in cash of +€344.4 million in the year under review. Further information is provided in the cash flow statement in the notes.

Investments

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

A focus of investment was also on the digital transformation of our Group. An example is the market launch of "Adam Riese", our new digital brand for the German insurance market. In addition, we have created a digital financial assistant, the "FinanzGuide". This assists our customers in managing their finances and insurance policies. The "Wüstenrot" brand will in future stand for all matters involving the home. A new Web-based residential platform was developed for that purpose.

Customer development in the Group

The number of customers increased by 1.1% to around 6.12 million in the past financial year. We have gained additional customers particularly in supplemental health insurance, in property/casualty insurance and at treefin AG. Starting from 2017, persons insured under group policies are counted among Group customers.

Overall view

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

Comparison of business development with outlook

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

Home Loan and Savings Bank

In the Home Loan and Savings Bank segment, general administrative expenses were below the previous year's level in the 2017 financial year, due to the continued cost management. A fall in expenses had been forecast.

At €58.5 million, net segment income after taxes was at the 2016 level, in line with forecasts.

Life and Health Insurance

General administrative expenses in the Life and Health Insurance segment performed better than forecast, standing at the 2016 level. A slight rise had been forecast.

With net segment income after taxes of €31.8 million, we were within our range of expectations.

Property/Casualty Insurance

In the Property/Casualty Insurance segment, general administrative expenses increased year on year, in line with our forecasts.

At €125.8 million, above-average net segment income after taxes was again achieved, principally due to lower insurance benefits and the improvement in new business. The lower insurance benefits are also attributable to the risk-conscious underwriting policy pursued in recent years. Contrary to projections, net segment income from the previous year was thus exceeded to a considerable extent.

Group

In the 2017 financial year, we had intended to increase the number of Group customers. We have gained additional customers particularly in supplemental health insurance, in property/casualty insurance and at treefin AG. The number of Group customers as at year-end 2017 is higher than the previous year's figure overall.

In line with the forecasts, general administrative expenses increased slightly compared to the previous year.

In 2017 we achieved consolidated net profit of €258.0 million, despite persistently low interest rates. As a result, we were able to exceed the original projection from the last annual report, which forecast consolidated net profit at the 2016 level. We communicated this in an ad hoc notice at the end of June 2017. In particular, growth in new business and favourable claims development in property/casualty insurance have had a positive impact. In addition, one-time effects relating to income taxes and the disposal of shares in V-Bank contributed to income performance.

Development of business and position of W&W AG

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

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

Business development

W&W AG closed the 2017 financial year successfully with net income pursuant to the German Commercial Code (HGB) of €80.0 million (previous year: €62.9 million). The net income was marked by profit transfers. In addition, the non-recurring expense of €12.9 million from the previous year, incurred as a result of the German Accounting Law Modernisation Act (BilMoG), was not payable this year.

Earnings performance

Net income

W&W AG's net income (HGB) for the 2017 financial year stood at €80.0 million (previous year: €62.9 million). Due to the increase in net income, the Executive Board and Supervisory Board have decided to allocate €15.0 million (previous year: -) to retained earnings for the purpose of strengthening equity. After accounting for €0.2 million in profit carried forward from 2016., net retained profits amounted to €65.2 million (previous year: €63.4 million). Based on this result, we can propose to the Annual General Meeting on 13 June 2018 to pay a dividend of €0.65 (previous year: €0.60) per share for the 2017 financial year and allocate €4.0 million to reserves.

Net investment income

In 2017, W&W AG's net investment income increased 2017 to €205.5 million (previous year: €202.6 million). An adjustment made to the valuation of investments resulted in appreciation of €86.5 million for an affiliated company (Wüstenrot Bank AG Pfandbriefbank), and a write-down of €20.0 million for a different affiliated company. The profit transfers of our subsidiaries declined.

Reinsurance/underwriting income

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

The underwriting income before the claims equalisation provision amounts to €7.4 million, an increase of €0.1 million over the previous year's value.

Gross premiums written increased by 5.2% to €340.4 million (previous year: €323.6 million) in the year under review, due to an increase in the premium income of Württembergische Versicherung AG, and thus the volume of reinsurance business ceded. Net premiums earned increased by 4.1% to €257.2 million (previous year: €247.2 million).

Net expenses for insurance benefits amounted to €158.1 million (previous year: €157.9 million). The net loss ratio dropped to 61.5% (previous year: 63.9%). Expenses for insurance business for own account increased once again from €83.7 million in the previous year to €92.6 million, mainly due to reinsurance commission for a proportional reinsurance contract within the Group. €11.2 million had to be transferred to the claims equalisation provision, as stipulated (previous year: €11.3 million). The claims equalisation provision still stands at a comfortable €81.0 million (previous year: €69.8 million). This corresponds to 31.5% (previous year: 28.2%) of net premiums earned. After the allocation to the claims equalisation provision, the underwriting loss stood at €3.8 million (previous year: €4.0 million).

Lines

Gross premiums increased from €125.1 million to €134.3 million in the fire and other property insurance lines. After an allocation of €5 million (previous year: €5.3 million) to the claims equalisation provision, the result was an underwriting loss of €2.4 million (previous year: €4.6 million).

Gross premiums from the motor lines increased to €120.6 million (previous year: €115.4 million). After an allocation to the claims equalisation provision of €4.4 million (previous year: €4.6 million), the loss stood at €12.6 million (previous year: €10.1 million).

Gross premiums from the liability line increased to €31.8 million (previous year: €30.7 million). After an allocation of €1.4 million (previous year: €1.3 million) to the claims equalisation provision, the result was a profit of €8.6 million (previous year: €5.6 million).

Gross premiums from the accident line grew slightly to €20.6 million (previous year: €20.2 million). The profit after the claims equalisation provision was €1.7 million, an amount significantly lower than in the previous year (€5.2 million).

Transport and aviation hull insurance premiums were unchanged at €3.2 million. The underwriting income after the claims equalisation provision was slightly positive at €0.2 million this year, following a neutral result in the previous year.

Gross premiums from other insurance lines (mainly legal expenses insurance) rose slightly to €24.0 million (previous year: €22.8 million). The underwriting income after the claims equalisation provision showed a loss of €1.2 million (previous year: €1.9 million).

Gross premiums from life insurance decreased slightly to €6.0 million (previous year: €6.2 million). The income was again positive and amounted to €2.0 million (previous year: €1.8 million).

Taxes

Taxes on income showed expenses of €43.0 million (previous year: €41.0 million) as at 31 December 2017. The settlement of taxes from previous years due to an external audit reduced the effect.

Net assets

Asset structure

W&W AG's total assets increased by €102.6 million to €3,604.6 million (previous year: €3,501.9 million) in the financial year. Investments make up most of the assets. Receivables are another large item.

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

Equity

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

W&W AG's equity stood at €1 936,1 million (previous year: €1,911,3 million) as at 31 December 2017. The net income for the financial year of €80.0 million increased equity. Of that amount, €15.0 million were appropriated to retained earnings. By contrast, the equity decreased due to the dividend payout of €56.1 million for the 2016 financial year. From the net income for 2016, €7.0 million were appropriated to the retained earnings by virtue of the resolution of the Annual General Meeting. Equity increased by €1.0 million from the sale of treasury shares in connection with the employee share ownership programme in 2017. In total, the equity increased €24.8 million.

Investments

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

The carrying amount of capital investments increased by €103.3 million to €3 301.2 million (previous year: €3,197.9 million). This figure includes mainly interests in affiliated companies and long-term equity investments of €1,757.8 million (previous year: €1,733.7 million) and fixed-income securities of €419.2 million (previous year: €393.6 million).

Valuation reserves

Valuation reserves are formed if the fair value of an asset is higher than the value at which it is carried in the balance sheet (carrying amount). W&W AG's valuation reserves for investments stood at €1,366.0 million (previous year: €1,279.6 million). This includes €1,224.9 million (previous year: €1,161.9 million) for interests in affiliated companies, €49.6 million (previous year: €40.3 million) for funds and €26.7 million (previous year: €34.9 million) for registered bonds and promissory notes. As in previous years, W&W AG has elected not to use the option provided by German Commercial Code Section 341b (2) to use the provisions for fixed assets when valuing securities classified as current assets.

Pension provisions

Pension provisions of €882.4 million (previous year €841.0 million) along with the technical provisions of €502.3 million (previous year €500.1 million) represent a large share of the liabilities held by W&W AG. This item includes pension provisions for nine subsidiaries in addition to Wüstenrot & Württembergische AG's own pension provisions. W&W AG assumed joint liability for the pension commitments of these subsidiaries in exchange for a one-time compensation payment and made an internal agreement with the subsidiaries to meet these pension obligations.

Financial position

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

Overall view

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

Comparison of business development with outlook (HGB)

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

Due to the structure as a holding company, its earnings after taxes are determined primarily by dividends and profit transfers from subsidiaries as well as appreciation and write-downs of investments. At €80.0 million, the forecast of significantly outperforming the earnings after taxes of the previous year was achieved.

Opportunity and risk report

Opportunity report

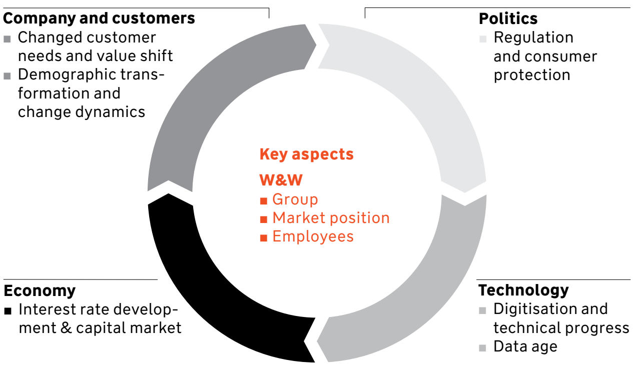
Recognising and exploiting opportunities is a fundamental requirement for the successful development of our management holding company. Consequently, the operational units and W&W AG pursue the goal across the Group of systematically identifying, analysing and evaluating opportunities and initiating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

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

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

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

External and internal influence factors for W&W



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

External influencing factors

Company and customers

Opportunities through changed customer needs and changed values

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

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

Especially in times of uncertainty, there is great demand for a stable financial provider with a high degree of credibility. Considering our 189 years of financial planning experience in the field of financial services, we are in a good position in this respect. We combine this outstanding foundation with our personal advisory approach and the new digital possibilities.

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

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

Opportunities through demographic change and the dynamics of change

Demographic change and a changed society offer new growth opportunities.

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

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

Economy

Opportunities through interest rate trends and capital markets

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

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

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

Politics

Opportunities through increasing regulation and consumer protection

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

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

While forming the new Federal Government, the German Bundestag has been discussing different approaches to support home ownership. Most of them can be approved by real estate financers such as Wüstenrot.

Technology

Opportunities through digitalisation and technical progress

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

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

Opportunities in the data age

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

Opportunities through digital networking

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

Internal influencing factors

Opportunities through the Group

The solid base of our business model with its two pillars Home Loan and Savings Bank and Insurance offers us the best chance of remaining in the market on a long-term basis through its diversification. In light of demographic trends, our allround service as a financial planning specialist promises brisk customer demand in the future.

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

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

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

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

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

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

Opportunities through market position

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

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

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

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

Opportunities through our employees

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

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

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

Risk report

Risk management system in the W&W Group

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

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

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

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

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

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

The risk management and controlling system comprises all internal and external regulations that ensure the structured handling of risks in the W&W Group.

Risk controlling is part of risk management and records, communicates, analyses and evaluates risks. It also monitors risk governance measures.

The principles of the risk management system as well as the organisation of our risk management as presented in the Annual Report 2016 were also applied in 2017 and will continue to be applied, subject to the changes and enhancements presented below.

For information on the enhancements planned for 2018, refer to the chapter "Further developments and outlook".

Core functions and objectives

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

- **Legal:** Compliance with relevant risk-related internal and external requirements of risk management by ensuring their operational implementation.

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

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

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

As derived from the core functions of risk management, the following higher-level objectives are pursued:

- Creation of **transparency** with regard to risks,
- Use of appropriate tools for **risk governance,**
- Ensuring and monitoring **capital adequacy,**
- Creation of a basis for **risk and value-oriented** company management,
- Promotion and establishment of a Group-wide **risk culture.**

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

Risk management framework

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

Risk management framework

Overview

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

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

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

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

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

Our **Group Risk Policy** defines the organisational framework for risk management and is a prerequisite for an effective risk management system within the W&W Group. This framework ensures that a comparable overall quality standard and a high degree of consistency are maintained at all levels of the Group. As a key element of the shared risk culture, the Group Risk Policy and the processes and systems defined within it promote the required awareness of risk.

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

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

Risk class 1:

- Wüstenrot & Württembergische AG
- Wüstenrot Bausparkasse AG
- Württembergische Lebensversicherung AG
- Württembergische Versicherung AG

Risk class 2:

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

Wüstenrot Bank AG Pfandbriefbank was re-classified into risk class 2 in the 2017 financial year. The background to this is the strategic re-alignment of the institution in conjunction with the transfer of the construction financing business to Wüstenrot Bausparkasse AG. Reference is made to note 2 in the notes to the consolidated financial statements for further information on Wüstenrot Bank AG Pfandbriefbank.

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

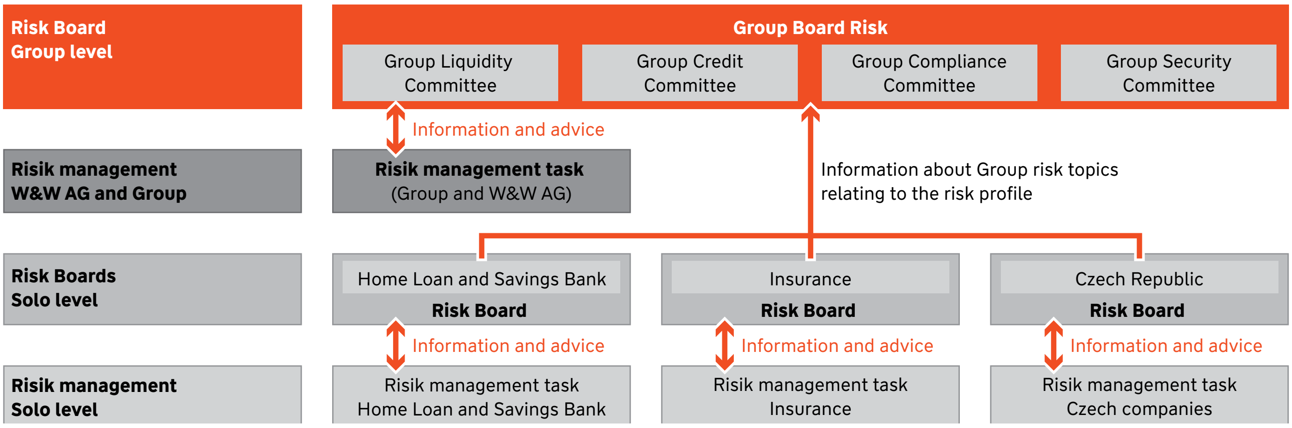
Risk governance/risk bodies

For further information on our Corporate Governance, please refer to the section “Declaration on Corporate Management/Corporate Governance”.

The duties and responsibilities of all persons and committees involved in risk management issues are clearly defined. Within our structural and procedural organisation, the individual duties of all the following bodies, committees and functions as well as their interfaces and reporting lines among each other are clearly defined. This guarantees a regular, timely information flow across all levels of the W&W Group.

Risk Board Structure

Overview



The Executive Board of W&W AG bears overall responsibility for the proper business organisation of the W&W Group. It is the supreme decision-making body with respect to risk issues. This includes ensuring that the overall risk management system is implemented, maintained and enhanced effectively and appropriately. This also includes developing, promoting and integrating an appropriate risk culture. Within the Executive Board of W&W AG, risk management is assigned to the Chief Risk Officer (CRO) in terms of department.

In its role as the control body overseeing the Executive Board, the **Supervisory Board of W&W AG** also monitors the appropriateness and effectiveness of the risk management system. In addition, it receives regular information about the current risk situation. Certain types of transaction require approval from the Supervisory Board.

The **Risk and Audit Committee** of W&W AG and the corresponding committees of Wüstenrot Bausparkasse AG, Württembergische Versicherung AG and Württembergische Lebensversicherung AG regularly verify whether the risk management organisation in the respective fields of responsibility is adequate. A Risk and Audit Committee has also been reinstated for Württembergische Versicherung AG and Württembergische Lebensversicherung AG since December 2017; previously, this role had been performed by the Supervisory Board in 2017. In the case of Wüstenrot Bank AG Pfandbriefbank, this duty had been carried out by the Supervisory Board throughout the whole of 2017.

As the central body for the coordination of risk management, the **Group Board Risk** supports the Executive Board of W&W AG and the Management Board in risk issues. Permanent members of the Group Board Risk include the Chief Risk Officer (CRO) of the W&W AG, the CROs of the Home Loan and Savings Bank and Insurance divisions, as well as the General Representative responsible for risk management. The holders of the (independent) risk controlling function at the institutions and insurance companies within the W&W Group also attend the meetings, as well as other selected persons.

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

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

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

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

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

- Group-wide information risk management is the responsibility of the **Group Security Committee,** set up in 2017.

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

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

- The **second line of defence** comprises the (independent) risk controlling function/risk management function, the compliance function and the actuarial function.

- The (independent) **risk controlling function** or risk management function performs in particular the operational implementation of risk management and reports to management on the overall risk profile, among other matters. The Risk, Compliance & Data Management department within W&W AG is responsible for risk management at the level of the W&W Group and W&W AG. The head of the "Risk" section is owner of the "risk management" key function in accordance with Section 26 of the German Act on the Supervision of Insurance Undertakings (VAG) at the level of the W&W Group and W&W AG.

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

  The **actuarial function** ensures correct calculation of the technical provisions, among other duties, and assists the relevant (independent) risk controlling function or risk management function in the risk assessment. The duties of the actuarial function at W&W AG are performed operationally by the Actuarial Services Property and Casualty department located at Württembergische Versicherung AG. The head of this unit acts as the responsible function holder. The actuarial function at the Group level is located centrally at the Executive Board level. It is supported in its duties by the actuarial functions at the individual companies.

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

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.

With effect from 1 July 2017, the duties of Group risk management have been performed by the **Risk, Compliance & Data Management** department at W&W AG (until 30 June 2017 the responsibility of Group Risk Management/Controlling). There were no changes as far as the content of the risk management activities is concerned. The department guides and supports the Group Board Risk in defining uniform Group-wide risk management standards. The department is also responsible for the preparation and compilation of risk management information.

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

The following chart presents the responsibilities in risk management.

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

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

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

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

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

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

Risk management responsibilities

Overview

Governance of the risk management framework

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

Risk management process

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

Risk identification

As part of the risk inventory process, the corporate and working environment is continuously checked for potential risks, and identified risks must be reported without delay. In order to identify risks arising from the introduction of new products and sales channels, or the development of new markets, which were previously not represented in the risk management system, we have adopted a standardised new products process throughout the Group. In this process, the risk controlling units at the Group and individual company level are integrated.

Risks are systematically identified in the course of the annual risk inventory and during reviews of the risk situation throughout the year, as warranted by events. During these procedures, incurred or potential risks are continuously recorded, updated and documented. On the basis of an initial assessment for the respective individual company, we use defined threshold values to classify the risks as material or immaterial risks. This assessment also evaluates the extent to which individual risks can take on a material character through interaction or accumulation (risk concentrations).

The risks that are classified as material are actively managed in the four steps of the risk management process, as described in greater detail below. The risks that are classified as immaterial are monitored for risk changes throughout the year by the responsible business units with the aid of risk indicators, and reviewed in full at least once a year.

Risk assessment

All the methods, processes and systems that are used for assessing identified risks appropriately fall into this process step. In the course of determining economic risk-bearing capacity, risks are assessed using stochastic procedures and the value at risk (VaR) risk measure, with a confidence level of 99.5% and a time horizon of one year. Where this procedure cannot be applied to certain risk areas, we use analytical computing or standard regulatory procedures and expert estimates.

We include the results of these assessments in the statement of risk-bearing capacity or in additional risk controlling tools, taking into consideration potential clustering of risks. We conduct regular sensitivity analyses as part of stress scenarios related to and across risk areas. Indicator analyses (e.g. risk indicators) augment the range of tools used to evaluate risk.

Risk taking and risk governance

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

The risk-taking unit is generally responsible for managing and controlling the risks that it incurs. It decides on products and transactions to perform this duty. Continuous checks are made as to whether the risks incurred fit into the risk profile defined by the risk strategy of W&W Group or one of its individual companies, and whether the (risk) bearing capacity and specified risk limit and risk lines are complied with. Risk-taking and risk-monitoring tasks are strictly separated in terms of function.

A key management parameter at Group level is the IFRS result and division-specific indicators. In order to combine earnings and risk governance for the purpose of value-oriented governance and to substantiate our decisions, we conduct supplementary analyses using a RORAC approach. The evaluation of the adequacy of the risk capitalisation takes place on the basis of equally positioned risk-bearing capacity concepts, which however, examine different objectives and aspects:

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

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

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

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

Risk monitoring
The main quantifiable risks are delimited by means of limits and lines. Transactions are only conducted within the scope of these limits and lines. By setting up an appropriate system of limits and lines, risk clustering in particular is limited, both at the level of the individual companies and at the level of the financial conglomerate and the financial holding group. Risk monitoring independent of risk-taking is done primarily at the level of the individual companies. If material risks exist, the cross-company risks are additionally monitored at the Group level. The principle of functional separation between risk-taking units and risk-monitoring units applies at all levels of the W&W Group. Action recommendations are derived from the monitoring activities, resulting in corrective intervention at an early stage with a view to the goals formulated in the business and risk strategy; the recommendations are also subject to appropriate controlling measures.

Risk reporting
Risk reporting includes all the processes, rules and formats in a company that serve the purpose of communicating identified and, if applicable, measured risks. The recipients of the risk reports may be both internal, i.e. within the individual company and the W&W Group, and external, outside the Group in the general public.

The established reporting processes provide timely regular reporting on the risk situation of the various groups and individual companies.

The information flow concerning the risk situation of the individual companies in the W&W Group is thus ensured by internal risk reporting, risk inventory and statement of risk-bearing capacity. The results of the companies affiliated with the Group are sent to the risk controlling function responsible for the W&W Group, where they are aggregated and analysed with regard to their impact on the W&W Group.

The core element of the risk reporting system is the quarterly overall risk report to the Group Board Risk, the Executive Board and the Supervisory Board. In this report, we depict in particular the amount of available capital, the regulatory and economic capital adequacy, compliance with limits and lines, the results of the stress tests as well as the risk governance measures already implemented and still to be implemented. This overall risk report is presented in the Group Board Risk, which works on it for the purpose of assessing risk and developing the resulting action recommendations for the W&W Group. These recommendations for action are implemented as measures by the responsible risk management units and followed up.

Depending on how critical the risk is, we pass on information that is material from a risk viewpoint promptly to the Group Board Risk, the Executive Board and the Supervisory Board. For ad hoc risk reporting, we have set up processes and reporting procedures at the level of the Group and individual companies. Quantitative criteria are used as thresholds and are generally based on internal and regulatory indicators. We also perform ad hoc risk reporting if events occur that are material from a qualitative viewpoint.

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

Capital management in the W&W Group

The individual companies and W&W AG keep risk capital in order to cover losses if assumed risks should occur. The risk management manages and monitors the balance between the risk capital and the risk capital requirement. This balance results from the danger of losses in connection with assumed risks (capital adequacy, risk-bearing capacity). Governance takes place from two perspectives:

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

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

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

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

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

Regulatory capital adequacy
The regulatory provisions give rise to requirements for regulatory capitalisation.

As at the reporting date, Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank satisfied the regulatory capital requirements. As at 31 December 2017, the total capital ratio of Wüstenrot Bausparkasse AG was 18.4% (previous year: 15.2%).As at the reporting date, the regulatory coverage ratios of the insurance companies that belong to the Group were likely well above 100%. The final results will be published in the second quarter. The ratios calculated as at 31 December 2016 were reported to BaFin in the second quarter of 2017. At Wüstenrot & Württembergische AG they were 380.0%, at Württembergische Lebensversicherung AG 274.8% and at Württembergische Versicherung AG 185.4%. The Federal Financial Supervisory Authority (BaFin) has granted Württembergische Lebensversicherung AG and Karlsruher Lebensversicherung AG permission to apply a transitional provision, which they do indeed apply.

Apart from the supervision at the individual company level, the insurance companies of the W&W Group within the scope of consolidation of the Solvency II group are likewise subject to supervision. As at the reporting date, the Solvency II group is expected to have a coverage ratio of significantly more than 100% (the final results will also be published in the second quarter). The previous year's ratio was reported to BaFin in the second quarter of 2017; it was 193.8%.

Pursuant to Section 10a (2) sentence 4 of the German Banking Act (KWG), the parent company W&W AG is responsible for ensuring that the financial holding group has sufficient funds of its own. As at 31 December 2017, the total capital ratio of the financial holding group was 24.1% (previous year: 21.0%).

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

As at the closing date, the financial conglomerate's capital-solvency margin relation was considerably higher than 100%. In the previous year, the capital-solvency margin relation was 206.1% as at 31 December 2016.

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

Internal calculations on the basis of the data for 2017 and on the basis of the planning for 2018 and 2019 show that the regulatory requirements concerning capital resources can be more than satisfied in the financial conglomerate, in the financial holding group and in the Solvency II group in the future as well, under the assumptions on which the planning is based.

Our goal is to anticipate the potential capital requirements for the W&W Group. Pursuant to the statutory regulations according to CRD IV/CRR for credit institutions and pursuant to Solvency II for insurance companies, capitalisation requirements must be met. For the domestic credit institutions and for the financial holding group, the internal minimum target for 2018 for the total capital ratio was set at 13.0%. The target for the core capital ratio for 2018 is at least 11.0% for the domestic credit institutions and for the financial holding group. The minimum target ratio for the Solvency II group is 125% (based on the transitional provision).

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

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

The risk situation is presented below on the basis of the data used by the company management for economic risk governance and internal risk reporting. The material risks, which are determined by means of a standardised approach, are aggregated to form risk capital requirements and compared with the financial funds available for risk coverage. As at the reporting date on 31 December 2017, the total risk capital requirements of the W&W Group after diversification amounted to €3,260.2 million (previous year: €3,533.7 million).

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

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

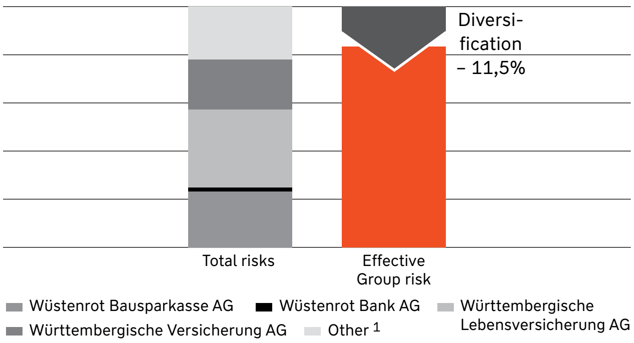
Within the scope of the risk strategy, the W&W Group aims at an economic risk-bearing capacity ratio of over 125%. Our calculations furnish evidence of risk-bearing capacity above this target ratio as at the closing date 31 December 2017.

Diversification

The assumption and governance of risks comprise the core of the business model of the W&W Group. The risk profiles of home loan and savings, bank, property and casualty insurance and life and health insurance differ considerably. As the assumed risks in these companies usually do not occur at the same time, the risk capital requirements of the Group are smaller than the sum of the risk capital requirements of the individual companies. For example, a drop in interest rates, which may constitute a risk for Life Insurance or, depending on positioning, Home Loan and Savings, is largely independent of the occurrence of a natural disaster, which mainly pertains to property and casualty insurance only. This risk diversification effect depends on the correlation of the risks among each other, on the one hand, and on their size in the individual companies, on the other hand. In regard to security-based modelling, the economic risk-bearing capacity model at the Group level only takes account of diversification effects arising between the individual companies within the individual risk areas. The alleviation of the economic risk capital requirements at the Group level was as follows as at 31 December 2017:

Diversification

schematic



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

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

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

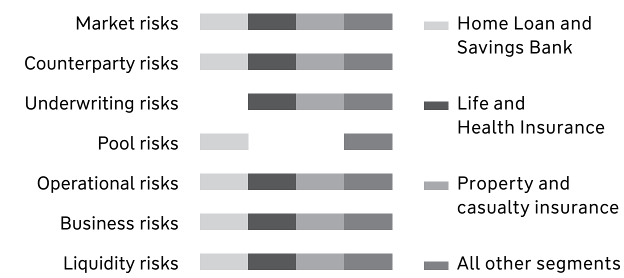
Apart from the risk and earnings diversification, further diversification effects can be used in different areas due to the structure of the W&W Group. For example, this concerns the capital fungibility within the W&W Group and the networked approach across division borders (know-how transfer).

Risk landscape and risk profile of the W&W Group

To present our risks transparently, we uniformly combine similar risks throughout the Group into risk areas (see also “Risk landscape of the W&W Group” chart).
The following table demonstrates the risk exposure in the individual segments of the W&W Group and shows which risk areas have been uniformly identified as material:

Risk areas

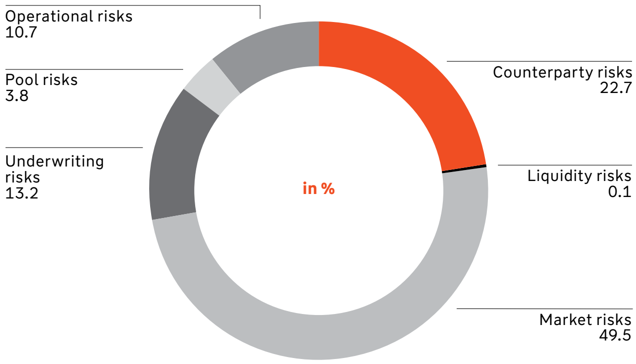
by segment



We separately draw attention to any segment-specific risks and risk management methods within the risk areas. The risks presented below are explained according to the methodology of our internal risk reporting regulations.

As at 31 December 2017, the risk profile of the quantified risk areas, which was determined according to our methods for economic risk-bearing capacity measurement (see section “Economic capital adequacy”), was distributed as follows:

Risk profile of the W&W Group [1]



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

Market price risks currently account for the largest share of the risk capital requirements at 49.5% (previous year: 47.2%). These include, as the key types of risk, credit spread risks at 19.8% (previous year: 15.0%), share price risks at 13.6% (previous year: 8.9%) and interest rate risks at 10.8% (previous year: 16.7%). **Insurance risks** account for 13.2% (previous year: 14.3%), operational risks 10.7% (previous year: 6.8%) and **collective risks** 3.8% (previous year: 2.8%).

Due to the exposures in our investment portfolios and our customer credit activities, **counterparty credit risks** also represent a significant risk area, accounting for 22.7% (previous year: 28.0%).

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

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

Risk landscape of W&W Group

Overview of risk areas

Overall risk profile

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

Market price risks

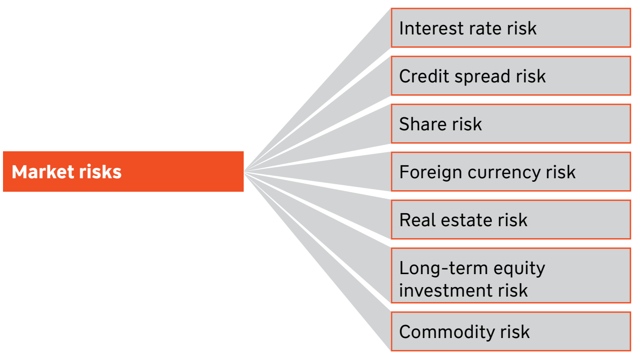
- The W&W Group’s business model ensures a high level of sensitivity to the development of market price risk factors, especially the development of interest rates, credit spreads and stock markets.
- Continuation of risk-minimising measures to manage the W&W Group’s interest rate risks (interest rate change and interest rate guarantee risks) in light of persistently low interest rates coupled with uncertainty about future interest rate trends.
- Rigorous management of credit spread risk in conjunction with controlling for counterparty risk.
- Retention of the high guarantee level of the share portfolios in 2017.

Risk definition

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

Market risks

Systemisation



Market environment

Interest rate development. Over the course of 2017, long-term interest rates (10-year German government bonds) mostly fluctuated 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, 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.

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

The SDAX index continued its upward trend until June, reaching 11,887. This constitutes a considerable rise of 24.9% for the year as a whole.

Risk situation

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

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

The scenario of a sharp rise in interest rates would have an especially negative impact on life insurance policies, as this would lead to an erosion of the asset reserve (falling market values of interest-bearing securities) and income risks in connection with the additional interest reserve/interest reinforcement that would still have to be provided.

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

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

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

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

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

Section 5 of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) also regulates the framework, which is recognised under tax law, for reinforcing the provision for future policy benefits in the form of an additional interest reserve. The amount of the additional interest reserve is determined by the reference interest rate, which is calculated as the average of Euro interest swap rates over 10 years. In 2017, the reference interest rate dropped to 2.21% (previous year: 2.54%).

Based on the regulations for the additional interest reserve, interest reinforcement established in the business plan was provided in the old portfolio. The amount of interest reinforcement is determined by the measurement interest rate, which amounts to 2.21% (previous year: 2,36%) for Württembergische Lebensversicherung AG %, 2.21% (previous year: 2.50%) for Karlsruher Lebensversicherung and 2.61% (previous year: 2.65%) for ARA Pensionskasse AG. In the WürttLeben group, the additional interest rate reserve and interest reinforcement were strengthened by €446.2 million (previous year: €290.5 million) on this basis. In order to depict the build-up of the additional interest rate reserve and interest reinforcement as realistically as possible, capital disbursement probabilities were applied to each company, as in the prior year. For 2018, we expect a further decline in the interest rates relevant to measurement and thus a further increase in the additional interest reserve and interest reinforcement. Since 2010, we have gradually increased the security level of the computation basis “interest rate” for annuity insurance policies in the old portfolio by means of reserve reinforcements.

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

- Use of interest-based hedging instruments (e.g. swaps and swaptions),
- Structural reallocations in the securities portfolio,
- Active duration control of investments,
- Diversification in proprietary business,
- (Re-)investment prohibition and
- Interest book management.

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

Owing to the structure of our investment portfolio – investment predominantly in fixed-income securities – the credit spread risk is the most important among the market price risks. Stringent control is exercised in interaction with risk controlling methods in counterparty credit risk (e.g. risk lines).

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

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

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

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

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

For the portfolios of our companies with material share portfolios with a total market value of €943.7 million, the market value changes in the case of an index fluctuation of the EURO STOXX 50 were as follows as at 31 December 2017:

Market value changes of material share portfolios

in € million	Market value	Change in market value Increase by 10%	Increase by 20%	Decrease by 10%	Decrease by 20%
WL[1]	537.4	36.3	74.8	– 33.7	– 64.4
WV[1]	324.0	24.2	49.8	– 22.1	– 41.2
W&W AG[1]	82.3	6.5	13.2	– 6.0	– 11.1
Total	**943.7**	**67.0**	**137.8**	**– 61.8**	**– 116.7**

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

The high guarantee level of our insurance companies in this asset category was retained in 2017.

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

In accordance with our strategic orientation, we concentrate our foreign exchange exposure on Danish krones and US dollars. Within the scope of individual fund mandates, we also have minor exposure in other currencies.

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

Real estate risk. Withinthe W&W Groupproperty portfolios in the form of direct investments and via fund mandates and long-term equity investments are held by Württembergische Lebensversicherung AG and Württembergische Versicherung AG. Our diversified property portfolios supplement our capital investment portfolio.

Our property investments focus on direct investments in Germany with stable value development and high fungibility. Due to our predominant investment activity in prime locations, we consider the risk to be relatively low.

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

Strategy and organisation

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

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

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

The Alternative Investments unit is responsible for investments in alternative financing. Our strategic long-term equity investment activities are supervised by Group Controlling. The decentralised and centralised risk controlling units operate as independent monitoring units. Apart from the operational limit monitoring, superior method and risk modelling expertise are taken care of at the respective levels.

Risk management methods and risk controlling

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

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

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

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

Risk management

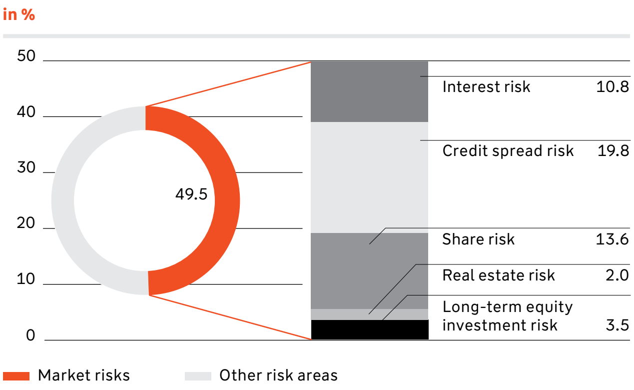
Method depiction

Risk controlling (Group-wide): ■ Asset Allocation ■ Economic risk-bearing capacity model ■ Limit system ■ Deployment of financial instruments ■ Sensitivity and scenario analyses ■ Diversification ■ Monitoring ■ New-product process ■ Reporting

Market risks area	Company	Risk controlling (specific)
Interest rate risk	Wüstenrot Bausparkasse AG Württembergische Lebensversicherung AG Wüstenrot & Württembergische AG Württembergische Versicherung AG Wüstenrot Bank AG Pfandbriefbank	■ Asset liability management ■ Duration control ■ Product and pricing policies
Credit spread risk	Wüstenrot Bausparkasse AG Württembergische Lebensversicherung AG Wüstenrot & Württembergische AG Württembergische Versicherung AG Wüstenrot Bank AG Pfandbriefbank	■ Credit management ■ Risk lines
Share risk	Wüstenrot & Württembergische AG Württembergische Lebensversicherung AG Württembergische Versicherung AG	■ Hedging strategies (stop-loss) ■ Monitoring of hedging ratios
Foreign exchange risk	Wüstenrot & Württembergische AG Württembergische Lebensversicherung AG Württembergische Versicherung AG	■ Congruent coverage
Real estate risk	Württembergische Lebensversicherung AG Württembergische Versicherung AG	■ Real estate portfolio management
Long-term equity investment risk	Wüstenrot & Württembergische AG Württembergische Lebensversicherung AG Württembergische Versicherung AG	■ Long-term equity investment controlling ■ Economic planning ■ Projections during the year ■ Monthly target/actual comparisons

As at 31 December 2017, the **risk profile** of the risk area market price risks, which was determined according to our methods for risk-bearing capacity measurement (see section "Economic capital adequacy"), was distributed as follows:

Risk profile for market risks



Risk capital requirements. The credit spread risk, which accounts for 19.8% (previous year: 15.0%) is the most important among the market price risks. Measured against the total economic risk capital, the proportion of the share price risk amounts to 13.6% (previous year: 8.9%) . This is followed by interest rate risks with a weighting of 10.8% (previous year: 16.7%). The long-term equity investment risk accounts for 3.5% (previous year: 4.4%). The real estate risk constitutes about 2.0% (previous year: 2.2%).

In 2017, the market price risks were in accordance with the risk strategy. The risk limit was consistently complied with at the Group level.

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

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

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

Sensitivity and scenario analyses. From the Group perspective, we regularly examine economic stress scenarios in order to identify interest rate sensitivities and for the purpose of simulating the developments on the stock and property markets under changed assumptions. The effects of possible market price scenarios on the Group's earnings and equity are presented and explained in note 50 in the notes to the consolidated financial statements.

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

Financial instruments. In the strategic and tactical asset allocations, the companies of the W&W Group made use of derivative financial instruments in 2017.

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

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

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

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

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

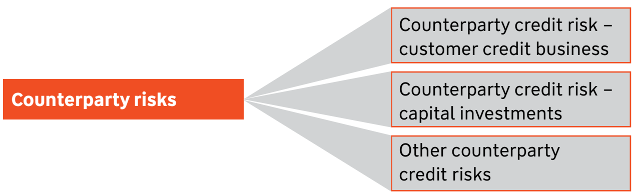
New-products process. Prior to their introduction, new products (lending and deposit products) are submitted to a new-products process, especially in order to ensure due handling in the accounts and in the risk controlling systems.

Counterparty credit risks

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

Counterparty risks

Systemisation



Risk definition

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

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

Market environment

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

Risk situation

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

Pursuant to our strategic orientation, the credit rating structure of our investment portfolio is conservative, with 96.8% (previous year: 96.9%) of investments being in the investment grade area.

Rating (Moody's scale)

	2017		2016	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
AAA	16,114.3	43.5	16,208.5	43.2
Aa1	5,078.5	13.7	5,273.0	14.1
Aa2	3,711.3	10.0	3,187.4	8.5
Aa3	1,611.5	4.3	1,421.8	3.8
A1	2,046.2	5.5	1,828.5	4.9
A2	996.4	2.7	1,504.9	4.0
A3	1,009.8	2.7	1,252.4	3.3
Baa1	2,071.2	5.6	2,525.8	6.7
Baa2	2,012.6	5.4	1,845.2	4.9
Baa3	1,175.7	3.2	1,097.0	2.9
Non-investment-grade/non-rated	1,191.8	3.2	1,332.0	3.6
Total	**37,019.3**	**100.0**	**37,476.5**	**100.0**

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

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

Rating (Moody's scale) per segment

in € million	Aaa - Aa	A - Baa	NIG/NR	Portfolio carrying amount Total	Share in total exposure in %
	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Home Loan and Savings Bank	7,188.0	2,354.6	11.5	10,600.1	25.8
Life and Health Insurance	17,598.2	5,528.0	1,004.3	23,896.6	65.2
Property and Casualty Insurance	1,077.1	572.4	152.6	1,701.7	4.9
All other segments	652.3	857.5	23.4	1,278.1	4.1
Total	**26,515.6**	**9,311.9**	**1,191.8**	**37,476.5**	**100.0**
Rating cluster share in %	71.6	25.2	3.2	100.0	

Note 51 in the notes to the consolidated financial statements presents all our assets by rating classes and maturity structures in accordance with international accounting requirements.

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

Seniority

	2017		2016	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
Public	12,727.1	34.4	11,999.3	32.0
German covered bond	10,833.5	29.3	10,972.9	29.3
With guarantor's liability	–	–	–	–
Deposit guarantee or government liability	5,873.3	15.9	6,057.1	16.2
Uncovered	7,585.4	20.5	8,447.2	22.5
Total	**37,019.3**	**100.0**	**37,476.5**	**100.0**

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

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

Collateral cluster

	Portfolio carrying amount				
	Public	German covered bond	Deposit guarantee or government liability	Uncovered	Total
in € million	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Home Loan and Savings Bank	3,491.7	2,877.0	1,030.1	2,154.7	9,553.5
Life and Health Insurance	8,302.0	6,972.1	4,508.7	4,347.7	24,130.5
Property and Casualty insurance	637.6	508.5	203.9	452.1	1,802.1
All other segments	295.8	457.9	130.6	630.9	1,533.2
Total	**12,727.1**	**10,833.5**	**5,873.3**	**7,585.4**	**37,019.3**
Collateralisation structure share in %	34.4	29.3	15.9	20.5	100.0

Country risks. As at 31 December 2017, the total volume of bonds of the peripheral EMU countries (Portugal, Italy, Ireland and Spain) amounted to €1,314.8 million (previous year: €1,390.7 million). Of this amount, Spain accounted for €440.4 million (previous year: €586.9 million) and Italy for €321.9 million (previous year: €432.2 million). As at 31 December 2017, the W&W Group did not hold any direct investments in Greece.

In the year under review, no write-down was applied to the bonds of the peripheral EMU countries. The exposure in government bonds of the peripheral countries is subject to limitations and ongoing monitoring. The structure of our entire government bond exposure by segments is as follows:

Government bonds by regions 2017

								Portfolio carrying amount	Share in total exposure in %
in € million	Germany	Europe	Central/ South America	North America	Asia	Africa	Other	Total	
Home Loan and Savings Bank	855.7	2,635.9	–	–	–	–	–	8,302.0	27.7
Life and Health Insurance	3,199.3	3,912.9	291.9	67.7	101.4	149.7	579.1	637.6	66.0
Property and Casualty Insurance	285.0	173.8	43.0	14.6	7.5	23.5	90.3	153.8	5.1
All other segments	117.5	36.3	–	–	–	–	–	12,585.0	1.2
Total	**4,457.5**	**6,758.9**	**334.9**	**82.2**	**108.9**	**173.2**	**669.4**	**100.0**	**100.0**
Share in %	35.4	53.7	2.7	2.7	0.9	1.4	5.3	100.0	

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

Subordinate exposure. Our subordinate exposures (participation rights, silent long-term equity investments and other subordinate receivables) increased slightly to €1,702.3 million (previous year: €1,698.0 million), but they still account for a relatively small proportion of the total volume of our investment portfolio.

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

Counterparty credit risk customer credit business. The W&W Group's most significant counterparty risks from customer loans exist in Wüstenrot Bausparkasse AG. The mortgage portfolios of Württembergische Lebensversicherung AG and the customer lending business of Wüstenrot Bank AG Pfandbriefbank are of minor significance. As at the end of the year, the carrying amount of the mortgages according to the German Commercial Code (HGB) amounted to €1,846.8 million (previous year: €1,911.6 million).

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

	Portfolio	Share	Portfolio	Share
		2017		2016
	in € million	in %	in € million	in %
No default	17,085.0	98.6	10,918.2	98.5
of which dunned	339.4	2.0	189.4	1.7
Default	249.6	1.4	166.7	1.5
Total	**17,334.6**	**100.0**	**11,084.9**	**100.0**

As a result of the reorganisation of construction financing in the Home Loan and Savings Bank division, the customer lending business of Wüstenrot Bank AG Pfandbriefbank has been reduced to the allocation of current account loans, lines of credit and instalment loans. As at 31 December 2017, the credit portfolio in the customer business amounted to €27.6 million. This equates to around 2% of the total assets of Wüstenrot Bank AG Pfandbriefbank.

At the end of the year, the credit risk provision rate of Wüstenrot Bausparkassen AG pursuant to the German Commercial Code (HGB) (net credit risk provision in relation to the credit portfolio) amounted to −0.05% (previous year: −0.06%), and the credit default rate according to the German Commercial Code (HGB) (credit default in relation to the credit portfolio) to 0.03% (previous year: 0.07%). As at the closing date, the expected probability of default of the credit portfolio was 1.81% (previous year: 1.86%). The average loss given default (LGD) amounted to 8.77% (previous year: 9.19%).

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

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

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

Strategy and organisation

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

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

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

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

Risk management methods and risk controlling

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

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

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

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

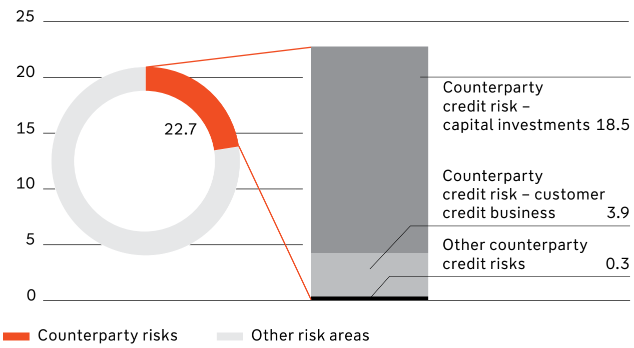
As a governance toolkit, our continually developed credit portfolio model enables us to dynamically adapt credit lines to rating changes.

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

As at 31 December 2017, **the risk profile** of the risk area counterparty risks, which was determined according to our methods for risk-bearing capacity measurement (see section "Economic capital adequacy"), was distributed as follows:

Risk profile for counterparty risks

in %



Risks from our investments constitute the greatest share of the risk capital requirements for counterparty credit risks. Measured against the total economic risk capital, the proportion amounts to 18.5% (previous year: 24.3%).

Counterparty credit risks from the customer credit business accounted for 3.9% (previous year: 3.3%). Other counterparty credit risks largely concern bad-debt risks in the reinsurance business. These merely accounted for 0.3% (previous year: 0.3%). In 2017, the counterparty credit risks were in accordance with the risk strategy. The risk limits were consistently complied with at the Group level.

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

Risk management

Method depiction

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

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

Limit and line system. Risk limitation serves to limit risks to a maximum permissible level that corresponds to the risk appetite. It is carried out by allocating the aggregate risk cover to risk areas. To prevent risk concentrations in relation to individual investment counterparties a limit is set at the level of issuer groups (borrower units). A Group-wide risk line system is used for this.

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

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

The investment portfolio within the W&W Group has a strong bias towards government bonds, financials (especially bank stocks) and corporate bonds due to the business model. Counterparty credit risks from resulting portfolio concentrations are reduced through a targeted selection of counterparties and the risk line system, but of course they cannot be completely ruled out.

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

Risk provisions. Impending defaults from customer transactions, investments or the reinsurance business are taken into account by means of suitable allowances. The methodology for the recognition of risk provisions and allowances and their development in 2017 are presented in the chapter "Impairment and reversal of impairment losses" in note 6 in the notes to the consolidated financial statements. In the customer credit business for Wüstenrot Bausparkasse AG, the risk provisions are calculated at the individual contract level with the help of the parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD), and are based on the expected loss. Additionally, an LIP factor (loss identification period) is taken into consideration for receivables that do not default. All changes of the customer credit portfolio with respect to the credit rating or collateral structure thus directly result in a change of the risk provisions.

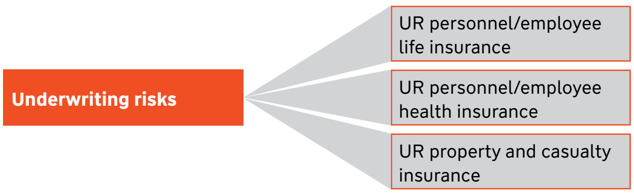
Monitoring. To identify risks that could arise from the development of the capital markets, we carefully monitor and analyse our investments. For this purpose, we draw on the economic expertise of W&W Asset Management GmbH. Furthermore, all indicators of the aforementioned instruments and procedures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

Insurance risks

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

Underwriting risks

Systemisation



Market environment

Compared to the previous year, the loss ratio of the financial year as at 31 December 2017 had improved. Year on year, 2017 saw slightly lower expenses of €57.4 million (previous year: €58.5 million) for natural disaster claims. This was because there were no major accumulation events. 2017 was marked by a high frequency of small accumulation events.

Risk situation

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

The underwriting risk in the area of life insurance includes all specific risks of the life/health insurance business, such as biometric risks and the cancellation, cost and calculation risk. Underwriting risks in health insurance mainly result from biometric risks and the premium and actuarial interest rate risk.

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

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

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

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

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

Reserve risk. A reserve risk exists in the event of inadequate claims reserves. The settlement of claims can fluctuate with respect to time and amount, so the reserves set up for claims benefits may not be sufficient in the event of heightened volatility. Despite the discontinuation of new underwriting for the UK subsidiary, Württembergische Versicherung AG is liable for the business underwritten until and including 2007. The resulting reserve risk is declining but is still present due to the volume of claims reserves to be settled. The development of claims reserves can be seen from the claims settlement triangles presented in the notes to the consolidated financial statements. This overview shows that adequate claims reserves have always been set up thus far.

Strategy and organisation

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

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

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

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

Risk management methods and risk controlling

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

For Württembergische Versicherung AG, the quantification of the insurance risks takes place on the basis of a stochastic approach. The risk is presented as value at risk, with a confidence level of 99.5 %. The insurance risk of W&W AG is largely calculated on the basis of the reinsurance business assumed and retained by Württembergische Versicherung AG. It is therefore derived from the model of Württembergische Versicherung AG, taking into account the calculation of the insurance risk of W&W AG according to Solvency II. For Württembergische Lebensversicherung AG, the quantification of the insurance risk takes place on the basis of the stress scenarios provided for under Solvency II. In this context, the effect of the respective stress scenario on the available solvency margin is examined.

Risk capital requirements. The chart in the chapter "Economic capital adequacy" (section "Economic risk capital") demonstrates the weighting of the risk capital required for insurance risks. In total, insurance risks account for 13.2% (previous year: 14.3%) of the overall risk capital requirements of the W&W Group. The main risk carrier is Württembergische Versicherung AG, followed by Württembergische Lebensversicherung AG and W&W AG. In 2017, the insurance risks were in accordance with the risk strategy. The minor limit overruns in the course of the year in this risk area at Group level were controlled by reallocating risk capital.

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

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

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

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

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

Risk management

Method depiction

Underwriting risk area	Risk controlling (Group-wide)	
	■ Economic risk-bearing capacity model ■ Limit system ■ Actuarial analyses ■ Reinsurance or retrocession ■ Sensitivity and scenario analyses ■ Reporting ■ Risk-oriented product development and structure	
	Company	**Risk controlling (specific)**
Insurance risk Personnel/ Employee life insurance	Württembergische Lebensversicherung AG Wüstenrot & Württembergische AG	■ Price and underwriting policies ■ Determination of profit participation
Insurance risk Personnel/ Employee health insurance	Württembergische Krankenversicherung AG Württembergische Lebensversicherung AG Wüstenrot & Württembergische AG	■ Price and underwriting policies ■ Determination of profit participation
Insurance risk Property/Casualty insurance	Württembergische Versicherung AG Wüstenrot & Württembergische AG	■ Reserves policy ■ Portfolio and claims management

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

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

Pool risks

- Overall risk profile: constant weighting of the pool risks

Risk definition

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

Risk situation

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

Strategy and organisation

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

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

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

Risk management methods and risk controlling

Technical home loan and savings simulation. To evaluate the pool risk, Wüstenrot Bausparkasse AG and the Czech Wüstenrot stavebnì spořitelna a.s. employ statistically supported simulations in which changed customer behaviour is mapped through specific changes of the relevant pool parameters. The parameters are regularly matched against the actual development in order to detect deviations at an early stage. Any detected sustainable deviations are incorporated in the parameterisation of the model. Effects on the long-term model results are analysed, and any material deviations are communicated. The quantification takes place both at the present value and with a view to the income statement and takes future cash flows into consideration on the basis of a value-at-risk approach. For the parameterisation, both historical developments as well as forecast results of the technical home loan and savings simulation model are made use of. The chart in the chapter “Economic capital requirements” (section “Economic risk capital”) demonstrates the weighting of the risk capital reserved for pool risks. In total, pool risks accounted for 3.8% (previous year: 2.8%) of the overall risk capital requirements of the W&W Group. The main risk carrier is Wüstenrot Bausparkasse AG. In 2017, all pool risks were in accordance with the risk strategy. The risk limit was consistently complied with at Group level.

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

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

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

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

Operational risks

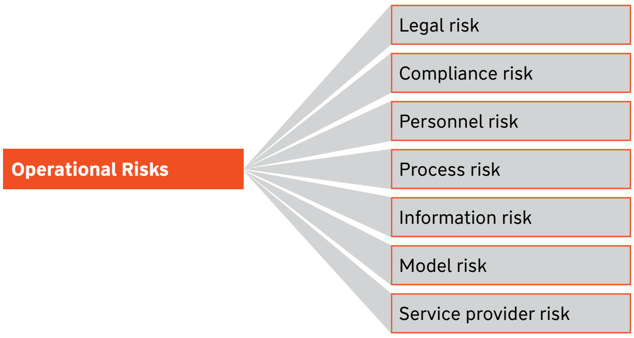
- Legal risks due to statutory amendments and changes to interpretations of laws.
- Compliance risks due to the implementation and observance of legal standards.
- Process risks arising from internal, legal and regulatory projects.
- Information risks from complex data and system structures.

Risk definition

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

Operational Risks

Systemisation



Risk situation

Operational risks are inevitable when companies do business. In principle, all companies in the W&W Group are exposed to operational risks.

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

Compliance risk. Inadequate compliance with or implementation of laws, statutory regulations, regulatory requirements or ethical/moral standards and of internal regulations and provisions can cause a compliance risk.

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

Process risk. Tangible and intangible losses could occur due to the complete or partial failure or inappropriateness of internal procedures or processes or as a result of human error. We counter risks arising from internal and regulatory projects with appropriate project management, but project and cost risks cannot be completely ruled out.

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

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

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

Strategy and organisation

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

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

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

The Customer Data Protection and Operational Security area (W&W/CO) coordinates the Group Security Committee, ensures an IT security management system, data protection organisation, a business continuity management system (BCM) and an internal control system (ICS) in line with uniform methods and standards.

Service provider risks are managed and monitored by centralised and decentralised outsourcing officers according to uniform methods and standards. These risks are regularly assessed and monitored within the scope of the active outsourcing management via the Retained Organisation, e.g. in the form of risk analyses.

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

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

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

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

The chart (section "Risk profile and material risks") depicts the weighting of the risk capital reserved for operational risks. In total, operational risks in the Group accounted for 10.7% (prior year: 6.8%) of the total risk capital requirements.

In 2017, operational risks were in accordance with the risk strategy. The risk limit was consistently complied with at the Group level.

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

Loss event database. In the W&W Group, loss event databases are used to compile and evaluate operational loss events. Since 1 January 2017, the Group-wide process has been carried out in a tool-supported manner using the Risk Assessment+ software application.

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

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

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

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

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

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

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

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

Business risks

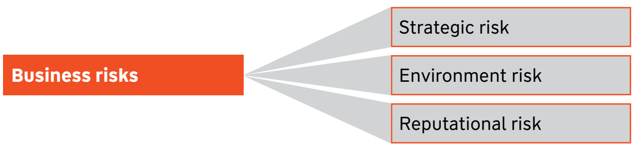
- Increased regulatory costs and rising equity requirements.
- Sustained pressure on investment gains due to historically low capital market interest rates.

Risk definition

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

Business risks

Systemisation



Risk situation

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

Within the scope of business risks the following types of risks are examined:

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

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

Environment risk. In the regulatory environment, we are faced with increasing governance, capitalisation and liquidity requirements as well as comprehensive reporting and control obligations. The W&W Group is taking on the expanded statutory and regulatory requirements for banks and insurance companies.

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

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

MaRisk. The new regulations of the amendment to the German Minimum Requirements for Risk Management (MaRisk) from 2017 focus on the management of outsourcing risks, the development, promotion and integration of an appropriate risk culture as well as data management, data quality and the aggregation of risk data.

Other key regulations affecting the W&W Group are the new version of the German Federal Data Protection Act (BDSG) based on the EU General Data Protection Regulation (EU-DS-GVO), the Banking Supervisory Requirement for IT (BAIT), the IFRS 17 Insurance Contract standard and the Insurance Distribution Directive (IDD).

Additional risk potential may arise from the political, social environment (geopolitical, global trends, e.g. emanating from military conflicts, terrorism, social unrest, migration/refugee movements).

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

Strategy and organisation

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

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

W&W Besser! We have combined the previous "W&W@2020" programme and the new strategic measures to create "W&W Besser!". With regard to "W&W Besser!" as the new standard for our Group, the focus is on the benefits for the customer and the unique W&W concept of financial planning from a single source.

The six action fields associated with "W&W Besser!" 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 further information, please see the "Group/Business model fundamentals" section.

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

Risk management methods and risk controlling

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

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

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

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

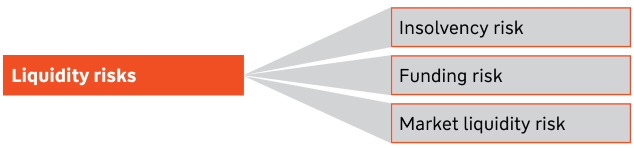
Liquidity risks

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

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

Liquidity risks

Systemisation



Market environment
The ECB continued its extended bond-buying programme in 2017, and in October 2017 it decided to pursue this further, although the monthly volume has been halved. The main refinancing rate that was cut in 2016 will remain at 0.00 % until further notice, and the rate on the marginal lending facility is unchanged at 0.25 %. The monetary policy of negative interest rates will be maintained. The rate on the deposit facility also remains unchanged at −0.40%.

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

As at 31 December 2017, the financial holding group had a liquidity coverage ratio of 425.6% (previous year: 411.5%). The fulfilment of the regulatory ratio to be determined for the banks and the financial holding group is to ensure the availability of a buffer of highly liquid assets in the event of stress to cover a potential net cash withdrawal for 30 days. In 2017, the minimum ratio to be complied with was 80% (from 2018 100%).

The asset encumbrance indicator shows to what extent assets are encumbered and are not freely available. As at 31 December 2017 the asset encumbrance of the financial holding group was 17.6% (previous year: 17.7%).

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

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

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

Based on a haircut of 15% on the funding potential of our credit institutions, refinancing costs of −€44.0 million (previous year: – € 60.1 million) would be incurred. The carrying amount assumes refinancing costs of 5.5 % (maximum Euribor interest rate during the financial market crisis) on the arising maximum liquidity gap.

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

Market liquidity risk. Market liquidity risks mainly arise due to inadequate market depth or market disruptions in crisis situations. When these risks materialise, investments can be sold, if at all, only in small volumes or by agreeing to discounts. It does not appear from the current situation on the capital markets that there are any acute, substantive market liquidity risks to the capital investments of the W&W Group. Based on a haircut of 25.5 % there was a value loss of −€127.5 million (previous year: −€118.1 million), taking into account refinancing costs.

Looking forward, the W&W banks have sufficient liquid resources or can procure them on short notice, even where adverse scenarios are taken as a basis, meaning that, as things stand today, we do not expect any acute liquidity shortages.

For further information about liquidity and the funding structure, please see “Business performance” (section “Financial position: funding/liquidity”) and the presentation of the valuation hierarchies of our financial instruments (note 42).

Strategy and organisation

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

Diversification. As a financial conglomerate, we benefit from the diversification of our funding sources, especially in difficult markets. In addition to lower funding risk, we also benefit from the reduction in our funding costs through diversification of funding potential. Through a defined share of good-quality securities that are eligible for central bank and repurchase transactions, our banks retain flexibility in funding. We use savings deposits and fixed-term deposits primarily in order to substitute short-term, unsecured funding. Aspects of maturity diversification form part of our investment policy. The maturity structure of our financial instruments is shown in note 44 in the notes to the consolidated financial statements.

Organisational structure. Individual companies are primarily responsible for managing current cash and cash equivalents balances. The Risk, Compliance & Data Management department monitors and consolidates the liquidity plans from a Group perspective. The Group Liquidity Committee is responsible for the Group-wide controlling of liquidity risks. The liquidity situation is regularly discussed in the meetings of the Group Board Risk. Governance measures are initiated when necessary. Known or foreseeable liquidity risks are immediately reported to the management within the context of ad-hoc reporting.

Risk management methods and risk controlling

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

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

Liquidity classes. To monitor the liquidity of our investments we group them into liquidity classes to prevent concentrations in illiquid asset classes.

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

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

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

Risk landscape and risk profile of W&W AG

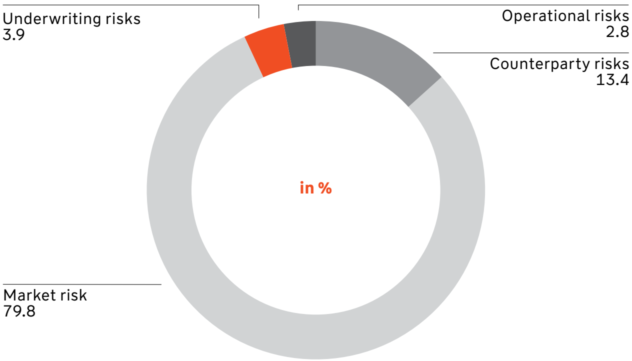
As the parent company of the financial conglomerate, the Solvency II group and the financial holding group, Wüstenrot & Württembergische AG (W&W AG) is responsible for defining and enhancing risk management standards, as well as for controlling compliance with these standards. Accordingly, the risk management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

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

As of 31 December 2017, total risk capital requirements of the W&W AG amounted to €1,410.0 million (previous year: €1,361.0) million.

As at 31 December 2017, the risk profile of the quantified risk areas, which was determined according to our methods for calculating risk-bearing capacity (see section “Economic capital adequacy”), was distributed in accordance with the following chart.

Risk profile of W&W AG



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

Owing to the volume of our investments, market price risks constituted the predominant risk area, accounting for 79.8% (previous year: 80.4%).

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

Market price risks

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

As at 31 December 2017, under a parallel shift in the swap yield curve, fixed-income securities (direct and fund portfolios, including interest rate derivatives) with a market value of €1,372.3 million (previous year: €1,336.7 million) experienced the following changes in market value:

Interest rate change

	Market value change	
in € million	31.12.2017	31.12.2016
Increase by 100 basis points	– 68.7	– 61.5
Increase by 200 basis points	– 133,6	– 122,0
Decrease by 100 basis points	64.4	65.4
Decrease by 200 basis points	133.0	131.8

Credit spread risk. The credit spread risk comprises the risk of value changes of the receivables through change of the applicable credit spread for the respective issuer or counterparty – despite unchanged credit ratings over time. Credit spread risks result from the bond portfolio of W&W AG, which consists of bonds issued both outside and, in particular, within the Group.

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

As at 31 December 2017, investments in affiliated companies and investments as well as in equities, units or equities in investment funds and other non-fixed-income securities totalled €2,627.5 million (previous year: €2,556.7 million). Of this, interests in affiliated companies accounted for €1,696.9 million (previous year: €1,687.0 million). When investment risks materialise, measurement losses can lead to changes in value of investments being recognised as a loss (write-downs), the non-payment of dividends or the need to make contributions to earnings.

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

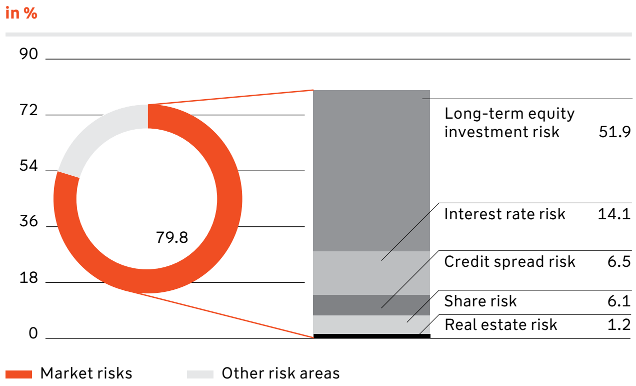
For our portfolios with a market value of €82.3 million (previous year: €46.5 million), the market value changes in the case of an index fluctuation in the EURO STOXX 50 were as follows as at 31 December 2017:

Index change

	Market value change	
in € million	31.12.2017	31.12.2016
Increase by 20%	13.2	7.3
Increase by 10%	6.5	3.7
Decrease by 10%	– 6.0	– 4.2
Decrease by 20%	– 11.1	– 8.1

Risk capital requirements. Since W&W AG's investments mainly consist of long-term equity investments, the investment risk within market price risks is the most significant in terms of risk capital weighting. Measured against total economic risk capital, the proportion amounts to 51.9% (previous year: 58.3%).

Risk profile for market risks



This is followed by interest rate risks with a weighting of 14.1%. Credit spread risks account for 6.5%. About 6.1% of total economic risk capital relates to the share risk, and 1.2% to the real estate risk.

In 2017, market price risks were consistently in accordance with the risk strategy.2017 The risk limit of W&W AG was consistently complied with.

Counterparty credit risks

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

Investments. Pursuant to our strategic orientation, the credit rating structure of our bond portfolio is conservative, with over 96.9% (previous year: 97.5%) of investments being in the investment grade area.

Rating (Moody's scale)

	2017		2016	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
AAA	514.2	39.7	482.2	38.3
Aa1	47.3	3.7	45.8	3.6
Aa2	55.5	4.3	52.5	4.2
Aa3	35.0	2.7	37.6	3.0
A1	49.2	3.8	60.5	4.8
A2	26.1	2.0	22.6	1.8
A3	37.0	2.9	109.5	8.7
Baa1	236.7	18.3	165.8	13.2
Baa2	224.2	17.3	226.2	17.9
Baa3	29.3	2.3	26.2	2.1
Non-investment-grade/non-rated	39.9	3.1	31.7	2.5
Total	**1,294.4**	**100.0**	**1,260.6**	**100.0**

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

Seniority

	2017		2016	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
Public	217.5	16.8	179.4	14.2
German covered bond	439.3	33.9	400.9	31.8
Deposit guarantee or government liability	131.8	10.2	102.4	8.1
Uncovered	505.8	39.1	577.9	45.8
Total	**1,294.4**	**100.0**	**1,260.6**	**100.0**

Subordinate exposure. Our subordinate exposures (participation rights, silent investments and other subordinate receivables) amounted to €217.3 million (previous year: €225.9 million).

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

Credit ratings. As at the end of the reporting period, 98% (previous year: 96%) of the recognised receivables from reinsurance business in the amount of €191.4 million (previous year: €171.5 million) were due from companies with a rating of A or better.

Standard & Poor's

	2017		2016	
	Portfolio carrying amount[1]	Share	Portfolio carrying amount[1]	Share
	in € million	in %	in € million	in %
AAA	–	–	–	–
AA	146.1	76.3	125.7	73.3
A	41.5	21.7	38.5	22.4
BBB	–	–	–	–
BB	1.2	0.6	2.0	1.2
B	–	–	–	–
CCC and lower	–	–	–	–
Without rating	2.6	1.4	5.3	3.1
Total	**191.4**	**100.0**	**171.5**	**100.0**

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

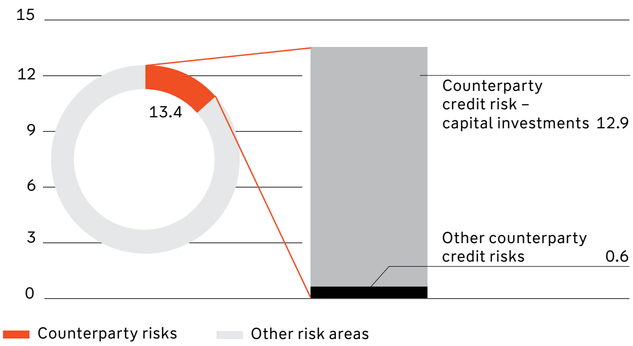
As at the reporting date, €4.2 million (previous year: €4.7 million) of the recognised receivables due from reinsurers had been outstanding for more than 90 days. However, it is expected that they will be settled in 2018.

Risk capital requirements. At 13.4% (previous year: 11.7%), counterparty credit risk accounts for the second-largest share of the total risk capital requirements of W&W AG.

Among the counterparty credit risks, the risks from our investments account for a significant share of 12.9% (previous year: 11.1%), whereas bad-debt risks in reinsurance business account for only a negligible share of total economic risk capital.

Risk profile for counterparty risks

in %



In 2017, counterparty credit risks were consistently in conformity with the risk strategy. The risk limit of W&W AG was consistently complied with

Insurance risks

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

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

Claim and settlement rates

in %

Risk capital requirements. The chart “W&W AG risk profile” (see section “Risk profile and material risks of W&W AG”) depicts the weighting of the risk capital reserved for insurance risks. All in all, insurance risks account for less than 3.9% (previous year: 4.7%) of the total risk capital requirements of W&W AG.

In 2017, insurance risks were consistently in conformity with the risk strategy.2017 The risk limit of W&W AG was consistently complied with.

Operational risks

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

In 2017, the accepted operational risks were consistent with the risk strategy.2017 The risk limit of W&W AG was consistently complied with.

Business risks

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

Liquidity risks

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

Selected risk issues

Emerging risks

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

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

Challenges posed for our company include technological trends (digitalisation, cybertechnologies), social trends (demographics, changed customer behaviour) and economic trends (low level of interest rates, systematic risks). We respond to these with processes and activities to identify and manage emerging risks, with these being tailored to the scope of our business model.

Risk concentrations

Risk concentrations mean potential losses that may result either from the accumulation of similar risks or from the accumulation of different risks, such as at a single counterparty, and which are large enough to jeopardise the liquidity or financial position of the specific company.

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

Because of the business model of the W&W Group and its individual companies, potential risk concentrations may result, in particular, from investments and from customer business (customer credit business, insurance business). However, owing to regulatory requirements and internal rating requirements, the W&W Group is heavily invested, in sectoral terms, in government bonds and financial services companies and, in regional terms, in Europe, which is typical for the industry. Accordingly, in addition to the credit risk associated with the relevant counterparty, the W&W Group in particular bears the systemic risk of the financial sector and the specific counterparties belonging to it.

On the other hand, because of their high granularity, our customer loan portfolios do not exhibit any appreciable risk concentrations.

We strive to limit risk concentrations as well as possible by diversifying investments, employing limit and line systems, clearly defining approval and underwriting guidelines in lending and insurance business, and obtaining appropriate reinsurance coverage from various providers with good credit ratings.

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

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

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

In 2017, the W&W Group and W&W AG at all times had sufficient economic and supervisory risk-bearing capacity.2017 Pursuant to our economic risk-bearing capacity model, we had sufficient financial resources in order to be able to cover the assumed risks with high certainty.

As a result of increasing economic uncertainty (e.g. due to Brexit and other geopolitical developments, the failure to permanently solve the EMU debt crisis, capital market volatility, persistently low interest rates and the uncertainty about how interest rates and credit spreads will develop), the entire financial industry and thus also the W&W Group are exposed to risks that could cause significant economic risks of loss in our scenario calculations and, in extreme scenarios, endanger our going concern. Linkages within the financial sector give rise to a systemic risk of contagion that the W&W companies are, of course, not completely immune to.

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

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

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

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

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

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

Developments and outlook

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

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

Systematic advancement of the existing Group-wide risk management system is intended to ensure the stable, sustained development of the W&W Group also in future. In the 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 this regard, we focus on the following issues:

- Further development of the models in the internal and regulatory context
- Further optimisation and acceleration of risk governance processes and methods
- Adjustment of the risk management system to conform to changing regulatory requirements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Outlook

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 equities markets remain favourable also in 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 EU exit negotiations with the UK, with the result that at least temporary price declines could occur on the stock markets at any time.

Industry outlook

Home Loan and Savings Bank division

In our estimation, new home loan and savings business will most likely develop positively in 2018. With interest rates on the rise, home loan savings is becoming more attractive as a hedge against interest rates. At the same time, it is becoming more important in terms of the necessary equity capital formation by builders in connection with regulatory requirements regarding property financing.

The volume of construction financing is expected to move sideways at the high initial level.

There continues to be excess demand for housing, which can be eliminated only gradually due to its regional concentration. Nevertheless, residential construction is expected to continue in 2018 at the level of the previous year. The volume of transactions for used residential properties is likely to rise. Also, mortgage interest rates, which remain low, and favourable terms for renovation loans will boost new construction financing business, although this will be limited by a continuing lack of developable land, protracted procedures for obtaining building permission and persistent capacity shortages in various construction trades. Consequently, further rising property prices in regions with high demand will increase the volume of construction financing in the market, although this will be muted by a higher number of capital investors. Compared with owner-occupiers, investors often use larger amounts of their own capital to fund property purchases.

For 2018 we anticipate a dynamic market environment for private customer business, with competitors from outside the industry likely to continue to provide fresh impetus, such as with regard to mobile payment systems. The classic branch network of banks will also be under pressure in future, and in our estimation, visitor numbers will decline for standardised banking transactions. By contrast, we expect an increase in online and, in particular, mobile banking transactions, particularly through competitors that offer only mobile services. In essence, future processes and developments will be shaped by customer expectations in terms of ease of use, convenient user guidance and constant availability. In addition, the prolonged period of low interest rates coupled with rising regulatory requirements will continue to pose challenges for the banking industry.

Insurance division

In 2018, the persistent environment of low interest rates will continue to present a great challenge for the life insurance industry. The German Insurance Association (GDV) expects a slight increase in new business in 2018 from regular premiums and a small decline in single-premium business. In total a slight decline in premium revenues is expected.

On the property and casualty insurance market, expectations for business performance in 2018 are optimistic. Good economic trends for private households, further gains in real purchasing power and the positive global economic environment will have a favourable impact on demand in the coming financial year. The General Association of the German Insurance Industry (GDV) expects that premium income will rise by a total of 3.0% in 2018.

Company outlook

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 share prices.

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

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

Home Loan and Savings Bank

Our home loan and savings products continue to benefit from the great attractiveness of residential property as a form of investment and financial planning. Therefore, and in light of the positive development in 2017 compared with the market, we expect that net new home loan and savings business in 2018 will be moderately higher than the level in 2017. We expect decidedly positive development in new construction financing business (approvals) for 2018.

With the pooling of construction financing business and the associated efficiency increases, general administrative expenses will fall in the 2018 financial year. In addition, the potential sale of Wüstenrot Bank AG Pfandbriefbank could lead to the elimination of costs. Overall, we expect considerably lower general administrative expenses.

For 2018, we expect segment after-tax earnings to come in clearly above the level of the previous year.

Life and Health Insurance

In the prolonged environment of low interest rates, products without a guaranteed interest rate and unit-linked products are gaining in importance in the life insurance industry. Therefore, we are focusing on the sale of products that are largely not dependent on interest rates, as well as those that are high-profit and therefore contemporary. In this regard, we are seeking to emphasise company pension schemes, in particular. In 2018, we intend to significantly increase total premium from new business in the Life and Health Insurance segment.

We expect that general administrative expenses in 2018 will be slightly higher than in 2017.

We expect segment after-tax earnings to amount to €20-50 million in 2018.

Property/Casualty Insurance

In property/casualty insurance, we continue to strive for greater income from the sale of insurance to private and corporate customers. For 2018, we expect a slight increase in new business (JBB) compared with the previous year.

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

We expect that segment after-tax earnings will be significantly lower than the high level of 2017.

Overall financial position of the W&W Group

With "W&W Besser!" we are placing even greater focus on the benefits for the customer and the unique W&W concept of financial planning from a single source. With that in mind, we are striving to continue to service at least six million customers in the W&W Group also in future.

We will also continue to invest in 2018 in digital transformation. The additional investments will have an impact on the general administrative expenses of the W&W Group. Overall, we expect general administrative expenses to come in at the level of the previous year.

Due to the additional investments being made mainly for digital transformation the 2018 net profit will not reach the 2017 level. However, we expect consolidated net profit to reach at least €200 million. We are adhering to our long-term goal of a consolidated net profit of €220 to 250 million.

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

We manage our liquidity in such a way as to enable us to meet our financial obligations at all times and on a sustained basis. Liquidity planning shows that in 2018 we will have sufficient liquidity available at all times. For further information about the liquidity position, please see the opportunity and risk report in the section "Liquidity risks".

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

Future business performance of W&W AG (HGB)

Due to its structure as a holding company, the after-tax earnings of W&W AG are determined by the dividends and profit transfers from subsidiaries and investments. For 2018, we expect after-tax earnings to come in at €70 to 90 million.

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

Caution concerning forward-looking statements

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

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

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

Other disclosures

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

Pursuant to Sections 289a (1) and 315a (1) of the German Commercial Code (HGB), the following statements must be made as at 31 December 2017, provided they are relevant to Wüstenrot & Württembergische AG:

Composition of subscribed capital

The share capital of Wüstenrot & Württembergische AG amounts to €490,311,035.60 and is divided into 93,749,720 registered no-par-value shares that are fully paid in. A total of 102,711 shares are covered by the exclusion of voting rights within the meaning of Section 136 (1) of the German Stock Corporation Act (AktG), since they are owned by members of the Supervisory Board or the Executive Board. Wüstenrot & Württembergische AG holds a total of 198,765 treasury shares. Pursuant to Section 71b of the German Stock Corporation Act (AktG), Wüstenrot & Württembergische AG is not entitled to any rights in connection with treasury shares. A total of 159,235 employee shares are subject to a restriction on sale. Of these, 85,220 employee shares may not be sold until April/May 2019, and 74,015 employee shares not until April/May 2020. The restriction on sale starts on the day that the purchased employee shares are credited to the employee's securities account. There are no further restrictions affecting voting rights or the transfer of the registered shares. Each share entitles the holder thereof to one vote at the Annual General Meeting. The amount of the company's profit to which shareholders are entitled is determined in accordance with the proportion of the share capital that they hold (Section 60 of the German Stock Corporation Act (AktG)). If the share capital is increased, the participation of new shares in profit may be determined in deviation from Section 60 (2) of the German Stock Corporation Act (AktG).

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

Wüstenrot Holding AG holds 39.91% and WS Holding AG holds 26.40% of the shares in W&W AG. Another principal shareholder is Horus Finanzholding GmbH with more than 10% of the shares. 0.21% of the shares are treasury shares.

There are no shares carrying special rights with powers of control. There are no voting rights mechanisms relating to employee participation schemes.

Provisions concerning the appointment and removal of Executive Board members and the amendment of the Articles of Association

Members of the Executive Board are appointed and removed in accordance with Article 6 (1) of the Articles of Association, Sections 84 and 85 of the German Stock Corporation Act (AktG) in conjunction with Section 31 of the German Co-determination Act (MitbestG) as well as Sections 24 and 47 of the German Insurance Supervision Act (VAG). Amendments to the Articles of Association take place in accordance with Sections 124 (2) sentence 2, 133 (1) and 179 ff of the German Stock Corporation Act (AktG). However, pursuant to Article 18 (2) of the Articles of Association in conjunction with Section 179 (2) sentence 2 of the German Stock Corporation Act (AktG), resolutions of the Annual General Meeting to amend the Articles of Association are adopted by a simple majority of the share capital represented at the time of adoption, unless required otherwise by law, for example with regard to a change of the company's purpose. Pursuant to Section 179 (1) sentence 2 of the German Stock Corporation Act (AktG) in conjunction with Article 10 (10) of the Articles of Association, the Supervisory Board may make amendments to the Articles of Association that relate solely to their wording. The Executive Board has no powers over and above the general statutory rights and duties of a management board under German share law.

Powers of the Executive Board to issue shares

Authorised capital 2014

Pursuant to Article 5 (5) of the Articles of Association, the Executive Board is authorised for a period of five years ending on 30 June 2019 to increase, on one or more occasions, the company's share capital by up to €100,000,000.00 via issuance of new registered no-par-value shares in exchange for cash or contributions in kind, subject to the approval of the Supervisory Board (Authorised Capital 2014). Shareholders are entitled to a statutory subscription right. Shareholders may also be accorded the statutory subscription right by having one or more banks subscribe to the new shares under an obligation to offer them to shareholders for subscription (indirect subscription right). Subject to approval by the Supervisory Board, the Executive Board is authorised to preclude shareholders from exercising the statutory subscription right in the following cases:

- for fractional amounts, or
- with capital increases in exchange for contributions in kind for the purpose of directly or indirectly acquiring companies, part of companies or long-term equity investments in companies, or
- if, pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG), new shares are issued in exchange for cash at a price that is not significantly below the stock exchange price of the

shares that are already listed and the pro rata amount of the new shares does not exceed 10% of the share capital at the time this authorisation is recorded in the commercial register or, if less, at the relevant time the authorisation was exercised. Counting towards the 10% limit are other shares that had been newly issued or, following buyback, resold by the company during the term of this authorisation under preclusion of the subscription right or, in accordance with Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG), in connection with a cash capital increase. Also counting towards the 10% limit are shares with respect to which a warrant or conversion right, a warrant or conversion obligation, or a right in favour of the company to delivery of shares exists on account of warrant bonds, convertible bonds or profit participation certificates with warrant or conversion rights or obligations, or rights in favour of the company to delivery of shares that had been issued by the company or its subordinate Group companies during the term of this authorisation under preclusion of the subscription right pursuant to Section 221 (4) sentence 2 in conjunction with Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG), or

- insofar as it is necessary in order to grant holders of warrant rights or creditors of convertible bonds or profit participation certificates with conversion rights that are issued by the company or its subordinate Group companies a right to subscribe to new shares to the extent to which they would be entitled after exercising warrant rights, conversion rights or rights to delivery of shares or after satisfying warrant or conversion obligations.

Subject to approval by the Supervisory Board, the Executive Board is authorised to stipulate the further details of the capital increase, its implementation, including the issue price, and the contribution to be paid for the new no-par-value shares. The Supervisory Board is authorised to modify the wording of the Articles of Association after implementation of an increase of the share capital out of Authorised Capital 2014 to conform to the respective increase of the share capital, as well as after expiry of the term of the authorisation.

Contingent Capital 2014/Authorisation to issue warrant bonds, convertible bonds, profit participation certificates, profit participation bonds or a combination of these instruments

By resolution adopted at the Annual General Meeting on 28 May 2014, the Executive Board was authorised to issue warrant bonds, convertible bonds, profit participation certificates, profit participation bonds or a combination of these instruments on or before 27 May 2019. Article 5 (6) of the Articles of Association accordingly provides that the share capital of Wüstenrot & Württembergische AG is contingently increased by the nominal amount of at most €240,000,003.46, divided into at most 45,889,102 no-par-value registered shares (Contingent Capital 2014).

The contingent capital increase is to be implemented only if

- holders or creditors of warrant rights or conversion rights or those obligated to exercise the warrant or to convert under warrant bonds, convertible bonds or profit participation certificates that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the company on or before 27 May 2019 make use of their warrant rights or conversion rights, or

- holders or creditors of warrant bonds, convertible bonds or profit participation certificates that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the Company on or before 27 May 2019 are obligated to exercise the warrant or to convert and satisfy such obligation, or

- the company exercises a right to deliver to holders or creditors of warrant bonds, convertible bonds or profit participation certificates that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the company on or before 27 May 2019 shares of the company in lieu of cash payment, either in whole or in part,

and provided that neither cash settlement is granted nor its own shares or those of some other publicly traded company are used to service it. New shares are to be issued at the warrant or conversion price to be stipulated in accordance with the authorisation resolution of 28 May 2014 or at the lower issue amount stipulated in accordance with the authorisation resolution of 28 May 2014. The new shares participate in profit from the start of the financial year in which they come about. To the extent permitted by law, and subject to approval by the Supervisory Board, the Executive Board is authorised to stipulate that, in the event that a resolution on appropriation of profit has not been adopted for the financial year immediately preceding the year of issue at the time of issue, the new shares are to participate in profit from the start of the financial year immediately preceding the year of issue. Subject to approval by the Supervisory Board, the Executive Board is further authorised to stipulate the further details of the implementation of the contingent capital increase. Use may be made of the authorisation granted by resolution of the Annual General Meeting on 28 May 2014 to issue warrant bonds, convertible bonds and profit participation certificates only if the warrant bonds, convertible bonds or profit participation certificates are structured in such a way that the capital that is paid in for them satisfies the supervisory requirements in effect at the time the authorisation is used for eligibility as own funds at the level of the company and/or the Group and/

or the financial conglomerate and does not exceed any intake limits. Furthermore, use may be made of the authorisation granted by resolution of the Annual General Assembly on 28 May 2014 to permit subordinate Group companies to issue warrant bonds, convertible bonds and profit participation certificates and have them guaranteed by the company only if this is permissible under the supervisory provisions applying in each case.

Change-of-control agreements

There are no material agreements of Wüstenrot & Württembergische AG or of Wüstenrot & Württembergische AG as parent company that are subject to the condition of a change of control as a result of a takeover offer.

Change-of-control remuneration agreements

Also, no remuneration agreements have been concluded with members of the Executive Board or employees with respect to a takeover offer.

Relationships with affiliated companies

Wüstenrot Holding AG holds 39.91% and WS Holding AG holds 26.40% of the W&W shares. Both holding companies are solely owned by the Wüstenrot Stiftung.

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

Remuneration report

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

Main features of the Executive Board remuneration system

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

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

The variable bonus is linked to a targets agreement system. The amount of the variable bonus paid to a member of the Executive Board for a concluded financial year depends on the degree to which the relevant company targets and the individual targets were achieved. The spectrum of the relevant target achievement ranges from 0% to 140%. Company targets correspond to the annual plan adopted by the Supervisory Board of W&W AG. Individual targets are coordinated between the individual Executive Board member and the Supervisory Board. The overall concept permits success-dependent measurement of the variable remuneration component geared towards operational targets and thus performance-based remuneration to a reasonable degree.

The targets for the 2017 target agreements consist of short, medium and long-term targets that are geared towards indicators like annual consolidated earnings, general administrative expenses, new customers, customer satisfaction, net promoter score and individual targets. The target weighting for the variable remuneration component is aligned towards stronger consideration being given to components with a multiple-year incentivising effect on sustainability.

Part of the variable remuneration component is paid out over time (for periods up until the variable remuneration component for the 2016 financing year, which is paid out in 2017), as follows: 50% is paid out in the following year immediately after the degree of target achievement is determined, and the other 50% is deferred for a period of three years and made subject to the proviso of forfeiture clauses. Starting with the payment of the variable bonus for the 2017 financial year in 2018, 60% will be deferred for a period of three years. The deferred amount is paid out only if the W&W Group has average IFRS net income of at least €100 million a year over the relevant three years and does not record a loss in any of the three years. If the average consolidated result is below the threshold of €100 million a year, or if the Group records a loss in one or more years, the deferred amount is definitively and completely forfeited for the relevant financial year.

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

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

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

In accordance with the requirements of stock corporation law, W&W AG has taken out insurance to cover each Executive Board member against risks associated with his or her professional activity for the company. The insurance provides for a deductible of 10% of the claim, up to a maximum of 150% of the Executive Board member's fixed annual remuneration.

Severance caps have been agreed on with all Executive Board members in the event of premature ending of the agreement without important cause. In such case, payments to Executive Board members, including ancillary benefits, in each case correspond to at most the value of two years' remuneration (severance cap) and do not exceed the remuneration for the remaining term of the employment agreement. Decisive for the calculation of the severance cap is the entire amount of remuneration paid for the calendar year (fixed salary, fixed bonus and variable bonus) preceding the calendar year in which activity on the Executive Board ends.

The pension for Dr Michael Gutjahr consists of the once customary defined-benefit pension plan in the form of a fixed amount. The pensions for Jürgen A. Junker and Jens Wieland take the form of a defined-contribution pension plan. The defined-contribution pension plan is linked to a reinsurance policy. The annual premium amounts to 23% of the fixed salary entitled to a pension. If Mr Junker's employment relationship ends after his first term of office, he is to be paid a transitional allowance of €200 thousand p.a., unless Mr Junker rejects an extension of the employment agreement offered to him at the terms or terms more favourable to him or non-renewal is based on a material reason within the meaning of Section 626 of the German Civil Code (BGB) for which Mr Junker is responsible. The transitional allowance for Mr Junker is to be paid until he reaches the age of 65, but not later than the end of the month in which he first begins to receive benefits under statutory pension insurance or occupational pension benefits from the company. Other income for any new employment is offset against the transitional allowance, but only to the extent that the other earnings exceed a sum of €300,000 p.a.

A pension is generally granted upon reaching the age of 65. In the case of Dr Gutjahr, it can also be granted in the event of premature departure after reaching the age of 61. A pension is also granted in the event of occupational disability.

In the case of Dr Gutjahr, the pension is increased by the percentage points by which salaries are increased for the highest salary groups for the private insurance industry. Once pension benefits begin to be paid, the increase is limited to the rise in the cost-of-living index, plus 2%. Pursuant to Section 16 (3) of the German Act to Improve Occupational Retirement Provision (BetrAVG), ongoing pension benefits under defined-contribution pension plans are adjusted annually by 1%.

Pensions include a widow/widower pension of 60% of the pension drawn and an orphan's pension of normally 20%. Under defined-benefit pension plans, claims to retirement benefits against third parties, regardless of reason, are set off in whole or in part against pension claims.

Claims to pensions and survivor pensions are vested. For Mr Junker, this applies under the condition that he does not leave the company at his own request prior to reaching the statutory vesting period.

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

Main features of the Supervisory Board remuneration system

The Supervisory Board remuneration is paid in the form of a fixed remuneration whose amount is determined by the Annual General Meeting. If the Annual General Meeting does not determine any amount, the amount of the prior year applies. Supplementary amounts are stipulated for the Chairman and the Deputy Chairman, as well as for committee activities. In addition, fees are paid for attending Supervisory Board meetings.

The annual base remuneration payable after the close of the financial year amounted to €25.0 thousand (previous year: €25.0 thousand). Committee remuneration amounted to €8.0 thousand (previous year: €8.0 thousand) per year for the Risk and Audit Committee and for the Remuneration and Personnel Committee. Committee remuneration amounted to €4.0 thousand (previous year: €4.0 thousand) per year for the Conciliation Committee and the Nomination Committee. An attendance fee of €500 (previous year: €500) is paid per Supervisory Board meeting. No fees are paid for attending committee meetings.

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

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

Corporate governance statement

At Wüstenrot & Württembergische AG (W&W AG) and in the entire W&W Group, corporate governance means responsible management and control of the companies in a manner aimed at long-term added value. We seek to affirm and continuously strengthen the trust placed in us by customers, investors, financial markets, business partners, employees and the public. Important factors in this regard are good relationships with shareholders, transparent and timely reporting, and effective and constructive collaboration between the Executive Board and the Supervisory Board.

In 2007, BaFin (Germany's Federal Financial Supervisory Authority) determined that Wüstenrot Holding AG, Stuttgart, which at that time held about 66% of the shares of W&W AG, and affiliates of Wüstenrot Holding AG constitute a financial conglomerate. In this regard, W&W AG was defined as the superordinate financial conglomerate undertaking. With the spin-off of WS Holding AG from Wüstenrot Holding AG in August 2016, the financial conglomerate now consists of W&W AG and affiliates of W&W AG.

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

Working methods and composition of the Executive Board

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

Since 1 January 2017, the Executive Board of W&W AG has had three members.

Members of the Executive Board
Jürgen Albert Junker (Chairman)
Dr. Michael Gutjahr
Jens Wieland

The Supervisory Board has created a diversity plan for the Executive Board. The Supervisory Board had resolved to have women make up at least 15% of the members of the Executive Board and set a target deadline for this of 30 June 2017. In this regard, the Supervisory Board strived to place at least one woman on the Executive Board. There are currently no women on the Executive Board of W&W AG. Consequently, the Supervisory Board confirmed the specified percentage in 2017 and resolved to extend the deadline by five years to 30 June 2022.

The Executive Board of W&W AG has determined that women are to make up 25% of the first senior management level below the Executive Board and 30% of the second senior management level and has set a target deadline for this of 30 June 2017, which was extended until 30 June 2022. These percentages were achieved.

Further criteria that have to be taken into account when appointing an individual to the Executive Board are – in view of the special features of the Home Loan and Savings Bank and Insurance divisions and the common Group perspective – demonstrated experience, professional knowledge and expertise in those areas, as well as other individual qualities of the candidate, such as whether he or she is fit and proper and has significant experience as an executive. In other words, it must be ensured that the increased requirements of supervisory law are met concerning whether Executive Board members are fit and proper. The increased requirements of supervisory law have to do with, inter alia, the fact that because of its position in the W&W financial conglomerate, W&W AG is subject to both banking supervision and insurance supervision. In addition, attention must be paid to compliance with the age limit of 65 provided for as a target requirement in Section 1(4) of the bylaws for the Executive Board. The Executive Board members satisfy all of these criteria.

The main tasks of the Executive Board have to do with strategic alignment and control of the W&W Group, including maintaining and monitoring an efficient risk management system. It is responsible for ensuring a suitable and effective internal auditing and control system. The bylaws address in detail how the activities of the Executive Board are structured.

The central governance bodies in the W&W Group are: the Management Board, the division boards and the Group committees. The Management Board of W&W AG is composed of the members of the Executive Board, along with the head of the Home Loan and Savings Bank division, the head of the Insurance division and the Chief Risk Officer. The Management Board is the central controlling body of the W&W Group. The Management Board concerns itself with, among other things, Group control and the definition and development of the business strategy for the Group. In addition, it serves the exchange of information between the Executive Board and the division heads with regard to the integration of the divisions into the Group strategy. The Management Board holds regular meetings, which are supposed to take place at least twice per month. Those meetings are simultaneously considered to be meetings of the W&W AG Executive Board.

The Home Loan and Savings Bank and Insurance division boards coordinate and decide on division-specific issues. They meet at least twice per month, and those meetings are simultaneously considered to be meetings of the executive boards of the individual companies. The Group committees coordinate cross-division initiatives in the areas of sales, risk and capital investments.

The Chairman of the Executive Board is in charge of the collaboration between the Executive Board and the Supervisory Board. He is in regular contact with the Chairman of the Supervisory Board and discusses the company's strategy, business performance and risk management with him. He promptly notifies the Chairman of the Supervisory Board about important events that are of major significance for the assessment of the company's position and performance, as well as for its management. The Executive Board coordinates with the Supervisory Board on the strategic alignment of W&W AG and the W&W Group. In addition, the Executive Board regularly reports to the Supervisory Board in a timely and comprehensive manner about all issues of relevance to W&W AG and the W&W Group concerning strategy, planning, business performance, risk position, risk management and compliance. Details are addressed in bylaws for the Executive Board.

Working methods and composition of the Supervisory Board

In accordance with the Articles of Association, the Supervisory Board of W&W AG is composed of 16 members, of whom eight are shareholder representatives and eight are employee representatives.

Members of the Supervisory Board

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

Bylaws likewise address in detail how the activities of the Supervisory Board are structured. The Supervisory Board holds at least two meetings in each calendar half-year. It also meets when necessary. In the 2017 financial year, the Supervisory Board held four ordinary meetings, as well as a separate full-day strategy session. The Supervisory Board has created a diversity plan, in which it addresses and describes key issues being publicly debated with respect to the composition of supervisory boards, such as qualification, independence and diversity, as well as the representation of women on them. The company is required by law to have women make up at least 30% of the Supervisory Board. Following the election by the Annual General Meeting on 9 June 2016, the Supervisory Board consisted of 10 men and six women. As a result, women make up 38% of the Supervisory Board.

In view of the special features of the Home Loan and Savings Bank and Insurance divisions and the common Group perspective, the candidates nominated by the Supervisory Board for election to the body are evaluated in terms of their expertise, experience, professional knowledge and individual qualities. Other criteria for nominees are independence, having sufficient time to carry out duties and compliance with the age limit of 70 provided for as a target requirement in Section 2(2) of the bylaws for the Supervisory Board. In 2016 the Annual General Meeting re-elected Hans Dietmar Sauer and Hans-Ulrich Schulz for a new term of office on the Supervisory Board, although they had already reached the age of 70. They were elected because of their demonstrated expertise and knowledge of the company.

In the estimation of the Supervisory Board, all shareholder representatives on the Supervisory Board are independent. Going forward as well, an appropriate number of independent members will belong to the Supervisory Board. In terms of shareholder representatives, the Supervisory Board considers at least four independent members to be appropriate.

On account of the company-specific situation, the Supervisory Board does not consider it necessary to strive for a certain minimum number of members who represent, in particular, the quality of "internationality", since the main focus of the W&W Group's business operations is the national insurance and home loan and savings bank area. However, the inclusion of and collaboration between Supervisory Board members with different backgrounds and ways of thinking fundamentally enriches the body and promotes the discussion culture. This ultimately leads to control and advisory activities that are more efficient and more effective.

The Supervisory Board does not consider it necessary to specify a maximum length of service on the Supervisory Board. It is difficult to recruit qualified Supervisory Board members who meet the requirements of supervisory law, including with respect to whether candidates are fit and proper and do not exceed the maximum number of mandates. The increased requirements of supervisory law have to do with, inter alia, the fact that because of its position in the W&W financial conglomerate, W&W AG is subject to both banking supervision and insurance supervision.

Once a year, as well as at the time of each new appointment, the members of the Supervisory Board evaluate their strengths in the fields of investment, actuarial practice and accounting by means of a self-assessment. This forms the basis for a development plan that the Supervisory Board prepares each year. The plan identifies areas where the Supervisory Board as a whole or its individual members wish to acquire more in-depth knowledge. The self-assessment and the development plan are forwarded to the supervisory authority.

The Supervisory Board regularly reviews the efficiency of its work. In the course of the review of the efficiency of the Supervisory Board's work, which was started in late 2017, the Supervisory Board concerned itself in detail with the results of the review in early 2018. Supervisory Board work was reviewed on the basis of an internally prepared questionnaire. The focus was on the issues of Supervisory Board and committee information, conduct of Supervisory Board and committee meetings, structure and composition of the Supervisory Board and the committees and conflicts of interest/miscellaneous.

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

In the 2017 financial year, the Supervisory Board of W&W AG had established four standing committees, i.e. the Risk and Audit, Nomination, Remuneration Control and Personnel and Conciliation Committees.

Risk and Audit Committee

The Risk and Audit Committee meets twice a year to prepare for Supervisory Board meetings dealing with the balance sheet and planning. In addition, it discusses half-yearly financial reports with the Executive Board in conference calls. It also meets when necessary. The committee met twice during the 2017 financial year, as well as once by conference call. The committee also adopted by way of written circulation four resolutions concerning the approval of so-called "non-audit services" by the auditor. The Risk and Audit Committee concerns itself with accounting issues and the monitoring of the accounting process. It prepares the decisions of the Supervisory Board regarding the approval of the annual financial statements and the consolidated financial statements, the result of the auditing of the Management Report and the Group Management Report or, as the case may be, a combined Management Report, and the proposal for the appropriation of profits, as well as regarding submission of the corporate governance statement with the corporate governance report, including the remuneration report, and regarding the audit of the separate non-financial Group report. For this purpose, it is responsible for the advance review and, if necessary, preparation of the corresponding documentation.

The responsibilities of the Risk and Audit Committee also include monitoring the effectiveness of the internal control system, the risk management system and the internal auditing system, as well as dealing with compliance issues. In addition, it advises the Supervisory Board on current and future overall risk tolerance and business and risk strategies at the company and Group level and supports it in monitoring the implementation of these strategies. The Executive Board reports to the committee on business and risk strategies, as well as on the risk situation of the company and the W&W Group. In addition, reports are made to it about the work of the Internal Audit and Compliance departments, including the audit plan, as well as about especially serious findings and their handling. In consultation with the Executive Board, the chair of the committee may make direct enquiries to the head of Internal Audit, the Group Compliance Officer and the head of Risk Control.

The Risk and Audit Committee monitors whether conditions in customer business are in line with the business model and risk structure of the company and the W&W Group. Where this is not the case, the committee requests proposals from the Executive Board on how to bring the conditions in customer business into line with the business model and risk structure and monitors their implementation.

The Risk and Audit Committee examines whether incentives provided by the remuneration system take into consideration the risk, capital and liquidity structure of the company and the W&W Group and the likelihood and timing of earnings. This is without prejudice to the tasks of the Remuneration Control and Personnel Committee.

The auditor is selected by the Supervisory Board at the recommendation of the Risk and Audit Committee.

The Risk and Audit Committee decides on the agreement with the auditor (in particular, the audit mandate, the specification of the main audit areas and the fee agreement), as well as on termination or continuation of the audit mandate. It adopts suitable measures in order to ascertain and monitor the independence of the auditor and the additional services provided by the auditor for the company. The Risk and Audit Committee can submit recommendations and proposals for ensuring the integrity of the accounting process. The Supervisory Board supports the Executive Board in monitoring the implementation of statutory audits of accounts.

The Risk and Audit Committee supports the Supervisory Board in monitoring the swift rectification by the Executive Board of the deficiencies identified by the auditor. The Risk and Audit Committee consists of eight members, of whom four are shareholder representatives and four are employee representatives. The members satisfy the requirement of sector familiarity within the meaning of section 100 (5) of the German Stock Corporation Act (AktG); one member has been appointed as a financial expert.

The chair of the Risk and Audit Committee should not be the Chairman of the Supervisory Board or a former member of the company's Executive Board whose appointment ended less than two years ago. He or she should have special knowledge and experience in the fields of accounting, annual audits and internal controlling procedures and be independent.

Members of the Risk and Audit Committee
Corinna Linner (Chairperson)
Peter Buschbeck
Dr. Reiner Hagemann (financial expert)
Ute Hobinka
Bernd Mader
Andreas Rothbauer
Hans Dietmar Sauer
Gerold Zimmermann

Nomination Committee

The Nomination Committee meets at least once each calendar year, as well as when necessary. It met twice during the 2017 financial year.

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

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

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

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

Remuneration Control and Personnel Committee

The Remuneration Control and Personnel Committee meets at least once each calendar year, as well as when necessary. It met twice during the 2017 financial year. The Remuneration Control and Personnel Committee prepares the personnel decisions of the Supervisory Board, in particular the appointment and dismissal of members of the Executive Board and the appointment of the Chairman of the Executive Board.

The Remuneration Control and Personnel Committee decides in place of the Supervisory Board, in particular, on the conclusion, amendment and termination of the employment and pension agreements of Executive Board members. This does not apply to the setting of remuneration or to decisions pursuant to Section 87 (2) first and second sentences of the German Stock Corporation Act (AktG). The Supervisory Board makes these decisions following preparation by the Remuneration Control and Personnel Committee, whereby, in the resolution it proposes to the Supervisory Board, the committee takes into account, in particular, the impact of the resolution on the company's risks and risk management as well as the long-term interests of shareholders, investors and other involved parties and the public interest.

The Remuneration Control and Personnel Committee

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

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

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

Members of the Remuneration Control and Personnel Committee
Hans Dietmar Sauer (Chairman)
Christoph Seeger
Hans-Ulrich Schulz
Frank Weber

Conciliation Committee

In addition, the Supervisory Board has at its disposal the Conciliation Committee, which is required to be formed by the German Co-determination Act (MitbestG). The Conciliation Committee makes personnel proposals to the Supervisory Board where the required majority is lacking for the appointment and dismissal of Executive Board members. The Conciliation Committee did not meet during the 2017 financial year.

The Conciliation Committee consists of the Chairman of the Supervisory Board, his deputy by virtue of his office, one member elected by the shareholder representatives on the Supervisory Board and one member elected by the employee representatives on the Supervisory Board. The Chairman of the Supervisory Board is the committee chair.

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

Statement of compliance

(As at: 11 December 2017)

Since the submission of the last statement of compliance on 24 March 2017, the recommendations of the Government Commission for the German Corporate Governance Code for the period up to 24 April 2017, as amended on 5 May 2015, and for the period starting on 24 April 2017, as amended on 7 February 2017, which were made public by the German Federal Ministry of Justice and Consumer Protection in the official part of the German Federal Gazette, have been and will be complied with, other than as follows:

- According to No. 3.8 para. 3, in the event that the company takes out a D&O insurance policy for the Supervisory Board, a deductible of at least 10% of the loss up to at least the amount of one-and-a-half times the fixed annual remuneration is to be agreed upon. Wüstenrot & Württembergische AG deviates from this recommendation, because a high deductible, which must be uniform in light of the principle of equality that has to be observed, would affect the members of the Supervisory Board to very different extents, depending on their private income and assets. In a serious case, less wealthy members of the Supervisory Board could find themselves in existential difficulties, which would not be fair in view of the fact that their duties are the same.

- According to No. 5.3.3, the Supervisory Board is to form a Nomination Committee, composed exclusively of shareholder representatives, which proposes suitable candidates to the Supervisory Board for its recommendations to the Annual General Meeting. On the basis of the requirements of section 25d (11) of the German Banking Act (KWG), Wüstenrot & Württembergische AG has not fully complied with the recommendations in No. 5.3.3. Section 25d (11) KWG stipulates that the Nomination Committee of the Supervisory Board of Wüstenrot & Württembergische AG must take on other tasks, which should be performed not solely by shareholder representatives on the Supervisory Board. Therefore, the Nomination Committee also includes employee representatives. It is, however, ensured that the nominations to the Annual General Meeting are determined only by the shareholder repre-sentatives on the committee.

- According to No. 5.4.1 para. 2, the Supervisory Board is to determine concrete objectives regarding its composition, including specification of a maximum length of service to Supervisory Board members' term of office. Wüstenrot & Württembergische AG deviates from this. It is difficult to recruit qualified Supervisory Board members who meet the requirements of supervisory law, including with respect to professional aptitude and maximum number of mandates. The increased requirements of supervisory law have to do with, inter alia, the fact that because of its position in the W&W financial conglomerate, Wüstenrot & Württembergische AG is subject to both banking supervision and insurance supervision. Therefore, the Supervisory Board has not specified a limit to terms of office of its members.

- In accordance with No. 7.1.2 sentence 2, in the version as amended on 24 April 2017, the Executive Board should discuss interim financial information with the Supervisory Board or its Audit Committee prior to the publication thereof. In conformity with that, meetings of the Supervisory Board and the Audit Committee to discuss the annual financial statements and the half-yearly financial report are firmly established in terms of frequency. In addition, the Supervisory Board, particularly its Chairman, regularly exchanges information with the Executive Board about all issues of importance to the W&W Group, as well as about strategy, planning, business performance, risk position, risk management and compliance. The Executive Board promptly notifies the Chairman of the Supervisory Board about important events that are of major signifi-cance for the assessment of the company's position and performance, as well as for its management. As a result, Wüstenrot & Württembergische AG does not consider it necessary to have the Executive Board and the Supervisory Board or Audit Committee separately discuss additional financial information, particularly quarterly reports. Therefore, Wüstenrot & Württem-bergische AG does not and will not comply with the recommendation in No. 7.1.2 sentence 2 in the version in effect since 24 April 2017.

Information about corporate governance practices

W&W AG works to ensure compliance with national and European statutory requirements and internal company guidelines by means of a Group-wide compliance organisation. The compliance function is an essential component of the W&W compliance management system, and it is embedded in the W&W governance system and forms part of the internal control system of the W&W Group.

The Group Compliance Officer coordinates the operational implementation of the compliance control loop, i.e. particularly the handling of rules violations and the compliance with internal and external regulations.

In order to further enhance integrity in the sales-related tied-agents organisations of the W&W Group, the Group Compliance Officer is supported by a Sales Compliance Officer, who takes into account each of their sales-specific features and is available to them as a separate point of contact and coordinator specifically for sales issues.

In order to enhance efficiency, as well as provide a basis for the regular exchange of information, a Group Compli-ance Committee has been set up under the direction of the W&W Group Compliance Officer. It is composed of representatives from all compliance-relevant areas (e.g. Group Legal, Group Risk Management, Group Audit, Group Accounting and Taxes, Sales Compliance, Money Laundering, Securities Compliance, Data Protection, Fraud Prevention, etc.) and meets regularly.

A Code of Conduct has been in place since 2009 to provide employees in the W&W Group with binding orientation for their daily actions, and it is updated on a continual basis, most recently in November 2017. It applies to all members of governing bodies, managers and employees in the internal and mobile sales force. The Code of Conduct specifies the minimum standard for dealings between company employees, as well as in relation to customers, competitors, business partners, government authorities and our shareholders. There are also specific codes of conduct for the sales organisations.

An external ombudsman is available to all W&W Group employees should they wish to bring to light events in the company that are harmful to it or are criminally significant. This is intended to ensure that notifications can be made anonymously if desired.

Managers and all employees are notified about insider-trading legislation, cartel legislation, money laundering and the issues of corruption and compliance through extensive documentation.

Corruption and Compliance inform. The legal areas are explained in understandable terms using examples and self-monitoring options.

Together with its subsidiaries that operate the primary insurance business, W&W AG acceded in 2013 to the revised "Code of Conduct for the Sale of Insurance Products" enacted by the German Insurance Association (GDV) in 2013.

In April 2017, the auditor successfully completed the audit prescribed in the Code of Conduct for the second time. The Code and the audit reports can be viewed at www.gdv.de.

The W&W Group conducts its business in a sustainable manner. As a financial planning specialist in the areas of financial coverage, residential property, risk protection and savings and investment, we generate sustainable growth that retains value. This understanding is not only part of the W&W business strategy, but it also has expressly been made binding in the sustainability policy of W&W AG. In this policy, the areas of resource use and procurement, employees, products and services and compliance with legal requirements, among others, are defined as elements of the concept of sustainability.

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

The W&W Group values 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,
- the 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.

On an annual average, W&W AG had 536 (previous year: 515) employees, of which 273 (previous year: 269) were women and 264 (previous year: 245) were men.

Among the women, 168 (previous year: 166) worked full time and 105 (previous year: 103) worked part time. This corresponds to a part-time share of 38%.

Among the men, 250 (previous year: 233) worked full time and 13 (previous year: 12) worked part time. This corresponds to a part-time share of 5%.

Share of women in management positions

As at 31 December 2017 the share of women in management positions at Wüstenrot & Württembergische AG stood at 29.6% (previous year: 30.4%).

Equal remuneration of women and men

Wüstenrot & Württembergische AG is 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.

Consolidated Financial Statements of W&W Group (IFRS)
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Wüstenrot & Württembergische AG
Consolidated Financial statements of W&W Group (IFRS)

Consolidated balance sheet as at 31 December 2017

Assets

in € thousands	cf. Note no.[1]	31.12.2017	31.12.2016
A. Cash reserves	1	**154,095**	**366,482**
B. Non-current assets classified as held for sale and discontinued operations	2	**1,605,812**	**15,211**
C. Financial assets at fair value through profit or loss	3	**2,837,312**	**2,996,697**
D. Financial assets available for sale	4	**23,908,533**	**24,564,474**
thereof sold under repurchase agreements or lent under securities lending transactions	46	1,001,043	113,745
E. Receivables	5	**40,112,140**	**40,860,885**
I. Subordinated securities and receivables		80,224	122,334
II. First-rank receivables from institutional investors		14,076,295	14,311,613
III. Building loans		23,525,418	23,708,597
IV. Other loans and receivables		2,430,203	2,718,341
F. Risk provision	6	**−153,071**	**−169,288**
G. Positive market values from hedges	7	**50,506**	**21,431**
H. Financial assets accounted for using the equity method	8	**95,469**	**97,407**
I. Investment property	9	**1 683,541**	**1,742,228**
J. Reinsurers' portion of technical provisions	10	**325,655**	**312,999**
K. Other assets		**1 398,177**	**1,467,112**
I. Intangible assets	11	100,432	100,724
II. Property, plant and equipment	12	289,401	238,985
III. Inventories	13	99,388	97,435
IV. Current tax assets	14	59,708	60,317
V. Deferred tax assets	15	779,624	888,466
VI. Other assets	16	69,624	81,185
Total assets		**72,018,169**	**72,275,638**

1 See numbered explanations in the notes to the consolidated financial statements.

Liabilities

in € thousands	cf. Note no.	31.12.2017	31.12.2016
A. Liabilities under non-current assets classified as held for sale and discontinued operations	2	**1,017,175**	**—**
B. Financial liabilities at fair value through profit or loss	17	**533,614**	**1,129,266**
C. Liabilities	18	**28,754,334**	**29,596,623**
I. Liabilities evidenced by certificates		918,938	647,685
II. Liabilities to credit institutions		2,735,133	2,252,968
III. Liabilities to customers		23,822,677	25,418,956
IV. Finance lease liabilities		23,951	28,129
V. Miscellaneous liabilities		1,253,635	1,248,885
D. Negative market values from hedges	19	**70,311**	**—**
E. Technical provisions	20	**33,815,663**	**33,319,748**
F. Other provisions	21	**2,703,973**	**3,147,368**
G. Other liabilities		**707,265**	**874,304**
I. Current tax liabilities	22	202,790	233,452
II. Deferred tax liabilities	23	497,926	634,492
III. Other liabilities	24	6,549	6,360
H. Subordinated capital	25	**450,976**	**396,739**
I. Equity	26	**3,964,858**	**3,811,590**
I. Interests of W&W shareholders in paid-in capital		1,484,645	1,483,639
II. Interests of W&W shareholders in earned capital		2,459,522	2,308,146
Retained earnings		2,544,484	2,344,149
Other reserves (other comprehensive income)		-84,962	-36,003
III. Non-controlling interests in equity		20,691	19,805
Total liabilities		**72,018,169**	**72,275,638**

Further information that concerns several balance sheet items was summarised under notes

- 42-48 “Notes concerning financial instruments and fair value”
- 49-53 “Disclosures concerning risks under financial instruments and insurance contracts” and
- 57 et seq. “Other disclosures”.

Consolidated income statement
for the period 1 January to 31 December 2017

in € thousands	cf. Note no.	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Income from financial assets available for sale		1,082,652	1,446,410
Expenses from financial assets available for sale		–489,132	–331,706
1. Net income from financial assets available for sale	27	**593,520**	**1,114,704**
Income from financial assets accounted for using the equity method		21,897	8,129
Expenses from financial assets accounted for using the equity method		–77	–
2. Net income from financial assets accounted for using the equity method	28	**21,820**	**8,129**
Income from financial assets/liabilities at fair value through profit or loss		1,252,718	1,067,089
Expenses from financial assets/liabilities at fair value through profit or loss		–783,954	–1,293,666
3. Net expense from financial assets/liabilities at fair value through profit or loss	29	**468,764**	**–226,577**
Income from hedges		39,860	221,897
Expense from hedges		–23,658	–151,007
4. Net income from hedges	30	**16,202**	**70,890**
Income from receivables, liabilities and subordinated capital		1,414,844	1,624,207
Expense from receivables, liabilities and subordinated capital		–692,616	–790,820
5. Net income from receivables, liabilities and subordinated capital	31	**722,228**	**833,387**
Income from risk provision		83,849	108,369
Expense from risk provision		–74,114	–91,196
6. Net expense from risk provision	32	**9,735**	**17,173**
7. Net financial result		**1,832,269**	**1,817,706**
Income from investment property		181,066	157,977
Expense from investment property		–68,611	–70,047
8. Net income from investment property	33	**112,455**	**87,930**
Commission income		257,406	246,922
Commission expense		–659,226	–637,835
9. Net commission expense	34	**–401,820**	**–390,913**
Earned premiums (gross)		3,924,225	4,044,827
Premiums ceded to reinsurers		–114,918	–111,995
10. Earned premiums (net)	35	**3,809,307**	**3,932,832**
Insurance benefits (gross)		–4,108,500	–4,125,602
Received reinsurance premiums		78,090	45,464
11. Insurance benefits (net)	36	**–4,030,410**	**–4,080,138**
Carryover		**1,321,801**	**1,367,417**

in € thousands	cf. Note no.	1.1.2017 bis 31.12.2017	1.1.2016 bis 31.12.2016
Carryover		**1,321,801**	**1,367,417**
Personnel expenses		-593,183	-589,159
Materials costs		-441,578	-422,816
Depreciation/amortisation		-64,593	-63,345
12. General administrative expenses	37	**-1,099,354**	**-1,075,320**
Other operating income		217,304	219,027
Other operating expense		-147,302	-219,551
13. Net other operating expense	38	**70,002**	**-524**
14. Consolidated earnings before income taxes from continued operations		**292,449**	**291,573**
15. Income taxes	39	**-34,412**	**-56,266**
16. Consolidated net profit		**258,037**	**235,307**
Result attributable to shareholders of W&W AG		256,642	232,919
Result attributable to non-controlling interests		1,395	2,388
17. Basic (= diluted) earnings per share, in €	40	**2,74**	**2,49**
Thereof from continued operations, in €		2,74	2,49

Further information that concerns several balance sheet items was summarised under notes

- 42-48 “Notes concerning financial instruments and fair value”,
- 49-53 “Disclosures concerning risks under financial instruments and insurance contracts” and
- 57 et seq. “Other disclosures”.

Consolidated statement of comprehensive income

in € thousands	cf. Note no.	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Consolidated net profit		**258,037**	**235,307**
Other comprehensive income			
Elements not reclassified to the consolidated income statement:			
Actuarial gains/losses (–) from defined-benefit plans (gross)	21	20,467	–155,908
Provision for deferred premium refunds		–1,314	13,450
Deferred taxes		–5,857	43,560
Actuarial gains/losses (–) from defined-benefit plans (net)		**13,296**	**–98,898**
Elements subsequently reclassified to the consolidated income statement:			
Unrealised gains/losses (–) from financial assets available for sale (gross)	41	–173,823	268,826
Provision for deferred premium refunds		83,961	–121,698
Deferred taxes		27,901	–42,808
Unrealised gains/losses (–) from financial assets available for sale (net)		**–61,961**	**104,320**
Unrealised gains/losses (–) from financial assets accounted for using the equity method (gross)	8, 41	773	1,467
Provision for deferred premium refunds		–416	–666
Deferred taxes		–25	–43
Unrealised gains/losses (–) from financial assets accounted for using the equity method (net)		**332**	**758**

in € thousands	cf. Note no.	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Unrealised gains/losses (–) from cash flow hedges (gross)	41	–20,355	–17,162
Provision for deferred premium refunds		–	–
Deferred taxes		6,224	5,248
Unrealised gains/losses (–) from cash flow hedges (net)		**–14,131**	**–11,914**
Currency translation differences of economically independent foreign units		**12,658**	**1,316**
Total other comprehensive income, gross		–160,279	98,539
Total provision for deferred premium refunds		82,231	–108,914
Total deferred taxes		28,243	5,957
Total other comprehensive income, net		**–49,805**	**–4,418**
Total comprehensive income for the period		**208,232**	**230,889**
Attributable to shareholders of W&W AG		207,346	227,911
Attributable to non-controlling interests		886	2,978

Further information that concerns several balance sheet items was summarised under notes

- 42-48 “Notes concerning financial instruments and fair value”,
- 49-53 “Disclosures concerning risks under financial instruments and insurance contracts” and
- 57 et seq. “Other disclosures”.

Consolidated statement of changes in equity

		Interests of W&W shareholders in paid-in capital	
		Share capital	Capital reserve
in € thousands	cf. Note no.		
Equity as at 1 January 2016		**490,311**	**997,265**
Consolidated net profit		–	–
Other comprehensive income		–	–
Total comprehensive income for the period		**–**	**–**
Dividends to shareholders	2	–	–
Tresury shares		-1,427	-2,510
Changes in equity without a loss of control		–	–
Other		–	–
Equity as at 31 December 2016		**488,884**	**994,755**
Equity as at 1 January 2017		**488,884**	**994,755**
Consolidated net profit		–	–
Other comprehensive income		–	–
Total comprehensive income for the period		**–**	**–**
Dividends to shareholders	2	–	–
Treasury shares		–	–
Changes in equity without a loss of control		387	619
Other		–	–
Equity as at 31 December 2017		**489,271**	**995,374**

Interests of W&W shareholders in earned capital						Equity attributable to W&W shareholders	Non-controlling interests in equity	Total equity
Retained earnings	Other reserves							
	Reserve for pension commitments	Reserve for financial assets available for sale	Reserve for financial assets accounted for using the equity method	Reserve for cash flow hedges	Reserve for currency translation			
2,169,652	**–488,719**	**422,313**	**6,509**	**24,919**	**3,682**	**3,625,932**	**17,810**	**3,643,742**
232,919	—	—	—	—	—	232,919	2,388	235,307
–	–98,821	103,652	755	–11,914	1,320	–5,008	590	–4,418
232,919	**–98,821**	**103,652**	**755**	**–11,914**	**1,320**	**227,911**	**2,978**	**230,889**
–56,086	—	—	—	—	—	–56,086	—	–56,086
–1,364	—	—	—	—	—	–5,301	—	–5,301
53	—	124	—	—	177	354	–983	–629
–1,025	—	—	—	—	—	–1,025	—	–1,025
2,344,149	**–587,540**	**526,089**	**7,264**	**13,005**	**5,179**	**3,791,785**	**19,805**	**3,811,590**
2,344,149	**–587,540**	**526,089**	**7,264**	**13,005**	**5,179**	**3,791,785**	**19,805**	**3,811,590**
–337	—	337	—	—	—	—	—	—
256,642	—	—	—	—	—	256,642	1,395	258,037
—	**13,288**	**— 61,441**	**330**	**— 14,131**	**12,658**	**–49,296**	**–509**	**–49,805**
256,642	13,288	— 61,441	330	— 14,131	12,658	207,346	886	208,232
–56,131	—	—	—	—	—	–56,131	—	–56,131
370	—	—	—	—	—	1,376	—	1,376
–209	—	—	—	—	—	–209	—	–209
2,544,484	**–574,252**	**464,985**	**7,594**	**–1,126**	**17,837**	**3,944,167**	**20,691**	**3,964,858**

Consolidated cash flow statement

Consolidated cash flow statement

in € thousands	cf. Note no.	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Consolidated net profit		**258,037**	**235,307**
Non-cash items contained in consolidated net profit and reconciliation of cash flow from operating activities			
Net income from financial assets accounted for using the equity method	8, 28	–3,032	–8,129
Amortisation, depreciation, impairment losses (+)/reversals of impairment losses (–) on intangible assets and property, plant and equipment	37	64,593	63,345
Amortisation, depreciation, impairment losses (+)/reversals of impairment losses (–) on financial assets	27, 29-33	95,609	146,428
Increase (+)/decrease (–) in technical provisions	20	578,146	350,295
Increase (+)/decrease (–) in other provisions	21	–339,104	141,419
Changes in deferred tax assets and liabilities	39	5,526	–20,059
Net gain (–)/loss (+) from the sale of intangible assets and property, plant and equipment	38	–2,131	–99
Net gain (–)/loss (+) from the sale of financial investments (not including participations)	27, 33	–970,364	–735,663
Other non-cash expenses (+)/income (–)	27, 29-33	239,064	124,665
Other adjustments		–1,226,055	–1,429,175
Subtotal		**–1,299,711**	**–1,131,666**
Change in assets and liabilities from operating activities			
Increase (–)/decrease (+) in building loans	5, 6	114,432	529,242
Increase (–)/decrease (+) in other assets	5, 6, 7, 10, 13, 14, 16	255,297	58,050
Increase (–)/decrease (+) in financial assets/liabilities held for trading	3	–84,410	531,228
Increase (–)/decrease (+) in liabilities evidenced by certificates	18	271,253	–409,168
Increase (–)/decrease (+) in liabilities to credit institutions	18	625,047	–1,869,647
Increase (–)/decrease (+) in liabilities from reinsurance business	18	458	1,700
Increase (–)/decrease (+) in liabilities to customers	18	–797,824	83,919
Increase (–)/decrease (+) in other liabilities	18, 19, 21-24	–21,167	–798,775
Interest received		1,745,143	2,039,033
Dividends received		141,270	176,438
Interest paid		–591,279	–725,321
Income taxes paid (–)/received (+)		–61,649	–43,004
Subtotal		**1,596,571**	**–426,305**
I. Cash flow from operating activities		**296,860**	**–1,557,971**

Consolidated cash flow statement (continued)

in € thousands	cf. Note no.	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Cash receipts from the disposal of intangible assets and property, plant and equipment	11, 12	4,683	3,149
Cash payments for investments in intangible assets and property, plant and equipment	11, 12	-117,004	-96,611
Cash receipts from the disposal of financial assets	3, 4, 5, 9	18,045,529	15,380,477
Cash payments for investments in financial assets	3, 4, 5, 9	-17,891,046	-13,426,485
Cash receipts from a loss of control of subsidiaries or other business units		—	23,522
Cash receipts from the disposal of interests in financial assets accounted for using the equity method	8, 28	32,221	—
Cash and cash equivalents of subsidiaries or other business units, which are no longer under control		—	-5,120
II. Cash flow from investing activities		**74,383**	**1,878,932**
Dividend payments to shareholders	26	-56,131	-56,086
Transactions between shareholders		1,004	-5,351
Change in funds resulting from subordinated capital	25	53,991	-148,093
Interest payments on subordinated capital	31	-21,527	-25,369
Cash payments towards finance lease liabilities	18	-4,178	-2,009
III. Cash flow from financing activities		**-26,841**	**-236,908**
Cash and cash equivalents as at 1 January		**1,022,742**	**943,331**
Net change in cash and cash equivalents (I.+II.+III.)		344,402	84,053
Change in cash and cash equivalents attributable to the effects of exchange rates and the scope of consolidation		24,746	-4,642
Cash and cash equivalents as at 31 December		**1,391,890**	**1,022,742**
Components of cash and cash equivalents			
Cash reserves	1	154,095	366,482
Cash available for sale		479,033	—
Balances with credit institutions payable on demand	5	758,762	656,260
Cash and cash equivalents at the end of the financial year		**1,391,890**	**1,022,742**

1 Previous year's figure adjusted.

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

Überleitung der Bewegungen der Schulden auf die Cashflows aus Finanzierungstätigkeiten

	Subordinated capital	Liabilities Finance lease
in € thousands	2017	2017
As at 1.1.	**396,739**	**28,129**
Interest rate	–21,527	–
Issuance/Redemption	53,991	–4,178
Total cash	**32,464**	**–4,178**
Change in interest rate	21,767	–
Amortization	6	–
Total non cash items	21,773	–
As at 31.12.	**450,976**	**23,951**

Notes to the consolidated financial statements

General accounting principles and application of IFRS

General information

Wüstenrot & Württembergische AG is a publicly traded company with its registered office in Stuttgart, Germany (Gutenbergstraße 30, 70176 Stuttgart, Germany) and is the parent company of the W&W Group. The company is listed in the Commercial Register of the Stuttgart Local Court under HRB 20203. The business of Wüstenrot & Württembergische AG as an individual company consists of reinsurance business for the insurance companies of the W&W Group, as well as the control of the W&W Group.

The W&W Group is "The financial planning specialist" for modern financial planning, offering customised, innovative and attractive products in the following areas:

- Financial coverage
- Residential property
- Risk protection
- Savings and investment

The Executive Board of Wüstenrot & Württembergische AG authorised publication of the consolidated financial statements on 26 February 2018. They were presented to the Supervisory Board for approval on 21 March 2018.

The consolidated financial statements will be presented to shareholders at the ordinary Annual General Meeting on 13 June 2018.

The consolidated financial statements of Wüstenrot & Württembergische AG – consisting of the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements – were prepared on the basis of Section 315e (1) of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of IFRS international accounting standards, as they are to be applied in the European Union. In addition, a Group Management Report was prepared in accordance with the rules of commercial law.

In conformity with IFRS 4 "Insurance Contracts", insurance-specific business transactions for which IFRS do not include any specific rules are recognised for domestic Group companies in accordance with the relevant rules of commercial law pursuant to Sections 341 et seq. HGB and the regulations based on them.

The consolidated financial statements of the W&W Group were drawn up in euros (€) and are based on the principle of a going concern.

Comparative information

Unless indicated otherwise, comparative information about items in the consolidated income statement relates to the period 1 January 2016 to 31 December 2016, whereas comparative information about items in the consolidated balance sheet relates to 31 December 2016.

Accounting policies

Changes in accounting policies

International Financial Reporting Standards (IFRSs) to be applied for the first time in the reporting period

The following amended and revised standards were applied for the first time as at 1 January 2017:

- Amendment to IAS 7
- Amendment to IAS 12
- Annual Improvements to IFRSs 2014–2016 Cycle (IFRS 12)

These changes had no material influence on the presentation of the net assets, financial position and financial performance of the W&W Group.

Issued accounting rules whose application is not yet mandatory

IFRS 9 "Financial Instruments"

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 "Financial Instruments". EU endorsement was given on 22 November 2016.

The W&W Group will begin applying the new version of IFRS 9 "Financial Instruments" starting on 1 January 2018. For the insurance companies of the W&W Group, it was elected not to use to overlay approach in connection with the transition to IFRS 17.

Beginning 1 January 2019, subject to adoption in EU law, adjustments are to be made under IFRS 9 with regard to prepayment features with negative compensation. The Group currently anticipates that this will have no material impact on the consolidated financial statements.

Classification and measurement – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets. This approach is based on both the company's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Based on how financial assets are classified, IFRS 9 provides three measurement categories:

- at amortised cost;
- at fair value through profit or loss (FVTPL); and
- at fair value through other comprehensive income (FVOCI) or other reserves.

In connection with a study of our customer loans, we have reached the conclusion that, as under IAS 39, recognition under IFRS 9 will continue to be undertaken at amortised cost. In some cases, registered securities, which had previously been recognised at amortised cost, are now measured at fair value through other comprehensive income. The resulting measurement differences between the carrying amounts under IAS 39 and fair market values will be recognised in equity at the time of conversion. Debt instruments that are classified under IAS 39 as available for sale will, under IFRS 9, henceforth be predominantly measured, as before, at fair value through other comprehensive income. In the case of equity instruments, IFRS 9 allows them be classified either as FVOCI or as FVTPL. Where equity instruments are recognised at FVOCI, all changes in fair value are presented in other comprehensive income. Neither impairment expenses nor gains or losses arising on disposal are reclassified to net income. They remain permanently in equity. In the case of recognition at FVTPL, all changes in fair value are included in consolidated net profit. The W&W Group has elected to recognise equity instruments uniformly at FVTPL.

Impairment – Financial assets and contractual assets

IFRS 9 replaces the incurred credit loss model in IAS 39 with an expected credit loss model. This model requires discretionary decisions with respect to the question of the degree to which changes in economic factors may have an impact on expected credit losses. Expected credit losses are based on probability-weighted estimates.

The new impairment model is to be applied to financial assets measured at amortised cost or FVOCI. The new impairment model does not cover equity instruments.

Under IFRS 9, impairments are generally measured upon initial recognition on the basis of 12-month expected credit losses (Level 1). Expected credit losses are those that result from potential default events within the 12 months following the reporting date. If on the measurement date the credit risk has increased significantly, measurement of the expected credit losses is made over the remaining term of the financial instrument (lifetime view – Level 2). Recognised in Level 3 are assets that exhibit not only a significant deterioration in credit quality but also a specific failure to perform, and thus objective evidence of impairment. In Level 3, impairment is measured on the basis of the lifetime view, analogous to Level 2. Level 2 and Level 3 differ with respect to the recognition of interest revenue. In Level 2, interest revenue is determined on the basis of gross carrying amount of the financial asset, whereas in Level 3, it is determined on the basis of the gross present value of the financial asset less the risk provision.

Classification and measurement – Financial liabilities

IFRS 9 retains the existing requirements of IAS 39 for the classification of financial liabilities. Conversion to IFRS 9 does not result in any need for adjustment.

Recognition of hedges

Upon initial application of IFRS 9, the W&W Group has the right to choose between applying the recognition rules in IAS 39 for hedges and applying IFRS 9. W&W will exercise this right of choice in such a way that the requirements of IAS 39 will continue to apply.

Disclosures

IFRS 9 requires extensive new disclosures, particularly with respect to the recognition of credit risk, to expected credit losses and to hedges. These changes were studied by the W&W Group, and the necessary adjustments were made. As a result, for the 2018 financial year, new tables in the notes have been created, as well as a new chart of accounts.

In connection with the introduction of IFRS 9 in 2018, the structure of the net financial result in the consolidated income statement will change. Currently, the net financial result is broken down into the measurement categories specified in IAS 39. By contrast, economic, transaction-related criteria will form the top level starting in 2018: current net income/expense (including net interest income/expense), net income/expense from risk provision, net measurement gain/loss, and net gain/loss from disposals. The W&W Group expects that this change will increase reporting transparency and make the income statement even more meaningful at the consolidated and segment levels. In the consolidated balance sheet, financial assets are recognised in accordance with their classification under IFRS 9.

Transition

Based on an approximate calculation, application of the new standard will have the following material effects on equity and the risk provision at the time of initial application.

- Differences between the carrying amounts of financial assets that measured differently under IFRS 9 than under IAS 39, as well as the change in the risk provision recognised in equity. After taking into account the deferred provision for premium refunds and deferred taxes, these remeasurement effects will lead to an increase in equity of between €375 million and €425 million. Approximately one-third of this is attributable to retained earnings.
- Prior to taking into account the deferred provision for premium refunds and deferred taxes, the risk provision under IFRS 9 will increase between €45 million and €55 million at the time of initial application.

The actual values for the opening balance sheet as at 1 January 2018 may still change, since

- the Group has not yet fully completed the audits and assessment of the controls, and
- the accounting policies that will be utilised when the first consolidated financial statements under application of IFRS 9 are published may still change.

The W&W Group will make use of the arrangement to not adjust comparative information for prior-year periods with respect to changes in classification and measurement (including impairments).

IFRS 15 "Revenue from Contracts with Customers"
IFRS 15 establishes uniform core principles that are applicable to all sectors and to all types of income from customer contracts. A five-step model is used to answer questions about the amount of revenue from customer contracts that is required to be recognised, the timing of the recognition, and the period over which revenue is recognised. In addition, the standard contains a variety of other detailed rules, as well as extensive quantitative and qualitative disclosures for the notes.

IFRS 15 was published on 28 May 2014 and replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue", as well as the related interpretations. EU endorsement was given on 22 September 2016. In addition, minor clarifications to IFRS 15 were published on 16 April 2016. EU endorsement of the clarifications was given on 9 November 2017. The standard is to be applied for the first time for financial years beginning on or after 1 January 2018. The W&W Group will retroactively apply the standard in modified form for the first time on 1 January 2018 by recognising cumulative adjustment amounts resulting from first-time application at the time of initial application on 1 January 2018. Under this transitional method, the standard retroactively applies only to those customer contracts that had not yet been performed at the time of initial application on 1 January 2018. Comparative periods will not be adjusted.

Since, in particular, lease contracts, financial instruments and insurance contracts are excluded from the application of IFRS 15, it is mainly commission income and, either in whole or in part, other operating income that falls within the purview of IFRS 15 in the W&W Group. Other operating income includes, in particular, current property development business, which was also adjusted to conform to IFRS 15,

The conversion effect from the initial application of IFRS 15 will amount to approximately €2.9 million, which will be recognised in equity in retained earnings. It will mainly result from the retroactive application of customer contracts in property development business that had not yet been performed at the time of initial application on 1 January 2018,

Apart from this minor conversion effect, the initial application of IFRS 15 will have no material influence on the presentation of the net assets, financial position and financial performance or the earnings per share of the W&W Group.

IFRS 16 "Leases"
On 13 January 2016, the IASB issued IFRS 16, which will replace IAS 17.

The core concept underlying the new standard is that generally all of a lessee's leases and the associated contractual rights and obligations are to be recognised in the balance sheet. The distinction previously made under IAS 17 between finance leases and operating leases no longer applies, such that in future a lessee is required to recognise a "right-of-use asset" and a lease liability at the start of the lease. There is an exception for leases with a term of less than one year, as well as for leases of low-value assets. The W&W Group made use of this exception.

The W&W Group is affected, in particular, in connection with the leasing of properties, IT infrastructure and the vehicle fleet. At this time, such leases are mostly recognised as operating leases. Thus, as a result of the new standard, an asset and a liability now have to be recognised for such leases for the first time. A system solution is currently being implemented for the purposes of recognising the leases and depicting the right-of-use assets as well as the lease liability.

A lessor may continue to classify its leases as operating leases or finance leases and to account for those two types of leases differently. The accounting model under IFRS 16 does not materially differ from that under IAS 17 "Leases".

Because a right-of-use asset and a lease liability are recognised, the conversion results in an increase in total assets, as well as additional disclosures in the notes for leases previously classified as operating leases. Furthermore, the depreciation of right-of-use assets as well as interest expenses for lease liabilities will in future be recognised in the income statement instead of lease expenses. Other changes in the presentation of the net assets, financial position and financial performance of the W&W Group are currently being studied. Mandatory initial application is 1 January 2019. The standard was adopted in EU law on 9 November 2017. W&W AG will apply IFRS 16 for the first time on 1 January 2019. During the transition, the W&W Group will make use of the practical expedient of modified retrospective application. In this regard, the cumulative effect from retrospective application will be shown as a corrective entry in retained earnings. In particular, there also will be no need to adjust the prior-year figures. Moreover, use will be made of the practical expedient that exempts the company from having to reassess whether a contract is, or contains, a lease at the date of initial application. All leases that have thus far been classified as leases under IAS 17 will continue to be classified as such.

IFRS 17 "Insurance Contracts"

On 18 May 2017, the IASB published IFRS 17 "Insurance Contracts". It replaces IFRS 4 "Insurance Contracts", which had been in effect since 1 January 2005. With regard to the recognition of insurance contracts, it for the first time introduces uniform requirements for the recognition, measurement and presentation of, as well as disclosures in the notes concerning, insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. Under the measurement model in IFRS 17, groups of insurance contracts are measured on the basis of probability-weighted discounted cash flows with an explicit risk adjustment for non-financial risk, as well as a contractual service margin, representing the unearned profit that the company will recognise as it provides services under the insurance contracts in the Group.

Instead of premium income for each period, the company will now be required to present the "insurance service result", i.e. insurance revenue, which depicts the changes in the obligation for the provision of coverage for which the insurance company receives compensation and the share of the premiums that covers the acquisition costs. Cash inflows and outflows from investment components are not to be presented in the result, i.e. as income or expenses in the income statement. Insurance financial income and expenses result from discounting effects and financial risks. Depending on the portfolio, they are recognised either in the income statement as profit and loss or in other comprehensive income.

Changes in assumptions that are unrelated to interest rates or financial risk are not taken into account directly in the income statement but instead are booked against the contractual service margin and thus allocated over the duration of the services still to be provided. The changes in estimates are directly recognised only for those groups of insurance contracts for which losses are expected.

For short-term contracts, IFRS 17 provides for an approximation method, which, as in the past, depicts the obligation to provide insurance coverage through excess premium. Under IFRS 17, liabilities resulting from insured events that have occurred, but for which claims have not been settled, are to be discounted using current interest rates. For large parts of life insurance business with participation contracts, IFRS 17 modifies the general measurement model by also including in the contractual service margin the changes in the shareholder portion of the development of income sources underlying the participation contract and allocating them over the remaining duration of the provision of service.

The new accounting rules in IFRS 17 are to be applied for financial years after 1 January 2021. The transition to IFRS 17 is associated with the duty to provide prior-year figures.

Prior to entering into effect at the EU level, IFRS 17 must still successfully pass the endorsement process. It is not expected to be completed until 2019.

Potential changes in the presentation of the net assets, financial position and financial performance of the W&W Group are currently being studied. At this time, W&W AG intends to apply IFRS 17 for the first time on 1 January 2021. The Group has not yet determined which transitional approach will be applied.

Other changes

In addition, the following changes were published:

- IFRIC 23 with initial application for financial years starting on or after 1 January 2019
- Amendments to IAS 28 with initial application for financial years starting on or after 01 January 2019
- Annual Improvements to IFRSs 2014–2016 Cycle with initial application for financial years starting on or after 1 January 2018 (IFRS 1 and IAS 28).
- Annual Improvements to IFRSs 2015–2017 Cycle with initial application for financial years starting on or after 1 January 2019.
- Amendments to IFRS 2 with initial application for financial years starting on or after 1 January 2018
- Amendments to IAS 40 with initial application for financial years starting on or after 01 January 2018
- Amendments to IFRS 4 with initial application for financial years starting on or after 1 January 2018
- IFRIC 22 with initial application for financial years starting on or after 1 January 2018
- Amendment to IFRS 10 and IAS 28 (date of initial application not yet determined)
- Amendments to IAS 19 with initial application for financial years starting on or after 1 January 2019

We expect that adoption of these changes will not have any material impact on the net assets, financial position and financial performance of the W&W Group. Although earlier application is generally permitted, the W&W Group does not plan to do so. These changes have not yet received an EU endorsement, other than for IFRS 2, IFRS 4 and Annual Improvements to IFRSs 2014–2016 Cycle.

Consolidation principles

The annual financial statements of Wüstenrot & Württembergische AG and the consolidated subsidiaries, including structured entities (public and special funds) and associates, all of which are prepared according to accounting policies that are uniform throughout the Group, form the basis for the consolidated financial statements of the W&W Group.

Balance sheet date

The annual financial statements of the parent company, the consolidated subsidiaries and associates were prepared as at 31 December 2017.

Subsidiaries

All subsidiaries are investment entities that are directly or indirectly controlled by W&W AG. Control exists where W&W AG has the power to direct the relevant activities of the investment entity, is exposed, or has rights, to variable returns from its involvement with the investment entity and has the ability to use its power over the investment entity to affect the amount of its returns. W&W AG controls its investment entities based on the direct or indirect majority of voting rights.

In addition, subsidiaries include consolidated structured entities within the meaning of IFRS 12. These are entities that have been designed so that voting or similar rights are not the dominant factor in deciding whether there is an obligation to consolidate. With regard to W&W AG, these include public and special funds that are characterised, in particular, by narrowly circumscribed business activities, such as a specific investment strategy or limited investor rights (lack of voting rights).

Public and special funds are consolidated if they are directly or indirectly controlled by W&W AG due to a lack of voting rights based on contractual agreements concerning direction of the relevant activities.

Subsidiaries, including public and special funds, are included in the scope of consolidation unless they are of minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group. Consolidation begins when control is attained and ends when it is lost.

Interests in the acquired pro rata net assets of subsidiaries that are attributable to non-Group third parties are recognised under the item "Non-controlling interests in equity" in the consolidated balance sheet and the consolidated statement of changes in equity. The interests of non-Group parties in the profits and losses of companies included in the consolidated financial statements are recognised under the item "Result attributable to non-controlling interests" in the consolidated income statement and the consolidated statement of comprehensive income.

Interests in public and special funds that are attributable to non-Group third parties are recognised in the consolidated balance sheet under "Miscellaneous liabilities" (Note 18). Interests in the profits and losses of non-Group third parties can be found in the consolidated income statement under "Net other operating income/expense" (Note 38).

Subsidiaries, including public and special funds, of minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group are not consolidated but rather recognised as equity instruments under "Financial assets available for sale" (Note 4) in the sub-items "Investments", "Equities" and "Fund units".

Associates

Associates are entities that are neither subsidiaries nor joint ventures and where the Group has significant influence over the entity's financial and operating policy decisions but is not in control of those policies. Significant influence generally means directly or indirectly holding 20-50% of the entity's voting rights. Where less than 20% of the voting rights are held, it is assumed that a significant influence does not exist, unless such influence can be unambiguously demonstrated.

Associates that are of more than minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group are included in the consolidated financial statements when significant influence is attained, and they are accounted for using the equity method. Inclusion ceases when significant influence ends. Under the equity method, the income effects and the carrying amount of financial investments generally correspond to the share of the entity's income and net assets attributable to the Group. When acquired, holdings in associates are recognised in the consolidated financial statements at acquisition cost. In subsequent periods, the carrying amount of the holdings increases or decreases according to the W&W Group's share of the investment entity's income for the period. Unrealised gains and losses, which are elements of the consolidated statement of comprehensive income, are recognised under "Other reserves" under the reserve for financial assets accounted for using the equity method.
Associates of minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group are accounted for using the same principles as for financial assets available for sale (see the section "Financial instruments and receivables and liabilities from insurance business" in the chapter "Accounting policies: remarks concerning the consolidated balance sheet") and are allocated to the item "Financial assets available for sale" (Note 4) under the sub-item "Investments".

Currency translation

The euro is the functional currency and the reporting currency of W&W AG.

Transactions in foreign currencies are posted at the exchange rate prevailing at the time of the transaction. Monetary assets and debts that deviate from the functional currency of the respective Group company are translated into the functional currency using the reference rate of the European Central Bank (ECB) as at the reporting date. Non-monetary items that are recognised at fair value are likewise translated into the functional currency at the ECB's reference rate as at the reporting date. Other non-monetary assets and debts are measured at the rate prevailing on the date of the transaction (historical rate).

Translation differences involving equity instruments held in a foreign currency that belong to the category "Financial assets available for sale" are recognised directly in equity in the reserve for currency translation under "Other comprehensive income" and subsequently recognised as profit or loss in the income statement upon disposal of the relevant equity instrument. Other translation differences are recognised in the consolidated income statement.

Pursuant to IAS 21, assets and debts of subsidiaries included in the consolidated financial statements whose functional currency is not the euro are translated into euros at the ECB's prevailing reference rate on the reporting date using the modified closing rate method. Income and expenses from the statements of comprehensive income of foreign subsidiaries whose functional currency is not the euro are translated at the average rate for the year. Translation differences are recognised directly in equity in the reserve for currency translation under "Other comprehensive income" and subsequently recognised as profit or loss in the income statement upon disposal of the relevant subsidiary.

Accounting policies

Financial instruments and receivables and liabilities from insurance business

Classes

If disclosures are required for individual classes of financial instruments, these are based on the classification depicted in the following. Each class is derived from the combination of accounting item and risk category:

Classes of financial instruments

Risk category	Cash reserves	Financial assets at fair value through profit or loss	Financial assets available for sale	Receivables
Financial assets				
Cash reserves	Nominal value			
Equity instruments		Fair value	Fair value	
Senior fixed-income securities		Fair value	Fair value	Amortised cost
Subordinated securities and receivables		Fair value	Fair value	Amortised cost
Derivative financial instruments		Fair value		
Structured products		Fair value		
Positive market values from hedges				
Investments for the account and risk of holders of life insurance policies		Fair value		
Building loans				Amortised cost
First-rank receivables from institutional investors		Fair value		Amortised cost
Other loans and advances				Amortised cost
Financial liabilities				
Liabilities evidenced by certificates				
Liabilities to credit institutions				
Liabilities to customers				
Finance lease liabilities				
Other liabilities				
Negative market values from hedges				
Subordinated capital				
Off-balance-sheet business				
Financial guarantees[1]				
Irrevocable loan commitments[1]				

1 The measurement basis for off-balance-sheet business is the nominal value.

					Accounting items and measurement basis
	Positive market values from hedges	Financial liabilities at fair value through profit or loss	Liabilities	Negative market values from hedges	Subordinated capital
		Fair value			
	Fair value				
			Amortised cost		
			Amortised cost		
			Amortised cost		
			Amortised cost		
			Amortised cost		
				Fair value	
					Amortised cost

Where significant for the evaluation of net assets, financial position and financial performance, the classes of financial instruments are depicted again with greater granularity.

Principles for the measurement and recognition of financial instruments

All financial assets and financial liabilities, including all derivative financial instruments, are recognised in the balance sheet pursuant to IAS 39.

Financial instruments are generally recognised on the settlement date at fair value, other than derivative financial instruments that are recognised at the time of contract conclusion at fair value. They are derecognised once the contractual rights and obligations under the financial instrument expire, or when the financial instrument is transferred and the criteria for disposal are met.

Cash reserves

Recognised in this item are cash on hand, deposits with central banks, deposits with foreign postal giro offices and debt instruments issued by public authorities with a term of less than three months. Cash reserves are recognised at nominal value.

Financial assets at fair value through profit or loss

The category "Financial assets at fair value through profit or loss" is composed of the item "Designated as financial assets at fair value through profit or loss" (fair value option) and the item "Financial assets held for trading".

Designated as financial assets at fair value through profit or loss

If the fair value option is exercised, structured products are recognised in this sub-item, provided that there would otherwise be a duty to separate the embedded derivative from the host contract.

In addition, investments for the account and risk of holders of life insurance policies are recognised in order to avoid an accounting mismatch from occurring as a result of changes in the carrying amount of the provision for future policy benefits for unit-linked insurance contracts that are recognised in the income statement.

Also allocated to this category are individual securities under the sub-items "Equity instruments" and "Senior fixed-income securities", provided that this avoids or substantially reduces incongruities in measurement.

Financial instruments in this sub-item are measured at fair value through profit or loss.

Realised and unrealised measurement gains and losses are recognised in the income statement under "Net income/expense from financial assets/liabilities at fair value through profit or loss". Transaction costs are likewise recognised directly in the income statement at the time of the transaction.

Financial assets held for trading

Recognised as financial assets held for trading are financial instruments that are acquired with the intention of earning a profit from short-term price fluctuations. Financial assets held for trading include equities and investment holdings. Also recognised in this item are the positive market values of derivative financial instruments that are not accounted for as a hedging instrument in connection with hedges.

Realised and unrealised measurement gains and losses, current income and expenses from financial instruments and commissions from trading business are recognised in the income statement under "Net income/expense from financial assets/liabilities at fair value through profit or loss".

Financial assets available for sale

This item contains all non-derivative financial instruments that were not classified in another category.

In the W&W Group, this item essentially has to do with equities, investment holdings, other variable-yield securities, bearer bonds, other fixed-income securities and investments that are neither fully consolidated nor accounted for using the equity method.

They are measured at fair value, whereby changes in fair value are generally recognised – if appropriate, taking into account deferred taxes and the provision for deferred premium refunds – in the consolidated statement of comprehensive income under the item "Unrealised gains/losses from financial assets available for sale" and in the consolidated statement of changes in equity under "Other comprehensive income" under "Other reserves" as a reserve for financial assets available for sale. Gains and losses are generally not recognised in the income statement until disposal. Financial assets available for sale are tested for impairment as described in the section "Impairment of financial assets and reversal of impairment losses". With regard to debt-financing instruments with a fixed term, directly attributable transaction costs, premiums and discounts are spread over the term and recognised in the income statement under "Net income/expense from financial assets available for sale" using the effective interest method.

Interest income is recognised on an accrual basis. Accrued interest is recognised together with the relevant item.

Receivables

The item contains non-derivative financial instruments with fixed or determinable payments that are not traded on an active market. In the W&W Group, this category primarily includes loans under home loan savings contracts, building loans, debenture bonds and registered bonds.

Receivables are initially recognised at fair value and thereafter at amortised cost using the effective interest method. Transaction costs, premiums, discounts and deferred fees are spread over the term and recognised in the income statement under "Net income/expense from receivables, liabilities and subordinated capital" using the effective interest method. Fees that are not a component of effective interest are recognised under "Net commission income/expense" at the time they are collected.

Interest income is recognised on an accrual basis together with the relevant item.

Receivables from direct insurance business, funds withheld by ceding companies and amounts receivable on reinsurance business are generally recognised at amortised cost.

Under "Receivables from direct insurance business from policyholders", acquisition costs are recognised as claims against policyholders that are not yet due, which are determined using Zillmerisation.

Receivables are tested for impairment as described in the section "Impairment of financial assets and reversal of impairment losses".

Positive market values from hedges

This item contains the positive market values of derivatives that are embedded as a hedging instrument in a hedge recognised in accordance with the criteria for hedge accounting. They are measured at fair value on the reporting date.

Financial liabilities at fair value through profit or loss

Financial liabilities held for trading
Recognised under the item "Financial liabilities held for trading" are the negative market values of derivative financial instruments that are not accounted for as a hedging instrument in connection with hedge accounting.

Realised and unrealised measurement gains and losses are recognised under "Net income/expense from financial assets/liabilities at fair value through profit or loss" in the consolidated income statement. Current income and expenses from financial instruments and commissions from trading business are likewise recognised there.

Liabilities

This item contains, in particular, liabilities to customers and credit institutions, as well as liabilities evidenced by certificates.

Liabilities are recognised at amortised cost. Transaction costs, premiums and discounts are spread over the term of the transaction using the effective interest method. Fees that are not to be taken into consideration in determining the effective interest rate are recognised under "Net commission income/expense" at the time they are collected. Interest expenses are recognised on an accrual basis. Accrued interest is recognised together with the relevant item.

Liabilities from direct insurance business consist of liabilities to policyholders, where premiums are received in advance but are not due until after the reporting date, as well as insurance benefits that have not yet been disbursed, profit participation accrued with interest and unclaimed premium refunds. This item also depicts liabilities to insurance agents and liabilities from reinsurance business. These liabilities are recognised in their repayment amount.

Finance lease liabilities

This item contains the liabilities resulting from finance leases. They are initially recognised at the fair value of the leased item or at the present value of the minimum lease payments, whichever is lower. Thereafter, they are measured at amortised cost.

Negative market values from hedges

This item contains the negative market values of derivative financial instruments that are embedded as a hedging instrument in a hedge recognised in accordance with the criteria of hedge accounting. They are measured at fair value on the reporting date.

Subordinated capital

Subordinated capital consists of subordinated liabilities and profit participation certificates. Subordinated capital is initially recognised at fair value and thereafter at amortised cost. Interest expenses are recognised on an accrual basis. Accrued interest is recognised together with the relevant item.

Off-balance-sheet business

Financial guarantees

Financial guarantees are measured in accordance with the rules in IAS 39. Accordingly, financial guarantees are recognised at the time of issuance at fair value under "Other provisions". This normally corresponds to the present value of the counter-performance received for assuming the financial guarantee. Thereafter, the liability is measured in the amount of the provision to be created pursuant to IAS 37 or at the original amount less subsequently recognised amortisation, whichever is higher.

Irrevocable loan commitments

Irrevocable loan commitments are fixed obligations under which the W&W Group is required to provide loans at predetermined terms. If a pending liability under a contractual obligation to a third party is likely on the reporting date, a provision is created under the item "Other provisions". Where an individual provision is not recognised, a provision is created in accordance with the principles of portfolio impairment provisioning.

Fair value measurement

The procedure described in the following is used to determine the fair value of financial instruments, irrespective of the category or class to which the financial instrument is assigned and regardless of whether the fair value so determined is used for measurement purposes or for information in the notes.

The fair value of a financial instrument means the price that the W&W Group would receive if it were to sell an asset or pay if it were to transfer a liability in an orderly transaction between market participants on the measurement date.

A hierarchical classification is undertaken for financial instruments measured at fair value in the consolidated balance sheet, and it takes into account the relevance of the factors forming part of the measurement.

Financial instruments that are traded on an active market are measured at the unadjusted quoted or market price for identical assets and liabilities (Level 1). If pricing is not available on active markets, fair value is derived from comparable financial instruments or determined through application of recognised measurement models using parameters that are directly or indirectly observable on the market (e.g. interest rate, exchange rate, volatility, prices offered by third parties) (Level 2). If measurement is impossible, or not fully possible, using quoted or market prices or by means of a measurement model using input factors that are directly or indirectly observable on the market, factors based on non-observable market data (non-observable input factors) are used to measure financial instruments (Level 3).

Unadjusted quoted or market prices (Level 1) are used to measure securities – equity instruments as well as debt-financing instruments – in the categories "Financial assets at fair value through profit or loss", "Financial liabilities at fair value through profit or loss", "Financial assets available for sale", "Positive market values from hedges" and "Negative market values from hedges". Derivatives traded on exchanges or on the market are likewise measured at their quoted or market price.

The measurement methods used for Levels 2 and 3 consist of generally accepted measurement models, such as the present-value method, under which anticipated future cash flows are discounted at current interest rates applicable to the relevant residual term to maturity, credit risks and markets. This method is used to measure securities with agreed cash flows under the items "Financial assets at fair value through profit or loss", "Financial liabilities at fair value through profit or loss" and "Financial assets available for sale". Furthermore, it is used to measure interest rate swaps and non-optional forward transactions (e.g. currency forwards), which are depicted under the items "Financial assets at fair value through profit or loss", "Financial liabilities at fair value through profit or loss", "Positive market values from hedges" and "Negative market values from hedges".

A CVA/DVA estimate was performed for OTC derivatives. The result obtained from this assessment was recognised in the consolidated financial statements as at 31 December 2016. Most concluded derivatives are collateralised, meaning that the counterparty risk is nearly eliminated.

The present-value method is likewise used to measure the classes of financial instruments that are derived from the items "Receivables", "Liabilities" and "Subordinated capital" and whose fair value is disclosed in the notes to the consolidated financial statements.

The fair value of options not traded on an exchange is calculated using generally accepted option-pricing models (Black 76 for interest rate options, Black-Scholes for equity options) that correspond to each option's type and the generally accepted underlying assumptions on which they are based. The value of options is determined, in particular, by the value of the underlying base object and its volatility, the agreed base price, interest rate or index, the risk-free interest rate and the contract's residual term to maturity. Options measured using option-pricing models are found in the class "Derivative financial instruments", which is derived from the items "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss".

Applicable to all classes is that liquidity and rating spreads observable on the financial market are taken into account when measuring financial instruments. The measurement spread is determined by comparing reference curves with the financial instrument's corresponding risk-free money market and swap curves. Maturity-dependent spreads are used for the purposes of measurement, which also take into account the quality of the issuer within the various issuer groups within a rating class.

The fair value of cash and cash equivalents corresponds to the carrying amount, which is primarily due to the short term of these instruments. These financial instruments are recognised under the item "Cash reserves", which at the same time constitutes a separate class.

Combined financial instruments and structured products constitute a separate class and are measured in their entirety or by aggregating the measurement gains and losses of the individual components.

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

Hedge accounting

In the W&W Group, hedge accounting depicts changes in the fair value of financial assets and liabilities (fair value hedge) and fluctuations in future cash flows from variable-yield financial assets and liabilities (cash flow hedge). However, as at the balance sheet date, the company did not have any cash flow hedges.

When entering into a hedge, the hedged item and the hedging instrument are unambiguously stipulated in the documentation. The documentation also contains statements about the hedged risk, the objective of the hedge and the rhythm and form of initial and subsequent measurement of effectiveness.

The prospective measurement of a hedge's effectiveness, which is performed at the time the contracts are drawn up for the hedged item and the hedging instrument, is done on the basis of critical term match. Critical term match is a qualitative control of whether the essential parameters of the hedged item and the hedging instrument are in accordance. If a hedge does not meet this prerequisite, initial effectiveness is tested on the basis of market data shifts. In the process, the relevant interest rate curves are adjusted by +/- 100 basis points, and effectiveness is then measured. Retrospective effectiveness is normally tested using the cumulative dollar offset method, where changes in the value of the hedged item and the hedging instrument are cumulated over the entire term of the hedge or over all maturity bands and used as the basis for the effectiveness test.

Fair value hedges are used to hedge the change in the fair value of a recognised asset, a recognised liability or a fixed, off-balance-sheet obligation or a precisely described part thereof that is attributable to a precisely defined risk and may have an effect on net income for the reporting period. Only individual hedges existed as at the reporting date.

Each change in the fair value of the derivative used as the hedging instrument is recognised in the consolidated income statement. The carrying amount of the hedged item is adjusted in the income statement by the profit or loss attributable to the hedged risk. When the hedge is terminated, the adjustment made to the carrying amount of the hedged item is amortised over the residual term to maturity, if applicable. The cumulative changes in the fair value of the portfolio of financial assets that are attributable to the hedged risk are recognised under the item "Portfolio hedge adjustment assets".

Existing fair value hedges serve to reduce the risk of changes in interest rates. Interest rate swaps are the only hedging instruments used to hedge the risk of changes in interest rates in the form of value losses due to a changed interest rate level.

Cash flow hedges are used to hedge the risk of fluctuations in future cash flows that can have an effect on consolidated income. The risk of fluctuating cash flows can result from financial assets and liabilities. The effective portion of the changes in the value of the hedging instrument is recognised in the consolidated statement of comprehensive income under the sub-item "Unrealised gains/losses from cash flow hedges". The ineffective portion of the hedge is recognised in the consolidated income statement. The effective portion of the changes in the value of the hedging instrument is depicted in the consolidated statement of changes in equity under "Other reserves" as a reserve for cash flow hedges. If a cash flow hedge is terminated prematurely, these reserves are recognised in the consolidated income statement on a pro rata basis over the residual term to maturity of the hedging instruments.

Cash flow hedges are used to hedge the risks of changes in interest rates. Interest rate swaps are the only hedging instruments used to hedge risks of changes in interest rates from fluctuations in interest cash flows (cash flow risks). Hedge accounting ceases when the conditions for doing so are no longer met.

Structured products

Structured products are financial assets that have special features with respect to their interest rate, term or repayment. A structured product consists of a non-derivative host contract and one or more embedded derivatives that modify the cash flows of the host contract. The host contract and the derivative component(s) are closely linked with one another economically and form the subject of a contract. In general, structured products are depicted in the financial statements pursuant to the recognition and measurement rules applicable to the host contract. However, if the following conditions are present, the embedded derivative is to be recognised as a free-standing derivative separately from the host contract, provided that the entire structured product is not measured at fair value through profit or loss in exercise of the fair value option:

- the structured product is not already being measured at fair value through profit or loss,
- the economic characteristics and risks of the embedded derivative are not closely linked with those of the host contract and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

In the W&W Group, structured products are measured at fair value through profit or loss in connection with the fair value option.

Impairment of financial assets and reversal of impairment losses

As at each reporting date, the W&W Group tests whether and to what extent a financial asset is impaired. In this regard, information is regularly exchanged in an impairment commission, which consists of experts from the relevant departments. The impairment commission tests securities across all classes for the potential need to take an impairment loss where criteria that have been defined uniformly for the Group indicate that there may be a deviation from the contractually agreed future cash flows.

Only financial assets not at fair value through profit or loss are tested.

The impairment loss is measured according to principles that are uniform in the Group.

An impairment loss is taken if, as a result of one or more events after initial recognition of a financial asset, there is objective evidence of impairment and the event has an effect on the future cash flows of the asset that can be reliably estimated.

In the W&W Group, the following points are considered across all classes to be objective evidence that constitutes the criterion for testing for possible impairment:

- significant financial difficulties on the part of the debtor,
- breach of contract,
- concessions made to the borrower in connection with financial difficulties,
- increased likelihood of insolvency proceedings,
- loss of an active market for financial assets due to the debtor's financial difficulties,
- demonstrable data that are indicative of lower future cash flows,
- permanent and material decline in fair value and
- subsequent declines in fair value.

Impairment is generally tested in two steps for all classes. First, financial assets are tested for whether there is objective evidence of impairment. If objective evidence of impairment is found, then the amount of the impairment loss to be recognised is determined on the basis of expected future cash flows. The amount of the impairment loss generally corresponds to the amount by which a financial asset's carrying amount exceeds its recoverable amount.

The following describes the approach used in the W&W Group for financial assets assigned to the category "Receivables":

If an impairment is identified in the category "Receivables", then provisions are created either individually or collectively depending on the character of the receivable. This does not apply to senior fixed-income securities and other receivables (loans and advance payments on insurance policies) in this category for which impairment losses are deducted directly from the carrying amount.

Impairment provisions serve to cover acute counterparty default risks in the event that it becomes likely that not all interest and principal payments will be able to be made in conformity with the contract. Impairment provisions are created for financial assets that are significant in and of themselves. If financial assets are not significant in and of themselves, they are grouped into homogeneous portfolios, and a collective impairment provision is created.

With regard to financial assets for which individual or collective impairment provisions have been created, the interest income that is recognised or accrued is not the actual interest payments but rather the interest income from the change in present value resulting from discounting at the original effective interest rate. This interest income is depicted as a reduction in the impairment created, and it is recognised under "Net income/expense from receivables, liabilities and subordinated capital".

In addition, impairments are created on a portfolio basis to cover counterparty default risks that arose on or before the reporting date but are not yet known.

Interest actually paid continues to be recognised as interest income for financial assets in portfolios with default events that have occurred but have not yet been identified.

For all financial assets in this category, the amount of the impairment loss is determined as the difference between the carrying amount of the financial asset and the present value of expected future cash flows, taking collateral into account. On the other hand, a distinction is made in the consideration of the impairment provision. Changes in the value of trade accounts receivable are openly deducted from receivables under the item "Risk provision" on the assets side, whereas for securities-like financial assets and assets not recognised under other items (e.g. registered bonds, registered profit-sharing certificates, silent participations), the impairment losses so determined are deducted directly from the carrying amounts.

After impairments have been created, a reversal of impairment losses may become necessary in connection with subsequent measurement, meaning that the created impairments have to be released, in whole or in part, and recognised as income. In the event that an impairment loss is reversed, income is recognised in the consolidated income statement under the sub-item "Net income/expense from risk provision" (Note 32). The upper limit of the write-up is the amortised cost that would have resulted on the measurement date without impairment.

If it is virtually certain that no further payments can be expected, a financial asset in the category "Receivables" is classified as uncollectable. Uncollectable receivables are derecognised through utilisation of the risk provision. Payments received for derecognised receivables are recognised as income under "Net income/expense from risk provision" (Note 32).

If special events give rise to the above-described evidence of impairment to financial instruments in the category "Financial assets available for sale", cumulative measurement losses in the reserve for financial assets available for sale that were previously recognised under "Other comprehensive income" are now recognised as an expense under "Net income/expense from financial assets available for sale" in the amount of the impairment loss. The amount of the impairment loss consists of the difference between the amortised cost and the fair value of the financial instrument.

In addition, for the class of equity instruments in the category, objective evidence of impairment exists when their fair value is significantly or permanently less than their amortised cost. In the W&W Group, "significant" is considered to be where the price drops by 20% or more, and "permanent" is considered to be where the price has been lower than the historical amortised cost for nine months or more. If an impairment loss was already taken for these financial instruments, each additional decline in fair value in subsequent periods is reflected as an impairment loss in the consolidated income statement.

Translation differences from equity instruments held in a foreign currency that were recognised directly in equity under "Other comprehensive income" are reclassified to the income statement in the course of taking the impairment.

Impairment losses to equity instruments that were recognised in the past may not be reversed as gains. As a result, increases in fair value after an impairment loss was taken are recognised directly in equity under "Other comprehensive income".

Debt instruments in the classes derived from these categories are, in addition to where the above-described objective evidence exists, moreover tested for impairment where their fair value has fallen by more than 20% in the past six months compared with their carrying amount or the average price was more than 10% below the carrying amount in the past 12 months.

Subsequent declines in the fair value of an impaired debt instrument available for sale are recognised as losses, since they are considered to be further impairment. A debt instrument available for sale ceases to be classified as impaired once its fair value in the subsequent period has recovered to at least the level of its amortised cost, not taking into account the impairment loss, and such recovery is objectively attributable to an event that occurred after the impairment was recognised as a loss. Under these conditions, the reversed impairment loss is recognised as a gain. Increases in fair value going beyond this are recognised under "Other comprehensive income".

For loan commitments, a provision is created in the W&W Group for irrevocable loan commitments pursuant to the principles of portfolio impairment provisioning.

Other financial assets
The amount of the impairment loss is determined in conformity with the rules of IAS 36. According to this standard, it is determined for the entire asset whether its recoverable amount (its fair value less costs of disposal or its value in use, whichever is higher) is lower than its carrying amount. The amount of the impairment loss is the resulting difference. In the event that an impairment loss is reversed, this is recognised as a gain, but not by more than the prior impairment loss.

Concessions and renegotiations (forbearance measures)

In justified exceptional cases, reorganisation/restructuring agreements are entered into with borrowers, since otherwise the contract terms originally agreed to would be unable to be complied with. These agreements generally call for a temporary or permanent reduction in the amount of loan repayment instalments in exchange for an extension of the total term of the loan, which ultimately leads to complete repayment of the loan amount. In addition, they include modification of interest terms to conform to the new repayment terms and normally call for deferment of existing interest claims.

Such concessions may be granted to the borrower on account of existing or expected financial difficulties, and they normally contain terms that are more advantageous to the borrower as compared with the original contract. In order to be able to identify these commitments early on, all loan commitments in the W&W Group are regularly reviewed for whether there is evidence that the borrower is experiencing financial difficulties. In particular, arrearages that trigger collection warnings constitute objective evidence that the borrower is experiencing financial difficulties.

In advance of such restructuring, reorganisation and deferment measures, the customer's creditworthiness is once again verified on the basis of current economic circumstances. In general, measures taken in the past form part of the decision-making process.

When carried out, restructuring measures initially constitute objective evidence of impairment, but an impairment loss is not taken due to the positive review of creditworthiness and the positive going-concern outlook. These loans continue to be carried in the portfolio impairment provision.

Loan commitments for which the evaluation of creditworthiness, taking into account an annuity reduction, is positive and that were not previously in default are converted directly to the new repayment terms. Such conversion has no impact on risk provision, since the criteria set for the new credit terms continue to be met without change.

However, despite careful review of creditworthiness and the targeted measures taken, it cannot be ruled out that repayment problems will arise in the future. Should that occur, the customer's creditworthiness is once again critically reviewed on the basis of its current economic circumstances.

If the assessment of creditworthiness is negative, or if the loan is in default, it is first decided whether it appears reasonable under the given circumstances to restructure the existing loan or refinance the debt through a new loan.

In both cases, an individual or collective impairment provision is created in the amount of the expected default. In all other cases, the settlement process is initiated for loans in default.

The loan claim is derecognised if no further payments are expected from liquidation of existing collateral or from the debtor.

Other items

Non-current assets held for sale and discontinued operations

A non-current asset is classified as held for sale if the associated carrying amount is to be realised primarily through a sale and not through continued use.

Such assets are recognised in the balance sheet under the item "Non-current assets classified as held for sale and discontinued operations". Income and expenses from individual assets held for sale or disposal groups are not recognised separately in the income statement but instead are included under the normal items.

Non-current assets that are classified as held for sale are recognised at the carrying amount or at fair value less costs of disposal, whichever is lower. If the carrying amount is higher than fair value less costs of disposal, the amount of the difference is recognised as a loss for the relevant period. Assets held for sale are not subject to scheduled depreciation.

Investment property

The item "Investment property" consists of land and buildings held for the purposes of generating rental income and/or appreciation in value.

Investment property is measured at acquisition or production cost, as reduced by scheduled use-related depreciation and, where applicable, impairment losses (cost model).

Each part of a property with an acquisition value that is significant in relation to the value of the entire property was subjected to separate scheduled depreciation. In so doing, a distinction was made, at a minimum, between shell construction and interior outfitting/technical systems.

The individual useful lives of shell construction and interior outfitting/technical systems were estimated by architects and engineers in the property division of the W&W Group. For shell construction, the maximum useful life was estimated to be 80 years (previous year: 80 years) for residential properties and 50 years (previous year: 50 years) for commercial properties, whereas for interior outfitting/technical systems, the maximum useful life was estimated to be 25 years (previous year: 25 years).

Shell construction and interior outfitting/technical systems were subjected to scheduled depreciation on a straight-line basis over the expected remaining useful life.

Investment property was tested for impairment in two steps. First, it was examined whether there was evidence of impairment on the reporting date. If this was the case, the anticipated recoverable amount was determined as the net realisable value (fair value less costs of disposal). If this value was less than amortised cost, an impairment loss was taken in the corresponding amount. In addition, it was examined on the reporting date whether there was evidence that an impairment loss taken for investment property in earlier periods no longer existed or might have declined. If this was the case, the recoverable amount was likewise determined and, if appropriate, the carrying amount was modified to reflect the recoverable amount, paying regard to amortised cost.

The fair value of investment property is essentially determined using the discounted cash flow method, with income and expenses planned in detail (term and reversion income approach). In this regard, significant non-observable inputs were used, for which reason this method for investment property was allocated to Level 3 in the measurement hierarchy for determining fair value.

In connection with determining fair value, expected future cash inflows (rents, other revenues) and cash outflows (maintenance, non-apportionable operating expenses, vacancy costs, costs for re-leasing) were discounted to present value for a 10-year forecast period and planned in detail.

Cash inflows and outflows are considered on an individual basis, i.e. each lease and each construction measure was planned separately. Likewise, vacancy periods, real estate agent costs, etc. in the commercial area were viewed separately for each rental unit. With regard to residential properties, market-based assumptions about the change in the average rents of all residential units over the forecast period were taken as a basis. Because residential units are similar, it was elected to dispense with individual planning.

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

- The interest rate of a risk-free financial investment, plus a risk premium, was used as the adjusted capitalisation interest rate in the term period. The risk premium for properties ranged from 230 basis points (previous year: 258 basis points) for, for example, residential properties in top locations to 680 basis points (previous year: 708 basis points) for, for example, office locations and sites without any discernible advantages/strengths. This resulted in an adjusted capitalisation interest rate of between 2.75% and 7.30%, although the range may vary in some cases due to special aspects of the property or location.
- The interest rate determined in the term period serves as the adjusted capitalisation interest rate or adjusted discount rate in the reversion period, but it is normally increased by 50 basis points because of low certainty about reversion rental income. The resulting capitalisation interest rate or discount rate ranges between 3.00% and 7.60%.
- An inflation rate of 1.5% p.a. was used as the basis for determining rent increases and changes in average rents in the forecast period. For commercial properties, this was the basis used to make a property-specific, contractually conforming forecast of rent trends independent of location, site, building age and type of use. For residential properties, the basis used was the anticipated change in comparable local rents. In addition, on the basis of past experience, an assumption was made as to the frequency of tenant turnover p.a. for newly rented residential units. In the area of residential properties, it was assumed that rents could be expected to increase by 1.00% to 2.00% p.a. on average.
- Recognised ancillary purchase costs include land transfer tax (varies from state to state in Germany) plus 1.50% for notary and other costs.
- The expected occupancy rate of the entire property portfolio was approximately 96% on average. The expected rate was 97-99% for residential properties and 90-95% for commercial properties.
- Rent-free periods were taken into consideration only if this was unavoidable due to the type of use and the competitive situation at the location. In such cases, two to six months were used on a case-by-case basis.

Investment property is initially valued using outside appraisers (see Note 9). Thereafter, it is valued on an ongoing basis by commercial and technical employees (portfolio managers, controllers, architects and engineers) from the Group's property division. Management's assumptions are taken into consideration in making valuations. With property investments under outside management, fair value is normally determined by outside appraisers. Property fair values shown in the notes to the consolidated financial statements were likewise determined using the above-described method.

Reinsurers' portion of technical provisions

The reinsurers' portion of technical provisions is recognised in the balance sheet on the assets side.

All reinsurance contracts concluded by W&W Group companies transfer significant insurance risk, i.e. they are insurance contracts within the meaning of IFRS 4. The reinsurers' portion of technical provisions is determined from gross technical provisions in conformity with the contractual terms (cf. also the notes on the corresponding liability items). The reinsurers' portion of technical provisions is tested for impairment on each reporting date.

Intangible assets

Allocated to the item "Intangible assets" are software, brand names and other intangible assets.

All intangible assets exhibit a limited useful life, are measured at amortised cost (cost model) and are amortised on a straight-line basis over their estimated useful life. Internally developed software from which the Group is likely to receive a future economic benefit and that can be reliably measured is recognised at its production cost and amortised on a straight-line basis over its estimated useful life. Production costs for internally developed software consist of all directly attributable costs that are necessary for developing and producing the respective asset and preparing it in such a way that it is capable of operating in the manner intended. Research and development costs that are not required to be capitalised are treated as an expense in the period. If the acquisition or production of software takes longer than one year, the directly attributable borrowing costs incurred up to completion are recognised as a component of the production costs for the qualified asset.

Internally developed and acquired software is generally amortised on a straight-line basis over a period of three to five years. Brand names are amortised on a straight-line basis over a useful life of 20 years, and other acquired intangible assets are amortised on a straight-line basis over a useful life of at most 15 years.

Scheduled amortisation of and impairment losses taken for intangible assets are recognised as general administrative expenses under the item "Depreciation/amortisation".

Property, plant and equipment

Recognised under "Property, plant and equipment" are property for own use and plant and equipment. Property for own use means land and buildings used by Group companies.

Property, plant and equipment is measured pursuant to the cost model at acquisition or production cost, as reduced by scheduled use-related depreciation and, where applicable, impairment losses.

Property for own use is measured using the same valuation methods that apply to the recognition of investment property. Reference is therefore made to the corresponding comments.

Plant and equipment are subjected to scheduled depreciation on a straight-line basis over their estimated useful life, generally up to at most 13 years. Acquired EDP equipment is depreciated on a straight-line basis over its estimated useful life, normally up to at most seven years. Economic useful life is regularly reviewed in connection with preparation of the financial statements. Modifications that need to be made are recognised as a correction to scheduled depreciation over the remaining useful life of the respective asset.

In addition, as at each reporting date, it is reviewed whether there is evidence of impairment to the corresponding asset. If this is the case, impairment is determined by comparing the carrying amount with the recoverable amount (fair value less costs of disposal or value in use, whichever is higher). If an item of property, plant and equipment does not generate cash flows that are largely independent of cash flows from other items of property, plant and equipment or groups of property, plant and equipment, impairment is tested not on the level of the specific item of property, plant and equipment but rather on the level of the cash-generating unit to which the item of property, plant and equipment is to be allocated. If it is necessary to take an impairment loss, it corresponds to the amount by which the carrying amount exceeds the recoverable amount for the item of property, plant and equipment or, if applicable, for the cash-generating unit, whichever is lower. If fair value less costs of disposal cannot be determined, the recoverable amount corresponds to the value in use. The value in use is determined as the present value of forecast cash flows from continued use. Once there is evidence that the reasons for taking the impairment loss no longer exist, it is tested for reversal.

Scheduled depreciation of and impairment losses taken for property for own use and plant and equipment are recognised as general administrative expenses under the item "Depreciation/amortisation". Income for property for own use related to the pro rata temporis release of disposal gains in connection with sale-leaseback transactions is recognised as other operating income.

Inventories

Inventories are recognised at acquisition or production cost or at net realisable value, whichever is lower.

Production costs are determined on the basis of individual costs and directly attributable overhead costs. The scope of production costs is determined by the costs expended up to the point of completion and readiness for use (total costs-of-conversion approach). Acquisition and production costs for non-interchangeable and special inventories are determined by specific allocation. Certain acquisition and production costs for interchangeable inventories are determined according to the first-in, first-out (FIFO) method or the weighted average cost method.

Net realisable value corresponds to the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Leasing

A lease is an agreement under which the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that essentially transfers from the lessor to the lessee all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

With a finance lease, the lessee recognises the leased asset in its balance sheet and creates a corresponding financial liability. Recognised depreciable leased assets are depreciated on a straight-line basis according to the same principles applicable to other comparable assets owned by the W&W Group. Lease payments are divided into financing costs and a repayment portion, whereby the financing costs are recognised as an expense under "Net income/expense from receivables, liabilities and subordinated capital" (interest expenses for liabilities). The repayment portion reduces the financial liability. Recognised leased assets are tested for impairment as at each reporting date. If the recoverable amount of the leased asset is less than its carrying amount, an impairment loss is taken. If the reasons for taking the impairment loss no longer exist, it is tested for reversal.

The Group did not carry out any finance lease business as lessor.

In the W&W Group, lease payments made by the lessee under an operating lease are generally recognised as general administrative expenses on a straight-line basis over the lease term.

The lessor recognises the assets under an operating lease in the corresponding item, depending on the features of these assets. Income from operating leases is generally recognised on a straight-line basis over the lease term. Costs, including depreciation, incurred in connection with operating leases are recognised as an expense in the consolidated income statement. The depreciation rates for depreciable leased assets are consistent with those for similar assets.

Recognised leased assets are tested for impairment as at each reporting date. If the recoverable amount of the leased asset is less than its carrying amount, an impairment loss is taken. If the reasons for taking the impairment loss no longer exist, it is tested for reversal.

In some cases, sale-leaseback transactions occur. A sale-leaseback transaction consists of the sale and simultaneous leaseback of an asset. The treatment of such transactions follows the rules for operating or finance leases. Profit or loss from the sale is deferred according to the specific rules in IAS 17.

Current tax assets, deferred tax assets, current tax liabilities and deferred tax liabilities

Current tax assets and liabilities are recognised in the amount of the expected refund from or payment to the relevant tax authorities. Deferred tax assets and liabilities are created because of temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet drawn up pursuant to IFRS and the tax carrying amounts pursuant to local tax rules of the Group companies. Deferred taxes are calculated at the respective country-specific tax rates. Deferred tax assets are recognised for tax loss carryforwards to the extent that, in accordance with planning calculations, it is probable that they can be utilised in the future. Deferred tax assets from temporary differences and loss carryforwards are tested for impairment as at each reporting date.

Technical provisions

In general

Technical provisions are recognised on the liabilities side in gross amounts, i.e. before deduction of the reinsurers' portion of technical provisions. The reinsurance portion is determined in accordance with contractual reinsurance agreements and recognised separately on the assets side.

All insurance contracts concluded by W&W Group companies transfer significant insurance risk, i.e. they are insurance contracts within the meaning of IFRS 4.

Pursuant to IFRS 4.14 (a), liabilities may not be recognised for fluctuation reserves to be created in property and casualty insurance according to national rules or for reserves similar to fluctuation reserves.

Reserves are created for assumed reinsurance business according to the information provided by the prior insurer. If such information was unavailable, the reserves were determined by the data available to us. In the case of co-insurance and pools in which direction has been in the hands of outside companies, the same approach was taken.

The provision for unearned premiums corresponds to that portion of written premiums that constitutes income for a certain period of time after the reporting date. For each insurance contract, the provision for unearned premiums is accrued either to the precise day or to the precise month. The provision for unearned premiums in transport insurance in the area of property/casualty insurance is recognised under the item "Provision for outstanding insurance claims".

Life insurance

The provision for future policy benefits is determined according to actuarial principles for each contract prospectively, taking into account the month of commencement, as the present value of future guaranteed insurance benefits, less the present value of future premiums. Future administrative costs are mainly taken into account implicitly.

For times when no premiums are paid, a provision for administrative costs is created within the provision for future policy benefits. It is currently deemed to be sufficiently high. With unit-linked life and annuity insurance, only contingent guarantee components are recognised in the provision for future policy benefits.

In the case of insurance policies with regular premium payments, one-off acquisition costs are explicitly recognised using Zillmerisation. To the extent permitted, claims that are not yet due are recognised under "Receivables from policyholders".

The applied actuarial interest rate and the biometric actuarial bases correspond to those that also form part of the calculation of premium rates. Interest rates ranged from 0.90% (previous year: 1.25%) to 4.0% (previous year: 4.0%). Exceptions to this are explained in the following sections. The average actuarial interest rate for the provision for future policy benefits was 2.1% (previous year: 2.4%). The standard industry tables recommended by the German Association of Actuaries (DAV) were used for the biometric actuarial bases. In exceptional cases, tables based on our own experience were used.

As a result of European case law, only so-called "unisex rates" have been permitted to be offered since 21 December 2012, which are calculated in a gender-neutral manner. For this purpose, the company uses its own, gender-neutral biometric actuarial bases, which are derived from the gender-neutral tables recommended by the DAV.

For insurance policies for which an actuarial interest rate was originally used that is no longer appropriate under Section 341f (2) of the German Commercial Code (HGB), the provision for future policy benefits in the new portfolio was determined for the period of the next 15 years using the reference interest rate of 2.21% (previous year: 2.54%) specified in Section 5 (3) of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) and thereafter using the original actuarial interest rate. In the old portfolio, interest reinforcement was created pursuant to the business plan in a manner analogous to the additional interest reserve. For this purpose, a measurement interest rate of 2.21% (previous year: 2.36%) was used for the insurance policies of Württembergische Lebensversicherung AG, a measurement interest rate of 2.21% (previous year: 2.50%) was used for the insurance policies of Karlsruher Lebensversicherung AG, and a measurement interest rate of 2.61% (previous year: 2.65%) was used for ARA Pensionskasse AG. In calculating interest reinforcement and the additional interest reserve, likelihoods of capital disbursement were taken into account that are specific to each company. In the case of endowment insurance policies of Württembergische Lebensversicherung AG, the mortality table DAV 2008T was, in addition, used as the reserve level.

In order to take increased life expectancy into account with regard to annuity insurance, an additional provision for future policy benefits was created. Current mortality studies of annuity insurance have shown that the safety margins built into the original actuarial bases no longer meet the actuarial safety requirements. In order to maintain an appropriate safety level going forward, the safety margin was bolstered in the 2017 financial year in accordance with DAV recommendations as part of the ongoing review of trend assumptions, and the provision for future policy benefits for pensions was increased. This was based on the DAV-developed mortality tables DAV 2004 R-Bestand (at the rate of 7/20) and DAV 2004 R-B20 (at the rate of 13/20), on entity-specific probabilities of capital disbursements and on the principles for calculating the provision for future policy benefits that were published by the German Federal Financial Supervisory Authority (BaFin) in January 2005.

(Supplemental) insurance policies for occupational disability were compared collectively against the DAV's currently applicable actuarial bases, and where necessary a supplemental provision for future policy benefits was created.

For supplemental long-term care annuity insurance policies, actuarial bases are used that are deemed sufficient pursuant to the guideline "Reserving for (supplemental) long-term care annuity insurance policies in the portfolio" enacted by the DAV in the 2008 financial year.

The actuarial bases used for calculating the provision for future policy benefits are reviewed annually for sufficient safety margins, taking into consideration the actuarial bases recommended by the DAV and BaFin and the observable trends in the portfolio. The explanatory report by the responsible actuary pursuant to Section 141 (5) No. 2 and No. 4 sentence 2 of the German Insurance Supervision Act (VAG) demonstrates that all actuarial bases were selected with sufficient caution pursuant to regulatory and commercial law provisions.

The provision for outstanding insurance claims was created for future payment obligations that result from insurance claims that occurred on or before the reporting date but have not yet been settled. It also contains anticipated claim adjustment expenses. The amounts and disbursement times of insurance benefits are still uncertain.

The provision for insurance claims that have already been reported by the reporting date is generally determined separately (separate measurement). For insurance claims that had already occurred by the reporting date but were still unknown, a provision for late outstanding claims was created, whose amount was determined on the basis of operational experience in past years.

The provision for premium refunds consists of two parts. Assigned to the first part – premiums allocated according to commercial law rules, i.e. the provision for premium refunds under the HGB – is the portion of each insurance company's net profit that is attributable to policyholders. The second part of the provision for premium refunds – the provision for deferred premium refunds – contains the portions of the cumulative measurement differences between the annual financial statements of the individual companies under national law and the consolidated financial statements pursuant to IFRS that are attributable to policyholders. These temporary measurement differences are included in the provision for deferred premium refunds at the rate of 90% (previous year: 90%) at which policyholders participate at a minimum upon realisation.

Technical provisions in the area of life insurance, insofar as the investment risk is borne by policyholders, are determined for each individual contract using the retrospective method. In this regard, unless they are used for the purposes of financing guarantees, received premiums are invested in fund units. The risk and cost components are withdrawn from the fund balance on a monthly basis, where applicable subject to offsetting against the corresponding surplus components. The carrying amount of this item corresponds to the carrying amount of capital investments for the account and risk of holders of life insurance policies under the item "Financial assets at fair value through profit or loss".

Health insurance

With health insurance, the average actuarial interest rate for the provision for future policy benefits was 2.59% (previous year: 2.88%). The mortality tables published by the German Federal Financial Supervisory Authority (BaFin) were used for the biometric actuarial bases. In calculating the provision for future policy benefits in health insurance, assumptions are made about probabilities of withdrawal and about current health costs and those that increase with age. These assumptions are based on our own experience and on reference values ascertained industry-wide. The actuarial bases are reviewed on a regular basis in connection with premium adjustments and are then adjusted where applicable with the consent of the trustee. New rates are introduced only if the new trustee confirms that the actuarial bases to be used are suitable.

In health insurance, provisions for outstanding insurance claims are extrapolated on the basis of claims made during the reporting year. The extrapolation is based on the average ratio of claims made in the previous year to those made in the three financial years preceding the reporting date.

In health insurance, the provision for premium refunds consists of two parts. Assigned to the first part – premiums allocated according to commercial law rules, i.e. the provision for premium refunds under the German Commercial Code (HGB) – is the portion of net profit that is attributable to policyholders and not directly credited. The minimum statutory requirements were observed in connection with this allocation. The second part of the provision for premium refunds – the provision for deferred premium refunds – contains the portions of the cumulative measurement differences between the annual financial statements of the health insurer under national law and the consolidated financial statements pursuant to IFRS that are attributable to policyholders. These temporary measurement differences are included in the provision for deferred premium refunds at the rate of 80% (previous year: 80%) at which policyholders participate at a minimum upon realisation.

In health insurance, other technical provisions include, in particular, the provision for cancellations. It is calculated on the basis of the negative parts of the ageing provision and the parts of the carryover values exceeding the standard ageing provisions.

One-off acquisition costs for health insurance are recognised using Zillmerisation, and the net positive provision for future policy benefits is accounted for under the item "Provision for future policy benefits".

Property/Casualty Insurance

The provision for outstanding insurance claims (provision for claims) is created on a policy-by-policy basis for future payment obligations that result from insurance claims that occurred on or before the reporting date but have not yet been settled. It also contains anticipated claim adjustment expenses. The amounts and disbursement times of insurance benefits are still uncertain.

The provision for late outstanding claims was determined from the databases of prior financial years, as well as based on experience. In this regard, the provision for late outstanding claims is calculated using a method recommended by the German Federal Financial Supervisory Authority (BaFin). Claims reported during the reporting year are distributed to the respective year of occurrence by number and expense and compared with the claims made during the corresponding years. These ratios are applied to the average unit cost for settled claims, resulting in the anticipated unit cost rates for claims that were reported after the reporting year but that occurred during the reporting year, and these are then multiplied by the anticipated unit figures to calculate the provision for late outstanding claims. The provisions for claims are not discounted, other than the provision for future annuity benefits in property insurance.

The provision for claim adjustment expenses was determined in accordance with the letter of the German Federal Minister of Finance of 2 February 1973.

The provision for future annuity benefits in property/casualty insurance is calculated for each individual contract according to actuarial principles and, as is the case with the provision for future policy benefits, using the prospective method. The mortality tables recommended by the German Association of Actuaries (DAV), DAV HUR 2006, were used, and they contain suitable safety margins. The maximum actuarial interest rate of 0.9%, which has been in effect since 1 January 2017, was used for all annuity commitments. Future administrative costs were measured at 2% of the provision for future annuity benefits, a rate that is deemed sufficiently conservative.

Other technical provisions in property/casualty insurance consist primarily of provisions for cancellations, the provision for unused premiums from dormant motor insurance policies, and the provision for impending losses. The provision for cancellations is created for the anticipated cessation or reduction of the technical risk associated with premiums to be refunded.

Other provisions

Provisions for pensions

The company pension scheme in the W&W Group consists of both defined-contribution and defined-benefit commitments. Prior to reorganising the company pension scheme in 2002, all employees at Wüstenrot companies (Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank, Wüstenrot Immobilien GmbH, Wüstenrot Haus- und Städtebau GmbH and Gesellschaft für Markt- und Absatzforschung mbH) were granted defined-benefit pension commitments. At Württembergische Versicherung AG, Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG, defined-contribution commitments were granted (Pensionskasse der Württembergische). In addition, managers, senior executives and directors received pension commitments (defined-benefit commitments). At Wüstenrot & Württembergische AG, W&W Informatik GmbH and W&W Asset Management GmbH, both defined-benefit and defined-contribution commitments were granted. The various defined-benefit commitments in the Group are primarily structured in a manner dependent on salary and length of service and sometimes as fixed-amount commitments. Since 2002, pension commitments for new hires have been financed Group-wide by ARA Pensionskasse AG (defined-contribution commitments). Managers, senior executives and directors receive pension commitments (defined-contribution-oriented defined-benefit commitments) that are reinsured by ARA Pensionskasse AG.

Commitments under defined-benefit plans are measured using the projected unit credit method on the basis of expert actuarial opinions. Taken into account in doing so are both the pensions and acquired pension entitlements known on the reporting date and the increases in salary and pensions expected in the future. Pursuant to IAS 19.83, the rate used to measure pension provisions is to be determined on each reporting date on the basis of yields on senior fixed-income corporate bonds. The currency and term of the underlying corporate bonds must be consistent with the currency and estimated term of the commitments to be met.

Actuarial gains and losses from experience-related adjustments and changes to actuarial assumptions are recognised directly in equity for the period in which they are incurred within the reserve for pension commitments and form a component of other comprehensive income.

Income from pension commitments is recognised in the consolidated income statement under "Net income/expense from receivables, liabilities and subordinated capital" (interest cost), and expenses from pension commitments are recognised under "Personnel expenses" (service cost). Past service cost is recognised immediately in full as an expense under "Personnel expenses".

Assets transferred to an outside pension fund constitute plan assets, which are netted at their fair value against existing defined-benefit commitments.

Provisions for other long-term employee benefits

Other long-term employee benefits include commitments for early retirement, agreements on phased-in early retirement ("Altersteilzeit"), the granting of long-service benefits, long-term occupational disability benefits, death benefits and other social benefits. Actuarial gains and losses arising in connection with the accounting for other long-term employee benefits are recognised in the income statement.

For information about the corresponding actuarial interest rates, please see Note 21.

Other provisions

Miscellaneous provisions are measured and recognised in the anticipated settlement amount, provided there are legal or constructive obligations to third parties based on past business events or occurrences and the outflow of resources is likely. The settlement amount is determined on the basis of best estimates. Miscellaneous provisions are recognised if they can be reliably determined. They are not set off against refund claims. The determined obligations are discounted at market interest rates that correspond to the risk and the period until settlement, provided that the resulting effects are material.

Provisions for restructuring are recognised if a detailed formal plan for the restructuring was approved and the main restructuring measures contained in it have been publicly announced, or the restructuring plan has already begun to be implemented.

Provisions are created for the refunding of closing fees in the event of loan waivers where concluded home loan savings contracts contain the obligation to refund closing fees to home loan and savings customers when certain contractually agreed criteria are met (e.g. loan waiver). Under the assumption that, in the event of a loan waiver by home loan and savings customers, the claim to closing fees was earned by the reporting date at the latest, the present value is calculated on the basis of a probability-based forward projection of past statistical data that constitutes the best estimate of the current obligation. Uncertainties in determining the future amount of the obligation arise, in particular, from the established assumptions concerning the input parameters used, such as statistical data, termination behaviour and loan waiver ratio.

Provisions for interest bonus options are created where the obligation to pay interest bonuses to home loan and savings customers is contained in concluded home loan savings contracts. Under the assumption that the maximum interest bonuses earned by the reporting date at the latest may potentially need to be disbursed, the present value is calculated on the basis of a probability-based forward projection that constitutes the best estimate of the current obligation. Uncertainties in determining the future amount of the obligation may arise, in particular, from the established assumptions concerning the input parameters used, such as termination behaviour and bonus utilisation behaviour.

Other provisions consist of, for example, provisions for contingent losses from pending transactions, which are created if a contingent liability results from a pending transaction.

There are no assets for expected reimbursements in connection with recognised miscellaneous provisions.

Equity

This item consists of (1) paid-in capital, (2) earned capital and (3) non-controlling interests in equity.

Paid-in capital consists of share capital and the capital reserve. Share capital consists of registered shares that are fully paid up. The capital reserve consists of the premium generated above the par value when issuing shares.

Earned capital consists of retained earnings and other reserves:

Retained earnings consist of statutory reserves and reinvested profits.

Other reserves include:

- the reserve for financial assets available for sale,
- the reserve for financial assets accounted for using the equity method,
- the reserve for cash flow hedges,
- the reserve for currency translation and
- the reserve for pension commitments.

The reserve for financial assets available for sale consists of unrealised gains and losses from the measurement of financial assets available for sale. The reserve for financial assets accounted for using the equity method consists of unrealised gains and losses from the measurement of financial assets accounted for using the equity method. The reserve for cash flow hedges consists of unrealised gains and losses from the measurement of derivative financial instruments that are utilised for cash flow hedge accounting and meet the criteria of hedge accounting. The reserve for currency translation consists of currency differences of economically independent units. The reserve for pension commitments consists of actuarial gains and losses from defined-benefit plans.

The aforementioned components of other reserves are generally created by taking into consideration deferred taxes and, in the area of life and health insurance, also taking into consideration the provision for deferred premium refunds.

Translation differences from the consolidation of subsidiaries whose functional currency is not the euro are recognised in the reserve for currency translation.

Non-controlling interests in equity consist of the interests of non-Group third parties in the equity of subsidiaries.

Repurchase agreements and securities lending transactions

In the W&W Group, only genuine repurchase agreements (repos) are entered into. Genuine repurchase agreements are contracts under which securities are sold for consideration but where it is at the same time agreed that such securities have to be purchased back at a later point in exchange for payment to the seller of an amount agreed to in advance.

Securities sold in connection with repurchase agreements continue to be recognised in the seller's balance sheet in accordance with the prior categorisation, since it retains the risk and opportunities associated with ownership of the security. At the same time, the seller recognises a financial liability in the amount received. If there is a difference between the amount received upon sale of the security and the amount to be paid when repurchasing it, it is imputed over the term of the agreement using the effective interest method and recognised in the income statement. Current income is recognised in the consolidated income statement according to the rules for the relevant securities category.

Securities lending transactions are accounted for in the same way as repurchase agreements. Lent securities continue to be recognised in the balance sheet in the relevant category. By contrast, borrowed securities are not recognised. If borrowed securities are sold to a third party, the obligation to return them is recognised under "Financial liabilities at fair value through profit or loss". A corresponding liability is recognised for received cash collateral, and a corresponding receivable is recognised for provided cash collateral. If securities are provided as collateral, they continue to be recognised by the collateral provider. Income and expenses from securities lending transactions are recognised in the consolidated income statement corresponding to the relevant term.

Detailed information about the scope of repurchase agreements and securities lending transactions entered into in the W&W Group can be found in Note 46 "Transfers of financial assets and granted and received collateral".

Trust business

Trust business is generally characterised by a trustee acquiring property, assets or claims in its own name on behalf of the trustor and managing same in the interest of and at the instruction of the trustor. The trustee acts in its own name on behalf of others.

Trust assets and liabilities are recognised outside the balance sheet in the notes. Detailed information about the nature and scope of existing trust assets and liabilities in the W&W Group can be found in Note 47 "Trust business".

Contingent liabilities

Contingent liabilities are potential obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the W&W Group. Contingent liabilities are also present obligations that arise from past events but are not recognised because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. If the outflow of resources is not probable, disclosures are made about these contingent liabilities in the notes (Note 58 "Contingent liabilities and other liabilities"). If contingent liabilities are assumed in connection with corporate mergers, they are recognised in the balance sheet at fair value at the time of acquisition

Disclosures about select items in the consolidated income statement

Net financial result

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

- financial assets available for sale,
- financial assets accounted for using the equity method,
- financial assets/liabilities at fair value through profit or loss,
- hedges and
- receivables, liabilities and subordinated capital.

Furthermore, the net income/expense from risk provision is taken into account in the net financial result.

Recognised under "Net income/expense from financial assets available for sale" is the gain/loss from the sale of financial assets available for sale, the measurement gain/loss through profit or loss of financial assets available for sale and current income (interest and dividends). Dividends are recognised once there is a legal claim to payment.

Recognised under "Net income/expense from financial assets/liabilities at fair value through profit or loss" are realised and unrealised gains and losses, interest and dividends from financial assets/liabilities at fair value through profit or loss, and other income and expenses.

Recognised under "Net income/expense from hedges" is the net income/expense from hedged items and hedging instruments involving fair value hedges. Also recognised here in the income statement are the effects from the ineffective portion of the hedging instrument and from the release of the reserve for cash flow hedges.

Recognised on an accrual basis under "Net income/expense from receivables, liabilities and subordinated capital" are interest income and interest expenses under application of the effective interest method.

Recognised under "Net income/expense from risk provision" are expenses from individual and portfolio impairment provisioning, as well as direct write-downs. This relates to lending business, primary insurance and reinsurance business, and other business.

Net income/expense from investment property

Recognised under "Net income/expense from investment property" are rental income, expenses for repairs and maintenance, gain/losses on sales and changes in value.

Rental income is recognised in the income statement monthly in advance.

Net commission income/expense

Recognised under "Net commission income/expense" are commission income and expenses, insofar as they are not recognised in connection with calculating the effective interest rate.

Commission income and expenses result in particular from home loan savings business, banking business, reinsurance business, investment business and brokering activities. Commission expenses also result from primary insurance business.

Commission income is recognised in the income statement at the time the service is provided, and commission expenses are recognised at the time the service is used. No commission income is recognised in primary insurance business, since customers are not billed separately for the costs associated with conclusion of insurance contracts.

Earned premiums (net)

Recognised under "Gross premiums written" from direct insurance business and assumed reinsurance business is generally all income that results from contractual relationships with policyholders and cedants concerning the granting of insurance cover. Gross premiums written are accrued for each insurance contract. Earned premiums (net) result from taking into account the change in the provision for unearned premiums determined from accruals and the deduction of paid reinsurance premiums from gross premiums written and from the change in the provision for unearned premiums.

Insurance benefits (net)

Recognised under "Insurance benefits (gross)" are payments on insurance claims as well as changes in the provision for future policy benefits, the provision for outstanding insurance claims, the provision for future policy benefits for unit-linked insurance contracts and other technical provisions. Also recognised under "Insurance benefits" are additions to the provision for premium refunds required by the German Commercial Code (HGB) and direct credits. Claim adjustment expenses are recognised under "General administrative expenses".

Changes in the provision for deferred premium refunds that are attributable to changes based on remeasurement through profit or loss between national rules and IFRS are likewise recognised under "Insurance benefits". A provision for deferred premium refunds due to the participation of policyholders in unrealised gains and losses from financial assets available for sale and financial assets accounted for using the equity method as well as in gains and losses from pension provisions is generally created and released in equity.

Insurance benefits (net) result from the deduction of paid reinsurance premiums from insurance benefits (gross).

General administrative expenses

In the W&W Group, general administrative expenses consist of personnel expenses, materials costs, scheduled depreciation/amortisation, and impairment losses to property, plant and equipment and intangible assets. W&W Group expenses are allocated to materials costs and personnel expenses according to the principles of the nature-of-expense method.

Income taxes

Actual income taxes are calculated on the basis of the respective national tax results and rules for the financial year. In addition, the taxes actually recognised in the financial year also include adjustment amounts for any tax payments or refunds due for periods that have not yet been finally assessed. If tax authorities dispute amounts listed in tax returns, tax provisions are created. The amount of the provision is based on the best estimate of the expected tax arrearage payment. Tax receivables are recognised once it is likely that they can be collected.

Income tax earnings and expenses are recognised in the consolidated income statement as income taxes and distinguished in the notes (Note 39) between actual and deferred taxes.

Disclosures about the cash flow statement

For the Group's cash flow statement, all cash flow is evaluated on the basis of the business models of the various Group entities – these are mainly the business models for the banks and the home loan and savings banks, as well as insurance companies – as to the extent to which it is contingent on operating activities or originates from investing or financing activities.

Cash flow from operating activities essentially consists of all payments from the credit and deposit business of the Group's banks and home loan and savings banks, the trading portfolio of the banks, the technical provisions and the receivables and liabilities from reinsurance business. It also includes tax payments, as well as cash flow from the receivables and liabilities of the operational business of all Group banks, insurance companies and other entities.

Cash flow from investing activities consists of investments in intangible assets and in property, plant and equipment both for bank and home loan savings business and for insurance business. It also includes deposits and disbursements under mortgage loans made by the insurance companies, real estate investments, equities, participations, assets accounted for using the equity method, various investment funds and fixed-income securities, as well as registered bonds and debenture bonds recognised in the balance sheet under "Receivables from institutional investors". Strategic investments in subsidiaries and other business entities also generate cash flow that is allocated to investing activities.

Cash flow from financing activities consists of cash flow that results from transactions with owners of the parent company, non-controlling interests in the equity of subsidiaries and subordinated bonds issued by consolidated companies for the purposes of corporate financing.

On whole, the cash flow statement is only of minor significance for the Group. It is not used for liquidity and financial planning or for control.

The recognised cash and cash equivalents consist of cash on hand, deposits with central banks and balances with credit institutions payable on demand.

Utilisation of discretionary judgments and estimates

Exercise of discretionary judgment in applying accounting policies

The application of accounting policies is subject to various discretionary judgments by management that may considerably influence amounts in the consolidated financial statements of the W&W Group. For instance, discretion is exercised with respect to the application of the rules on hedge accounting pursuant to IAS 39, to forecasts in the Management Report, to the provision for claims, to the restructuring provision and to the fair values of property.

In addition, it was decided not to use the IAS 39 measurement category "held-to-maturity investments" in the W&W Group.

Furthermore, management exercises discretion in the application of accounting policies in such a way that the cost model rather than the fair value model is used as the accounting policy for all investment property and for all property, plant and equipment, including property for own use.

Another far-reaching discretionary decision by management relates to the recognition of insurance-specific business transactions for which IFRSs do not include any specific rules. In conformity with IFRS 4 "Insurance Contracts", these are recognised for domestic Group companies in accordance with the relevant rules of commercial law pursuant to Sections 341 et seqq. of the German Commercial Code (HGB) and the regulations based on them.

In connection with the determination of control of certain public funds, discretionary decisions are sometimes necessary in order to define the role of the outside fund manager as principal or agent. In such cases, contractual arrangements are looked at in order to evaluate whether the outside fund manager is to be classified as a principal or an agent. Material indicators used in evaluating the duty to consolidate are the fund manager's decision-making authority, including potential participatory rights of investors, the existing termination rights of investors with respect to the fund manager and their structure, and the amount of participation in the fund's success, particularly through the holding of units.

Accounting estimates and assumptions

Principles

In drawing up the consolidated financial statements according to IFRS, estimates and assumptions have to be made that affect the carrying amount of assets, liabilities, income and expenses, as well as the disclosure of contingent liabilities. The application of several of the accounting principles described in the chapter "General accounting principles and application of IFRS" presupposes material estimates that are based on complex, subjective evaluations and assumptions and may relate to issues that exhibit uncertainties.

The estimating methods used and the decision about the suitability of the assumptions require management to exercise good judgment and decision-making power in order to determine the appropriate values. Estimates and assumptions are moreover based on experiences and expectations with respect to future events that appear reasonable under the given circumstances. In so doing, carrying amounts are determined carefully and, taking into account all relevant information, as reliably as possible. In determining values, existing uncertainties are suitably taken into account in conformity with the relevant standards. However, actual results may vary from estimates, since new findings have to be taken into account when determining values. Estimates and their underlying assumptions are therefore continuously reviewed. The effects of changes in estimates are accounted for in the period in which the estimate changes.

If estimates were necessary to a greater extent, these are explained comprehensively and in detail in the depiction of the accounting policies, in the relevant items and in the disclosures made in the notes to individual items.

The W&W Group has identified the following accounting principles, whose application is based to a considerable extent on estimates and assumptions, to be material.

Determining the fair value of assets and liabilities

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of fair value measurement in both cases is the same: to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date.

When no observable market transactions or market information is available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs.

The required degree of subjective measurement and estimates by management has a higher weight for those assets and liabilities that are measured using special, complex models and for which some or all inputs are not observable. The values determined in this way are significantly influenced by the assumptions that have to be made.

If fair value cannot be reliably determined, the carrying amount is used as an approximate value to measure fair value. This essentially relates to loans under home loan savings contracts from collective business due to the special features of the home loan savings products and the variety of rate constructions. Loans under home loan savings contracts are allocated to the item "Receivables" and are accordingly measured for accounting purposes at amortised cost. For further information, please see Note 5 "Receivables" as well as the disclosures in the chapter "Notes concerning financial instruments and fair value" starting at Note 42 "Disclosures concerning the measurement of fair value".

Further remarks on this can be found in Note 42 "Disclosures concerning the measurement of fair value", which also contains both the level classification and further comments about the individual classes of assets and liabilities.

For extensive remarks about the special complexity associated with determining the fair value of financial instruments, please see the comments in the chapter "Accounting policies: remarks concerning the consolidated balance sheet" as well as Note 42 "Disclosures concerning the measurement of fair value".

Determining the fair value of investment property

In the W&W Group, investment property is recognised pursuant to the cost model. Property fair values are determined using the discounted cash flow method. In connection with the discounted cash flow method, expected deposits (rents, other revenues) and disbursements (maintenance, non-apportionable operating expenses, vacancy costs, costs for re-leasing) are discounted to present value, as are sales proceeds expected in the last forecast year. The interest rate of a risk-free financial investment, plus a risk premium, is used as the internal interest rate.

Impairment and reversal of impairment losses

With the exception of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss, all financial and non-financial assets are tested at regular intervals for objective evidence of impairment. Impairment losses are generally recognised in the income statement if the W&W Group believes that the relevant comparable value (e.g. present value of future cash flows) is lower than the carrying amount of this asset. Impairment is also tested where events or changed underlying conditions indicate that the value of this asset might have declined.

Impairment losses are reversed if there are sufficiently objectifiable criteria indicating permanent value recovery and this is moreover permissible pursuant to the applicable standard. For instance, impairment losses to goodwill may not be reversed.

Uncertainties in estimates relate, in particular, to forecasts concerning the amount and timing of the underlying cash flows, as well as discounting factors.

Details about impairment and the reversal of impairment losses can be found in the chapter "Accounting policies: remarks concerning the consolidated balance sheet" in the section "Impairment of financial assets and reversal of impairment losses", as well as in the disclosures in the respective notes.

Creation of provisions

Technical provisions

Among technical provisions, the following types of provisions, in particular, are materially influenced by estimates and assumptions (their carrying amounts and further information can be found starting at Note 20):

- Provision for future policy benefits

The provision for future policy benefits is estimated according to actuarial methods as the present value of future obligations less the present value of future premiums. The amount of the provision for future policy benefits is dependent on forward-looking assumptions about trends in investment yields achievable on the capital market, life expectancy, and other statistical data, as well as the costs incurred in connection with management of the contracts. Necessary adjustments to forward-looking assumptions have material effects on the amount of the provision for future policy benefits.

- Provision for outstanding insurance claims

In determining the amount of the provision, forward-looking assumptions are necessary, such as about claim trends, claim adjustment costs, claim inflation and premium adjustments. Necessary adjustments to forward-looking assumptions have material effects on the amount of the provision for outstanding insurance claims.

Other provisions

- Provisions for pensions and other long-term employee benefits

In calculating provisions for pensions and other long-term employee benefits, assumptions and estimates are necessary concerning the underlying conditions, such as actuarial interest rate, salary increases, future pension increases and mortality.

For further quantitative disclosures, please see Note 21 "Other provisions".

- Other provisions

The amount recognised as a provision constitutes the best possible estimate of the expenditure needed to settle the current obligation as at the reporting date. The measurement and recognition of provisions are determined by the assumptions made with respect to probability of occurrence, expected payments and the underlying discount rate.

If the aforementioned criteria for creating provisions are not met, then the corresponding obligations are recognised as contingent liabilities (see Note 59).

Further information about all of the above types of provisions can be found in Note 20 "Technical provisions" and Note 21 "Other provisions".

Consolidation

Scope of consolidation

W&W AG is the parent company of the W&W Group. As at the reporting date, the scope of consolidation was as follows:

	Domestic	Foreign	Total
Subsidiaries			
Included as at 31 December 2017	24	4	28
Included as at 31 December 2016	23	4	27
Structured entities (public and special funds)			
Included as at 31 December 2017	16	6	22
Included as at 31 December 2016	16	5	21
Associates accounted for using the equity method			
Included as at 31 December 2017	3	–	2
Included as at 31 December 2016	2	–	2

Changes to the scope of consolidation

Additions to the scope of consolidation

In the 2017 financial year, Adam Riese GmbH, Stuttgart, LBBW-AM USD Corporate Bond Fonds 2, Stuttgart, and The W&W Global Income Fund ICAV – The W&W Private Debt Fund, Dublin, were newly included in the scope of consolidation.

Disposals from the scope of consolidation

In the first half-year of 2017, the fund LBBW AM15 was eliminated from the scope of consolidation.

These changes had no material influence on the presentation of the net assets, financial position and financial performance of the W&W Group.

Interests in subsidiaries, including consolidated structured entities

Disposal restrictions

Statutory, contractual or regulatory restrictions, as well as protected rights of non-controlling interests, may restrict the ability of the Group, the parent company or a subsidiary to obtain access to assets and to make unimpeded transfers to or receive unimpeded transfers from other companies in the Group and to pay Group debts.

Since enactment of the German Life Insurance Reform Act (LVRG) in August 2014, the subsidiary Württembergische Lebensversicherung AG is subject to a statutory ban on distributions until further notice.

As credit institutions, the subsidiaries Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank must comply with extensive regulatory requirements. For example, the minimum liquidity standard (Liquidity Coverage Ratio, LCR) is intended to promote the short-term resilience of a credit institution's liquidity risk profile over a 30-day horizon in a stress scenario. The LCR is the ratio of the volume of High-Quality Liquid Assets (HQLA) that could be used to raise liquidity over a period of 30 days to the total volume of net stressed outflows in the same period arising from both actual and contingent exposures. As at 31 December 2017, the LCR was 305.73% (previous year: 688.62%) for the subsidiary Wüstenrot Bausparkasse AG and 579.43% (previous year: 225.24%) for the subsidiary Wüstenrot Bank AG Pfandbriefbank. The companies have been obligated since the fourth quarter of 2015 to maintain their LCR, pursuant to further specifications.

The Group is subject to the following restrictions with respect to the use to which assets may be put:

- Assets used in collateralised financing, e.g. repurchase agreements, securities lending transactions and other forms of collateralised lending.
- Assets used in collateral or margin agreements, e.g. to hedge derivative transactions.
- Assets used in the cover pool for German covered bonds.
- The assets of consolidated investment funds are subject to a variety of restrictions with respect to transferability between Group companies.
- The assets of consolidated insurance companies mainly serve to settle obligations to policyholders.
- Regulatory requirements and the requirements of central banks can limit the Group's ability to transfer assets to or from other companies in the Group.

With regard to assets and liabilities recognised in the consolidated financial statements that are subject to disposal restrictions, please also see Note 46 "Transfers of financial assets and granted and received collateral".

With regard to regulatory requirements within the Group, please also see Note 54 "Regulatory solvency".

During the reporting period, no public or special funds consolidated as structured entities were supported financially or otherwise, either voluntarily or as a result of contractual agreements, nor was there any intention to do so.

Interests in unconsolidated structured entities

As a result of its business activities, the W&W Group holds interests in unconsolidated structured entities that have been formed either as investment funds (public or special funds) or as alternative investment companies in the legal form of a corporation or partnership. These structured entities serve to meet various customer needs with respect to investment in various assets. Group companies mainly assume the role of investor, sometimes also that of fund manager or custodian.

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Moreover, a structured entity is classified as such based on the following features or attributes:

- restricted activities,
- a narrow and well-defined objective,
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support and/or
- financing in the form of multiple contractually linked instruments issued to investors that create concentrations of credit or other risks (tranches).

As at the reporting date, other than interests in investment funds and alternative investment companies, no structured entities were identified, either with an investment interest or as structured entities supported by W&W without an investment interest.

In the current financial year, no unconsolidated structured entities were financially supported, nor is there any intention to do so.

- Interests in investment funds

As at 31 December, the carrying amounts, the investment strategy, the maximum loss risk and the scope vis-à-vis unconsolidated investment funds were as follows:2017

2017

	Equity funds	Pension funds	Real estate funds	Other funds	Funds of unit-linked life insurance policies	Total
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Recognised assets (fund units held)						
Financial assets at fair value through profit or loss	4,785	832	1,548	4,405	1,927,627	1,939,197
Financial assets available for sale	115,201	811,700	2,643	97,157	–	1,026,701
Total	**119,986**	**812,532**	**4,191**	**101,562**	**1,927,627**	**2,965,898**
Maximum loss risk[1]	119,986	812,532	4,191	101,562	1,927,627	2,965,898
Total scope of fund assets as at the reporting date	88,904,480	14,861,584	15,041,619	29,396,952	134,974,898	283,179,533

1 The maximum loss risk is determined on the basis of fund units held and, where applicable, capital contribution calls not yet made and guarantees.

2016

	Equity funds	Pension funds	Real estate funds	Other funds	Funds of unit-linked life insurance policies	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Recognised assets (fund units held)						
Financial assets at fair value through profit or loss	55,190	802	2,343	5,137	1,633,192	1,696,664
Financial assets available for sale	244,759	1,025,965	4,099	94,259	–	1,369,082
Total	**299,949**	**1,026,767**	**6,442**	**99,396**	**1,633,192**	**3,065,746**
Maximum loss risk[1]	299,949	1,026,767	6,442	99,396	1,633,192	3,065,746
Total scope of fund assets as at the reporting date	92,263,953	18,764,277	15,360,164	40,174,060	153,372,804	319,935,258

1 The maximum loss risk is determined on the basis of fund units held and, where applicable, capital contribution calls not yet made and guarantees.

Unconsolidated investment funds are financed by issuing equity interests. The carrying amount of the interests corresponds to the pro rata net asset value. The types of income that the W&W Group receives from these held interests are mainly interest income, dividend income, income from the fair value measurement of fund units, and in some cases fees for acquisition, management and investment advice. The amount of current income and net measurement income depends, in particular, on general market trends in the respective investment class and on the specific investment decisions made by the respective fund manager. In addition to fund units held, there are occasional minor positions between the internal Group custodian and the investment funds, such as call money accounts and derivatives.

- Interests in alternative investments, including private equity

Alternative investment companies maintain holdings in the area of alternative energy production from wind, photovoltaic, biomass and water. In addition, there are investments in the area of private equity, such as venture capital financing. Scope and size are primarily determined on the basis of the net asset value. The carrying amount of interests in alternative investments, including private equity, corresponds to the pro rata net asset value under the item "Financial assets available for sale" and amounts to €1,131,428 thousand (previous year: €1,055,589 thousand).1 131 428 This carrying amount corresponds to the maximum loss risk. Financing is accomplished by issuing equity interests.

The W&W Group as interest owner receives variable reflows, mainly in the form of distributions from alternative investments, including private equity. In addition, the investments are subject to fluctuations in value. Variable reflows are dependent on general market trends in the respective industry and on the specific business decisions made by the respective investment company.

Segment reporting

In conformity with IFRS 8 "Operating Segments", segment information is generated on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance (so-called "management approach"). In the W&W Group, the chief operating decision maker is the Management Board.

The reportable segments are identified on the basis of both products and services and according to regulatory requirements. In this context, some business segments are combined within the Home Loan and Savings Bank segment and the Life and Health Insurance segment. The following section lists the products and services through which revenue is generated by the reportable segments. There is no dependence on individual major accounts.

Home Loan and Savings Bank

The reportable segment Home Loan and Savings Bank consists of two business segments and includes a broad range of home loan savings and banking products primarily for private clients, e.g. home loan savings contracts, bridging loans, savings and investment products, current accounts, call money accounts, Maestro and credit cards, and mortgage and bank loans.

Life and Health Insurance

The reportable segment Life and Health Insurance consists of various business segments, all of which have similar economic characteristics and are comparable in terms of the aggregation criteria in IFRS 8.

The reportable segment Life and Health Insurance offers a variety of life and health insurance products for individuals and groups, including classic and unit-linked life and annuity insurance, term insurance, classic and unit-linked "Riester" and basic pensions, and occupational disability insurance, as well as full and supplementary private health insurance and nursing care insurance.

Property/Casualty Insurance

The reportable segment Property/Casualty Insurance offers a comprehensive range of insurance products for private and corporate customers, including general liability, casualty, motor, household, residential building, legal protection, transport and technical insurance.

As in previous years, the performance of each segment was measured based on the segment earnings under IFRS. Transactions between the segments were carried out on an arm's length basis.

All other business activities of the W&W Group, such as central Group functions, asset management activities, property development and the marketing of home loan savings and banking products outside of Germany, are subsumed under "All other segments", since they are not directly related to the other reportable segments.

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

The measurement principles for segment reporting correspond to the accounting policies applied to the IFRS consolidated financial statements.

Segment income statement

in € thousands	Home Loan and Savings Bank 1.1.2017 to 31.12.2017	Home Loan and Savings Bank 1.1.2016 to 31.12.2016	Life and Health Insurance 1.1.2017 to 31.12.2017	Life and Health Insurance 1.1.2016 to 31.12.2016
1. Net income from financial assets available for sale	177 856	177 620	400 828	856 822
2. Net income from financial assets accounted for using the equity method	–	–	1,262	3,405
3. Net income from financial assets/liabilities at fair value through profit or loss	-23,917	-65,779	439,147	-129,205
4. Net income from hedges	16,202	70,890	–	–
5. Net income from receivables, liabilities and subordinated capital	231,748	230,809	476,583	548,045
6. Net income from risk provision	13,036	24,413	294	1,826
7. Net financial result	**414,925**	**437,953**	**1,318,114**	**1,280,893**
8. Net income from investment property	–	–	107,725	84,407
9. Net commission income	5,525	7,082	-131,557	-140,880
10. Earned premiums (net)	–	–	2,149,865	2,337,422
11. Insurance benefits (net)	–	–	-3,152,141	-3,222,343
12. General administrative expenses3	-360,211	-363,769	-265,323	-261,009
13. Net other operating income	29,728	1,489	-25,532	-56,866
14. Segment net income before income taxes from continued operations	**89,967**	**82,755**	**1,151**	**21,624**
15. Income taxes	-31,470	-24,093	30,669	28,049
16. Segment net income after taxes	**58,497**	**58,662**	**31,820**	**49,673**
Other information				
Total revenue[4]	1,114,524	1,257,539	2,972,459	3,225,035
thereof with other segments	29,205	33,899	31,585	31,043
thereof with external customers	1,085,319	1,223,640	2,940,874	3,193,992
Interest income	883,346	1,024,234	686,280	749,773
Interest expense	-642,941	-805,515	-34,364	-29,456
Scheduled amortisation/depreciation	-3,143	-2,722	-46,622	-48,000
Impairment losses[6]	–	-2,178	-881	-518
Reversals of impairment losses[6]	–	–	2,024	3,804
Material non-cash items	17,734	-43,066	-713	101,559
Segment assets[7]	30,804,326	31,691,568	33,806,194	33,544,152
Segment liabilities[7]	29,027,310	29,825,462	33,270,897	33,032,387
Financial assets accounted for using the equity method[7]	–	–	44,468	45,436

1 Includes amounts from proportional profit transfers eliminated in the Consolidation column.
2 The column “Consolidation/reconciliation” includes the effects of consolidation between segments.
3 Includes service revenues and rental income with other segments.
4 Interest, commission and rental income and earned premiums (net) from insurance business.
5 Impairment losses and reversals of impairment losses relate to intangible assets, property, plant and equipment, inventories and investment property.
6 Includes cross-segment premiums ceded to reinsurers.
7 Values as at 31 December 2017 and 31 December 2016, respectively.

Property/Casualty Insurance		Total for reportable segments		All other segments[1]		Consolidation/ reconciliation[2]		Group	
1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	1.1.2017 bis 31.12.2017	1.1.2016 to 31.12.2016	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
19,730	50,631	598,414	1,085,073	42,952	177,072	–47,846	–147,441	593,520	1,114,704
1,262	3,405	2,524	6,810	19,296	1,319	–	–	21,820	8,129
45,640	–31,492	460,870	–226,476	7,894	–3,436	–	3,335	468,764	–226,577
–	–	16,202	70,890	–	–	–	–	16,202	70,890
–14,390	19,489	693,941	798,343	12,910	19,568	15,377	15,476	722,228	833,387
1,799	1,931	15,129	28,170	–5,394	–10,997	–	–	9,735	17,173
54,041	**43,964**	**1,787,080**	**1,762,810**	**77,658**	**183,526**	**–32,469**	**–128,630**	**1,832,269**	**1,817,706**
1,803	496	109,528	84,903	540	633	2,387	2,394	112,455	87,930
–225,010	–217,237	–351,042	–351,035	–49,232	–41,502	–1,546	1,624	–401,820	–390,913
1,415,025	1,360,601	3,564,890	3,698,023	257,194	247,183	–12,777	–12,374	3,809,307	3,932,832
–743,114	–713,215	–3,895,255	–3,935,558	–157,472	–156,490	22,317	11,910	–4,030,410	–4,080,138
–373,887	–351,044	–999,421	–975,822	–97,804	–96,039	–2,129	–3,459	–1,099,354	–1,075,320
41,653	35,620	45,849	–19,757	32,128	20,507	–7,975	–1,274	70,002	–524
170,511	**159,185**	**261,629**	**263,564**	**63,012**	**157,818**	**–32,192**	**–129,809**	**292,449**	**291,573**
–44,730	–50,920	–45,531	–46,964	–58,200	–54,020	69,319	44,718	–34,412	–56,266
125,781	**108,265**	**216,098**	**216,600**	**4,812**	**103,798**	**37,127**	**–85,091**	**258,037**	**235,307**
1,621,742	1,554,904	5,708,725	6,037,478	435,417	421,157	–249,700	–242,570	5,894,442	6,216,065
–192,920[5]	–186,196[5]	–132,130	–121,254	381,830	363,824	–249,700	–242,570	–	–
1,814,662	1,741,100	5,840,855	6,158,732	53,587	57,333	–	–	5,894,442	6,216,065
71,071	69,540	1,640,697	1,843,547	107,270	105,872	–30,518	–34,898	1,717,449	1,914,521
–47,157	–19,746	–724,462	–854,717	–70,752	–71,377	17,177	22,532	–778,037	–903,562
–4,380	–4,202	–54,145	–54,924	–52,769	–53,329	1,399	1,399	–105,515	–106,854
–	–1,364	–881	–4,060	–	–	–	–	–881	–4,060
–	–	2,024	3,804	–	–	–	–	2,024	3,804
–6,188	35,004	10,833	93,497	46,064	33,487	–46,246	1,494	10,651	128,478
4,524,392	4,390,916	69,134,912	69,626,636	6,366,411	6,240,937	–3,483,154	–3,591,935	72,018,169	72,275,638
3,329,654	3,350,377	65,627,861	66,208,226	4,168,480	4,020,920	–1,743,030	–1,765,098	68,053,311	68,464,048
64,271	65,239	108,739	110,675	6,533	6,535	–19,803	–19,803	95,469	97,407

Information by region (Group)

in € thousands	Revenue from external customers[1]		Non-current assets[2]	
	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Germany	5,811,244	6,129,214	2,050,555	2,055,246
Czech Republic	81,788	84,392	6,188	8,418
Other countries	1,410	2,459	550	584
Total	**5,894,442**	**6,216,065**	**2,057,293**	**2,064,248**

1 Revenues were allocated to the operating units based on the country of registration, and they consist of interest, commission and rental income, and earned premiums (net) from insurance business.
2 Non-current assets include investment property, intangible assets with the exception of capitalised insurance portfolios, and property, plant and equipment.

Notes concerning the consolidated balance sheet

(1) Cash reserves

in € thousands	31.12.2017	31.12.2016
Cash on hand	172	3,481
Deposits with central banks	153,582	362,776
Deposits with foreign postal giro offices	341	225
Cash reserves	**154,095**	**366,482**

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

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

in € thousands	31.12.2017	31.12.2016
Financial assets at fair value through profit or loss	479,033	–
Receivables	160,383	–
Risk provision	198,746	–
Financial assets available for sale	-976	–
Financial assets accounted for using the equity method	718,949	–
Investment property	–	15,211
Reinsurers' portion of technical provisions	36,485	–
Other assets	13,192	–
Non-current assets held for sale and discontinued operations	**1,605,812**	**15,211**

in € thousands	31.12.2017	31.12.2016
Liabilities	945,892	–
Technical provisions	16,130	–
Other provisions	36,607	–
Other liabilities	18,546	–
Liabilities under non-current assets classified as held for sale and discontinued operations	**1,017,175**	**–**

Non-current assets held for sale and discontinued operations consist of the assets and debts of a subsidiary, which constitutes a disposal group, as well as three properties (€36.5 million).

The disposal group held for sale as at 31 December 2017 has to do with the assets and debts of a subsidiary allocated to the Home Loan and Savings Bank segment. The sale was made for strategic reasons and is expected to close during the 2018 financial year.

The properties held for sale as at 31 December 2017 consisted of three commercial properties in third-party use in Mannheim, Ettlingen and Berlin, all of which are allocated to the Life and Health Insurance segment. The properties were sold, among other things, for reasons of diversification, thus serving to further optimise the asset portfolio in the W&W Group. The sales are expected to close during the 2018 financial year.

The receivables associated with this disposal group mainly consist of receivables from institutional investors (€114.5 million) and other receivables (€74.2 million), whereas liabilities primarily consist of liabilities to customers (€798.5 million) and to credit institutions (€142.9 million).

Cumulative unrealised gains and losses recognised under "Other comprehensive income" that are related to non-current assets classified as held for sale amounted to €7.5 million (previous year: –€1.3 million).

In addition, various investment properties in the Life and Health Insurance that were slated for disposal were sold over the course of the year. The properties were sold for reasons of diversification. Thus, their sale served to further optimise the property portfolio of the W&W Group. This resulted in a disposal gain totalling €57.0 million (previous year: €34.3million), which is presented in income and expenses from investment properties.

Assets and debts classified as non-current assets held for sale and discontinued operations were shifted from their original balance sheet items to this item.

Non-current assets held for sale and discontinued operations as at 31 December 2016 consisted of interests in a credit institution included under “All other segments” that is accounted for using the equity method. The sale was made in the second half of 2017 for strategic reasons. The sale resulted in a gain of €18.3 million, which is recognised in net income/expense from financial assets accounted for using the equity method.

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

in € thousands	31.12.2017	31.12.2016
Designated as financial assets at fair value through profit or loss	**2,553,068**	**2,480,041**
Equity instruments	547	49,940
Senior fixed-income securities	–	165,243
Structured products	624,894	631,666
Capital investments for the account and risk of holders of life insurance policies	1,927,627	1,633,192
Financial assets held for trading	**284,244**	**516,656**
Equity instruments	11,023	13,532
Derivative financial instruments	273,221	503,124
Financial assets at fair value through profit or loss	**2,837,312**	**2,996,697**

The change in the fair value of receivables that were designated as financial assets at fair value through profit or loss is attributable to a change in the credit risk in the amount of €10.7 million (previous year: –€5.3 million).10,7 5,3 The resulting cumulative change in fair value amounts to –€1.3 million (previous year: –€12.0 million). 1,3 12,0 The change in fair value attributable to changes in creditworthiness is determined using a difference calculation based on the credit-spread change in the reporting year.

(4) Financial assets available for sale

	Amortised cost		Unrealised gains (gross)		Unrealised losses (gross)		Fair value/carrying amount	
in € thousands	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Equity instruments	**2,719,580**	**2,865,759**	**545,236**	**525,888**	**–86,353**	**–54,291**	**3,178,463**	**3,337,356**
Investments	1,069,422	1,023,354	328,154	326,605	–32,390	–22,357	1,365,186	1,327,602
Equities	685,900	525,066	145,576	143,826	–44,900	–28,220	786,576	640,672
Fund units	964,258	1,317,339	71,506	55,457	–9,063	–3,714	1,026,701	1,369,082
Subordinated securities and receivables	**1,205,893**	**1,242,612**	**77,117**	**28,493**	**–886**	**–12,648**	**1,282,124**	**1,258,457**
Senior fixed-income securities	**18,830,239**	**19,097,893**	**788,510**	**1,078,409**	**–170,803**	**–207,641**	**19,447,946**	**19,968,661**
Financial assets available for sale	**22,755,712**	**23,206,264**	**1,410,863**	**1,632,790**	**–258,042**	**–274,580**	**23,908,533**	**24,564,474**

(5) Receivables

in € thousands	31.12.2017	31.12.2016
Subordinated securities and receivables	**80,224**	**122,334**
First-rank receivables from institutional investors[1]	**14,076,295**	**14,311,613**
Credit institutions	10,021,183	10,328,264
Other financial companies	135,311	68,553
Other companies	44,255	40,147
Public authorities	3,871,927	3,870,656
Portfolio hedge adjustment	**3,619**	**3,993**
Building loans	23,525,418	23,708,597
Loans under home loan savings contracts	1,937,940	2,209,983
Preliminary and interim financing loans	12,206,056	11,739,422
Other building loans	9,242,521	9,568,737
Portfolio hedge adjustment	138,901	190,455
Other loans and receivables	**2,430,203**	**2,718,341**
Other loans and advances[2]	2,083,632	2,347,544
from customers	559,163	373,470
from credit institutions	1,524,469	1,974,074
due on demand	758,762	656,260
not due on demand	765,707	1,317,814
Other receivables[3]	346,571	370,797
Receivables from reinsurance business	72,388	78,919
Receivables from insurance agents	63,480	61,147
Receivables from policyholders	205,326	224,255
Miscellaneous other receivables	5,377	6,476
Receivables	**40,112,140**	**40,860,885**

1 Includes senior debenture bonds and registered bonds.
2 Receivables that constitute a class pursuant to IFRS 7.
3 Receivables that do not constitute a class pursuant to IFRS 7 and essentially contain receivables from insurance business with disclosure requirements pursuant to IFRS 4.

The carrying amount of receivables as a whole less impairments in the form of risk provision amounted to €39,959.1 million (previous year: €40,691.6 million).

The sub-item "Portfolio hedge adjustment" contains a measurement item from the interest-rate-based measurement of loans and advances to customers, registered bonds and debenture bonds designated in connection with the portfolio fair value hedge. Recognised here was the change in the hedged item as relates to the hedged risk. The portfolio of derivatives as of 31 December 2017 resulted from former portfolio fair value hedges.

(6) Risk provision

Counterparty risks associated with receivables are taken into account in the financial statements through the creation of individual and portfolio impairments. In the W&W Group, these are generally recognised under the item "Risk provision".

Interest income accrued on impaired assets is recognised as an interest effect.

Changes in value during the 2017 financial year

in € thousands	Opening balance 1.1.2017	Reclassifications	Classified as held for sale
Subordinated securities and receivables	**-22**	**–**	**3**
Individual/collective impairment provisions	–	–	–
Impairment provisions created on a portfolio basis	-22	–	3
First-rank receivables from institutional investors	**-1,297**	**–**	**10**
Individual/collective impairment provisions	–	–	–
Impairment provisions created on a portfolio basis	-1,297	–	10
Building loans	**-131,522**	–	–
Individual/collective impairment provisions	-98,020	-1,302	–
Impairment provisions created on a portfolio basis	-33,502	1,302	–
Other loans and receivables	**-36,447**	**–**	**963**
Other loans and advances[1]	-13,027	–	963
Individual/collective impairment provisions	-12,611	–	629
Impairment provisions created on a portfolio basis	-416	–	334
Other receivables[2]	-23,420	–	–
Individual/collective impairment provisions	-3,532	–	–
Impairment provisions created on a portfolio basis	-19,888	–	–
Risk provision	**-169,288**	**–**	**976**
Individual/collective impairment provisions	-114,163	-1,302	629
Impairment provisions created on a portfolio basis	-55,125	1,302	347

1 Receivables that constitute a class pursuant to IFRS 7.
2 Receivables that do not constitute a class pursuant to IFRS 7 and essentially contain receivables from insurance business with disclosure requirements pursuant to IFRS 4.

Additions	Utilisation	Release	Currency effects	Interest effect	Closing balance 31.12.2017
–2	**—**	**4**	**—**	**—**	**–17**
—	—	–	—	—	–
–2	—	4	—	—	–17
–267	**—**	**324**	**—**	**—**	**–1,230**
—	—	–	—	—	–
–267	—	324	—	—	–1,230
–56,606	**9,721**	**52,073**	**–2,330**	**7,252**	**–121,412**
–30,810	9,721	26,837	–2,171	7,252	–88,493
–25,796	—	25,236	–159	—	–32,919
–4,188	**1,512**	**7,906**	**–158**	**—**	**–30,412**
–2,065	1,343	4,372	–158	—	–8,572
–1,852	1,343	4,218	–157	—	–8,430
–213	—	154	–1	—	–142
–2,123	169	3,534	—	—	–21,840
–580	169	623	—	—	–3,320
–1,543	—	2,911	—	—	–18,520
–61,063	**11,233**	**60,307**	**–2,488**	**7,252**	**–153,071**
–33,242	11,233	31,678	–2,328	7,252	–100,243
–27,821	—	28,629	–160	—	–52,828

Changes in value during the 2016 financial year

in € thousands	Opening balance 1.1.2016	Reclassifications
Subordinated securities and receivables	**–25**	**–**
Individual/collective impairment provisions	–	–
Impairment provisions created on a portfolio basis	–25	–
First-rank receivables from institutional investors	**–1,073**	**–**
Individual/collective impairment provisions	–	–
Impairment provisions created on a portfolio basis	–1,073	–
Building loans	**–157,854**	**973**
Individual/collective impairment provisions	–127,004	15,354
Impairment provisions created on a portfolio basis	–30,850	–14,381
Other loans and receivables	**–40,893**	**–973**
Other loans and advances[1]	–13,034	–973
Individual/collective impairment provisions	–12,813	–1,032
Impairment provisions created on a portfolio basis	–221	59
Other receivables[2]	–27,859	–
Individual/collective impairment provisions	–4,687	–
Impairment provisions created on a portfolio basis	–23,172	–
Risk provision	**–199,845**	**–**
Individual/collective impairment provisions	–144,504	14,322
Impairment provisions created on a portfolio basis	–55,341	–14,322

1 Receivables that constitute a class pursuant to IFRS 7.
2 Receivables that do not constitute a class pursuant to IFRS 7 and essentially contain receivables from insurance business with disclosure requirements pursuant to IFRS 4.

	Additions	Utilisation	Release	Currency effects	Interest effect	Closing balance 31.12.2016
	-27	**—**	**30**	**—**	**—**	**-22**
	—	—	—	—	—	—
	-27	—	30	—	—	-22
	-1,189	**—**	**965**	**—**	**—**	**-1,297**
	—	—	—	—	—	—
	-1,189	—	965	—	—	-1,297
	-66,809	**11,828**	**70,789**	**-7**	**9,558**	**-131,522**
	-44,870	11,828	37,120	-6	9,558	-98,020
	-21,939	—	33,669	-1	—	-33,502
	-5,633	**2,511**	**8,520**	**—**	**21**	**-36,447**
	-3,759	2,337	2,381	—	21	-13,027
	-3,219	2,337	2,095	—	21	-12,611
	-540	—	286	—	—	-416
	-1,874	174	6,139	—	—	-23,420
	-769	174	1,750	—	—	-3,532
	-1,105	—	4,389	—	—	-19,888
	-73,658	**14,339**	**80,304**	**-7**	**9,579**	**-169,288**
	-48,858	14,339	40,965	-6	9,579	-114,163
	-24,800	—	39,339	-1	—	-55,125

(7) Positive market values from hedges

in € thousands	31.12.2017	31.12.2016
Cash flow hedges	–	**16,689**
Hedging of interest rate risk	–	16,689
Fair value hedges	**50,506**	**4,742**
Hedging of interest rate risk	50,506	4,742
Positive market values from hedges	**50,506**	**21,431**

(8) Financial assets accounted for using the equity method

in € thousands	2017	2016
Carrying amount as at 1 January	**97,407**	**122,144**
Disposals	−77	–
Dividend payments	−5,666	−20,416
Classified as held for sale	–	−15,211
Pro rata share of net income	3,032	8,129
Changes recognised directly in equity	773	2,761
Carrying amount as at 31 December	**95,469**	**97,407**

The interests in V-Bank AG classified as held for sale were sold in the reporting year. The interests remaining in the portfolio continue to be accounted for using the equity method (see also Note 2, “Non-current assets held for sale and discontinued operations”).

For all financial assets in the portfolio that are accounted for using the equity method, the following table presents, among other things, all assets, liabilities, revenue and net income for each company, as well as the shares thereof attributable to the W&W Group:

	BWK GmbH Unternehmens-beteiligungsgesellschaft	V-Bank AG
Investment purpose	Strategic investment	Strategic investment
Principal place of business	Stuttgart, Germany	Munich, Germany
Closing date for financial statements	31 December	31 December
Measurement standard	At equity	At equity

	BWK GmbH Unternehmens-beteiligungsgesellschaft		V-Bank AG		Total	
in € thousands	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Holding, in %	35.00	35.00	14.76	49.92		
thereof reclassified to “Non-current assets held for sale”	–	–	–	34.92		
Share of voting rights (where different), in %	–	–	–	40.00		
Assets	265,908	272,365	1,331,225	1,242,737	1,597,133	1,515,102
Liabilities	11,806	12,731	1,293,977	1,206,083	1,305,783	1,218,814
Net assets (100%)	**254,102**	**259,634**	**37,248**	**36,654**	**291,350**	**296,288**
Group share of net assets	**88,936**	**90,872**	**5,497**	**18,297**	**94,433**	**109,169**
Reconciliation	–	–	1,036	3,449	1,036	3,449
Carrying amount of financial assets accounted for using the equity method	**88,936**	**90,872**	**6,533**	**21,746**	**95,469**	**112,618**
thereof reclassified to “Non-current assets held for sale”	–	–	–	15,211	–	15,211

	BWK GmbH Unternehmens-beteiligungsgesellschaft		V-Bank AG		Total	
in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Revenue	15,308	25,946	18,689	17,322	33,997	43,268
Net income (100%)	7,210	19,458	3,392	2,641	10,602	22,099
Other comprehensive income (100%)	2,757	4,417	-1,279	2,377	1,478	6,794
Total income (100%)	**9,967**	**23,875**	**2,113**	**5,018**	**12,080**	**28,893**
Group share of net income	2,523	6,810	509	1,319	3,032	8,129
Group share of other comprehensive income	965	1,546	-192	1,186	773	2,732
Group share of total income	**3,488**	**8,356**	**317**	**2,505**	**3,805**	**10,861**
Dividends received	5,425	19,425	804	991	6,229	20,416

No publicly quoted market prices are available for the interests in associates in the W&W Group that are accounted for using the equity method.

(9) Investment property

As at the end of the year, the fair value of investment property amounted to €2,145.5 million (previous year: €2,173.1 million). There are no restrictions on the ability to sell investment property or on the ability to dispose of income and sales proceeds.

As at 31 December 2017, there were contractual obligations to purchase and construct investment property amounting to €287.5 million (previous year: €262.3 million). There are no material contractual obligations to develop investment property or for repairs, maintenance or improvements.

in € thousands	2017	2016
Gross carrying amounts as at 1 January	**2,137,641**	**2,077,103**
Additions	122,154	120,750
Disposals	−71	−835
Reclassifications	−2,546	4,937
Classified as held for sale	−203,339	−64,314
As at 31 December	**2,054,138**	**2,137,641**
Cumulative depreciation and impairments as at 1 January	**−395,413**	**−354,425**
Additions (scheduled depreciation)	−44,343	−45,687
Additions (impairments)	−881	−1,882
Disposals	49	267
Reversals of impairment losses	2,024	3,804
Reclassifications	1,141	−1,770
Classified as held for sale	66,826	4,280
As at 31 December	**−370,597**	**−395,413**
Net carrying amounts as at 1 January	**1,742,228**	**1,722,678**
Net carrying amounts as at 31 December	**1,683,541**	**1,742,228**

Additions contain capitalised construction costs in the amount of €4.3 million (previous year: €12.7 million).

Impairment losses in the current period in the amount of €0.9 million (previous year: €1.9 million) relate to various residential and commercial properties for which the net realisable value was less than the carrying amount. The reasons for this include, by way of example, declines in land values and achievable sales prices.

(10) Reinsurers' portion of technical provisions

in € thousands	31.12.2017	31.12.2016
Provision for unearned premiums	11,849	11,106
Provision for future policy benefits	90,370	89,562
Provision for outstanding insurance claims	223,436	211,308
Other technical provisions	—	1,023
Reinsurers' portion of technical provisions	**325,655**	**312,999**

Further remarks can be found at the corresponding liability items starting at Note 20.

(11) Intangible assets

in € thousands	31.12.2017	31.12.2016	Remaining amortisation period (years)
Software	84,025	82,592	1–5
Brand names	16,081	17,689	10
Other purchased intangible assets	326	443	1–7
Intangible assets	**100,432**	**100,724**	—

Changes to intangible assets in 2017

	Purchased insurance portfolios	Externally procured software	Internally developed software	Brand names	Other purchased intangible assets	Total
in € thousands						
Gross carrying amounts as at 1 January	**15,727**	**352,214**	**64,027**	**32,162**	**17,574**	**481,704**
Additions	–	31,431	228	–	48	31,707
Disposals	–	-1,003	–	–	–	-1,003
Reallocations	–	-12,922	-11,773	–	–	-24,695
Changes from currency translation	–	769	–	–	–	769
As at 31 December	**15,727**	**370,489**	**52,482**	**32,162**	**17,622**	**488,482**
Cumulative amortisation and impairments as at 1 January	**-15,727**	**-269,742**	**-63,907**	**-14,473**	**-17,131**	**-380,980**
Additions (scheduled amortisation)	–	-27,509	-30	-1,608	-165	-29,312
Disposals	–	975	–	–	–	975
Reallocations	–	10,025	11,773	–	–	21,798
Changes from currency translation	–	-531	–	–	–	-531
As at 31 December	**-15,727**	**-286,782**	**-52,164**	**-16,081**	**-17,296**	**-388,050**
Net carrying amounts as at 1 January	**–**	**82,472**	**120**	**17,689**	**443**	**100,724**
Net carrying amounts as at 31 December	**–**	**83,707**	**318**	**16,081**	**326**	**100,432**

Changes to intangible assets in 2016

in € thousands	Purchased insurance portfolios	Externally procured software	Internally developed software	Brand names	Other purchased intangible assets	Total
Gross carrying amounts as at 1 January	**124,430**	**326,879**	**63,907**	**32,162**	**19,843**	**567,221**
Additions	–	44,128	120	–	10	44,258
Disposals	-106,757	-18,794	–	–	–	-125,551
Classified as held for sale	-1,946	–	–	–	-2,279	-4,225
Changes from currency translation	–	1	–	–	–	1
As at 31 December	**15,727**	**352,214**	**64,027**	**32,162**	**17,574**	**481,704**
Cumulative amortisation and impairments as at 1 January	**-124,430**	**-257,226**	**-63,899**	**-12,865**	**-19,221**	**-477,641**
Additions (scheduled amortisation)	–	-28,494	-8	-1,608	-189	-30,299
Additions (impairments)	–	-2,178	–	–	–	-2,178
Disposals	106,757	18,158	–	–	–	124,915
Classified as held for sale	1,946	–	–	–	2,279	4,225
Changes from currency translation	–	-2	–	–	–	-2
As at 31 December	**-15,727**	**-269,742**	**-63,907**	**-14,473**	**-17,131**	**-380,980**
Net carrying amounts as at 1 January	**–**	**69,653**	**8**	**19,297**	**622**	**89,580**
Net carrying amounts as at 31 December	**–**	**82,472**	**120**	**17,689**	**443**	**100,724**

Wüstenrot Holding AG and W&W AG are parties to a brand name transfer and use agreement. As at 31 December 2017, the carrying amount of the resulting intangible asset amounted to €16.1 million (previous year: €17.7 million). The asset has a limited useful life, and it is being amortised on a straight-line basis over 20 years. Its remaining useful life is 10 years. As at 31 December 2017, the capitalised brand name was offset by a financial liability to Wüstenrot Holding AG in the amount of €18.9 million (previous year: €20.6 million).

Total expenditures for research and development that were recognised in the income statement for the 2017 financial year amounted to €48.6 million (previous year: €63.3 million).

There were obligations to purchase intangible assets in the amount of €6.7 million (previous year: €0.1 million).

(12) Property, plant and equipment

There were obligations to purchase property, plant and equipment in the amount of €7.5 million (previous year: €2.9 million).

Property for own use included leased assets in the amount of €19.1 million (previous year: €21.8 million). Scheduled depreciation of leased assets included in property for own use was recognised in the amount of €2.7 million (previous year: €2.7 million). Plant and equipment included leased assets in the amount of €3.8 million (previous year: €4.9 million). Scheduled depreciation of leased assets included in plant and equipment was recognised in the amount of €1.1 million (previous year: €1.1 million).

Additions to property for own use included costs for assets under construction in the amount of €61.1 million (previous year: €39.8 million).

Property, plant and equipment

	Property for own use		Plant and equipment		Total	
in € thousands	2017	2016	2017	2016	2017	2016
Gross carrying amounts as at 1 January	**433,450**	**397,800**	**196,109**	**207,091**	**629,559**	**604,891**
Additions	61,543	41,906	22,223	13,909	83,766	55,815
Disposals	-3,793	-112	-19,559	-24,921	-23,352	-25,033
Reclassifications	2,546	-4,967	–	30	2,546	-4,937
Classified as held for sale	–	-1,177	-3,306	–	-3,306	-1,177
Changes from currency translation	266	–	271	–	537	–
As at 31 December	**494,012**	**433,450**	**195,738**	**196,109**	**689,750**	**629,559**
Cumulative depreciation and impairments as at 1 January	**-231,851**	**-220,204**	**-158,723**	**-164,773**	**-390,574**	**-384,977**
Additions (scheduled depreciation)	-14,779	-14,376	-17,080	-16,492	-31,859	-30,868
Disposals	2,429	69	18,400	22,550	20,829	22,619
Reclassifications	-1,140	1,777	–	-7	-1,140	1,770
Classified as held for sale	–	883	2,781	–	2,781	883
Changes from currency translation	-171	–	-215	-1	-386	-1
As at 31 December	**-245,512**	**-231,851**	**-154,837**	**-158,723**	**-400,349**	**-390,574**
Net carrying amounts as at 1 January	**201,599**	**177,596**	**37,386**	**42,318**	**238,985**	**219,914**
Net carrying amounts as at 31 December	**248,500**	**201,599**	**40,901**	**37,386**	**289,401**	**238,985**

(13) Inventories

Inventories in the amount of €93.5 million (previous year: €89.4 million) relate to property development business and primarily include land and buildings held for sale, as well as land with buildings under construction. The carrying amount of inventories recognised at the lower fair value less costs of disposal amounted to €6.8 million (previous year: €4.8 million). Also recognised under "Inventories" are raw materials and consumables in the amount of €0.4 million (previous year: €0.4 million).

No impairment provisions were created for inventories in either the reporting year or the previous year. Expenses for the utilisation of inventories during the reporting period amounted to €59.1 million (previous year: €34.8 million). No inventories were pledged as collateral for liabilities in either the reporting year or the previous year.

(14) Current tax assets

Current tax assets relate to current tax receivables, and they are expected to be realised in the amount of €57.7 million (previous year: €60.3 million) within twelve months.

(15) Deferred tax assets

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

in € thousands	31.12.2017	31.12.2016
Financial assets/liabilities at fair value through profit or loss	103,482	227,678
Financial assets available for sale	40,084	34,808
Receivables	24,810	14,870
Positive and negative market values from hedges	21,499	–
Financial assets accounted for using the equity method	31	8
Liabilities	13,185	19,345
Technical provisions	157,275	139,131
Provisions for pensions and other obligations	266,430	313,133
Other items	136,354	139,127
Tax loss carryforward	16,474	366
Deferred tax assets	**779,624**	**888,466**

The portion of the changes to deferred tax assets recognised directly in equity for some items can be seen in the consolidated statement of comprehensive income. The changes recognised in the income statement for some items are described in Note 39.

Deferred taxes on provisions for pensions and other obligations in the amount of €246.5 million (previous year: €258.9 million) were recognised directly in the reserve for pension commitments.

Deferred tax assets in the amount of €97.5 million (previous year: €111.1 million) and deferred taxes on tax loss carryforwards in the amount of €16.4 million (previous year: €0.3 million) are expected to be realised within twelve months.

Deferred taxes for deductible temporary differences and tax loss carryforwards that related to corporate income and trade taxes in the amount of €3.2 million (previous year: €4.1 million) were not recognised, as they are not expected to be realised in the medium term.

(16) Other assets

Other assets mainly had to do with prepaid insurance benefits for the following year.

(17) Financial liabilities at fair value through profit or loss

in € thousands	31.12.2017	31.12.2016
Financial liabilities held for trading	**533,614**	**1,129,266**
Derivative financial instruments	533,614	1,129,266
Financial liabilities at fair value through profit or loss	**533,614**	**1,129,266**

The change in the sub-item "Derivative financial instruments" is mainly the result of market changes to interest-rate-based and currency-based derivatives that are not used in connection with hedge accounting.

(18) Liabilities

in € thousands	31.12.2017	31.12.2016
Liabilities evidenced by certificates	**918,938**	**647,685**
Liabilities to credit institutions	**2,735,133**	**2,252,968**
Liabilities to customers	**23,822,677**	**25,418,956**
Deposits from home loan savings business and savings deposits	19,088,690	18,544,454
Other liabilities	4,690,654	6,819,347
Down payments received	43,333	55,155
Finance lease liabilities	**23,951**	**28,129**
Miscellaneous liabilities	**1,253,635**	**1,248,885**
Other liabilities[1]	360,853	351,744
Sundry liabilities[2]	892,782	897,141
Liabilities from reinsurance business	129,243	128,785
Liabilities from direct insurance business	636,066	655,359
Other sundry liabilities	127,473	112,997
Liabilities	**28,754,334**	**29,596,623**

1 Liabilities that constitute a class pursuant to IFRS 7.
2 Liabilities that do not constitute a class pursuant to IFRS 7 and essentially contain liabilities from insurance business with disclosure requirements pursuant to IFRS 4.

Of the other liabilities from liabilities to customers, €3,170.9 million (previous year: €4,184.5 million) are due on demand and €1,519.8 million (previous year: €2,634.9 million) have a fixed term.

Of the liabilities from direct insurance business within sundry liabilities, €578.9 million (previous year: €597.5 million) were attributable to policyholders and €57.2 million (previous year: €57.8 million) to insurance agents.

The fair value of each liability can be obtained from the measurement hierarchy. The carrying amount of sundry liabilities corresponds to fair value.

(19) Negative market values from hedges

in € thousands	31.12.2017	31.12.2016
Fair value hedges	**70,311**	**–**
Hedging of interest rate risk	70,311	–
Negative market values from hedges	**70,311**	**–**

(20) Technical provisions

		Gross
in € thousands	31.12.2017	31.12.2016
Provision for unearned premiums	245,008	249,337
Provision for future policy benefits	28,893,728	28,310,409
Provision for outstanding insurance claims	2,547,305	2,525,075
Provision for premium refunds	2,093,507	2,201,023
Other technical provisions	36,115	33,904
Technical provisions	**33,815,663**	**33,319,748**

Provision for unearned premiums

	Gross	Reinsurers' portionr	Gross	Reinsurers' portion
in € thousands	2017	2017	2016	2016
As at 1 January	**249,337**	**11,106**	**254,998**	**10,505**
Additions	245,008	11,849	249,337	11,106
Withdrawals	-249,337	-11,106	-254,998	-10,505
As at 31 December	**245,008**	**11,849**	**249,337**	**11,106**

Provision for future policy benefits

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	31.12.2017	31.12.2017	31.12.2016	31.12.2016
Life insurance	27,707,387	90,370	27,707,387	89,562
Health insurance	603,022	–	603,022	–
Provision for future policy benefits	**28,310,409**	**90,370**	**28,310,409**	**89,562**

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

in € thousands	Gross 2017	Reinsurers' portion 2017	Gross 2016	Reinsurers' portion 2016
Provision for future policy benefits	26,074,195	–	26,025,434	–
Provision for future policy benefits for unit-linked insurance contracts	1,633,192	–	1,510,797	–
Receivables not yet due from policyholders	-135,498	–	-152,950	–
As at 1 January	**27,571,889**	**89,562**	**27,383,281**	**90,372**
Additions from premiums[1]	1,493,622	–	1,693,146	–
Use and release[1]	-2,280,744	–	-2,570,741	–
Interest[1]	741,698	–	740,103	–
Other changes[1]	550,960	808	326,100	-810
As at 31 December	**28,077,425**	**90,370**	**27,571,889**	**89,562**
Provision for future policy benefits	26,273,673	–	26,074,195	–
Provision for future policy benefits for unit-linked insurance contracts	1,927,628	–	1,633,192	–
Receivables not yet due from policyholders	-123,876	–	-135,498	–

1 We determined the allocation of changes in the financial year on the basis of preliminary profit sourcing. The figures for the previous year were adjusted to conform to definitive profit sourcing.

Ageing provision in the area of health insurance

in € thousands	2017	2016
As at 1 January	**603,022**	**523,218**
Share of association rates	-58,376	-54,769
As at 1 January, not including association rates	**544,646**	**468,449**
Premiums from the provision for premium refunds	8,375	8,491
Additions from premiums	57,201	50,180
Interest	15,193	14,589
Direct credits	3,091	2,937
As at 31 December, not including association rates	**628,506**	**544,646**
Share of association rates	63,922	58,376
As at 31 December	**692,428**	**603,022**

Provision for outstanding insurance claims

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	31.12.2017	31.12.2017	31.12.2016	31.12.2016
Life and health insurance	201,657	11,969	207,494	12,071
Property/casualty insurance and reinsurance	2,345,648	211,467	2,317,581	199,237
Provision for outstanding insurance claims	**2,547,305**	**223,436**	**2,525,075**	**211,308**

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

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	2017	2017	2016	2016
As at 1 January	**207,494**	**12,071**	**185,393**	**12,865**
Changes recognised in the income statement	–5,837	–102	22,101	–794
As at 31 December	**201,657**	**11,969**	**207,494**	**12,071**

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

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	2017	2017	2016	2016
As at 1 January	**2,317,581**	**199,237**	**2,320,346**	**218,041**
Additions	589,634	50,472	544,771	27,863
Use	–393,703	–30,337	–406,881	–40,893
Release	–151,704	–6,783	–134,823	–4,433
Changes from currency translation	–16,160	–1,122	–5,832	–1,341
As at 31 December	**2,345,648**	**211,467**	**2,317,581**	**199,237**

The run-off triangles (gross and net) depicted below show the run-off of the provision for outstanding insurance claims in the area of property/casualty insurance and reinsurance.

With the gross run-off triangle, the provision for outstanding insurance claims (gross) is reconciled on the reporting date after deduction of the provision for claim adjustment expenses. With the net run-off triangle, the reinsurers' portion is deducted, in addition, when reconciling the net provision.

Gross run-off triangle[1]

in € thousands	31.12.2008	31.12.2009	31.12.2010	31.12.2011
Provision for outstanding insurance claims (gross)	**2,429,062**	**2,258,500**	**2,202,643**	**2,138,684**
Less provision for claim adjustment expenses	177,773	170,523	170,487	151,053
Provision for outstanding insurance claims (gross)	**2,251,289**	**2,087,977**	**2,032,156**	**1,987,631**
Payments, cumulative (gross)				
One year later	356,844	349,610	333,833	323,446
Two years later	539,706	505,236	473,612	470,817
Three years later	660,466	606,390	574,571	554,140
Four years later	747,518	685,578	638,949	634,042
Five years later	817,221	739,475	707,944	690,416
Six years later	866,843	801,919	757,448	733,169
Seven years later	925,006	846,355	795,821	–
Eight years later	967,231	880,268	–	–
Nine years later	998,678	–	–	–
Original provision, reestimated (gross)				
One year later	2,056,229	1,937,934	1,900,053	1,864,927
Two years later	1,929,577	1,854,617	1,809,559	1,768,517
Three years later	1,877,765	1,782,319	1,719,811	1,727,154
Four years later	1,820,033	1,701,983	1,687,446	1,688,593
Five years later	1,764,633	1,685,453	1,666,085	1,675,483
Six years later	1,751,092	1,671,109	1,658,294	1,637,511
Seven years later	1,747,082	1,672,413	1,630,541	–
Eight years later	1,752,562	1,650,739	–	–
Nine years later	1,733,674	–	–	–
Cumulative gross surplus (deficit) excluding currency rate effects	**517,615**	**437,238**	**401,615**	**350,119**
Cumulative gross surplus (deficit) including currency rate effects	**512,069**	**412,393**	**386,770**	**336,240**

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

	31.12.2012	31.12.2013	31.12.2014	31.12.2015	31.12.2016	31.12.2017
	2,115,807	**2,298,051**	**2,307,159**	**2,320,346**	**2,317,581**	**2,345,648**
	143,828	146,869	151,782	149,474	152,178	159,303
	1,971,979	**2,151,182**	**2,155,377**	**2,170,872**	**2,165,403**	**2,186,345**
	342,885	423,322	364,833	348,789	344,452	–
	466,803	587,072	505,919	480,556	–	–
	568,052	682,855	591,536	–	–	–
	636,356	744,049	–	–	–	–
	686,623	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	1,867,591	2,075,251	2,021,321	2,028,815	2,017,472	–
	1,801,134	1,970,230	1,927,813	1,899,667	–	–
	1,746,498	1,917,310	1,837,551	–	–	–
	1,715,199	1,845,499	–	–	–	–
	1,671,041	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	300,938	**305,683**	**317,827**	**271,205**	**147,931**	**–**
	306,499	**284,508**	**303,284**	**278,741**	**163,618**	**–**

Net run-off triangle[1]

in € thousands	31.12.2008	31.12.2009	31.12.2010	31.12.2011
Provision for outstanding insurance claims (gross)	**2,429,062**	**2,258,500**	**2,202,643**	**2,138,684**
Reinsurers' portion	334,940	287,061	243,629	240,553
Provision for outstanding insurance claims (net)	**2,094,122**	**1,971,439**	**1,959,014**	**1,898,131**
Less provision for claim adjustment expenses	169,032	163,587	161,599	145,605
Provision for outstanding insurance claims (net)	**1,925,090**	**1,807,852**	**1,797,415**	**1,752,526**
Payments, cumulative (net)				
One year later	314,965	309,573	308,239	292,000
Two years later	464,896	446,424	429,469	420,514
Three years later	568,372	531,379	516,963	493,036
Four years later	640,486	599,306	572,590	564,039
Five years later	698,933	644,506	632,887	609,585
Six years later	739,858	697,746	672,583	645,340
Seven years later	788,817	732,375	704,098	–
Eight years later	821,236	759,896	–	–
Nine years later	846,291	–	–	–
Original provision, reestimated (net)				
One year later	1,744,819	1,674,852	1,657,659	1,631,744
Two years later	1,635,543	1,583,566	1,572,665	1,533,715
Three years later	1,574,599	1,519,164	1,485,203	1,486,977
Four years later	1,515,109	1,440,743	1,445,935	1,454,094
Five years later	1,461,622	1,415,218	1,430,759	1,441,670
Six years later	1,439,960	1,409,210	1,424,467	1,409,041
Seven years later	1,443,412	1,411,802	1,402,051	–
Eight years later	1,450,181	1,394,832	–	–
Nine years later	1,435,996	–	–	–
Cumulative net surplus (deficit) excluding currency rate effects	**489,094**	**413,020**	**395,364**	**343,485**
Cumulative net surplus (deficit) including currency rate effects	**483,836**	**392,692**	**381,926**	**343,461**
Net run-off ratios, in %				
Excluding currency rate effects	25.41	22.85	22.00	19.60
Including currency rate effects	25.13	21.72	21.25	19.60

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

	31.12.2012	31.12.2013	31.12.2014	31.12.2015	31.12.2016	31.12.2017
	2,115,807	**2,298,051**	**2,307,159**	**2,320,346**	**2,317,581**	**2,345,648**
	213,375	316,616	237,472	218,041	199,237	211,467
	1,902,432	**1,981,435**	**2,069,687**	**2,102,305**	**2,118,344**	**2,134,181**
	146,226	148,891	149,880	151,350	153,953	160,848
	1,756,206	**1,832,544**	**1,919,807**	**1,950,955**	**1,964,391**	**1,973,333**
	314,905	307,660	323,041	308,063	314,233	–
	427,222	438,212	440,783	427,759	–	–
	518,813	512,108	516,509	–	–	–
	576,288	564,949	–	–	–	–
	619,557	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	1,652,034	1,734,546	1,793,132	1,817,162	1,826,697	–
	1,580,346	1,638,230	1,702,937	1,697,479	–	–
	1,532,754	1,588,680	1,618,970	–	–	–
	1,502,142	1,523,096	–	–	–	–
	1,463,334	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	292,872	**309,447**	**300,837**	**253,476**	**137,694**	**–**
	302,207	**294,619**	**288,146**	**263,435**	**155,824**	**–**
	16.68	16.89	15.67	12.99	7.01	–
	17.21	16.08	15.01	13.50	7.93	–

Provision for premium refunds

The provision for premium refunds changed as follows:

in € thousands	2017	2016
As at 1 January	**2,201,023**	**2,007,923**
Provision for premium refunds as at 1 January	**1,471,170**	**1,479,924**
Additions	158,689	189,347
Withdrawals with effect on liquidity	-139,566	-126,777
Withdrawals with no effect on liquidity	-60,053	-71,324
As at 31 December	**1,430,240**	**1,471,170**
Provision for deferred premium refunds as at 1 January	**729,853**	**527,999**
Changes recognised in the income statement	15,645	92,940
Changes recognised directly in equity	-82,231	108,914
As at 31 December	**663,267**	**729,853**
As at 31 December	**2,093,507**	**2,201,023**

Other technical provisions

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	2017	2017	2016	2016
As at 1 January	**33,904**	**1,023**	**32,430**	**962**
Additions	36,115	–	33,904	1,023
Use and release	-33,904	-1,023	-32,430	-962
As at 31 December	**36,115**	**–**	**33,904**	**1,023**

(21) Other provisions

in € thousands	31.12.2017	31.12.2016
Provisions for pensions	1,540,299	1,921,840
Provisions for other long-term employee benefits	53,858	66,244
Total	**1,594,157**	**1,988,084**
Sonstige Rückstellungen	1,109,816	1,159,284
Andere Rückstellungen	**2,703,973**	**3,147,368**

Provisiones for pensions and other long-term employee benefits

Provisions for pensions

The change in the projected benefit obligation is depicted in the following:

Projected benefit obligation

in € thousands	Present value of pension commitments 2017	Present value of pension commitments 2016	Fair value of plan assets 2017	Fair value of plan assets 2016	Net liabilities (net asset) of defined penisons plans/reported penison provisions 2017	Net liabilities (net asset) of defined penisons plans/reported penison provisions 2016
As at 1 January	**1,921,840**	**1,771,074**	–	**–**	**1,921,840**	**1,771,074**
Income and expenses recognised in the consolidated income statement	51,856	56,396	3,385	–	48,471	56,396
Current service cost	23,769	21,506	–	–	23,769	21,506
Gains/losses from plan settlements and curtailments	-352	-3	–	–	-352	-3
Interest expenses	28,439	34,893	–	–	28,439	34,893
Prospective income from plan assets	–	–	3,385	–	-3,385	–
Actuarial gains (-) or losses (+) recognised in other comprehensive income	-15,955	155,908	4,512	–	-20,467	155,908
Other effects	–	–	326,856	–	-326,856	–
Contributions to pension plans	–	–	326,856	–	-326,856	–
Employer	–	–	326,856	–	-326,856	–
Pension payments (utilisation)	-63,145	-61,538	-11,501	–	-51,644	-61,538
Classified als held for sale	31,045	–	–	–	-31,045	–
As at 31 December	**1,863,551**	**1,921,840**	**323,252**	**–**	**1,540,299**	**1,921,840**

There was no past service cost for either the current or the previous financial year. The projected benefit obligation corresponds to the carrying amount of the provision for pensions as at 1 January and 31 December of each financial year.

Current service cost is recognised in the consolidated income statement under “General administrative expenses”. Interest expenses are recognised under "Net income/expense from receivables, liabilities and subordinated capital".

Effective 30 April 2017, some of the current pension commitments of Wüstenrot Bausparkasse AG were transferred to a pension fund in exchange for a one-time contribution of €326.9 million. The commitments, which amount to €447.8 million and were outsourced in accordance with IFRS, consist of current pension commitments and vested pension entitlements, as well as statutory and guaranteed pension adjustments in accordance with Section 16 of the German Occupational Pensions Act (BetrAVG). Future salary adjustments and some of the premature risk benefits for disability and death, as well as pension entitlements that will vest in the future, will continue to be maintained in the direct commitment.

After the transfer takes place, the pension fund will handle the payment of pension benefits to pensioners. All eligible beneficiaries will be granted an irrevocable right to draw down from the pension fund, and if the latter is not able to service the benefits in full, the beneficiaries will have a legal claim against Wüstenrot Bausparkasse AG.

The non-insurance-based pension fund is a legally independent unit and is subject to oversight by the German Federal Financial Supervisory Authority (BaFin).

The plan assets capable of being netted in connection with the outsourcing of pension commitments can be broken down as follows:

List of plan assets by investment class

in € thousands	31.12.2017	31.12.2016
Financial assets	323,323	–
Cash reserves	131,192	–
Equity instruments	2,676	–
Senior fixed-income securities	182,329	–
Derivative financial instruments	7,126	–
Financial liabilities	**71**	**–**
Other liabilities	71	–
Total	**323,252**	**–**

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

in %	2017	2016
Actuarial interest rate	1.50	2.00
Trend in pensions	2.00	1.50
Trend in the projected benefit obligation	3.00	3.00
Trend in salaries	3.00	3.00
Trend in inflation	2.00	2.00
Biometrics	Heubeck mortality tables 2005G	Heubeck mortality tables 2005G

Sensitivity analysis

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

Present value of defined-benefit pension commitments

		31.12.2017		31.12.2016	
		Present value in € millions	Change in %	Present value in € millions	Change in %
Discount rate	+50 bp	1,749.9	-7.6	1,772.2	-7.8
	-50 bp	2,058.2	8.7	2,091.4	8.9
Trend in pension/inflation	+25 bp	1,944.9	2.7	1,973.4	2.7
	-25 bp	1,845.1	-2.6	1,871.6	-2.6
Trends in salaries/projected benefit obligation	+25 bp	1,902.2	0.4	1,930.4	0.5
	-25 bp	1,882.7	-0.5	1,912.4	-0.5
Life expectancy	By one more year	1,963.7	3.7	1,991.9	3.7

With respect to biometrics, the effects are depicted if life expectancy increases by one year. This is approximately achieved through a reduction of mortality probabilities by 10%.

There are no extraordinary company- or plan-specific risks. The change in obligations is depicted for the current and the subsequent three financial years through annual forecasts.

Internal financing through pension provisions without explicit plan assets is an intentional, proven strategy for financing pension commitments. In so doing, sufficient risk offsetting takes place. There is no liquidity problem.

The weighted average term to maturity of benefit obligations (Macaulay duration) amounts to 16.3 years (previous year: 18.0 years).

Provisions for other long-term employee benefits

In measuring other long-term employee benefits, actuarial interest rates were used that corresponded to the shorter terms to maturity of the commitments (e.g. for early retirement, 0.25% (previous year: 0.25%); contracts for phased-in early retirement ("Altersteilzeit"), 0.50% (previous year: 0.50%); long-term service benefits, 0.50% (previous year: 0.50%)).

Other provisions in 2017

in € thousands	For restructuring	For the refunding of closing fees in the case of loan waivers	For the interest bonus option	Other	Total
As at 1 January	**17,004**	**32,875**	**1,041,634**	**67,771**	**1,159,284**
Additions	7,768	3,286	157,648	19,915	188,617
Use	-2,292	-2,352	-139,194	-20,517	-164,355
Release	-6,567	-7	-31,165	-18,675	-56,414
Classified as held for sale	—	—	—	-824	-824
Interest effect	28	-495	-12,394	23	-12,838
Reclassifications	-1,458	—	—	-2,626	-4,084
Changes from currency translation	—	—	415	15	430
As at 31 December	**14,483**	**33,307**	**1,016,944**	**45,082**	**1,109,816**

Other provisions in 2016

in € thousands	For restructuring	For the refunding of closing fees in the case of loan waivers	For the interest bonus option	Other	Total
As at 1 January	**27,308**	**32,135**	**946,800**	**57,848**	**1,064,091**
Additions	3,251	3,535	190,326	40,566	237,678
Use	-3,335	-3,553	-120,706	-24,653	-152,247
Release	-8,447	-372	-2,870	-6,007	-17,696
Interest effect	117	1,130	28,083	17	29,347
Reclassifications	-1,890	–	–	–	-1,890
Changes from currency translation	–	–	1	–	1
As at 31 December	**17,004**	**32,875**	**1,041,634**	**67,771**	**1,159,284**

Additions to restructuring provisions in the 2017 financial year mainly involved restructuring expenses in connection with the "Vertrieb.Besser!" strategic initiative of Württembergische Versicherung AG. 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 the purposes of modifying personnel capacities, measures were adopted in the form of termination agreements and outplacement. Termination benefits pursuant to IAS 19.8 exist in connection with the planned personnel measures.

The expected maturities of the amounts recognised in the balance sheet can be broken down as follows:

2017

in € thousands	Within 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Other provisions for restructuring	8,840	5,643	–	–	14,483
Other provisions for the refunding of closing fees in the case of loan waivers	5,685	6,310	21,312	–	33,307
Other provisions for the interest bonus option	272,233	331,302	413,118	291	1,016,944
Other	33,785	5,920	195	5,182	45,082
Other provisions, total	**320,543**	**349,175**	**434,625**	**5,473**	**1,109,816**

2016

in € thousands	Within 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Other provisions for restructuring	9,898	7,106	–	–	17,004
Other provisions for the refunding of closing fees in the case of loan waivers	5,597	6,486	20,792	–	32,875
Other provisions for the interest bonus option	280,502	343,573	417,156	403	1,041,634
Other	49,345	12,063	209	6,154	67,771
Other provisions, total	**345,342**	**369,228**	**438,157**	**6,557**	**1,159,284**

(22) Current tax liabilities

Current tax liabilities amounted to €182.0 million (previous year: €227.4 million) and are expected to be realised within 12 months.

(23) Deferred tax liabilities

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

in € thousands	31.12.2017	31.12.2016
Financial assets/liabilities at fair value through profit or loss	19,086	123,125
Financial assets available for sale	85,199	150,632
Receivables	54,202	69,515
Positive and negative market values from hedges	15,443	5,682
Financial assets accounted for using the equity method	1,956	1,989
Liabilities	68,184	63,499
Technical provisions	150,665	146,049
Other items	103,191	74,001
Deferred tax liabilities	**497,926**	**634,492**

The portion of the changes to deferred tax liabilities recognised directly in equity for some items can be seen in the consolidated statement of comprehensive income. The changes recognised in the income statement for some items are described in Note 39.

Deferred tax liabilities in the amount of €35.6 million (previous year: €45.3 million) are expected to be realised within 12 months.

(24) Other liabilities

This item contains liabilities in the amount of €6.5 million (previous year: €6.4 million).

(25) Subordinated capital

Subordinated capital is depicted in the reporting about liquidity risk (Note 53) and takes into consideration existing options to repay it prior to final maturity.

	Carrying amount	
in € thousands	31.12.2017	31.12.2016
Subordinated liabilities	443,545	368,097
Profit participation certificates	7,431	28,642
Subordinated capital	**450,976**	**396,739**

Pursuant to Section 4 (3) in conjunction with Section 4 (6) of the bond terms and conditions, Württembergische Lebensversicherung AG made use of its right to terminate and redeem the subordinated bonds issued in 2006 in the amount of €86.5 million.

Wüstenrot Bank AG Pfandbriefbank repaid subordinated liabilities totalling €75.0 million from the years 2006 and 2011.

(26) Equity

in € thousands	31.12.2017	31.12.2016
Interests of W&W shareholders in paid-in capital	1,484,645	1,483,639
Interests of W&W shareholders in earned capital	2,459,522	2,308,146
Non-controlling interests in equity	20,691	19,805
Equity	**3,964,858**	**3,811,590**

We propose appropriating the unappropriated surplus of €65.2 million that was generated by W&W AG in the 2017 financial year as follows: distribution of a dividend in the amount of €0.65 for each share entitled to receive dividends.

The proposal assumes that at the time when the resolution on the appropriation of profit is adopted by the Annual General Meeting, the company does not hold any treasury shares, which pursuant to Section 71b of the German Stock Corporation Act (AktG) are not entitled to receive dividends. In the event that the company holds treasury shares that are not entitled to receive dividends pursuant to Section 71b AktG when the resolution on the appropriation of profit is adopted by the Annual General Meeting, the distribution of €0.65 per share entitled to receive dividends will remain unchanged, and a correspondingly modified resolution on the appropriation of profit will be proposed to the Annual General Meeting. The modification will be carried out in such a way that the total amount of the dividend will be reduced by the amount corresponding to the number of treasury shares held by the company multiplied by €0.65 (dividend per share entitled to receive dividends), with such amount then being carried forward to new account.

On 1 June 2017, the Annual General Meeting of W&W AG resolved to distribute a dividend in the amount of €0.60 (previous year: €0.60) per share from the unappropriated surplus for the 2016 financial year as calculated in accordance with the German Commercial Code (HGB), which amounted to €63.4 million (previous year: €61.5 million). Based on the shares entitled to receive dividends, this corresponded to a maximum distribution of €56.1 million (previous year: €56.1 million). Of the remaining amount, €7.0 million (previous year: €5.0 million) was allocated to "Other reserves", and €0.2 million (previous year: €0.5 million) was carried forward to new account.0

Dividends totalling €56,130,573 were distributed on 7 June 2017.

Share capital

Share capital is divided into 93,550,955 registered no-par-value shares and is fully paid up. In legal terms, these are ordinary shares.

This means that they carry voting and dividend rights, a right to share in liquidation proceeds, and subscription rights. There are no preferential rights or restrictions.

Changes in the number of shares outstanding

	31.12.2017	31.12.2016
As at 1 January	**93,476,940**	**93,749,720**
Additions through capital increase	–	-358,000
Disposals	74,015	85,220
As at 31 December	**93,550,955**	**93,476,940**

Authorised capital

Pursuant to Article 5 (5) of the Articles of Association of W&W AG, the Executive Board is authorised for a period of five years ending on 30 June 2019 to increase, on one or more occasions, the company's share capital by up to €100 million via issuance of new registered no-par-value shares in exchange for cash or contributions in kind, subject to the approval of the Supervisory Board. Shareholders are entitled to a statutory subscription right.

Contingent capital

By resolution adopted at the Annual General Meeting on 28 May 2014, the Executive Board was authorised to issue warrant bonds, convertible bonds, participation rights, profit participation bonds or a combination of these instruments on or before 27 May 2019. Article 5 (6) of the Articles of Association accordingly provides that the share capital of WW AG is contingently increased by the nominal amount of not more than €240,000 thousand, divided into not more than 45,889,102 no-par-value registered shares.

Non-controlling interests in equity

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

in € thousands	31.12.2017	31.12.2016
Interest in unrealised gains and losses	2,960	3,471
Interest in the consolidated net profit	1,395	2,369
Other interests	16,336	13,965
Non-controlling interests in equity	**20,691**	**19,805**

The following table provides information for each subsidiary in which there are non-controlling interests that are material for W&W AG:

	WürttLeben subgroup, Stuttgart	
in € thousands	31.12.2017	31.12.2016
Participation of non-controlling interests, in %	5.11	5.11
Assets (100%)	32,966,745	32,800,557
Liabilities (100%)	32,483,715	32,335,104
Net assets (100%)	**483,030**	**465,453**
Net assets attributable to WürttLeben/Wüstenrot stavebni Sporitelna	481,947	464,361
Net assets attributable to non-controlling interests	1,083	1,092
Carrying amount of non-controlling interests in net assets	**25,711**	**24,821**
Net income (100%)	27,440	45,506
Net income attributable to WürttLeben/Wüstenrot stavebni Sporitelna	27,432	45,477
Net income attributable to non-controlling interests	8	29
Other comprehensive income (100%)	-9,863	10,912
Total income (100%)	**17,577**	**56,418**
Total net income allocated to non-controlling interests	**1,410**	**2,353**
Dividends paid to non-controlling interests	–	–
Cash flows (100%)	22,548	-142,148

Employee share ownership programme

An employee share ownership programme was offered in the first half-year of 2017. It enabled all employees of companies in the W&W Group to acquire up to 40 shares of W&W AG at a price of €13.60 per share, which represented a discount of €5.00 per share. The employees are required to hold these shares for at least three years.

Treasury shares in the portfolio were used for this programme. Employees acquired a total of 74,015 of these shares. Thus, as at 31 December 2017, W&W AG held 198,765 treasury shares. This resulted in personnel expenses of €0.4 million.

Notes concerning the consolidated income statement

(27) Net income from financial assets available for sale

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Income from financial assets available for sale	**1,082,652**	**1,446,410**
Interest income	431,023	465,773
Dividend income	138,738	157,231
Income from sales	495,052	656,941
Income from currency translation	16,265	157,656
	2	–
Income from the ending of fair value hedges	613	8,159
Receipts on written-down bonds and other fixed-income securities	959	650
Expenses from financial assets available for sale	**–489,132**	**–331,706**
Expenses from sales	–67,952	–105,392
Expenses from impairments	–39,726	–93,437
Expenses from currency translation	–380,874	–63,274
Expenses from repurchase agreements and securities lending transactions	–	–2
Expenses from the ending of fair value hedges	–580	–69,601
Net income from financial assets available for sale	**593,520**	**1,114,704**

(28) Net income from financial assets accounted for using the equity method

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Income from financial assets accounted for using the equity method	**21,897**	**8,129**
Income from pro rata annual surpluses	3,032	8,129
Income from the reversal of impairment losses	18,302	–
Other income	563	–
Expences from financial assets accounted for using the equity method	**–77**	**–**
Other expenses	–77	–
Net income from financial assets accounted for using the equity method	**21,820**	**8,129**

(29) Net expense from financial assets/liabilities at fair value through profit or loss

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Income from financial assets/liabilities at fair value through profit or loss	**1,252,718**	**1,067,089**
Income from assets/liabilities designated as financial assets/liabilities at fair value through profit or loss	282,540	204,171
Interest income	9,345	11,252
Dividend income	398	1,115
Income from measurement at fair value	75,876	67,970
Income from sales	3,480	4,019
Income from investments for the account and risk of holders of life insurance policies	178,544	84,420
Income from currency changes	14,897	35,395
Income from financial assets/liabilities held for trading	970,178	862,918
Interest income	85,669	124,503
Dividend income	414	944
Income from measurement at fair value	179,048	317,619
Income from sales	176,786	182,340
Income from currency changes	528,261	237,512
Expenses from financial assets/liabilities at fair value through profit or loss	**−783,954**	**−1,293,666**
Expenses from assets/liabilities designated as financial assets/liabilities at fair value through profit or loss	−134,954	−97,686
Expenses from measurement at fair value	−38,166	−53,012
Expenses from sales	−1,175	−1,400
Expenses from investments for the account and risk of holders of life insurance policies	−39,015	−15,675
Expenses from currency changes	−56,598	−27,599
Expenses from financial assets/liabilities held for trading	−649,000	−1,195,980
Interest expense	−159,767	−253,859
Expenses from measurement at fair value	−206,015	−344,271
Expenses from sales	−161,206	−207,595
Expenses from currency changes	−122,012	−390,255
Net expense from financial assets/liabilities at fair value through profit or loss	**468,764**	**−226,577**

(30) Net income from hedges

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Income from hedges	**39,860**	**221,897**
Income from fair value hedges	9,730	149,633
Income from the measurement of hedged items	3,095	118,106
Income from the measurement of derivative hedging instruments	6,635	31,527
Income from cash flow hedges	30,130	72,264
Income from reallocation from the reserve for cash flow hedges	30,130	72,264
Expenses from hedges	**−23,658**	**−151,007**
Expenses from fair value hedges	−9,777	−112,487
Expenses from the measurement of hedged items	−6,489	−22,860
Expenses from the measurement of derivative hedging instruments	−3,288	−89,627
Expenses from cash flow hedges	−13,881	−38,520
Expenses from reallocation from the reserve for cash flow hedges	−13,881	−38,520
Net income from hedges	**16,202**	**70,890**

(31) Net income from receivables, liabilities and subordinated capital

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Income from receivables, liabilities and subordinated capital	**1,414,844**	**1,624,207**
Interest income from receivables	1,190,800	1,317,853
Income from sales of receivables	192,559	273,819
Income from the disposal of liabilities and subordinated capital	—	1
Income from the ending of fair value hedges	2,722	2,748
Income from currency translation	28,763	29,786
Expenses from receivables, liabilities and subordinated capital	**−692,616**	**−790,820**
Interest expenses for liabilities	−565,763	−652,592
Interest expenses for subordinated capital	−21,235	−25,369
Expenses from sales of receivables	−2,259	−2,361
Expenses from the disposal of liabilities	−3,673	−8,037
Expenses from the ending of fair value hedges	−53,424	−63,277
Expenses from currency translation	−46,262	−39,184
Net income from receivables, liabilities and subordinated capital	**722,228**	**833,387**

Interest expenses for subordinated capital contain €1.3 million (previous year: €1.6 million) for participation rights and €19.9 million (previous year: €23.7 million) for subordinated liabilities.

(32) Net expense from risk provision

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Income from risk provision	**83,849**	**108,369**
Release of risk provision	60,307	80,304
Release of provisions in lending business, for irrevocable loan commitments, for financial guarantees	957	302
Receipts on written-down receivables	22,585	27,763
Expenses from risk provision	**–74,114**	**–91,196**
Additions to risk provision	–61,063	–73,658
Additions to provisions in lending business, for irrevocable loan commitments, for financial guarantees	–683	–1,668
Direct write-downs	–12,368	–15,870
Net income/expense from risk provision	**9,735**	**17,173**

(33) Net income from investment property

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Income from investment property	**181,066**	**157,977**
Income from leasing	118,533	119,761
Income from sales	60,069	34,412
Income from the reversal of impairment losses	2,464	3,804
Expenses from investment property	**–68,611**	**–70,047**
Expenses from repairs, maintenance and management	–23,004	–22,355
Expenses from sales	–383	–123
Expenses from scheduled depreciation	–44,343	–45,687
Expenses from impairments	–881	–1,882
Net income from investment property	**112,455**	**87,930**

The depicted directly attributable operating expenses for repairs, maintenance and management, as well as depreciation, amounted to €65.1 million (previous year: €66.2 million) for rental units that generated rent revenue and to €3.1 million (previous year: €3.8 million) for rental units that did not generate rent revenue.

(34) Net commission expense

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Commission income	**257,406**	**246,922**
from the conclusion of building savings contracts	122,743	118,308
from banking/home loan savings business	39,151	39,550
from reinsurance	24,766	25,971
from brokering activities	31,960	26,519
from investment business	36,971	34,178
from other business	1,815	2,396
Commission expenses	**–659,226**	**–637,835**
from insurance	–421,623	–413,982
from banking/home loan savings business	–176,247	–171,424
from reinsurance	–1,360	–1,180
from brokering activities	–9,451	–8,219
from investment business	–24,031	–23,423
from other business	–26,514	–19,607
Net commission expense	**–401,820**	**–390,913**

The net commission expense contains income in the amount of €1.4 million (previous year: €2.4 million) and expenses in the amount of €2.3 million (previous year: €2.2 million) from trust and other fiduciary activities. These include the management or investment of assets on behalf of individuals, trusts, pension funds and other institutions.

During the reporting period, transactions involving financial instruments not at fair value through profit or loss generated commission income in the amount of €9.3 million (previous year: €12.9 million) and commission expenses in the amount of €3.4 million (previous year: €8.7 million).

(35) Earned premiums (net)

Life and health insurance

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Gross premiums written	2,115,638	2,303,465
Change in the provision for unearned premiums	5,845	6,384
Premiums from the provision for premium refunds	46,534	50,345
Earned premiums (gross)	**2,168,017**	**2,360,194**
Premiums ceded to reinsurers	–30,930	–34,958
Earned premiums (net)	**2,137,087**	**2,325,236**

Property/casualty insurance and reinsurance

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Gross premiums written	1,757,724	1,685,356
Direct	1,750,923	1,678,401
Reinsurance	6,801	6,955
Change in the provision for unearned premiums	-1,516	-723
Earned premiums (gross)	**1,756,208**	**1,684,633**
Premiums ceded to reinsurers	-83,988	-77,037
Earned premiums (net)	**1,672,220**	**1,607,596**

(36) Insurance benefits (net)

Benefits under insurance contracts from direct business are shown without claim adjustment expenses. These are contained in general administrative expenses. Insurance benefits under reinsurance and the reinsurers' portion of insurance benefits may consist of both claim payments and adjustment expenses.

Recognised under the item “Change in the provision for premium refunds” are additions to the provision for premium refunds, as well as the change in the provision for deferred premium refunds recognised in the income statement.

Life and health insurance

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Payments for insurance claims	-2,377,871	-2,651,882
Gross amount	-2,395,113	-2,659,895
Thereof to: reinsurers' portion	17,242	8,013
Change in the provision for outstanding insurance claims	5,733	-22,896
Gross amount	5,833	-22,101
Thereof to: reinsurers' portion	-100	-795
Change in the provision for future policy benefits	-583,340	-253,491
Gross amount	-584,147	-252,681
Thereof to: reinsurers' portion	807	-810
Change in the provision for premium refunds	-173,773	-282,010
Gross amount	-173,773	-282,010
Thereof to: reinsurers' portion	—	—
Change in other technical provisions	-29	45
Gross amount	-29	45
Thereof to: reinsurers' portion	—	—
Insurance benefits (net)	**-3,129,280**	**-3,210,234**
Gross amount, total	-3,147,229	-3,216,642
Thereof to (total): reinsurers' portion	17,949	6,408

Property/casualty insurance and reinsurance

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Payments for insurance claims	-867,576	-851,182
Gross amount	-915,389	-907,636
Thereof to: reinsurers' portion	47,813	56,454
Change in the provision for outstanding insurance claims	-30,888	-18,630
Gross amount	-44,239	-1,170
Thereof to: reinsurers' portion	13,351	-17,460
Change in the provision for premium refunds	-562	-277
Gross amount	-562	-277
Thereof to: reinsurers' portion	–	–
Change in other technical provisions	-2,104	185
Gross amount	-1,081	123
Thereof to: reinsurers' portion	-1,023	62
Insurance benefits (net)	**-901,130**	**-869,904**
Gross amount, total	-961,271	-908,960
Thereof to (total): reinsurers' portion	60,141	39,056

(37) General administrative expenses

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Personnel expenses	**-593,183**	**-589,159**
Wages and salaries	-444,619	-439,363
Social remittances	-77,985	-80,131
Expenses for pension scheme and support	-52,464	-53,530
Other	-18,115	-16,135
Materials costs	**-441,578**	**-422,816**
Depreciation/amortisation	**-64,593**	**-63,345**
Property for own use	-14,779	-14,376
Plant and equipment	-17,605	-16,492
Intangible assets	-32,209	-32,477
General administrative expenses	**-1,099,354**	**-1,075,320**

During the reporting period, contributions totalling €16.5 million (previous year: €14.8 million) were paid towards defined-contribution plans. In addition, employer contributions totalling €40.5 million (previous year: €39.9 million) were paid towards statutory pension insurance.

General administrative expenses contain personnel expenses totalling €15.7 million (previous year: €17.2 million) for phased-in early retirement (“Altersteilzeit”) and early retirement.

(38) Net other operating expense

The net other operating expense consists of the following:

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Other operating income	**217,304**	**219,027**
Sales proceeds from services (property development business)	75,080	47,820
Release of provisions	28,664	15,174
Income from sales	3,601	3,049
Other income from currency translation	15,283	5,800
Other technical income	19,560	34,326
Services income	43,381	40,766
Miscellaneous income	31,735	72,092
Other operating expenses	**–147,302**	**–219,551**
Other taxes	–6,697	21
Expenses for services (property development business)	–44,286	–66,811
Additions to provisions	–14,005	–18,906
Losses from sales	–1,470	–5,363
Other expenses from currency translation	–699	–4,296
Other technical expenses	–49,765	–99,234
Miscellaneous expenses	–30,380	–24,962
Net other operating expense	**70,002**	**–524**

(39) Income taxes

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Current income taxes paid for the reporting period	–78,933	–118,756
Current taxes paid for other periods	50,047	42,430
Deferred taxes	–5,526	20,060
Income taxes	**–34,412**	**–56,266**

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

Deferred taxes

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Financial assets/liabilities at fair value through profit or loss	−20,313	137,708
Financial assets available for sale	30,319	43,446
Receivables	25,145	3,356
Positive and negative market values from hedges	5,514	−142,104
Financial assets accounted for using the equity method	3,174	386
Liabilities	−10,845	−17,252
Technical provisions	13,528	−14,911
Provisions for pensions and other obligations	−34,316	−2,172
Other items	−33,840	11,894
Tax loss carryforward	16,108	−291
Deferred taxes	**−5,526**	**20,060**

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

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Consolidated earnings before income taxes from continued operations	**292,449**	**291,573**
Uniform consolidated tax rate, in %	30,58	30,58
Expected income taxes	−89,431	−89,163
Tax rate discrepancies of Group companies	5,681	7,935
Effects of tax-free income	8,518	1,714
Effects of non-deductible expenses	−3,358	−13,479
Prior-period effects (current and deferred)	53,171	38,412
Other	−8,993	−1,685
Income taxes	**−34,412**	**−56,266**

The applicable income tax rate of 30.58% selected as the basis for the reconciliation statement is composed of the corporate income tax rate of 15%, the solidarity surcharge on corporate income tax of 5.5%, and an average tax rate for trade tax of 14.75%.

No deferred tax liabilities were recognised for temporary differences in the amount of €217.1 million (previous year: €197.8 million) in connection with interests in subsidiaries, since it is not probable that these temporary differences will reverse in the foreseeable future.

(40) Earnings per share

Basic earnings per share are determined by dividing the consolidated net profit by the weighted average number of shares:

		1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Result attributable to shareholders of W&W AG	in €	256,641,539	232,919,119
Number of shares at the beginning of the financial year	#	93,476,940	93,749,720
Number of shares held by the company	#	-198,765	-272,780
Weighted average number of shares	#	93,532,299	93,492,269
Basic (= diluted) earnings per share	in €	**2.74**	**2.49**

There currently are no potential shares that would have a diluting effect. Diluted earnings per share thus correspond to basic earnings per share.

Notes concerning the consolidated statement of comprehensive income

(41) Unrealised gains and losses

	Financial assets available for sale		Financial assets accounted for using the equity method		Cash flow hedges	
in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Recognised in other comprehensive income	150,872	718,062	773	1,467	-4,106	16,582
Reclassified to the consolidated income statement	-324,695	-449,236	–	–	-16,249	-33,744
Thereof impairments	35,265	92,923	–	–	–	–
Thereof realised gains	-359,960	-542,159	–	–	-16,249	-33,744
Unrealised gains/losses (gross)	**-173,823**	**268,826**	**773**	**1,467**	**-20,355**	**-17,162**

Realised gains from financial assets available for sale contain income from sales in the amount of €495.1 million (previous year: €656.9 million) and expenses from sales in the amount of €68.0 million (previous year: €105.4 million).

Notes concerning financial instruments and fair value

(42) Disclosures concerning the measurement of fair value

A hierarchical classification was undertaken for financial instruments measured at fair value, and it takes into account the relevance of the factors forming part of the measurement. This classification consists of three levels:

Level 1: Assigned to this level are financial instruments that are measured using unadjusted quoted prices for identical assets and liabilities on an active market.

Level 2: Assigned to this level are financial instruments that are measured by means of a recognised measurement model using input factors that can be directly (i.e. as price) or indirectly (i.e. derived from prices) observed for the asset or liability.

Level 3: Assigned to this level are financial instruments that are measured by means of a recognised measurement model for which the material data used is not based on observable market data (non-observable input factors).

The level to which the financial instrument is assigned in its entirety is determined on the basis of the lowest level input factor in the hierarchy that is significant to the entire measurement of fair value. For this purpose, the significance of an input factor is evaluated in relation to fair value in its entirety. In evaluating the significance of a given input factor, the specific features of the asset or liability are analysed and regularly reviewed during the reporting period.

If fair value cannot be reliably determined, the carrying amount is used as an approximate value to measure fair value. In this case, such financial instruments are assigned to Level 3.

The level classification is determined monthly throughout the reporting period and leads to regroupings between levels as of the reporting date.

The following table depicts all assets and liabilities for which fair value is to be determined.

For accounting purposes, the only financial instruments measured at fair value in the W&W Group are those that are assigned to the categories

- Financial assets/liabilities at fair value through profit or loss
- Financial assets available for sale and
- Positive and negative market values from hedges.

The disclosures in the table "2017 measurement hierarchy (items that were not measured at fair value)" consist of those financial instruments and non-financial assets and liabilities for which fair value is provided in the notes.

2017 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1 31.12.2017	Level 2 31.12.2017	Level 3 31.12.2017	Fair value/ carrying amount 31.12.2017
Financial assets at fair value through profit or loss	**15,696**	**2,795,199**	**5,102**	**2,837,312**
Designated as financial assets at fair value through profit or loss	–	2,548,896	4,172	2,553,068
Equity instruments	–	547	–	547
Fund units	–	547	–	547
Structured products	–	624,894	–	624,894
Interest-rate-based structured products	–	181,813	–	181,813
Equity- and index-based structured products	–	443,081	–	443,081
Capital investments for the account and risk of holders of life insurance policies	–	1,923,455	4,172	1,927,627
Financial assets held for trading	37,011	246,303	930	284,244
Equity instruments	–	10,104	919	11,023
Fund units	–	10,104	919	11,023
Derivative financial instruments	37,011	236,199	11	273,221
Interest-rate-based derivatives	794	149,754	–	150,548
Currency-based derivatives	–	82,415	–	82,415
Equity- and index-based derivatives	36,132	4,030	–	40,162
Other derivatives	85	–	11	96
Financial assets available for sale	**757,158**	**21,719,124**	**1,432,251**	**23,908,533**
Equity instruments	757,158	1,024,058	1,397,247	3,178,463
Investments, excluding alternative investments	–	–	233,758	233,758
Credit institutions	–	–	23,757	23,757
Other financial companies	–	–	4,946	4,946
Other companies	–	–	205,055	205,055

2017 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1 31.12.2017	Level 2 31.12.2017	Level 3 31.12.2017	Fair value/ carrying amount 31.12.2017
Alternative investments, including private equity	–	–	1,131,428	1,131,428
Other financial companies	–	–	1,090,566	1,090,566
Other companies	–	–	40,862	40,862
Equities	757,158	–	29,418	786,576
Credit institutions	82,821	–	26,004	108,825
Other financial companies	72,205	–	3,414	75,619
Other companies	602,132	–	–	602,132
Fund units	–	1,024,058	2,643	1,026,701
Subordinated securities and receivables	–	1,247,120	35,004	1,282,124
Credit institutions	–	499,666	–	499,666
Other financial companies	–	343,688	35,004	378,692
Other companies	–	403,766	–	403,766
Senior fixed-income securities	–	19,447,946	–	19,447,946
Credit institutions	–	6,367,701	–	6,367,701
Other financial companies	–	1,319,195	–	1,319,195
Other companies	–	1,823,820	–	1,823,820
Public authorities	–	9,937,230	–	9,937,230
Positive market values from hedges	**–**	**50,506**	**–**	**50,506**
Total assets	**794,169**	**24,564,829**	**1,437,353**	**26,796,351**
Financial liabilities at fair value through profit or loss	**312**	**533,302**	**–**	**533,614**
Financial liabilities held for trading	312	533,302	–	533,614
Derivative financial instruments	312	533,302	–	533,614
Interest-rate-based derivatives	84	518,284	–	518,368
Currency-based derivatives	–	4,290	–	4,290
Equity- and index-based derivatives	228	10,728	–	10,956
Other derivatives	–	70,311	–	70,311
Total liabilities	**312**	**603,613**	**–**	**603,925**

2016 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1 31.12.2016	Level 2 31.12.2016	Level 3 31.12.2016	Fair value/ carrying amount 31.12.2016
Financial assets at fair value through profit or loss	**15,696**	**2,977,664**	**3,337**	**2,996,697**
Designated as financial assets at fair value through profit or loss	–	2,478,032	2,009	2,480,041
Equity instruments	–	49,940	–	49,940
Fund units	–	49,940	–	49,940
Senior fixed-income securities	–	165,243	–	165,243
Other companies	–	26,813	–	26,813
Public authorities	–	138,430	–	138,430
Structured products	–	631,666	–	631,666
Interest-rate-based structured products	–	199,627	–	199,627
Equity- and index-based structured products	–	432,039	–	432,039
Capital investments for the account and risk of holders of life insurance policies	–	1,631,183	2,009	1,633,192
Financial assets held for trading	15,696	499,632	1,328	516,656
Equity instruments	–	12,205	1,327	13,532
Fund units	–	12,205	1,327	13,532
Derivative financial instruments	15,696	487,427	1	503,124
Interest-rate-based derivatives	10	467,613	–	467,623
Currency-based derivatives	–	9,631	–	9,631
Equity- and index-based derivatives	15,686	10,183	–	25,869
Loan-based derivatives	–	–	1	1
Financial assets available for sale	**606,373**	**22,570,912**	**1,387,189**	**24,564,474**
Equity instruments	606,373	1,365,389	1,365,594	3,337,356
Investments, excluding alternative investments	–	–	272,012	272,012
Credit institutions	–	–	22,610	22,610
Other financial companies	–	–	5,304	5,304
Other companies	–	–	244,098	244,098

2016 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1 31.12.2016	Level 2 31.12.2016	Level 3 31.12.2016	Fair value/ carrying amount 31.12.2016
Alternative investments, including private equity	–	–	1,055,590	1,055,590
Other financial companies	–	–	1,025,720	1,025,720
Other companies	–	–	29,870	29,870
Equities	606,373	9	34,290	640,672
Credit institutions	71,899	–	27,507	99,406
Other financial companies	60,358	–	6,783	67,141
Other companies	474,116	9	–	474,125
Fund units	–	1,365,380	3,702	1,369,082
Subordinated securities and receivables	–	1,236,862	21,595	1,258,457
Credit institutions	–	534,465	–	534,465
Other financial companies	–	352,556	21,595	374,151
Other companies	–	349,841	–	349,841
Senior fixed-income securities	–	19,968,661	–	19,968,661
Credit institutions	–	7,464,716	–	7,464,716
Other financial companies	–	1,260,874	–	1,260,874
Other companies	–	2,030,395	–	2,030,395
Public authorities	–	9,212,676	–	9,212,676
Positive market values from hedges	**–**	**21,431**	**–**	**21,431**
Total assets	**622,069**	**25,570,007**	**1,390,526**	**27,582,602**
Financial liabilities at fair value through profit or loss	**14,719**	**1,114,547**	**–**	**1,129,266**
Financial liabilities held for trading	14,719	1,114,547	–	1,129,266
Derivative financial instruments	14,719	1,114,547	–	1,129,266
Interest-rate-based derivatives	1,118	951,197	–	952,315
Currency-based derivatives	–	157,769	–	157,769
Equity- and index-based derivatives	13,424	5,581	–	19,005
Other derivatives	177	–	–	177
Total liabilities	**14,719**	**1,114,547**	**–**	**1,129,266**

2017 measurement hierarchy
(items that were not measured at fair value)

in € thousands	Level 1 31.12.2017	Level 2 31.12.2017	Level 3 31.12.2017	Fair value 31.12.2017	Carrying amount 31.12.2017
Cash reserves	**153,923**	**–**	**–**	**153,923**	**153,923**
Deposits with central banks	153,583	–	–	153,583	153,583
Deposits with foreign postal giro offices	340	–	–	340	340
Receivables	**–**	**26,047,536**	**16,435,243**	**42,482,779**	**39,765,569**
Subordinated securities and receivables	–	102,117	–	102,117	80,224
First-rate receivables from institutional investors	–	16,404,484	–	16,404,484	14,076,295
Credit institutions	–	11,671,623	–	11,671,623	10,021,183
Other financial companies	–	134,245	–	134,245	135,311
Other companies	–	45,546	–	45,546	44,255
Public authorities	–	4,553,070	–	4,553,070	3,871,927
Portfolio hedge adjustment	–	–	–	–	3,619
Building loans	–	8,706,877	15,176,041	23,882,918	23,525,418
Building loans to retail customers secured by mortgages	–	8,636,507	12,313,845	20,950,352	20,589,754
Building loans to retail customers not secured by mortgages	–	70,370	2,862,196	2,932,566	2,935,664
Other loans and receivables					
Other loans and advances	–	834,058	1,259,202	2,093,260	2,083,632
Investment property	**–**	**–**	**2,145,475**	**2,145,475**	**1,683,541**
Total assets	**153,923**	**26,047,536**	**18,580,718**	**44,782,177**	**41,603,033**
Liabilities	**–**	**4,701,115**	**23,316,859**	**28,017,974**	**27,861,552**
Liabilities evidenced by certificates	–	929,423	–	929,423	918,938
Liabilities to credit institutions	–	2,172,408	587,098	2,759,506	2,735,133
Liabilities to customers	–	1,592,241	22,350,930	23,943,171	23,822,677
Finance lease liabilities	–	–	24,592	24,592	23,951
Miscellaneous liabilities					
Other liabilities	–	7,043	354,239	361,282	360,853
Subordinated capital	**–**	**509,840**	**–**	**509,840**	**450,976**
Total liabilities	**–**	**5,210,955**	**23,316,859**	**28,527,814**	**28,312,528**

2016 measurement hierarchy
(items that were not measured at fair value)

	Level 1	Level 2	Level 3	Fair value	Carrying amount
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Cash reserves	**363,001**	**–**	**–**	**363,001**	**363,001**
Deposits with central banks	362,776	–	–	362,776	362,776
Deposits with foreign postal giro offices	225	–	–	225	225
Receivables	**–**	**27,983,009**	**16,116,501**	**44,099,510**	**40,490,087**
Subordinated securities and receivables	–	127,520	–	127,520	122,334
First-rate receivables from institutional investors	–	17,285,505	–	17,285,505	14,311,613
Credit institutions	–	12,388,246	–	12,388,246	10,328,264
Other financial companies	–	66,455	–	66,455	68,553
Other companies	–	41,980	–	41,980	40,147
Public authorities	–	4,788,824	–	4,788,824	3,870,656
Portfolio hedge adjustment	–	–	–	–	3,993
Building loans	–	9,376,601	14,944,934	24,321,535	23,708,597
Building loans to retail customers secured by mortgages	–	9,268,274	12,175,663	21,443,937	20,837,466
Building loans to retail customers not secured by mortgages	–	108,327	2,769,271	2,877,598	2,871,131
Other loans and receivables					
Other loans and advances	–	1,193,383	1,171,567	2,364,950	2,347,543
Investment property	**–**	**–**	**2,173,061**	**2,173,061**	**1,742,228**
Total assets	**363,001**	**27,983,009**	**18,289,562**	**46,635,572**	**42,595,316**
Liabilities	**–**	**5,872,046**	**23,071,731**	**28,943,777**	**28,699,482**
Liabilities evidenced by certificates	–	667,554	–	667,554	647,685
Liabilities to credit institutions	–	2,279,734	21,670	2,301,404	2,252,968
Liabilities to customers	–	2,917,308	22,677,531	25,594,839	25,418,956
Finance lease liabilities	–	–	28,731	28,731	28,129
Miscellaneous liabilities					
Other liabilities	–	7,450	343,799	351,249	351,744
Subordinated capital	**–**	**418,148**	**–**	**418,148**	**396,739**
Total liabilities	**–**	**6,290,194**	**23,071,731**	**29,361,925**	**29,096,221**

Changes in Level 3

	Designated as financial assets at fair value through profit or loss	Financial assets held for trading				
	Capital investments for the account and risk of holders of life insurance policies	Equity instruments	Derivative financial instruments			
		Fund units		Investments, excluding alternative investments		
				Credit institutions	Other financial companies	Other companies
in € thousands						
As at 1 January 2016	**–**	**–**	**-**	**20,918**	**4,164**	**239,413**
Total comprehensive income for the period	-164	-868	–	1,692	168	14,829
Income recognised in the consolidated income statement	–	–	–	–	–	–
Expenses recognised in the consolidated income statement	-164	-868	–	–	–	-952
Unrealised gains/losses (-) from financial assets available for sale (gross)	–	–	–	1,692	168	15,781
Purchases	152	–	1	–	–	3,483
Sales	–	–	–	–	–	-18,031
Transfers to Level 3	2,021	2,195	–	–	845	4,404
Classified as held for sale	–	–	–	–	–	–
Changes in the scope of consolidation	–	–	–	–	127	–
As at 31 December 2016	**2,009**	**1,327**	**1**	**22,610**	**5,304**	**244,098**
Income recognised in the consolidated income statement as at 31 December[1]	–	–	–	–	–	–
Expenses recognised in the consolidated income statement as at 31 December[1]	-164	-868	–	–	–	-952
As at 1 January 2017	**2,009**	**1,327**	**1**	**22,610**	**5,304**	**244,098**
Total comprehensive income for the period	1,025	-408	–	1,147	870	-12,482
Income recognised in the consolidated income statement	1,025	–	–	–	–	–
Expenses recognised in the consolidated income statement	–	-408	–	-	-	-9,029
Unrealised gains/losses (-) from financial assets available for sale (gross)	–	–	–	1,147	870	-3,453
Purchases	618	–	11	–	–	3,508
Sales	–152	–	-1	–	–	-30,109
Transfers to Level 3	672	–	–	–	–	40
Classified as held for sale	–	–	–	–	-1,228	–
Changes in the scope of consolidation	–	–	–	–	–	–
As at 31 December 2017	**4,172**	**919**	**11**	**23,757**	**4,946**	**205,055**
Income recognised in the consolidated income statement as at 31 December[1]	968	–	–	–	–	–
Expenses recognised in the consolidated income statement as at 31 December[1]	–	-408	–	–	–	-9,029

1 Net income from financial assets available for sale includes period income and expenses for assets still in the portfolio at the end of the reporting period.

Financial assets available for sale							Total
				Equity instruments	Subordinated securities and receivables		
Alternative investments, including private equity			Equities	Fund units			
Other financial companies	Other companies	Credit institu-tions	Other financial companies		Other financial companies	Other compa-nies	
901,091	**31,291**	**27,357**	**8,386**	**13,559**	**27,357**	**–**	**1,273,536**
8,564	–1,421	150	–197	–2,931	–	–1,548	18,274
–	–	–	–	–	–	–	–
–14,623	–	–	–	–2,877	–	–1,548	–21,032
23,187	–1,421	150	–197	–54	–	–	39,306
200,727	–	–	–	–	81	–	204,444
–84,662	-	-	–1,406	–10,629	–5,843	–	–120,571
–	–	–	–	3,703	–	1,548	14,716
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	127
1,025,720	**29,870**	**27,507**	**6,783**	**3,702**	**21,595**	**–**	**1,390,526**
–	–	–	–	–	–	–	–
–14,623	–	–	–	–2,877	-	–1,548	–21,032
1,025,720	**29,870**	**27,507**	**6,783**	**3,702**	**21,595**	**-**	**1,390,526**
–22,477	32	–1,503	–566	569	–	–	–33,793
–	–	–	–	–	–	–	1,025
–15,803	–	–	–	–163	–	–	–25,403
–6,674	32	–1,503	–566	732	–	–	–9,415
194,459	–	–	–	–	13,409	–	212,005
–107,136	-	-	–2,803	–1,878	–	–	–142,079
–	–	–	–	250	–	–	962
–	–	–	–	–	–	–	–1,228
–	10,960	–	–	–	–	–	10,960
1,090,566	**40,862**	**26,004**	**3,414**	**2,643**	**35,004**	**–**	**1,437,353**
–	–	–	–	–	–	–	968
–15,235	–	–	–	–163	–	–	–24,835

Effects of alternative assumptions for financial instruments in Level 3

Nearly all of the securities in Level 3 consist of unquoted interests in investments that are not fully consolidated or not accounted for using the equity method, alternative investments or private equity funds in the direct portfolio. Their fair values are normally determined by each company's management. The majority of these securities, amounting to €1,063.8 million (previous year: €968.8 million), were measured on the basis of net asset value. Of this amount, €8.3 million (previous year: €13.4 million) was attributable to "Investments, excluding alternative investments", and €1,055.5 million (previous year: €955.4 million) to "Alternative investments, including private equity". These values were determined on the basis of specific information that is not publicly available, to which the W&W Group does not have access. Thus, it was not possible to subject them to a sensitivity analysis.

In the W&W Group, net asset values (2017: €151.7 million; previous year: €152.3 million) are measured for Group property investments that are assigned to "Investments, excluding alternative investments". These are based on discount rates that essentially determine the property's fair value. A change in discount rates by +100 basis points in connection with a sensitivity analysis leads to a reduction in fair value to €140.9 million (previous year: €140.7 million), while a change in discount rates by -100 basis points leads to an increase to €163.7 million (previous year: €162.2 million).

All changes in fair value are reflected in "Other comprehensive income".

The most significant measurement parameter for interests measured using the capitalised earnings method (2017: €64.5 million; previous year: €68.5 million) is the risk-adjusted discount rate. A material increase in the discount rate reduces fair value, whereas a decline increases fair value. However, a change by 10% has only a minor influence on the presentation of the net assets, financial position and financial performance of the W&W Group.

In addition, for certain interests, fair value is deemed to be approximated by the amount of invested capital. In this case, as well, a sensitivity analysis is not possible due to lack of the specific parameters used.

The measurement methods used are listed in the following table "Quantitative information about the measurement of fair value in Level 3".

Quantitative information about the measurement of fair value in Level 3

in € thousands	Fair value 31.12.2017	Fair value 31.12.2016	Measurement method	Non-observable input factors	Range, in % 31.12.2017	Range, in % 31.12.2016
Financial assets at fair value through profit or loss	**5,102**	**3,337**				
Designated as financial assets at fair value through profit or loss	4,172	2,009				
Capital investments for the account and risk of holders of life insurance policies	4,172	2,009	Net asset value	n/a	n/a	n/a
Financial assets held for trading	930	1,328				
Equity instruments	919	1,327				
Fund units	919	1,327	Net asset value	n/a	n/a	n/a
Derivative financial instruments	11	1				
Other derivatives	11	1	Black-Scholes Model	Index weighting, volatility	n/a	n/a
Financial assets available for sale	**1,432,251**	**1,387,189**				
Equity instruments	1,397,247	1,365,594				
Investments, excluding alternative investments	233,758	272,012				
	34,992	38,946	Capitalised earnings method	Discount rate	6.63-9.54	6.20-9.06
	24,866	31,341	Approximation method	n/a	n/a	n/a
	173,900	201,725	Net asset value	Discount rate	4.17-8.91	5.10-7.60
Alternative investments, including private equity	1,131,428	1,055,590				
	29,551	29,519	Capitalised earnings method	Discount rate	4.42	4.34
	46,379	70,676	Approximation method	n/a	n/a	n/a
	1,055,498	955,395	Net asset value	n/a	n/a	n/a
Equities	29,418	34,290				
	26,004	27,507	Approximation method	n/a	n/a	n/a
	3,414	6,783	Net asset value	n/a	n/a	n/a
Fund units	2,643	3,702				
	2,222	3,367	Approximation method	n/a	n/a	n/a
	421	335	Net asset value	n/a	n/a	n/a
Subordinated securities and receivables	35,004	21,595				
	35,004	21,595	Approximation method	n/a	n/a	n/a

(43) Impairment losses, by class

Impairment losses

in € thousands	Financial assets available for sale 1.1.2017 to 31.12.2017	Financial assets available for sale 1.1.2016 to 31.12.2016	Receivables 1.1.2017 to 31.12.2017	Receivables 1.1.2016 to 31.12.2016	Total 1.1.2017 to 31.12.2017	Total 1.1.2016 to 31.12.2016
Equity instruments	-39,726	-85,438	—	—	-39,726	-85,438
Investments	-24,833	-15,370	—	—	-24,833	-15,370
Equities	-2,591	-27,263	—	—	-2,591	-27,263
Fund units	-12,302	-42,805	—	—	-12,302	-42,805
Subordinated securities and receivables	—	-7,999	-2	-27	-2	-8,026
First-rate receivables from institutional investors	—	—	-267	-1,189	-267	-1,189
Senior fixed-income securities	—	—	—	—	—	—
Building loans	—	—	-65,234	-77,873	-65,234	-77,873
Other loans and receivables	—	—	-4,802	-6,141	-4,802	-6,141
Other loans and advances	—	—	-4,802	-6,141	-4,802	-6,141
Total	**-39,726**	**-93,437**	**-70,305**	**-85,230**	**-110,031**	**-178,667**

Expenses from risk provision for irrevocable loan commitments amounted to €683 thousand (previous year: €1,668 thousand).

(44) Derivative financial instruments

The table shows the nominal values of derivatives for the respective maturity bands, as well as the positive and negative market values for all derivatives of the W&W Group, i.e. both derivative financial instruments that are embedded as a hedging instrument in a hedge recognised under the criteria of hedge accounting and those derivative financial instruments that are recognised under the sub-items "Financial assets held for trading" and "Financial liabilities held for trading".

Remaining maturity in 2017

	Within 1 year	1 to 5 years	Later than 5 years	Nominal values, total	Positive market values	Negative market values
in Mio €						
Interest-rate-based derivatives						
OTC						
Swaps	1,236.6	4,890.0	5,529.7	11,656.3	194.6	548.4
Option purchases	1,500.0	2,250.0	–	3,750.0	4.5	–
Option sales	1,500.0	2,250.0	–	3,750.0	–	0.9
Other	784.0	345.0	–	1,129.0	2.0	39.3
Exchange-traded						
Futures	63.2	–	–	63.2	0.8	0.1
Currency-based derivatives						
OTC						
Foreign exchange forwards	6,157.8	–	–	6,157.8	82.4	4.3
Equity- and index-based derivatives						
OTC						
Option purchases	31.5	–	–	31.5	4.0	–
Option sales	–	–	–	–	–	10.8
Exchange-traded						
Futures	62.7	–	–	62.7	–	0.2
Options	21.5	113.1	–	134.6	36.2	–
Other derivatives	**12.9**	**–**	**–**	**12.9**	**0.1**	**-**
Derivatives	**11,370.2**	**9,848.1**	**5,529.7**	**26,748.0**	**324.6**	**604.0**

Remaining maturity in 2016

in Mio €	Within 1 year	1 to 5 years	Later than 5 years	Nominal values, total	Positive market values	Negative market values
Interest-rate-based derivatives						
OTC						
Swaps	1,582.7	7,039.6	7,849.7	16,472.0	390.2	901.2
Option purchases	170.0	3,750.0	–	3,920.0	45.2	–
Option sales	50.0	3,750.0	–	3,800.0	–	21.0
Other	662.0	500.0	–	1,162.0	53.7	29.0
Exchange-traded						
Futures	69.1	–	–	69.1	–	1.1
Currency-based derivatives						
OTC						
Foreign exchange forwards	5,900.2	–	–	5,900.2	9.6	157.8
Exchange-traded						
Equity- and index-based derivatives						
OTC						
Option purchases	–	0.3	–	0.3	10.2	–
Option sales	–	0.3	–	0.3	–	5.6
Exchange-traded						
Futures	461.9	–	–	461.9	0.2	7.8
Options	64.3	167.4	–	231.7	15.5	5.6
Other derivatives	**11.4**	**–**	**–**	**11.4**	**–**	**0.2**
Derivatives	**8,971.6**	**15,207.6**	**7,849.7**	**32,028.9**	**524.6**	**1,129.3**

(45) Other disclosures concerning hedges

The following tables show the amount and the remaining term to maturity of cash flow hedges for the previous year. As at the reporting date for the current reporting period, there were no cash flow hedges.

in € thousands	Within 3 months	3 months to year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Nominal values 31.12.2017	–	–	–	–	–	–
Nominal values 31.12.2016	–	–	–	200,000	–	200,000

Expected deposits to and distributions from (-) hedged items under cash flow hedges are as follows:

in € thousands	31.12.2017	31.12.2016
Within 3 months	–	60
3 months to 1 year	–	183
1 to 4 years	–	–
4 to 5 years	–	977
Later than 5 years	–	547

Expected gains and losses (-) from hedged items under cash flow hedges are as follows:

in € thousands	31.12.2017	31.12.2016
Within 3 months	–	60
3 months to 1 year	–	183
1 to 4 years	–	–
4 to 5 years	–	977
Later than 5 years	–	546

The ineffective portion of cash flow hedges did not result in any income.

(46) Transfers of financial assets and granted and received collateral

Financial assets were transferred during the reporting period that were not or were not fully derecognised. In the W&W Group, all of these had to do with securities that were sold in connection with repurchase agreements or lent in connection with securities lending transactions. All of these securities are allocated to the category "Financial assets available for sale" and to the classes resulting from this, and they are subject to market price and counterparty risk.

Repurchase agreements are characterised by the fact that securities are sold for consideration, but at the same time it is agreed that such securities have to be purchased back at a later point against payment to the seller of an amount agreed to in advance. In addition to the purchase price, collateral is granted and received, depending on the market value of the securities sold. In securities lending transactions, securities are lent against the granting of cash or non-cash collateral. After the borrowing period expires, the securities are returned to the lender. Sold or lent securities continue to be recognised in the balance sheet of the W&W Group in accordance with the previous categorisation. The ability of the W&W Group to dispose of these securities is restricted. At the same time, a financial liability is recognised in the amount of money received. Non-cash collateral is recognised only if the W&W Group is authorised to resell or pledge it without the issuer being in default in payment.

The relationship between securities that were sold in connection with repurchase agreements and those that were lent in connection with securities lending transactions, as well as the associated liabilities, is as follows:

Transferred financial assets 2017

			Carrying amount
	Repurchase agreements	Securities lending transactions	Total
in € thousands	31.12.2017	31.12.2017	31.12.2017
Financial assets available for sale	**977,995**	**23,048**	**1,001,043**
Equity instruments	–	23,048	23,048
Senior fixed-income securities	977,995	–	977,995
Total	**977,995**	**23,048**	**1,001,043**
Associated liabilities	977,995	–	977,995
Net position	–	23,048	23,048

Transferred financial assets 2016

			Carrying amount
	Repurchase agreements	Securities lending transactions	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016
Financial assets available for sale	**85,934**	**27,811**	**113,745**
Equity instruments	–	27,811	27,811
Senior fixed-income securities	85,934	–	85,934
Total	**85,934**	**27,811**	**113,745**
Associated liabilities	85,934	–	85,934
Net position	–	27,811	27,811

As was the case in the previous year, as at 31 December 2017 no securities had been taken in and then passed on in connection with reverse repurchase agreements.

Likewise, there were no other business transactions under which the W&W Group retained ongoing commitments from the transfer.

Assets granted as collateral

Financial assets granted as collateral in 2017

in € thousands	Transferred financial assets 31.12.2017	Other collateral granted 31.12.2017	Gestellte, aber nicht in Anspruch genommene Sicherheiten 31.12.2017	Total 31.12.2017
Financial assets available for sale	**1,001,043**	**–**	**1,201,944**	**2,202,987**
Equity instruments	23,048	–	–	23,048
Senior fixed-income securities	977,995	–	1,201,944	2,179,939
Receivables	**–**	**414,450**	**–**	**414,450**
Building loans	–	414,450	–	414,450
Total	**1,001,043**	**414,450**	**1,201,944**	**2,617,437**

Financial assets granted as collateral in 2016

in € thousands	Transferred financial assets 31.12.2016	Other collateral granted 31.12.2016	Gestellte, aber nicht in Anspruch genommene Sicherheiten 31.12.2016	Total 31.12.2016
Financial assets available for sale	**113,745**	**313,801[1]**	**1,329,707**	**1,757,253**
Equity instruments	27,811	–	–	27,811
Senior fixed-income securities	85,934	348,035[1]	1,329,707	1,729,442
Receivables	**–**	**471,658**	**–**	**471,658**
Building loans	–	471,658	–	471,658
Total	**113,745**	**785,459[1]**	**1,393,564**	**2,292,768**

1 Previous year's figure adjusted.

Granted but as yet unused collateral mainly has to do with securities on deposit with Clearstream International S.A. In the reporting period just ended, no securities (previous year: securities worth €313.8 million) were pledged from the custodial account with Clearstream International S. A. for settlement and custodial services in connection with issued covered bonds.

In addition, loans in the amount of €414.5 million (previous year: €471.7 million) were assigned as collateral in connection with the utilisation of promotional loan programmes.

The amount of cash collateral granted for derivatives amounted to €523.5 million (previous year: €1,026.3 million). In addition to the securities pledged as collateral for the foregoing repurchase agreements, cash collateral in the amount of €3.5 million (previous year: €0.9 million) was also provided for them.

As at the reporting date, no loans had been obtained from the Deutsche Bundesbank in connection with open market operations (previous year: loans were obtained in the amount €350.0 million). Therefore, as at the reporting date, no securities granted as collateral were on deposit in the Deutsche Bundesbank custodial account. To secure these loans, the Deutsche Bundesbank requires as collateral a correspondingly high deposit of securities in the Deutsche Bundesbank custodial account. Securities that are on deposit in the custodial account of Deutsche Bundesbank in order to collateralise loans may be substituted at will with other securities accepted by the European Central Bank, provided that they do not fall below the required collateral value.

In addition, in accordance with regulatory requirements, the underwriting liabilities of German primary insurers in the W&W Group are covered by assets allocated to guarantee assets (financial instruments and properties). Assets allocated to guarantee assets are primarily available to settle policyholder claims. The pro rata allocation of individual assets to guarantee assets is not evident from the IFRS consolidated financial statements.

Assets received as collateral

Assets received as collateral may be liquidated only in the event of breach of contract. Collateral that can be resold or pledged without the issuer being in default in payment was not received.

The amount of cash collateral received under repurchase agreements amounted to €978.0 million (previous year: €85.9 million).

Offsetting of financial instruments

The W&W Group does not meet the prerequisites for offsetting financial instruments that are subject to what are known as netting agreements or enforceable master netting agreements. However, clearing agreements exist for some derivative positions. These clearing agreements provide that, in the event of failure to make payment, it is permissible to offset derivatives vis-à-vis the respective counterparty, taking into account the cash collateral granted and received. It is also possible to settle transactions when due using granted or received cash collateral.

The following table shows the derivatives recognised under the item "Financial assets at fair value through profit or loss" that are subject to a master netting agreement. The corresponding amounts that are not offset in the balance sheet consist of derivatives recognised under the item "Financial liabilities at fair value through profit or loss", as well as cash collateral received under existing contracts with the same counterparties. The master netting agreements in the W&W Group do not form a basis for offsetting. However, were the netting criteria to be applicable, the offsetting of financial assets against the associated financial liabilities would have led to the following result:

Netting of financial assets in 2017

	Gross amount of financial assets recognised in the balance sheet	Associated amounts that are not netted in the balance sheet		
		Financial instruments	Cash collateral granted	Net amount
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Derivatives	131,281	3,393	51,371	76,517

Netting of financial assets in 2016

	Gross amount of financial assets recog-nised in the balance sheet	Associated amounts that are not netted in the balance sheet		
		Financial instruments	Cash collate-ral granted	Net amount
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Derivatives	324,569[1]	123,187[1]	194,490[1]	6,892[1]

1 Previous year's figure adjusted.

The following table shows the derivatives recognised under the item "Financial liabilities at fair value through profit or loss" that are subject to a master netting agreement. The corresponding amounts that are not offset in the balance sheet consist of derivatives recognised under the item "Financial assets at fair value through profit or loss", as well as cash collateral granted under existing contracts with the same counterparties. The master netting agreements in the W&W Group do not form a basis for offsetting. However, were the netting criteria to be applicable, the offsetting of financial assets against the associated financial liabilities would have led to the following result. Furthermore, liabilities received in connection with repurchase agreements are compared with the pledged securities and the granted cash collateral:

Netting of financial liabilities in 2017

	Gross amount of financial liabilities recognised in the balance sheet	Associated amounts that are not netted in the balance sheet		
		Financial instruments	Cash collate-ral granted	Net amount
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Derivatives	588,415	120,500	523,507	-55,592
Repurchase agreements, securities lending transactions and similar agreements	977,995	977,995	3,546	-3,546

Netting of financial liabilities in 2016

	Gross amount of financial liabilities recognised in the balance sheet	Associated amounts that are not netted in the balance sheet		
		Financial instruments	Cash collate-ral granted	Net amount
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Derivatives	947,531[1]	40,704[1]	1,026,307[1]	-119,480[1]
Repurchase agreements, securities lending transactions and similar agreements	85,934	85,934	875	-875

1 Previous year's figure adjusted.

(47) Trust business

Trust business not required to be shown in the balance sheet had the following scope:

in € thousands	31.12.2017	31.12.2016
Trust assets pursuant to the German Building Code	12,288	15,773
Trust assets	**12,288**	**15,773**
Trust liabilities pursuant to the German Building Code	12,288	15,773
Trust liabilities	**12,288**	**15,773**

(48) Supplementary disclosures concerning the effect of financial instruments in the consolidated income statement

Net gains and losses by category of financial instrument, which are depicted in the following table, consist of the following:

- Net gains consist of disposal gains, write-ups recognised in the income statement, subsequent receipts on written-down financial instruments and currency gains from the measurement of debt-financing instruments on the reporting date.
- Net losses consist of disposal losses, impairment losses recognised in the income statement, expenses from risk provision and currency losses from the measurement of debt-financing instruments on the reporting date.

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Financial assets/liabilities at fair value through profit or loss	**516,765**	**–123,286**
Financial assets/liabilities held for trading	394,862	–204,650
Net gains	884,095	737,471
Net losses	–489,233	–942,121
Designated as financial assets at fair value through profit or loss	121,903	81,364
Net gains	256,753	178,960
Net losses	–134,850	–97,596
Financial assets available for sale	**27,346**	**547,738**
Net gains	507,260	806,612
Net losses	–479,914	–258,874
Receivables	**181,553**	**276,368**
Net gains	301,061	404,810
Net losses	–119,508	–128,442
Liabilities	**–3,674**	**–8,037**
Net gains	–	1
Net losses	–3,674	–8,038

For financial assets and liabilities not at fair value through profit or loss, which also includes subordinated capital, total interest income amounted to €1,584.9 million (previous year: €1,761.3 million) and total interest expenses amounted to €629.9 million (previous year: €738.3 million).

In addition, currency translation – with the exception of currency translation involving financial instruments that are measured at fair value through profit or loss – generated currency income in the amount of €55.3 million (previous year: €184.6 million) and currency expenses in the amount of €419.2 million (previous year: €103.5 million).

Disclosures concerning risks under financial instruments and insurance contracts

(49) Risk management

The systematic and controlled assumption of risk for the purpose of achieving the established return targets is an integral part of corporate governance. The W&W Group makes use of a comprehensive risk management and controlling system that consistently combines the systems and methods of the individual companies, which are tuned to the particular business requirements.

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

- **Legal:** Ensuring compliance with relevant internal and external requirements for risk management through their operational implementation.

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

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

- **Value creation:** Adoption of management measures to hedge risks and to preserve, promote and ensure sustainable value creation for shareholders through risk capital allocation that enables opportunities to be seized.

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

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

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

The W&W Group manages risks on the basis of a **risk management framework.** The **integrated risk strategy** determines the strategic framework for the risk management system of the W&W Group, the insurance group, the financial holding group and Wüstenrot & Württembergische AG. The **Group Risk Policy** defines the organisational framework for risk management and constitutes the prerequisite for an effective risk management system in the W&W Group. This framework ensures that the standard of quality is comparable across all business areas and that risk management is highly consistent on all Group levels. As a key component of the common risk culture, the Group Risk Policy and the processes and systems defined in it promote the requisite risk awareness.

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

The duties and responsibilities of all persons and committees involved in risk management issues are clearly defined. The organisational and operational structure clearly defines the individual areas of responsibility for all of the following bodies, committees and functions, as well as their interfaces and reporting lines among one another, thus ensuring the regular and timely flow of information across all levels of the W&W Group.

- The **Executive Board of W&W AG** bears joint responsibility for the proper organisation of the business of the W&W Group. It is the supreme decision-making body on risk issues. This includes ensuring that the risk management system established Group-wide is effectively and appropriately implemented, maintained and enhanced. This also includes developing, promoting and integrating an appropriate risk culture. On the Executive Board of W&W AG, the Chief Risk Officer (CRO) is responsible for risk management.
- In its role as the control body overseeing the Executive Board, the **Supervisory Board of W&W AG** also monitors the appropriateness and effectiveness of the risk management system. In addition, it receives regular information about the current risk situation. Certain types of transactions require the Supervisory Board's approval.
- The **Risk and Audit Committee of W&W AG,** as well as the corresponding committees at Wüstenrot Bausparkasse AG, Württembergische Versicherung AG and Württembergische Lebensversicherung AG, regularly assure themselves as to whether the organisation of risk management is appropriate in each area of responsibility. At Württembergische Versicherung AG and Württembergische Lebensversicherung AG, risk and audit committees were re-established in December 2017. Prior thereto, this responsibility was handled by the Supervisory Board over the course of 2017. With regard to Wüstenrot Bank AG Pfandbriefbank, this responsibility was handled by the Supervisory Board for the whole of 2017.
- As the central body for the coordination of risk management, the **Group Board Risk** supports the Executive Board of W&W AG and the Management Board on risk issues. The permanent members of the Group Board Risk are the Chief Risk Officer (CRO) of W&W AG, the CROs of the Home Loan and Savings Bank and Insurance divisions, and the General Representative responsible for Group-wide risk management. Also taking part in meetings are the holders of the (independent) risk controlling function at the institutions and insurance companies of the W&W Group, as well as other select individuals. The body meets once a month and, where necessary, on an ad hoc basis. The Group Board Risk monitors the risk profile of the W&W Group and its appropriate capitalisation and its liquidity. Moreover, it deliberates on Group-wide standards for risk organisation and for the deployment of uniform risk management methods and tools and proposes these to the members of the Executive Boards of the Group for approval.
- The **Insurance Risk Board** manages and monitors risks in the Insurance division. The **Home Loan and Savings Bank Risk Board** handles this task for the Home Loan and Savings Bank division. The participation of the responsible Executive Board members and departments concerned guarantees the integration of circumstances pertaining to individual companies as well as the speedy exchange of information and quick action. We integrate risk-relevant aspects of our Czech subsidiaries via a direct reporting line of the **Czech Republic Risk Board to the Group Board Risk.**

The **risk management process** in the W&W Group is based on the closed control loop described in the integrated risk strategy as well as in the following.

- **Risk identification.** In connection with the risk inventory process, the corporate and working environment is constantly monitored for potential risks, and identified risks must be reported without delay. We have introduced a uniform, Group-wide new-product process for the purposes of identifying risks associated with the introduction of new products and sales channels and with the cultivation of new markets, which were previously not depicted in the risk management system. This process incorporates the risk controlling units at the level of the Group and the individual companies. The systematic identification of risks takes places in connection with the risk inventory. In addition, the risk situation is reviewed during the year, where called for. In this regard, assumed or potential risks are continually recorded, updated and documented. On the basis of an initial assessment for the respective individual company, defined threshold values are used to differentiate risks into material and immaterial risks. In connection with this assessment, an evaluation is also made as to the extent to which individual risks can take on a material character through interaction or accumulation (risk concentrations). Risks that are classified as material are actively managed in the four steps of the risk management process described in more detail in the following. For risks that are classified as immaterial, the responsible business units monitor them during the year, using risk indicators in order to determine whether they have changed, and evaluate them in full at least once a year.
- **Risk assessment.** This process step includes all methods, processes and systems that serve to adequately assess identified risks. In connection with determining economic risk-bearing capacity, risks are generally assessed with a stochastic procedure using the value at risk standard, applying a confidence level of 99.5% and a one-year time horizon. If this procedure cannot be used for certain risk areas, we apply analytical computational procedures or regulatory standard procedures, as well as expert estimates. We include the results of these assessments in the calculation of risk-bearing capacity and in farther-reaching risk controlling instruments, taking into account potential risk concentrations. We regularly conduct sensitivity analyses in connection with stress scenarios for specific risk areas and across risk areas. Indicator analyses (such as risk indicators) augment the range of tools used to evaluate risk.

- **Risk taking and risk governance.** We define risk governance as the operational implementation of risk strategies in the risk-bearing business units. The decision to assume risk is made within the scope of business- and risk-specific requirements by the decision-making body in each individual company. Based on the risk strategy, the respective departments in our operating companies manage their own risk positions. Thresholds, signal systems, and limit and line systems are used to support risk governance. If the specified thresholds are exceeded, predefined actions or escalation processes are initiated. The entity that assumed the risks is generally responsible for managing and controlling them. In performing this task, it decides about products and transactions. It must continuously check whether the assumed risks are in conformity with the risk profile specified by the risk strategy of the W&W Group or one of its companies and whether risk-bearing capacity as well as the risk limits and risk lines are observed. Risk-taking and risk-monitoring tasks are strictly separated in terms of function. A key management parameter for us is the IFRS result and division-specific indicators. In order to combine earnings and risk governance for the purpose of value-oriented governance and to substantiate our decisions, we conduct supplementary analyses using a RORAC approach. The sufficiency of risk capitalisation is evaluated using equally weighted concepts of risk-bearing capacity (economic, accounting/income statement, regulatory), which however highlight different objectives and aspects.
- **Risk monitoring.** Material, quantifiable risks are controlled by means of limits and lines. Business is transacted solely within the scope of these limits and lines. By creating a corresponding limit and line system, risk concentrations in particular are limited both at the level of the individual company and at the level of the financial conglomerate and the financial holding group. The monitoring of risks, which is independent of the assumption of risks, primarily takes place at the level of the individual company. Where material risks exist that affect more than just the individual company, they are also monitored at the Group level. The principle that risk taking and risk monitoring are separated in terms of function applies at all levels of the W&W Group. Monitoring activities are used to develop recommendations for action, which lead to corrective intervention being taken early on with respect to the objectives set forth in the business and risk strategy and are subject to corresponding measures controlling.
- **Risk reporting.** Risk reporting includes all processes, rules and formats in a company that serve to communicate identified and, in some cases, measured risks. The recipients of risk reports may be both those inside the enterprise, i.e. within the individual company or the W&W Group, and those outside of it, such as the public or the supervisory authority. The established reporting processes ensure regular and timely reports are generated about the risk situation of various groups or individual companies. In this regard, the flow of information concerning the risk situation of the individual companies in the W&W Group is ensured through internal risk reporting, risk inventory and calculation of risk-bearing capacity. The results of the companies affiliated with the Group are transmitted to the risk controlling function responsible for the W&W Group, which then aggregates them and analyses them for their impact on the W&W Group. The key element of the risk reporting system is the quarterly overall risk report, which is sent to the Group Board Risk, the Executive Board and the Supervisory Board. Presented in this report is, in particular, the amount of available capital, regulatory and economic capital adequacy, compliance with limits and lines, the results of stress testing and the risk governance measures that have already been taken and that still need to be taken. This overall risk report is presented to the Group Board Risk, where it is elaborated upon with respect to risk estimation and the resulting recommendations for action by the W&W Group. These recommendations for action are implemented as measures and tracked by the responsible risk management units. Depending on how critical it is, information that is considered material from the standpoint of risk is forwarded immediately to the Group Board Risk, the Executive Board and the Supervisory Board. Processes and reporting procedures have been put in place for ad-hoc risk reporting at the Group and individual company level. Quantitative criteria are used as thresholds, which are generally in line with internal and supervisory parameters. In addition, ad-hoc risk reporting also takes place when qualitatively material events occur.

In managing the risk profile, attention is paid to avoiding **risk concentrations** from financial instruments and insurance contracts in order to maintain a balanced risk profile. In addition, in connection with risk governance, an effort is made to achieve an appropriate relationship between the risk capital requirements of the risk areas in order to limit susceptibility to individual risks.

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

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

Because of the business model of the W&W Group and its individual companies, potential risk concentrations may result, in particular, from investments and from customer business (customer credit business, insurance business). However, owing to regulatory requirements and internal rating requirements, the W&W Group is heavily invested, in sectoral terms, in government bonds and financial services companies and, in regional terms, in Europe, which is typical for the industry. Accordingly, in addition to the credit risk associated with the relevant counterparty, the W&W Group in particular bears the systemic risk of the financial sector and the specific counterparties belonging to it.

On the other hand, because of their high granularity, our customer loan portfolios do not exhibit any appreciable risk concentrations.

We strive to limit risk concentrations as well as possible by diversifying investments, employing limit and line systems, clearly defining approval and underwriting guidelines in lending and insurance business and obtaining appropriate reinsurance coverage from various providers with good credit ratings.

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

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

(50) Market price risks

The interest rate risk, which is a form of market price risk, describes the risk that assets and/or liabilities held in interest-bearing securities may change in value due to a shifting and/or twisting of market interest rate curves. The interest rate risk results from the market value risk of capital investments in conjunction with the obligation to generate the guaranteed interest and the guaranteed surrender values for policyholders.

If interest rates remain persistently low, this can pose income risks in the medium term for the W&W Group (particularly Württembergische Lebensversicherung AG), since new investments and reinvestments can be made only at lower interest rates, while the guaranteed interest yield pledged to customers (interest guarantee risk) still has to be met. The interest guarantee risk is managed through comprehensive asset liability management and a dynamic product and rate policy.

Section 5 of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) also regulates the framework, which is recognised under tax law, for reinforcing the provision for future policy benefits in the form of an additional interest reserve. The amount of the additional interest reserve is determined by the reference interest rate, which is calculated as the average of Euro interest swap rates over 10 years. In 2017, the reference interest rate dropped to 2.21% (previous year: 2.54%). Based on the regulations for the additional interest reserve, interest reinforcement established in the business plan was provided in the old portfolio. The amount of interest reinforcement is determined by the measurement interest rate, which amounted to 2.21% (previous year: 2.36%) for Württembergische Lebensversicherung AG, to 2.21% (previous year: 2.50%) for Karlsruher Lebensversicherung AG and to 2.61% (previous year: 2.65%) for ARA Pensionskasse AG. In the WürttLeben group, the additional interest rate reserve and interest reinforcement were strengthened by €446.2 million (previous year: €290.5 million) on this basis. In order to depict the build-up of the additional interest rate reserve and interest reinforcement as realistically as possible, capital disbursement probabilities were applied to each company, as was the case in the previous financial year. For 2018, we expect a further decline in the interest rates relevant to measurement and thus a further increase in the additional interest reserve and interest reinforcement.

Since 2010, we have gradually increased the security level of the computation basis "interest rate" for annuity insurance policies in the old portfolio by means of reserve reinforcements. A breakdown of the provision for future policy benefits by type of insured risk and by insurance amount is provided in the notes to the consolidated balance sheet.

Financial derivatives are used in the W&W Group to manage interest rate risk. Derivative management instruments primarily consist of interest rate swaps and interest rate options (swaptions), as well as futures, forward purchases and forward sales. They are predominantly used to hedge interest rate risks, but also to reduce risk concentrations. They are shown in the risk management and controlling process as economic hedging instruments or as hedges for the future purchase of securities.

If these economic hedges meet the requirements for hedge accounting, the hedges for the Home Loan and Savings Bank division are also depicted as such in the IFRS consolidated financial statements. In banking and insurance business, fixed-income positions are hedged against reinvestment risks and losses in asset value on both the individual transaction level and the portfolio level (fair value hedge). Moreover, in banking business, variable-yield receivables and securities in the category "Financial assets available for sale" and variable-yield liabilities are hedged against fluctuations in cash flows affecting net income (cash flow hedge).

The effects that a potential change in the interest rate level by 100 or 200 basis points (parallel shifting of the yield curve) would have on the consolidated income statement and on other comprehensive income are depicted in the following table. Because the interest rate level continues to remain very low, it was again elected to dispense with calculating a decline in the interest rate level by 200 bps, since the results did not appear meaningful.

The material changes in the effects are attributable to positioning in the Home Loan and Savings Bank division, in particular. In 2017 sensitivity and the associated effect on other comprehensive income increased overall in all scenarios.

The main reason for this was, in particular, the declining interest rate sensitivity in the Home Loan and Savings Bank division as a result of the reduction of bearer bonds in the course of restructuring our construction financing business, whereas in the Insurance division, the renewed growth in the portfolios of the bearer bonds of Württembergische Lebensversicherung AG had a contrary effect.

Compared with the previous year, the trends in the consolidated income statement were characterised by adjustments in the portfolio of interest rate derivatives in the Home Loan and Savings Bank division, which were carried out, in particular, in the course of the strategic realignment (pooling of construction financing business) and as measures to manage the interest rate book.

Because of forward purchases in connection with duration management and limitation of reinvestment risks at Württembergische Lebensversicherung AG, the Insurance division experienced negative interest rate sensitivity despite rising interest rates. The positive impact in the case of a lower level of interest rates resulted both from the influence of forward transactions on annuities and from swaptions to hedge against reinvestment risks.

With respect to net income for the period and to net income recognised in other comprehensive income, there is no asset-value-oriented risk of a change in interest rates for receivables carried at amortised cost.

Risk of changes in interest rates: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement		Change in other comprehensive income	
in € thousands	31.12.2017	31.12.2016	31.12.2017	31.12.2016
+100 basis points	-40,167	7,449	-481,304	-514,405
-100 basis points	58,721	3,726	540,235	579,678
+200 basis points	-67,917	30,449	-920,667	-980,081

Risks of changes in the prices of equity instruments

On the one hand, the risk of changes in the prices of equity instruments describes the general risk that assets and thus net income and/or equity may change negatively as a result of market movements. On the other, it also describes the specific risk characterised by issuer-related aspects.

In the W&W Group, the risk of changes in the prices of equity instruments is mainly characterised by equity and investment risk. Equity risk is the risk that losses may result from the change in the prices of open equity positions. Investment risk is the risk that losses may result from negative value changes regarding investments, from the cancellation of dividends or from the need to pay income subsidies. The risk of changes in the prices of equity instruments is managed through equity options and futures.

The following overview shows the effects that an increase or decrease in the market value of equity instruments by 10% and 20% would have on the consolidated income statement and on other comprehensive income. Also depicted are the effects after deferred taxes and, for life/health insurers, in addition the effects after the provision for deferred premium refunds.

The table shows that, overall, the risk of changes in the prices of equity instruments has increased year on year with regard to the net income recognised in other comprehensive income. The reasons for this include, in particular, the increase in investments in equity securities, as well as value increases.

Adjusted hedging positions and the increase in investments in equity securities, in particular, had an impact on the consolidated income statement.

Risk of changes in prices: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement		Change in other comprehensive income	
in € thousands	31.12.2017	31.12.2016	31.12.2017	31.12.2016
+ 10%	–3,666	–10,123	95,710	79,221
–10%	–4,789	1,464	–84,962	–70,718
+ 20%	–6,024	–20,113	191,421	158,422
–20%	–35,146	–7,960	–140,944	–130,137

Exchange rate risks

Exchange rate risk describes the risk that losses may result from a change in exchange rates. The extent of this risk depends on the number of open positions and on the potential that the relevant currency will experience a rate change.

The effects that an increase or decrease in the material exchange rate would have on the consolidated income statement and on other comprehensive income are depicted in the following table. Also taken into account were the effects of deferred taxes and, for life/health insurers, in addition the effects of the provision for deferred premium refunds.

The depicted exchange rate risk results from both asset and liability positions and includes only monetary assets, i.e. means of payment and claims denominated in amounts of money, as well as obligations that have to be settled with a fixed or determinable amount of money. The exchange rate risk associated with equity instruments (non-monetary assets) is not included.

Exchange rate risk: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement		Change in other comprehensive income	
in € thousands	31.12.2017	31.12.2016	31.12.2017	31.12.2016
USD				
+ 10%	-9,449	-6,343	-3,214	-3,925
- 10%	9,449	6,343	3,214	3,925
DKK				
+ 1%	184	95	2	2
- 1%	-184	-95	-2	-2

In all, it can be seen from the table that, in accordance with the strategic positioning of our overall investment portfolio, exchange rate risk is of only minor significance.

For further information about the management of market price risk in the W&W Group, please see the risk reporting in the Management Report.

(51) Counterparty risk

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

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

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

The W&W Group monitors risks from the default on receivables due from policyholders, agents and reinsurers with the aid of EDP-supported controls of outstanding accounts. With regard to receivables from policyholders, the average default rate over the last three years to the reporting date amounted to 0.1% (previous year: 0.1%). With regard to receivables from agents, the average default rate over the last three years amounted to 1.6% (previous year: 1.7%). Because of the high credit rating of reinsurers, receivables from reinsurance do not constitute a material risk.

Reinsurance contracts are in place with counterparties on the reinsurance market that have flawless credit, meaning that the default risk is significantly reduced (cf. "Receivables from reinsurance business" in the table "Neither overdue nor individually impaired assets, by rating class").

The maximum counterparty risk from financial assets at fair value through profit or loss amounted to €135.2 million (previous year: €131.4 million).

As at the reporting date, the following financial assets subject to counterparty risk, as well as the assets resulting from primary insurance and reinsurance contracts that are subject to counterparty risk, were recognised in the consolidated balance sheet.

Assets subject to counterparty credit risks 2017

in € thousands	Neither overdue nor individually impaired assets	Overdue but not individually impaired assets	Individually impaired assets	Existing portfolio impairment provisions	Total	Reduction of the maximum default risk through collateral
	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Cash reserves	**153,923**	**–**	**–**	**–**	**153,923**	**–**
Financial assets at fair value through profit or loss	**898,115**	**–**	**–**	**–**	**898,115**	**–**
Designated as financial assets at fair value through profit or loss	624,895	–	–	–	624,895	–
Structured products	624,895	–	–	–	624,895	–
Financial assets held for trading	273,220	–	–	–	273,220	–
Derivative financial instruments	273,220	–	–	–	273,220	–
Financial assets available for sale	**20,713,044**	**–**	**17,026**	**–**	**20,730,070**	**–**
Senior fixed-income securities	19,447,946	–	–	–	19,447,946	–
Subordinated securities and receivables	1,265,098	–	17,026	–	1,282,124	–
Receivables	**39,161,749**	**573,343**	**271,428**	**-49,914**	**39,956,606**	**20,945,702**
Building loans	22,660,277	513,823	262,825	-32,919	23,404,006	20,598,387
Building loans to retail customers secured by mortgages	19,673,595	497,968	242,846	-26,090	20,388,319	20,328,154
Building loans to retail customers not secured by mortgages	2,847,781	15,855	19,979	-6,829	2,876,786	270,233
Portfolio hedge adjustment	138,901	–	–	–	138,901	–
First-rate receivables from institutional investors	14,076,295	–	–	-1,230	14,075,065	55,087
Subordinated securities and receivables	80,224	–	–	-17	80,207	–
Other loans and receivables	2,344,953	59,520	8,603	-15,748	2,397,328	292,228
Other loans and advances	2,060,250	6,854	8,098	-142	2,075,060	292,228
Other receivables	284,703	52,666	505	-15,606	322,268	–
Receivables from reinsurance business	72,388	–	–	-8,837	63,551	–
Receivables from policyholders	184,309	21,017	–	-5,832	199,494	–
Receivables from insurance agents	28,006	31,649	505	-937	59,223	–
Positive market values from hedges	**50,506**	**–**	**–**	**–**	**50,506**	**–**
Reinsurers' portion of technical provisions	**325,655**	**–**	**–**	**–**	**325,655**	**–**
Total	**61,302,992**	**573,343**	**288,454**	**-49,914**	**62,114,875**	**20,945,702**

Assets subject to counterparty credit risks 2016

in € thousands	Neither overdue nor individually impaired assets	Overdue but not individually impaired assets	Individually impaired assets	Existing portfolio impairment provisions	Total	Reduction of the maximum default risk through collateral
	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Cash reserves	**363,001**	**—**	**—**	**—**	**1,300,033**	**—**
Financial assets at fair value through profit or loss	**1,300,033**	**—**	**—**	**—**	**796,909**	**—**
Designated as financial assets at fair value through profit or loss	796,909	—	—	—	165,243	—
Senior fixed-income securities	165,243	—	—	—	631,666	—
Structured products	631,666	—	—	—	503,124	—
Financial assets held for trading	503,124	—	—	—	503,124	—
Derivative financial instruments	503,124	—	—	—	21,227,118	—
Financial assets available for sale	**21,211,387**	**—**	**15,731**	**—**	**19,968,661**	**—**
Senior fixed-income securities	19,968,661	—	-	—	1,258,457	—
Subordinated securities and receivables	1,242,726	—	15,731	—	40,688,387	—
Receivables	**39,707,921**	**737,749**	**294,579**	**-51,862**	**23,577,075**	21,246,806
Building loans	22,641,729	680,685	288,163	-33,502	20,565,351	21,049,645
Building loans to retail customers secured by mortgages	19,648,514	665,044	278,700	-26,907	2,821,270	20,618,700
Building loans to retail customers not secured by mortgages	2,802,761	15,641	9,463	-6,595	190,454	430,945
Portfolio hedge adjustment	190,454	—	—	—	14,310,316	—
First-rate receivables from institutional investors	14,311,613	—	—	-1,297	122,312	72,678
Subordinated securities and receivables	122,334	—	—	-22	2,678,684	—
Other loans and receivables	2,632,245	57,064	6,416	-17,041	2,334,517	124,483
Other loans and advances	2,321,732	7,460	5,741	-416	344,167	124,483
Other receivables	310,513	49,604	675	-16,625	68,723	—
Receivables from reinsurance business	78,919	—	—	-10,196	218,786	—
Receivables from policyholders	203,371	20,887	—	-5,472	56,658	—
Receivables from insurance agents	28,223	28,717	675	-957	21,431	—
Positive market values from hedges	**21,431**	**—**	**—**	**—**	**312,999**	**—**
Reinsurers' portion of technical provisions	**312,999**	**—**	**—**	**—**	**63,912,969**	**—**
Total	**62,916,772**	**737,749**	**310,310**	**-51,862**	**65,719,405**	**21,246,806**

Information about cash collateral received for derivative financial assets can be found in Note 46.

Recognised under "Overdue but not individually impaired assets" are not only overdue instalment payments but also the underlying receivable as a whole.

Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank, Württembergische Versicherung AG and Württembergische Lebensversicherung AG, as well as the Czech credit institutions, conduct construction financing business.

Existing default risks are reduced by obtaining in-rem collateral, primarily in the property financing area. Loans made by Württembergische Lebensversicherung AG are fully secured by property liens.

In addition, Group companies entered into off-balance-sheet transactions, and these likewise result in counterparty risks despite the absence of assets. They include irrevocable loan commitments made by Group companies in the amount of €1,052.3 million (previous year: €1,100.2 million), the assumption of financial guarantees in the amount of €29.7 million (previous year: €29.1 million) and sureties with a maximum counterparty risk of €10.2 million (previous year: €0.3 million). The counterparty risk from irrevocable loan commitments, financial guarantees and sureties is determined by the maximum liability volume, less provisions created for counterparty risks.

As at the reporting date, the carrying amount of building loans whose terms were renegotiated and that would otherwise have been overdue or impaired amounted to €77.9 million (previous year: €14.8 million). These loans are almost fully secured by property liens.

The following table provides a breakdown by external rating class of assets that are neither overdue nor individually impaired as at the reporting date.

Neither overdue nor individually impaired assets, by rating class 2017

	AAA	AA	A	BBB	BB	B or worse	No rating	Total
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Cash reserves	**121,493**	**32,430**	**—**	**—**	**—**	**—**	**—**	**153,923**
Financial assets at fair value through profit or loss	**—**	**160,033**	**191,528**	**475,914**	**54,072**	**9,742**	**6,826**	**898,115**
Designated as financial assets at fair value through profit or loss	—	72,357	100,853	384,723	54,072	9,742	3,148	624,895
Structured products	—	72,357	100,853	384,723	54,072	9,742	3,148	624,895
Financial assets held for trading	—	87,676	90,675	91,191	—	—	3,678	273,220
Derivative financial instruments	—	87,676	90,675	91,191	—	—	3,678	273,220
Financial assets available for sale	**6,345,259**	**6,862,334**	**2,505,680**	**3,770,890**	**784,697**	**386,675**	**57,509**	**20,713,044**
Senior fixed-income securities	6,345,259	6,784,723	2,176,763	3,024,854	706,288	386,675	23,384	19,447,946
Subordinated securities and receivables	—	77,611	328,917	746,036	78,409	—	34,125	1,265,098
Receivables	**9,674,930**	**3,867,927**	**1,408,037**	**871,416**	**422**	**690**	**23,338,327**	**39,161,749**
Building loans	—	—	—	—	—	—	22,660,277	22,660,277
Building loans to retail customers secured by mortgages	—	—	—	—	—	—	19,673,595	19,673,595
Building loans to retail customers not secured by mortgages	—	—	—	—	—	—	2,847,781	2,847,781
Portfolio hedge adjustment	—	—	—	—	—	—	138,901	138,901
First-rate receivables from institutional investors	9,666,623	3,269,439	936,935	203,298	—	—	—	14,076,295
Subordinated securities and receivables	—	—	55,271	24,953	—	—	—	80,224
Other loans and receivables	8,307	598,488	415,831	643,165	422	690	678,050	2,344,953
Other loans and advances	8,307	543,325	401,190	643,165	—	690	463,573	2,060,250
Other receivables	—	55,163	14,641	—	422	—	214,477	284,703
Receivables from reinsurance business	—	55,163	14,641	—	422	—	2,162	72,388
Receivables from policyholders	—	—	—	—	—	—	184,309	184,309
Receivables from insurance agents	—	—	—	—	—	—	28,006	28,006
Positive market values from hedges	**—**	**—**	**—**	**50,506**	**—**	**—**	**—**	**50,506**
Reinsurers' portion of technical provisions	**—**	**287,119**	**37,096**	**—**	**768**	**—**	**672**	**325,655**
Total	**16,141,682**	**11,209,843**	**4,142,341**	**5,168,726**	**839,959**	**397,107**	**23,403,334**	**61,302,992**

Neither overdue nor individually impaired assets, by rating class 2016

	AAA	AA	A	BBB	BB	B or worse	No rating	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Cash reserves	**176,617**	**186,384**	**–**	**–**	**–**	**–**	**–**	**363,001**
Financial assets at fair value through profit or loss	**–**	**333,085**	**375,591**	**528,834**	**49,209**	**7,996**	**5,318**	**1,300,033**
Designated as financial assets at fair value through profit or loss	–	239,475	95,891	404,338	49,209	7,996	–	796,909
Senior fixed-income securities	–	165,243	–	–	–	–	–	165,243
Structured products	–	74,232	95,891	404,338	49,209	7,996	–	631,666
Financial assets held for trading	–	93,610	279,700	124,496	–	–	5,318	503,124
Derivative financial instruments	–	93,610	279,700	124,496	–	–	5,318	503,124
Financial assets available for sale	**6,889,733**	**6,469,817**	**2,715,545**	**4,133,268**	**683,045**	**262,318**	**57,661**	**21,211,387**
Senior fixed-income securities	6,889,733	6,398,725	2,355,098	3,469,818	577,004	248,448	29,835	19,968,661
Subordinated securities and receivables	–	71,092	360,447	663,450	106,041	13,870	27,826	1,242,726
Receivables	**9,546,349**	**4,118,035**	**2,027,213**	**808,893**	**6,293**	**297**	**23,200,841**	**39,707,921**
Building loans	–	–	–	–	–	–	22,641,729	22,641,729
Building loans to retail customers secured by mortgages	–	–	–	–	–	–	19,648,514	19,648,514
Building loans to retail customers not secured by mortgages	–	–	–	–	–	–	2,802,761	2,802,761
Portfolio hedge adjustment	–	–	–	–	–	–	190,454	190,454
First-rate receivables from institutional investors	9,535,139	3,340,745	1,208,063	227,666	–	–	–	14,311,613
Subordinated securities and receivables	–	26,458	65,694	30,182	–	–	–	122,334
Other loans and receivables	11,210	750,832	753,456	551,045	6,293	297	559,112	2,632,245
Other loans and advances	11,210	693,646	736,970	551,045	5,911	297	322,653	2,321,732
Other receivables	–	57,186	16,486	–	382	–	236,459	310,513
Receivables from reinsurance business	–	57,186	16,486	–	382	–	4,865	78,919
Receivables from policyholders	–	–	–	–	–	–	203,371	203,371
Receivables from insurance agents	–	–	–	–	–	–	28,223	28,223
Positive market values from hedges	**–**	**–**	**7,683**	**13,748**	**–**	**–**	**–**	**21,431**
Reinsurers' portion of technical provisions	**–**	**268,425**	**42,074**	**–**	**1,667**	**–**	**833**	**312,999**
Total	**16,612,699**	**11,375,746**	**5,168,106**	**5,484,743**	**740,214**	**270,611**	**23,264,653**	**62,916,772**

The maturity structure of overdue but not individually impaired financial assets is depicted in the following table:

Maturity structure of overdue but not individually impaired assets 2017

	Up to 1 month overdue	More than 1 month up to 2 months overdue	More than 2 months up to 3 months overdue	More than 3 months up to 1 year overdue	More than 1 year overdue	Total
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Receivables	**420,815**	**97,617**	**24,791**	**20,340**	**9,780**	**573,343**
Building loans	383,380	93,500	22,821	9,664	4,458	513,823
Building loans to retail customers secured by mortgages	371,518	90,233	22,214	9,549	4,454	497,968
Building loans to retail customers not secured by mortgages	11,862	3,267	607	115	4	15,855
Other loans and receivables	37,435	4,117	1,970	10,676	5,322	59,520
Other loans and advances	5,711	237	209	254	443	6,854
Other receivables	31,724	3,880	1,761	10,422	4,879	52,666
Receivables from policyholders	8,488	3,128	974	6,465	1,962	21,017
Receivables from insurance agents	23,236	752	787	3,957	2,917	31,649
Total	**420,815**	**97,617**	**24,791**	**20,340**	**9,780**	**573,343**

Maturity structure of overdue but not individually impaired assets 2016

	Up to 1 month overdue	More than 1 month up to 2 months overdue	More than 2 months up to 3 months overdue	More than 3 months up to 1 year overdue	More than 1 year overdue	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Receivables	**568,945**	**102,273**	**31,939**	**26,306**	**8,286**	**737,749**
Building loans	533,098	98,399	30,343	16,711	2,134	680,685
Building loans to retail customers secured by mortgages	521,545	95,190	29,658	16,538	2,113	665,044
Building loans to retail customers not secured by mortgages	11,553	3,209	685	173	21	15,641
Other loans and receivables	35,847	3,874	1,596	9,595	6,152	57,064
Other loans and advances	6,552	232	134	258	284	7,460
Other receivables	29,295	3,642	1,462	9,337	5,868	49,604
Receivables from policyholders	7,306	2,711	973	6,960	2,937	20,887
Receivables from insurance agents	21,989	931	489	2,377	2,931	28,717
Total	**568,945**	**102,273**	**31,939**	**26,306**	**8,286**	**737,749**

The majority of overdue but not individually impaired assets involve receivables from building loans, which are mostly secured by property liens.

The gross carrying amounts of individually impaired assets, the direct write-downs taken as at the reporting date and the individual impairment provisions created as at the reporting date are depicted in the table.

Individually impaired assets 2017

in € thousands	Gross carrying amount 31.12.2017	Direct write downs 31.12.2017	Individual impairment provision 31.12.2017	Total 31.12.2017
Financial assets available for sale	**23,331**	**-6,305**	**–**	**17,026**
Subordinated securities and receivables	23,331	-6,305	–	17,026
Receivables	**377,830**	**-6,159**	**-100,243**	**271,428**
Building loans	357,100	-5,782	-88,493	262,825
Building loans to retail customers secured by mortgages	284,168	-4,877	-36,445	242,846
Building loans to retail customers not secured by mortgages	72,932	-905	-52,048	19,979
Other loans and receivables	20,730	-377	-11,750	8,603
Other loans and advances	16,543	-15	-8,430	8,098
Other receivables	4,187	-362	-3,320	505
Receivables from insurance agents	4,187	-362	-3,320	505
Total	**401,161**	**-12,464**	**-100,243**	**288,454**

Individually impaired assets 2016

in € thousands	Gross carrying amount 31.12.2016	Direct write downs 31.12.2016	Individual impairment provision 31.12.2016	Total 31.12.2016
Financial assets available for sale	**23,731**	**-8,000**	**–**	**15,731**
Subordinated securities and receivables	23,731	-8,000	–	15,731
Receivables	**421,462**	**-12,720**	**-114,163**	**294,579**
Building loans	394,950	-8,767	-98,020	288,163
Building loans to retail customers secured by mortgages	341,474	-8,020	-54,754	278,700
Building loans to retail customers not secured by mortgages	53,476	-747	-43,266	9,463
Senior fixed-income securities	2,190	-2,190	–	–
Other loans and receivables	24,322	-1,763	-16,143	6,416
Other loans and advances	19,530	-1,178	-12,611	5,741
Other receivables	4,792	-585	-3,532	675
Receivables from insurance agents	4,792	-585	-3,532	675
Total	**445,193**	**-20,720**	**-114,163**	**310,310**

For further information about the management of counterparty credit risk in the W&W Group, please see the risk reporting in the Management Report.

(52) Underwriting risks

Life and health insurance business

Description of the insurance portfolio

In the W&W Group, life and health insurance business consists of life insurance (endowment and term insurance), annuity insurance, occupational disability insurance and health insurance. Life insurance portfolios mainly contain long-term contracts with discretionary surplus participation. Unit-linked endowment life insurance policies and annuity insurance policies are covered congruently by fund units attributable to the policies.

Reinsurance acceptance business is conducted to only a negligible extent.

Risks of the insurance portfolio and the risk management system

Life insurance is characterised by the long duration of the commitments entered into, for which reason calculations are made using conservative assumptions.

Risks from life insurance business mainly consist of biometric risk, interest guarantee risk and cost risk. The assessment of the interest guarantee risk is dealt with in detail in Note 50.

Biometric actuarial bases, such as mortality, life expectancy and invalidity probabilities, are subject both to short-term risks of fluctuation and error, as well as to longer-term change trends. We control these risks on an ongoing basis through actuarial analyses and tests. In terms of product development, we take potential changes into account through corresponding actuarial modelling.

With annuity insurance, the assessment of life expectancy (longevity risk) is of particular importance for the provision for future policy benefits. In addition to monitoring our own results, we also rely on the findings, notices and guidelines of the German Association of Actuaries (DAV) for the purposes of stabilising the information basis. In light of the fact that the trend in mortality improvement has not yet sufficiently attenuated, the life insurance companies, as in previous years, once again adjusted the safety margins for longevity risk in the provision for future policy benefits in the 2017 financial year. Prospective findings concerning mortality trends or a renewed adjustment of safety margins recommended by the DAV may in future lead to further additions to the provision for future policy benefits.

The responsible actuary has judged the actuarial bases to be reasonable. The findings and notices of the DAV and the supervisory authority did not result in any different appraisal in this regard. Internal reporting to the supervisory authority contains an annual comparison with actual events. Minor changes in assumptions with respect to the biometric factors, interest rates and costs on which calculations are based are absorbed by the safety margins built into the actuarial bases.

In the event that expectations as to risks, costs and/or interest rates should change, the effect on net income is substantially lessened by adjusting the future surplus participation of policyholders. Risks are limited by obtaining suitable reinsurance from reinsurance companies with pristine investment-grade ratings.

Sensitivity analysis

In life insurance, actuarial bases with high safety margins are used to calculate premiums in order to account for longevity. Safety margins that are no longer required are returned to customers in the form of surplus participation. Short-term fluctuations are offset by reducing or increasing the additions to the provision for premium refunds intended for future surplus participation. In the event of longer-term changes, surplus participation is adjusted accordingly, in addition.

Biometric risk

An increase in mortality has a negative effect on mortality insurance policies (endowment and term life insurance), whereas it has a positive effect on annuity insurance policies. Currently expected mortality rates lead to distinctly positive risk results on account of the existing safety margins. In accordance with the mechanism described above, deviations from the expected value have only negligible effects on gross income and can even be absorbed in their entirety. This effect is further reduced by obtaining reinsurance. The safety margin for annuity insurance policies has been adjusted at a high level through additional strengthening of the provisions for longevity risk.

In the area of occupational disability insurance, invalidity probabilities are subject to medical and legal changes, as well as to social and economic trends. As measured against current expectations, the safety margins built into the calculation remain sufficient, meaning that positive results can be expected. Deviations from expectations that have appreciable effects on either gross or net income are not considered to be realistic.

In the area of health insurance, the risk resulting from the increase in per capita claims is limited by the ability to adjust premiums that were contractually agreed with customers.

Cancellation risk

Increased cancellation behaviour by customers can result in greater liquidity outflows than expected.

In the past, cancellation rates were subject to very negligible fluctuations, meaning that only slight changes have to be classified as realistic. The effect on both gross and net income is insignificant.

Moreover, negative effects on net income arise only in the initial years following contract conclusion, provided that claims not yet due against the policyholder are recognised that are no longer collectable following cancellation. A suitable impairment is created to account for cancellations. The creation of impairments is based on conservative assumptions stemming from the experience of previous years.

In the case of a surrender in later years, the application of cancellation penalties results in a positive effect on net income, since the released provisions correspond at least to the paid surrender value.

Unit-linked insurance policies are covered congruently by the corresponding funds. If additional guarantee commitments are made, they are taken into account in the provision for future policy benefits. Increases or decreases in cancellations do not lead to any appreciable effects on net income.

Risk concentrations

Concentrations of underwriting risk in life and health insurance result from regional risk concentrations, as well as from high risks associated with individually insured persons.

The life and health insurers manage regional risk concentrations by selling their insurance products throughout the country. The risk concentration from individually insured persons (cluster risk) is reduced by obtaining reinsurance from first-rate reinsurers.

Remaining risk concentrations result from the respectively insured risks, i.e. mortality, longevity and disability risk. For the purposes of illustrating the existing risk concentration, the following table breaks down the provision for future policy benefits by insured risk.

Provision for future policy benefits, by type of insured risk

	Gross	Net	Gross	Net
in € thousands	31.12.2017	31.12.2017	31.12.2016	31.12.2016
Area of life insurance	**28,201,300**	**28,110,930**	**27,707,385**	**27,617,825**
Predominantly mortality risk	11,595,539	11,582,470	11,898,772	11,884,600
Predominantly longevity risk (annuities)	15,554,452	15,554,046	14,859,750	14,859,040
Predominantly disability risk	1,051,309	974,414	948,863	874,185
Area of health insurance	**692,428**	**692,428**	**603,024**	**603,024**
Total	**28,893,728**	**28,803,358**	**28,310,409**	**28,220,849**

Provision for future policy benefits for insurance contracts with an insured amount of

	Gross	Gross
in € thousands	31.12.2017	31.12.2016
Less than €0.5 million	27,545,335	27,050,982
€0.5 million to €1.0 million	252,614	251,983
€1 million to €5 million	205,837	213,211
€5 million to €15 million	197,514	191,211
Total	**28,201,300**	**27,707,387**

Risks from options and guarantees contained in insurance contracts

- **Unit-linked life and annuity insurance: guaranteed minimum benefit**
  With unit-linked life and annuity insurance, the investment risk is borne by policyholders There is no market risk, since all contracts are congruently covered. Products are designed so as to ensure that a corresponding reserve is created for the parts of the premium needed to cover the guaranteed minimum benefit.

  For dynamic hybrid products with guaranteed minimum benefits, there is a risk of monetisation should the price of the capital protection fund ("Wertsicherungsfonds") fall, in which case the investment risk is transferred to the insurance company. If the capital protection fund does not achieve the required capital protection commitment, the guarantee commitment provided by the insurance company becomes effective, in addition. Where the price rises, a liquidity risk may result through the shifting from other assets into the capital protection fund.

- **Annuity insurance: lump-sum option**
  Exercise of the lump-sum option is influenced by factors specific to the policyholder. Where the guaranteed interest rate is high, rational financial behaviour by customers during times of low interest rates can lower the rate of exercise of the lump-sum option. As a result, the expected reduction of the interest rate guarantee exposure would no longer exist.

- **Life insurance: annuitisation option**
  The annuitisation option is carried out at the rates applicable to new contracts. This option has no effect on the balance sheet or the income statement.

- **Surrender and premium-waiver option**
  With all contracts with a surrender option, the provision for future policy benefits is at least as high as the surrender value. The same applies to the provision for future policy benefits to be created for premium-exempt benefits in the case of premium waivers.

- **Dynamic premium option**
  The option to increase insurance benefits by paying a greater premium without a reevaluation of risk is generally carried out at the original actuarial interest rate, but based on prior experience, the policyholder's decision is more strongly influenced by the insurance character of the contract or by the expectation of higher interest through surplus participation. Although rational financial behaviour by customers during times of low interest rates can increase the interest rate guarantee exposure, the terms and conditions for newer rate generations dealing with the increase of insurance provide for the ability to carry out the increase using the current actuarial bases.

Property/casualty insurance business and reinsurance business

Description of the insurance portfolio

In Germany, property/casualty insurance business is conducted by Württembergische Versicherung AG. Württembergische Versicherung AG insures risks with a focus on the private and corporate customer areas. It operates the traditional business lines of general liability insurance, motor and property insurance, legal protection insurance, casualty insurance, building insurance, aviation insurance, loss-of-income insurance, transport insurance and technical insurance.

Risks of the insurance portfolio and the risk management system

Underwriting risk arises from the uncertainty about future trends in claims and costs under concluded insurance contracts, as a consequence of which unexpected claim and benefit obligations can lead to a negative net income situation.

In the area of property insurance, underwriting risks are mainly of a short-term nature, since claim adjustment can usually happen quickly. In the case of serious personal injuries in the areas of general liability insurance, motor liability insurance and casualty insurance, the risks are also subject to exogenous developments, such as medical advances and the life expectancy associated with them. Moreover, they are influenced by developments involving statutory damage compensation and liability rules.

Sensitivity analysis

Risks are underwritten solely on the basis of actuarial and statistical analyses. This means that Württembergische Versicherung AG has built sufficient safety margins into its rates in order to cover risk fluctuations.

Expert actuarial opinions and regular simulation and stress calculations are used to review the adequacy of provisions. The results of this study led to the finding that Württembergische Versicherung AG has sufficient reserves in the area of property/casualty insurance.

If claims or costs trend contrary to expectations, this can have negative effects on the income statement. Underwriting risks are measured using company-specific stochastic models or statistical and analytical factoring models that are customary in the industry. Claim scenario analyses are also carried out.

Risk concentrations

Risk concentrations result primarily from the risk insured under the various business lines. For the purposes of illustrating the existing risk concentrations, the following table breaks down the provision for claims by business line. In this regard, it is evident that the portfolio, which is characterised by a broadly diversified mix of business lines, contributes to a reduction of risk exposures.

Provision for outstanding insurance claims

	Gross	Net	Gross	Net
in € thousands	31.12.2017	31.12.2017	31.12.2016	31.12.2016
General liability, corporate customers	404,267	392,605	435,438	415,528
Property insurance, corporate customers	289,253	231,734	262,237	226,490
General liability, retail customers	77,584	76,225	78,673	77,170
Other, retail customers	1,449	1,449	4,604	4,596
Motor liability	1,057,656	933,317	1,052,267	926,316
Other motor	855	855	2,468	854
Household	16,807	16,148	17,448	16,426
Legal protection	168,251	168,251	161,748	161,748
Partial cover	6,269	4,797	5,539	4,540
Casualty	193,077	191,994	176,927	176,777
Full cover	52,940	48,196	43,896	40,694
Residential building	74,374	65,744	73,326	64,195
Other	204,523	192,553	210,504	198,433
Total	**2,547,305**	**2,323,868**	**2,525,075**	**2,313,767**

For further information about the management of underwriting risks in the W&W Group, please see the risk reporting in the Management Report.

(53) Liquidity risk

Liquidity risk describes the risk that a company will be unable to procure the financial resources necessary to settle the commitments it has made. Liquidity risk may also result where a financial asset cannot be sold promptly and at short notice at its fair value or where liquid resources can be obtained only under terms less favourable than anticipated. Liquidity risk thus consists of insolvency risk, market liquidity risk and refinancing risk.

The following presents a breakdown 2017 of the remaining term to maturity of select financial instruments:

Breakdown of remaining term to maturity in 2017: Assets

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Financial assets at fair value through profit or loss	**181,044**	**77,007**	**398,914**	**241,150**	**—**	**898,115**
Designated as financial assets at fair value through profit or loss	79,658	59,897	289,397	195,942	–	624,894
Financial assets held for trading	101,386	17,110	109,517	45,208	–	273,221
Financial assets available for sale	**417,001**	**195,817**	**2,383,206**	**17,244,889**	**489,158**	**20,730,071**
Receivables	**3,007,844**	**2,394,733**	**8,514,196**	**23,898,919**	**2,153,928**	**39,969,620**
Building loans	777,403	1,993,653	7,155,446	11,567,300	1,892,715	23,386,517
First-rate receivables from institutional investors	298,566	260,891	1,298,260	12,214,959	–	14,072,676
Subordinated securities and receivables	2,027	–	–	66,197	12,000	80,224
Other loans and receivables	1,929,848	140,189	60,490	50,463	249,213	2,430,203
Risk provision	**-7,396**	**-20,697**	**-30,024**	**-44,489**	**-50,465**	**-153,071**
Positive market values from hedges	**4,005**	**—**	**6,647**	**39,853**	**—**	**50,505**

Breakdown of remaining term to maturity in 2017: Liabilities

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Financial liabilities at fair value through profit or loss	**48,475**	**21,337**	**105,921**	**357,881**	**—**	**533,614**
Liabilities	**5,450,684**	**18,942,357**	**2,068,523**	**1,460,823**	**831,947**	**28,754,334**
Liabilities evidenced by certificates	23,570	98,019	413,921	383,428	–	918,938
Liabilities to credit institutions	1,064,961	405,497	540,203	142,868	581,604	2,735,133
Liabilities to customers	4,023,310	18,122,631	966,730	679,893	30,113	23,822,677
Finance lease liabilities	953	2,865	12,477	7,656	–	23,951
Miscellaneous liabilities	337,890	313,345	135,192	246,978	220,230	1,253,635
Negative market values from hedges	**4,594**	**—**	**18**	**65,699**	**—**	**70,311**
Subordinated capital	**10,342**	**10,000**	**45,000**	**382,634**	**3,000**	**450,976**

The following presents a breakdown 2016 of the remaining term to maturity of select financial instruments:

Breakdown of remaining term to maturity in 2016: Assets

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Financial assets at fair value through profit or loss	**64,855**	**95,427**	**444,411**	**695,339**	**1**	**1,300,033**
Designated as financial assets at fair value through profit or loss	8,400	49,964	302,216	436,329	–	796,909
Financial assets held for trading	56,455	45,463	142,195	259,010	–	503,124
Financial assets available for sale	**692,342**	**348,664**	**2,584,498**	**17,114,494**	**487,120**	**21,227,118**
Receivables	**3,309,323**	**2,105,361**	**9,238,378**	**23,449,689**	**2,563,686**	**40,666,437**
Building loans	790,326	1,603,306	7,721,778	11,146,498	2,256,234	23,518,142
First-rate receivables from institutional investors	299,165	363,633	1,459,465	12,185,357	–	14,307,620
Subordinated securities and receivables	28,746	5,390	–	76,198	12,000	122,334
Other loans and receivables	2,191,086	133,032	57,135	41,636	295,452	2,718,341
Risk provision	**–11,333**	**–24,976**	**–41,330**	**–50,689**	**–40,960**	**–169,288**
Positive market values from hedges	**2,848**	**–**	**4,113**	**14,470**	**–**	**21,431**

Breakdown of remaining term to maturity in 2016: Liabilities

in € thousands	Within 3 months	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Financial liabilities at fair value through profit or loss	**241,459**	**28,030**	**349,514**	**510,263**	**–**	**1,129,266**
Liabilities	**6,250,717**	**18,886,898**	**2,262,259**	**1,914,002**	**282,747**	**29,596,623**
Liabilities evidenced by certificates	39,872	35,186	497,552	75,075	–	647,685
Liabilities to credit institutions	703,805	229,482	499,714	804,780	15,187	2,252,968
Liabilities to customers	5,169,433	18,337,044	1,101,137	789,230	22,112	25,418,956
Finance lease liabilities	1,043	3,135	13,819	10,132	–	28,129
Miscellaneous liabilities	336,564	282,051	150,037	234,785	245,448	1,248,885
Negative market values from hedges	**–**	**–**	**–**	**–**	**–**	**–**
Subordinated capital	**10,101**	**–**	**85,008**	**298,630**	**3,000**	**396,739**

The following overview depicts the contractually agreed future gross distributions at the earliest possible date for the financial instruments in the portfolio as at the reporting date. For the liability items resulting from insurance contracts, the expected maturity structure is shown:

Contractually agreed cash flows in 2017

	Within 3 months	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Later than 20 years	Total
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Derivative financial instruments	**29,138**	**79,893**	**347,804**	**188,520**	**27,501**	**16,042**	**–**	**688,898**
Derivative financial liabilities at fair value through profit or loss	26,312	74,274	286,990	185,448	27,501	16,042	–	616,567
Negative market values from hedges	2,826	5,619	60,814	3,072	–	–	–	72,331
Liabilities	**6,170,990**	**18,717,890**	**2,029,482**	**900,343**	**54,965**	**53,145**	**4,699**	**27,931,514**
Liabilities evidenced by certificates	21,990	108,533	425,401	391,461	–	–	–	947,385
Liabilities to credit institutions	1,644,863	412,798	556,469	125,815	–	–	–	2,739,945
Liabilities to customers	4,219,940	18,145,037	1,030,206	355,033	54,649	52,712	–	23,857,577
Deposits from home loan savings business and other savings deposits	551,223	17,828,792	494,596	108,091	6,889	178	–	18,989,769
Other deposits	3,511,190	302,922	533,320	246,942	47,760	52,534	–	4,694,668
Savings deposits with agreed termination period	129,807	–	–	–	–	–	–	129,807
Down payments received	27,720	13,323	2,290	–	–	–	–	43,333
Finance lease liabilities	1,048	3,145	13,374	7,893	–	–	–	25,460
Miscellaneous liabilities	283,149	48,377	4,032	20,141	316	433	4,699	361,147
Subordinated capital	**1,811**	**30,092**	**124,450**	**203,149**	**89,418**	**53,379**	**313,272**	**815,571**
Profit participation certificates	431	–	6,557	2,505	–	–	–	9,493
Subordinated liabilities	1,380	30,092	117,893	200,644	89,418	53,379	313,272	806,078
Irrevocable loan commitments	**824,730**	**202,530**	**25,005**	**–**	**–**	**–**	**–**	**1,052,265**
Financial guarantees	**28,325**	**1,410**	**–**	**–**	**–**	**–**	**–**	**29,735**
Total	**7,054,994**	**19,031,815**	**2,526,741**	**1,292,012**	**171,884**	**122,566**	**317,971**	**30,517,983**

Prospective maturity of amounts recognised in the balance sheet in 2017

	Within 3 months	3 months to 1 year	1 to 5 years	5 to 10 yearse	10 to 15 years	15 to 20 years	Later than 20 years	Total
in € thousands	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Liabilities from reinsurance business	**15,397**	**366**	**—**	**—**	**—**	**—**	**—**	**15,763**
Liabilities to customers from direct insurance business	**105,587**	**161,568**	**128,110**	**96,167**	**59,827**	**34,994**	**49,813**	**636,066**
Technical provisions	**1,047,601**	**2,529,008**	**8,703,857**	**6,321,706**	**4,133,482**	**2,577,237**	**5,471,830**	**30,784,721**
Provision for future policy benefits in the area of life insurance	446,439	1,811,011	7,630,116	5,729,284	3,689,816	2,191,478	4,775,529	26,273,673
Provision for outstanding insurance claims	563,561	570,072	697,270	252,971	155,367	141,494	166,570	2,547,305
Provision for unit-linked life insurance contracts	37,481	111,930	376,471	339,451	288,299	244,265	529,731	1,927,628
Other technical provisions	120	35,995	—	—	—	—	—	36,115
Total	**1,168,585**	**2,690,942**	**8,831,967**	**6,417,873**	**4,193,309**	**2,612,231**	**5,521,643**	**31,436,550**

Contractually agreed cash flows in 2016

in € thousands	Within 3 months 31.12.2016	3 months to 1 year 31.12.2016	1 to 5 years 31.12.2016	5 to 10 years 31.12.2016	10 to 15 years 31.12.2016	15 to 20 years 31.12.2016	Later than 20 years 31.12.2016	Total 31.12.2016
Derivative financial instruments	**199,642**	**173,892**	**557,162**	**246,076**	**43,607**	**19,741**	**1,303**	**1,241,423**
Derivative financial liabilities at fair value through profit or loss	199,642	173,892	557,162	246,076	43,607	19,741	1,303	1,241,423
Negative market values from hedges	–	–	–	–	–	–	–	–
Liabilities	**6,173,063**	**18,806,897**	**2,622,490**	**1,228,503**	**173,161**	**59,612**	**3**	**29,063,729**
Liabilities evidenced by certificates	38,503	61,842	488,387	77,282	–	–	–	666,014
Liabilities to credit institutions	715,263	286,148	863,283	467,966	203	–	–	2,332,863
Liabilities to customers	5,148,874	18,405,242	1,251,360	650,040	172,958	53,903	3	25,682,380
Deposits from home loan savings business and other savings deposits	454,527	17,292,158	587,863	100,543	8,866	219	3	18,444,179
Other deposits	4,520,566	1,092,648	663,497	549,497	164,092	53,684	–	7,043,984
Savings deposits with agreed termination period	139,062	–	–	–	–	–	–	139,062
Down payments received	34,719	20,436	–	–	–	–	–	55,155
Finance lease liabilities	1,163	3,489	14,936	10,524	–	–	–	30,112
Miscellaneous liabilities	269,260	50,176	4,524	22,691	–	5,709	–	352,360
Subordinated capital	**2,248**	**17,888**	**159,460**	**129,242**	**64,194**	**53,408**	**323,942**	**750,382**
Profit participation certificates	1,631	–	26,984	9,286	–	–	–	37,901
Subordinated liabilities	617	17,888	132,476	119,956	64,194	53,408	323,942	712,481
Irrevocable loan commitments	**860,726**	**178,112**	**61,390**	**–**	**–**	**–**	**–**	**1,100,228**
Financial guarantees	**24,080**	**5,049**	**–**	**–**	**–**	**–**	**–**	**29,129**
Total	**7,259,759**	**19,181,838**	**3,400,502**	**1,603,821**	**280,962**	**132,761**	**325,248**	**32,184,891**

Prospective maturity of amounts recognised in the balance sheet in 2016

	Within 3 months	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Later than 20 years	Total
in € thousands	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Liabilities from reinsurance business	**6,152**	**11,514**	**–**	**–**	**–**	**–**	**–**	**17,666**
Liabilities to customers from direct insurance business	**114,276**	**164,190**	**142,942**	**97,903**	**58,666**	**34,851**	**42,531**	**655,359**
Technical provisions	**1,089,384**	**2,484,583**	**8,602,059**	**6,369,362**	**4,090,277**	**2,550,866**	**5,079,835**	**30,266,366**
Provision for future policy benefits in the area of life insurance	487,560	1,849,812	7,585,909	5,799,686	3,668,020	2,196,202	4,487,006	26,074,195
Provision for outstanding insurance claims	543,207	554,251	693,580	259,826	160,951	144,734	168,526	2,525,075
Provision for unit-linked life insurance contracts	24,870	80,363	322,570	309,850	261,306	209,930	424,303	1,633,192
Other technical provisions	33,747	157	–	–	–	–	–	33,904
Total	**1,209,812**	**2,660,287**	**8,745,001**	**6,467,265**	**4,148,943**	**2,585,717**	**5,122,366**	**30,939,391**

For further information about the management of liquidity risks in the W&W Group, please see the risk reporting in the Management Report.

Capital management

As the holding company, Wüstenrot & Württembergische AG manages the capital resources of the W&W Group. On the one hand, it collects dividends and transfers of profit or loss; on the other hand, it carries out capital measures, such as capital increases and decreases, and makes loans to Group companies.

The objectives of capital management are an efficient allocation of and an adequate return on IFRS equity. In order to ensure this, claims to income or loss are derived for the individual subsidiaries based on a minimum return on the respective IFRS equity.

As at 31 December 2017, the equity of the W&W Group according to IFRS amounted to €3,964.9 million (previous year: €3,811.6 million). The changes in the individual equity components are depicted in Note 26 "Equity".

Other objectives of capital management are, on the one hand, ensuring risk-bearing capacity on the basis of the internal risk-bearing capacity model of the W&W Group and, on the other hand, meeting the minimum regulatory capital requirements set forth in, among other things, the provisions of the EU Capital Requirements Regulation (CRR), the German Banking Act (KWG), the German Insurance Supervision Act (VAG) and the German Supervision of Financial Conglomerates Act (FKAG).

Another capital requirement is that the W&W Group as a whole, as well as the individual subsidiaries, maintain sufficient regulatory capital. In connection with efficient capital management, the W&W Group moreover deploys subordinated capital in order to satisfy supervisory requirements concerning solvency.

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

We provide further remarks about our capital management and its objectives in the risk report in the Group Management Report.

(54) Regulatory solvency

Wüstenrot & Württembergische AG and the W&W Group's insurance companies and credit and financial services institutions are subject at the company level to supervision by the German Federal Financial Supervisory Authority (BaFin) and the Deutsche Bundesbank pursuant to the German Insurance Supervision Act (VAG), the German Banking Act (KWG), the EU Capital Requirements Regulation (CRR) and the German Supervision of Financial Conglomerates Act (FKAG), as well as to the respective rules applicable in the country of registration of the W&W Group's supervised foreign companies. This supervision results in requirements concerning the capital resources of these companies.

Wüstenrot & Württembergische AG ensures that all supervised subsidiaries maintain, at a minimum, the capital resources that they require in order to satisfy regulatory requirements. In this respect, in accordance with supervisory laws, equity, subordinated capital and participation rights form the basis for such capital management.

In the case of Wüstenrot Bausparkasse AG, subordinated liabilities and participation rights are allocated to regulatory capital pursuant to Regulation (EU) No 575/2013.

In the case of Württembergische Versicherung AG and Württembergische Lebensversicherung AG, subordinated liabilities are allocated to regulatory capital pursuant to Section 89 (3) no. 2 VAG.

As at the reporting date, Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank satisfied the regulatory capital requirements. As at 31 December 2017, the total capital ratio of Wüstenrot Bausparkasse AG was 18.4% (previous year: 15.2%). As at the reporting date, the regulatory coverage ratios of the insurance companies that belong to the Group were likely well above 100%. The final results will be published in the second quarter. The ratios calculated as at 31 December 2016 were reported to BaFin in the second quarter of 2017. They amounted to 380.0% for Wüstenrot & Württembergische AG, to 274.8% for Württembergische Lebensversicherung AG and to 185.4% for Württembergische Versicherung AG. Württembergische Lebensversicherung AG and Karlsruher Lebensversicherung AG received approval from BaFin to use transitional measures for technical provisions, and they are currently doing so.

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

As the superordinate undertaking of the financial holding group pursuant to Section 10a (2) sentence 4 KWG, Wüstenrot & Württembergische AG is responsible for all Group-related duties, including for ensuring suitable capital resources. As at 31 December 2017, the total capital ratio of the financial holding group stood at 24.1% (previous year: 21.0%).

Wüstenrot & Württembergische AG and the W&W Group's insurance companies constitute a Solvency II group. As at the reporting date, the regulatory coverage ratio was likely well above 100%. The final results will be published in the second quarter. The ratio for the previous year, which stood at 193.8%, was reported to BaFin in the second quarter of 2017.

As the superordinate undertaking of the financial conglomerate, Wüstenrot & Württembergische AG must ensure that the regulatory requirements for financial conglomerates are satisfied. These requirements include, among other things, that the W&W Group financial conglomerate maintains sufficient capital resources to satisfy minimum regulatory requirements at all times. As at the reporting date, the coverage ratio was likely well above 100%. In the previous year, the coverage ratio stood at 206.1% as at 31 December 2016.

Internal calculations on the basis of the data for 2017 and on the basis of the planning for 2018 and 2019 show that the regulatory requirements concerning capital resources can be more than satisfied in the financial conglomerate, in the financial holding group and in the Solvency II group in the future as well.

(55) Risk-bearing-capacity model

Please see our depiction in the risk report in the Group Management Report.

(56) External rating

Please see the Group Management Report with respect to the current ratings of the W&W Group.

Other disclosures

(57) Leasing

During the reporting year 2017 and during the previous year, business was conducted in the area of finance leasing as lessee and in the area of operating leasing as lessee and lessor.

2017

in € thousands	Within 1 year 31.12.2017	1 to 5 years 31.12.2017	Later than 5 years 31.12.2017	Total 31.12.2017
Finance leasing – lessee				
Minimum lease payments	4,193	13,374	7,893	25,460
Interest effects	374	897	238	1,509
Present value of minimum lease payments	3,819	12,477	7,655	23,951
Operating leasing – lessor				
Minimum lease payments	90,445	236,955	194,315	521,715
Operating leasing – lessee				
Minimum lease payments	24,314	40,481	–	64,795

2016

in € thousands	Within 1 year 31.12.2016	1 to 5 years 31.12.2016	Later than 5 years 31.12.2016	Total 31.12.2016
Finance leasing – lessee				
Minimum lease payments	4,652	14,936	10,524	30,112
Interest effects	474	1,116	393	1,983
Present value of minimum lease payments	4,178	13,820	10,131	28,129
Operating leasing – lessor				
Minimum lease payments	96,288	283,615	235,288	615,191
Operating leasing – lessee				
Minimum lease payments	15,288	18,747	515	34,550

As at 31 December 2017, two properties for own use in particular were recognised as finance leases.

The property for own use located at Friedrich-Scholl-Platz 1 in Karlsruhe, Germany, was sold in the 2011 financial year and then leased back for continued own use (known as a sale and leaseback transaction). This transaction was classified as a finance lease based on the lease being at arm's length. The lease has a term of 15 years and cannot be terminated. Also agreed upon was a one-off lease renewal option for a fixed term of five years. If the lessee intends to exercise the option, it must give the lessor notice thereof 16 months prior to expiry of the lease term. Moreover, the lease contains a general prospective price adjustment clause, which is based on how the consumer price index changes. In addition, neither a repurchase option nor contingent lease payments or restrictions were agreed to.

The second property for own use, which is located at Gutenbergstraße 16a in Stuttgart, Germany, was also classified as a finance lease based on the lease being at arm's length. The lease has a term of 7.5 years and cannot be terminated. Also agreed to was a price adjustment clause, which is based on a contractually stipulated rate of increase. There is no repurchase option.

In the 2013 financial year, the property located at Rotebühlplatz 20 in Stuttgart, Germany, was sold and then leased back in part for own use. A price adjustment clause was agreed to, which is based on how the consumer price index changes. This transaction was classified as an operating lease. The lease has a term of 7.5 years and cannot be terminated. In addition, neither a repurchase option nor contingent lease payments or restrictions were agreed to.

Operating leasing as lessor is conducted for investment property. Many of the leases entered into have open-ended terms. Some, however, have fixed terms. With regard to commercial properties, price adjustment clauses are regularly agreed to, which are based on the consumer price index. With regard to residential properties, such agreements have been entered into for properties that have been acquired since 2012 and for those that have undergone high-quality renovations. The contingent lease payments recognised as income amounted to €1.1 million (previous year: €1.2 million).

Operating leasing as lessee is conducted for properties for own use, mainframe computers, mainframe hardware and software, printers and vehicles. The leases normally have terms of up to 10 years. Renewal options exist with some properties for own use. Price adjustment clauses are likewise agreed to, which are based on the consumer price index. There are often no purchase options.

During the financial year, minimum lease payments of €22.7 million (previous year: €22.0 million) were recognised as an expense as lessee under operating leases.

In the area of finance leasing, there are subleasing relationships for which minimum payments are expected in the amount of €8.1 million. No restrictions are imposed under the leasing agreements either in finance leasing or in operating leasing.

(58) Contingent receivables, contingent liabilities and other obligations

in € thousands	31.12.2017	31.12.2016
Contingent liabilities	**1,030,333**	**791,044**
from deposit protection funds	370,397	235,318
from sureties and warranties	10,162	321
from capital contribution calls not yet made	647,950	554,705
Other contingent liabilities	1,824	700
Other obligations	**1,082,000**	**1,129,357**
Irrevocable loan commitments	1,052,265	1,100,228
Financial guarantees	29,735	29,129
Total	**2,112,333**	**1,920,401**

Pursuant to Sections 221 et seqq. of the German Insurance Supervision Act (VAG), German life insurers are required to be members of a protection fund. Pursuant to Section 221 (2) VAG, ARA Pensionskasse AG joined the protection fund for life insurers as a voluntary member. Based on the German Protection Fund Financing Regulation (Life), the protection fund for life insurers levies annual contributions of not more than 0.02% of total net technical provisions until a protection fund of 0.1% of total net technical provisions has been built up. The Group is not subject to any future obligations from this.

In addition, the protection fund can levy special contributions equal to an additional 0.1% of total net technical provisions. This corresponds to an obligation of €36.9 million (previous year: €23.4 million).

Following the underwriting of insurance contracts, the protection fund for health insurers can levy special contributions of not more than 0.2% of total net technical provisions in order to fulfil its duties. This resulted in a payment obligation of €1.7 million (previous year: €1.4 million).

In addition, the W&W Group's life insurers and pension funds have undertaken to provide the protection fund or, alternatively, Protektor Lebensversicherungs AG with financial resources in the event that the resources of the protection fund are insufficient in the case of a reorganisation. The obligation amounts to 1% of total net technical provisions, with offsetting of the contributions that have previously been made to the protection fund to date. Including the above-mentioned payment obligation of 1%, the total obligation as at the reporting date amounted to €331.9 million (previous year: €210.5 million).

As at 31 December 2017, obligations for capital contribution calls not yet made as relate to investments in the W&W Group amounted to €648.0 million (previous year: €554.7 million).

Irrevocable loan commitments consist of remaining obligations under loans and credit lines that have been granted but not yet drawn down or fully drawn down. The risk of a change in interest rates is low with irrevocable loan commitments due to their short terms.

Wüstenrot Bank AG Pfandbriefbank and Wüstenrot Bausparkasse AG are members of Entschädigungseinrichtung deutscher Banken GmbH, which is a company that operates the compensation scheme established by the Association of German Banks. In addition, Wüstenrot Bank AG Pfandbriefbank is a member of Einlagensicherungsfonds des Bundesverbandes Deutscher Banken e.V., which is an association that operates the deposit protection fund established by the Association of German Banks. Furthermore, Wüstenrot Bausparkasse AG is a member of Bausparkassen-Einlagensicherungsfonds e.V., which is an association that operates the deposit protection fund established by the Association of Private Home Loan and Savings Banks.As a result of participation in the compensation scheme and the deposit protection funds, member institutions are obligated to provide additional funding when necessary.

W&W AG has submitted a declaration to the Association of German Banks, pursuant to which it undertakes to indemnify the latter against all losses incurred through measures taken by the deposit protection fund for the benefit of Wüstenrot Bank AG Pfandbriefbank.

As at 31 December 2017, no placement or underwriting obligations had been drawn down, as was the case in the previous year.

As a result of membership in Verkehrsopferhilfe e.V., which is an association that assists road accident victims through a guarantee fund established by German motor liability insurers, the W&W Group is obligated to provide this association with the resources necessary for carrying out its purpose. The amount that it is required to pay in each year is determined by its share of the premium revenue that member companies earned from direct insurance in the calendar year before last.

Employees who joined one of the two sponsoring undertakings, Württembergische Versicherung AG and Württembergische Lebensversicherung AG, prior to 1 January 2002 could be accepted as members in the pension fund Pensionskasse der Württembergischen VVaG (WürttPK). Being a legally independent, regulated pension fund, WürttPK is subject to supervision by the German Federal Financial Supervisory Authority (BaFin). WürttPK benefits are financed through contributions by members and subsidies by the sponsoring undertakings. Pursuant to their articles of association, Württembergische Versicherung AG and Württembergische Lebensversicherung are obligated to pay subsidies. In accordance with the business plan, the sponsoring undertakings handle management at no cost. In addition, there is secondary liability in some cases under the German Occupational Pensions Act (BetrAVG).

With regard to the calculation of tax refund claims and tax debts made as at the reporting date, it cannot be ruled out that the fiscal authorities will take a different position. In addition, the outcome of pending tax proceedings, both in and out of court, cannot be determined or predicted. Additional liabilities and receivables may need to be recognised in this area.

Württembergische Lebensversicherung AG indemnified the pension institutions Versorgungseinrichtung Karlsruhe e.V. (VeK) and AVM – Arbeitnehmer Vorsorge Management – überbetriebliche Unterstützungskasse e.V. against claims for compensation of damages resulting from a mistake in the processing of the insurance contracts of the sponsoring undertakings.

Waiver of recourse and indemnity declaration

Pursuant to an existing waiver of recourse and indemnification agreement, in the event that the company is sued as a result of an agent having provided faulty advice in connection with the brokering of an insurance product that the company sells, the company has agreed to waive potential recourse claims against the agent, unless the agent acted wilfully and the damage is covered by liability insurance. With respect to the agent's own liability in connection with the brokering of insurance or financial services products offered by an insurance company of the W&W Group, by a collaboration partner of one of these insurance companies or in the course of further advice for one of these companies or collaboration partners, the company has also agreed to provide an indemnity in the event faulty advice was provided. The minimum insurance cover is limited to €200 thousand per claim and a total of €300 thousand per year and, for damages in connection with faulty advice provided in insurance brokering, to €1,000 thousand per claim and €1,500 thousand per year.

(59) Related party disclosures

Transactions with related persons

Natural persons considered to be related parties pursuant to IAS 24 are members of the key management personnel (the Management Board and Supervisory Board of W&W AG) and their close family members.

Transactions with related persons of W&W AG were carried out in connection with the normal business activity of Group companies. This mainly had to do with business relationships in the areas of home loan and savings business, banking business, and life, health and property insurance.

All transactions were at arm's length and/or took place at preferential terms customary in the industry.

As at 31 December 2017, receivables from related persons amounted to €567 thousand (previous year: €812[1] thousand), and liabilities to related persons amounted to €1,174 thousand (previous year: €726[1] thousand). In 2017 interest income from loans made to related persons premiums amounted to €18 thousand (previous year: €11[1] thousand), and interest expenses for savings deposits of related persons amounted to €7 thousand (previous year: €4 thousand). In 2017 premiums in the amount of €86 thousand (previous year: €48[1] thousand) were paid by related persons for insurance policies in the areas of life, health and property insurance.

Transactions with related companies

Unconsolidated subsidiaries of W&W AG and other related companies

The W&W Group is a party to various services agreements with unconsolidated W&W AG subsidiaries and other related W&W AG companies. In addition, unconsolidated W&W AG subsidiaries and other related W&W AG companies made use of banking services. Wüstenrot Holding AG and W&W AG are parties to a brand name transfer and use agreement. As at 31 December 2017, a financial liability was owed to Wüstenrot Holding AG under this agreement in the amount of €18.9 million (previous year: €20.6 million). W&W AG makes fixed annual amortisation payments (principal and interest) to Wüstenrot Holding AG in the amount of € 2.5 million, plus value-added tax.

In 2015 W&W AG purchased a bond of V-Bank AG for the price of €6.5 million. During the reporting period, it received interest income from the bond, which was sold in the first half-year, in the amount €113 thousand (previous year: €520 thousand).

In the 2017 financial year, a voluntary supplemental payment was made to Pensionskasse der Württembergischen VVaG in the amount of €70.0 million (previous year: €15.0 million).

Wüstenrot Stiftung Gemeinschaft der Freunde Deutscher Eigenheimverein e.V., which is a charitable foundation, as well as Wüstenrot Holding AG, WS Holding AG and Pensionskasse der Württembergischen VVaG are recognised under "Other related companies" as the post-employment benefit plan for the benefit of employees.

The transactions were at arm's length.

1 Previous year’s figure adjusted.

As at the reporting date, the open balances from transactions with related companies were as follows:

in € thousands	31.12.2017	31.12.2016
Associates	–	6,782
Receivables from credit institutions	**–**	**6,782**
Other related companies	24,953	24,953
Loans and advances to customers	**24,953**	**24,953**
Unconsolidated subsidiaries	49,148	26,289
Associates	1	5,263
Other related companies	2,159	798
Other loans and receivables	**51,308**	**32,350**
Receivables from related companies	**76,261**	**64,085**
Associates	80,197	80,179
Liabilities to credit institutions	**80,197**	**80,179**
Unconsolidated subsidiaries	26,168	24,222
Other related companies	6,124	6,179
Liabilities to customers	**32,292**	**30,401**
Unconsolidated subsidiaries	30,305	10,871
Associates	1,278	5,842
Other related companies	29,003	30,767
Miscellaneous liabilities	**60,586**	**47,480**
Liabilities to related companies	**173,075**	**158,060**

1 Previous year’s figure adjusted.

Income and expenses from transactions with related companies were as follows:

in € thousands	1.1.2017 to 31.12.2017	1.1.2016 to 31.12.2016
Unconsolidated subsidiaries	38,127	34,354
Associates	118	821
Other related companies	2,000	2,076
Income from transactions with related companies	**40,245**	**37,251**
Unconsolidated subsidiaries	-39,040	-36,185
Associates	-223	-334
Other related companies	-82,874	-29,848
Expenses from transactions with related companies	**-122,137**	**-66,367**

1 Previous year's figure adjusted.

(60) Remuneration report

Remuneration of the individual members of the Executive Board

The outlines of the remuneration system are depicted in detail in the remuneration report contained in the Management Report. The following remarks contain the disclosures required under Section 314 (1) no. 6 of the German Commercial Code (HGB).

Total remuneration was examined by the Supervisory Board, and it bears a reasonable relationship to the duties and performance of Executive Board members, as well as to the company's condition.

Total remuneration paid to Executive Board members during the reporting year for performing their duties at Wüstenrot & Württembergische AG amounted to €2,562.9 thousand (previous year: €2,184.5 thousand) and is composed of the following elements:

Remuneration of the individual members of the Executive Board in 2017

						Performance-related remuneration (sustained)					
	Term of office ends	Non-performance-related remuneration		Performance-related remuneration (short term)		from 2014	from 2013	Ancillary benefits			Total
in € thousands		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Active members of the Executive Board											
Jürgen A. Junker	03/2021	1,010.0	637.5	68.6	87.1	–	–	162.5	23.7	1,241.1	748.3
Dr Michael Gutjahr	08/2020	544.0	528.0	34.8	76.7	58.3	73.9	15.4	19.2	652.5	697.8
Jens Wieland	06/2020	544.0	544.0	52.7	92.8	50.0	77.6	22.6	24.0	669.3	738.4
Total		**2,098.0**	**1,709.5**	**156.1**	**256.6**	**108.3**	**151.5**	**200.5**	**66.9**	**2,562.9**	**2,184.5**

Of the ancillary benefits, remuneration for work as members of the Supervisory Board in the Group companies amounted to €128.5 thousand (previous year: €4.0 thousand).

Sustained performance-related remuneration for a prior financial year, i.e. the 2014 financial year, was earned with the close of the year 2017, since in the years 2015 to 2017 the W&W Group posted average IFRS after-tax earnings of at least €100 million p.a. and did not post a loss in any of the three years. This performance-related remuneration will be disbursed in 2018.

In addition to the earned performance-related remuneration shown in the above table, contingent claims to disbursement of performance-related remuneration for the financial years 2015-2017 were acquired (in each case, the amount of performance-related remuneration not yet disbursed):

Multi-year variable remuneration (sustainability component)

	Financial year 2015, payable in 2019	Financial year 2016, payable in 2020	Financial year 2017, payable in 2021	Total
in € thousands				
Jürgen A. Junker	–	81.2	68.6	149.8
Dr Michael Gutjahr	64.7	72.0	34.8	171.5
Jens Wieland	53.6	55.6	29.5	138.7
Total	**118.3**	**208.8**	**132.9**	**460.0**
Three financial years determinative for achievement of targets	2016 to 2018	2017 to 2019	2018 to 2020	
Remuneration earned with the close of the financial year	2018	2019	2020	

Disbursement is made only if the aforementioned conditions occur or do not occur in the years 2018 to 2020. In the case of Dr Michael Gutjahr, the variable remuneration for Wüstenrot Bausparkasse AG is disbursed in instalments until 2023, in conformity with the requirements of the German Remuneration Ordinance for Institutions (InstitutsVergV) applicable to major institutions. The definitive amounts for 2017 will not be determined until after the Supervisory Board has ascertained that targets were achieved.

Performance-related remuneration for the 2016 financial year, which was disbursed in 2017 after ascertaining the degree to which targets were achieved, resulted in a release of €16.9 thousand (previous year: €24.1 thousand). The amount consists of releases for Jürgen A. Junker totalling €5.9 thousand (previous year: €0), for Dr Michael Gutjahr totalling €4.7 thousand (previous year: €6.0 thousand) and for Jens Wieland totalling €6.3 thousand (previous year: €6.9 thousand).

In the 2016 financial year, provisions in the amount of €256.6 thousand (previous year: €288.0 thousand) were created for acquired contingent claims to disbursement in 2020 of performance-related remuneration for the 2016 financial year. Since Jens Wieland is paid his performance-related remuneration in full by W&W Informatik GmbH and W&W Service GmbH after ascertainment in the following year of the degree to which targets were achieved, meaning that there are no contingent claims with these companies, the amount of the provisions for contingent claims is lower than for short-term performance-related remuneration. Therefore, once achievement of targets was ascertained, a release took place in the amount of €14.5 thousand (previous year: €22.5 thousand).

Aside from that, Group companies did not grant or pay any other remuneration that was not disbursed, remuneration converted into claims of another nature, remuneration used to increase other claims, or other remuneration that to date has not been indicated in any annual financial statements.

The present value of pensions attributable to the Group amounted to €4,789.3 thousand (previous year: €8,393.0 thousand), in each case based on a retirement age of 61. Attributable to Dr Michael Gutjahr is the amount of €4,016.7 thousand (previous year: €3,850.1 thousand), as well as, based on a retirement age of 65, to Jürgen A. Junker the amount of €268.1 thousand (previous year: €104.9) and to Jens Wieland the amount of €504.6 thousand (previous year: €409.6 thousand). These benefits have to do with long-term post-employment benefits. Additions during the financial year attributable to the Group amounted to €424.7 thousand (previous year: €854.6 thousand). Of these additions, attributable to Dr Michael Gutjahr is the amount of €166.6 thousand (previous year: €478.0 thousand), to Jürgen A. Junker the amount of €163.2 thousand (previous year: €104.9) and to Jens Wieland the amount of €94.9 thousand (previous year: €127.9 thousand).

The pension of Dr Michael Gutjahr amounted to €130.8 thousand (previous year: €128.2 thousand), whereby the pension is offset by occupational pension benefits against third parties. Because Dr Gutjahr may claim his pension when his term of office expires, he has no claim to a transitional allowance.

Jürgen A. Junker will be granted a transitional allowance in the amount of €200.0 thousand (previous year: €200.0 thousand) p.a. if his employment contract ends when his first term of office expires, unless Mr Junker refuses to accept a contract extension at the same terms or at terms more favourable to him or non-extension is based on a material reason within the meaning of Section 626 of the German Civil Code (BGB) for which he is responsible. The transitional allowance is payable from the end of the first term of office until Mr Junker reaches the age of 65, but not longer than until the end of the month in which he first begins to draw statutory pension insurance benefits or the company's occupational pension benefits. Mr Junker's claim to payment of the transitional allowance is to be offset by the amount he earns from new employment. Offsetting takes place only to the extent that his other earnings exceed €300.0 thousand p.a.

Past service cost was not incurred. No benefits were promised or granted in the financial year or in the previous year by a third party to a member of the Executive Board for his work.

The company did not grant any loans to members of the Executive Board. No liabilities were entered into in favour of Executive Board members.

Total remuneration paid to former Executive Board members in the financial year amounted to €2,994.9 thousand (previous year: €1,821.8 thousand). Of this amount, €309.2 thousand (previous year: €273.7 thousand) was attributable to survivor benefits.

A reserve in the amount of €25,280.5 thousand (previous year: €22,669.7 thousand) was created for pension commitments to former members of the Executive Board and their survivors.

There were no other encumbrances on the W&W Group during the financial year for benefits to former members of the Executive Board or Supervisory Board or their survivors through severance payments, pensions, survivor benefits or other benefits of a related nature.

The following table "Benefits granted" depicts the contractually granted benefits, ancillary benefits and the minimum and maximum remuneration that can be achieved for variable remuneration components for the 2017 reporting year in accordance with the requirements of Section 4.2.5 of the German Corporate Governance Code of May 2013. The table "Inflow in/for the reporting year" shows the amounts earned in the financial year from fixed remuneration and short-term and long-term variable remuneration.

Benefits granted

	Jürgen A. Junker Chairman of the Executive Board Legal and Compliance, Audit, Communication, Strategy				Dr. Michael Gutjahr HR, Finance, Risk Management				Jens Wieland IT, Operations			
			Mini-mum	Maxi-mum			Mini-mum	Maxi-mum			Mini-mum	Maxi-mum
in € thousands	2016	2017	2017	2017	2016	2017	2016	2017	2016	2017	2016	2017
Fixed remuneration	637.5	1,010.0	1,010.0	1,010.0	528.0	544.0	544.0	544.0	544.0	544.0	544.0	544.0
Ancillary benefits[1]	23.7	162.5	162.5	162.5	19.2	15.4	15.4	15.4	24.0	22.6	22.6	22.6
Total	**661.2**	**1,172.5**	**1,172.5**	**1,172.5**	**547.2**	**559.4**	**559.4**	**559.4**	**568.0**	**566.6**	**566.6**	**566.6**
One-year variable remune-ration	75.0	96.0	–	134.4	66.0	45.7	–	64.0	65.5	74.1	–	103.7
	–	–	–	–	–	4.4	–	6.2	–	–	–	–
Multi-year variable remune-ration	75.0	144.0	–	201.6	66.0	68.5	–	96.0	51.2	62.0	–	86.8
Financial year 2016: Ave-rage IFRS after-tax earnings of at least €100 million p.a. (financial years 2017–2018)	75.0	–	–	–	66.0	–	–	–	51.2	–	–	–
Financial year 2017: Ave-rage IFRS after-tax earnings of at least €100 million p.a. (financial years 2017–2019)	–	144.0	–	201.6	–	68.5	–	96.0	–	62.0	–	86.8
Geschäftsjahr 2017: Auszahlung der variablen Vergütung für die Wüs-tenrot Bausparkasse AG in Übereinstimmung mit den Vorgaben der Instituts-vergütungsverordnung für bedeutende Unternehmen ratierlich bis 2023	–	–	–	–	–	17.4	–	24.4	–	–	–	–
Total	**811.2**	**1,412.5**	**1,172.5**	**1,508.5**	**679.2**	**695.4**	**559.4**	**750.0**	**684.7**	**702.7**	**566.6**	**757.1**
Pension expenses (= service cost pursuant to IAS 19)	103.3	145.7	–	–	118.8	,	–	–	77.8	88.7	–	–
Total remuneration (GCGC)	**914.5**	**1,558.2**	**1,172.5**	**1,508.5**	**798.0**	**695.4**	**559.4**	**750.0**	**762.5**	**791.4**	**566.6**	**757.1**

1 Ancillary benefits also contain the remuneration for work as Supervisory Board members in the Group companies.

Inflow in/for the reporting year

	Jürgen A. Junker		Dr Michael Gutjahr		Jens Wieland	
	Chairman of the Executive Board Legal and Compliance, Audit, Communication, Strategy		HR, Finance, Risk Management		IT, Operations	
in € thousands	2017	2016	2017	2016	2017	2016
Fixed remuneration	1,010.0	637.5	544.0	528.0	544.0	544.0
Ancillary benefits[1]	162.5	23.7	15.4	19.2	22.6	24.0
Total	**1,172.5**	**661.2**	**559.4**	**547.2**	**566.6**	**568.0**
One-year variable remuneration	68.6	87.1	34.8	76.7	52.7	92.8
Multi-year variable remuneration	–	–	58.3	73.9	50.0	77.6
Financial year 2013: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2014–2016)	–	–	–	73.9	–	77.6
Financial year 2014: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2015–2017)	–	–	58.3	–	50.0	–
Total remuneration (Section 314 (1) no. 6 of the German Commercial Code (HGB))	**1,241.1**	**748.3**	**652.5**	**697.8**	**669.3**	**738.4**
Pension expenses (= service cost pursuant to IAS 19)	145.7	103.3	–	118.8	88.7	77.8
Total remuneration (GCGC)	**1,386.8**	**851.6**	**652.5**	**816.6**	**758.0**	**816.2**

1 Ancillary benefits also contain the remuneration for work as Supervisory Board members in the Group companies.

Remuneration of the Supervisory Board

The Supervisory Board remuneration is paid in the form of a fixed remuneration whose amount is determined by the Annual General Meeting. If the Annual General Meeting does not specify an amount, the amount of the prior year applies. Supplementary amounts are stipulated for the Chairman and the Deputy Chairman, as well as for committee activities. In addition, fees are paid for attending Supervisory Board meetings.

The annual base remuneration payable after the close of the financial year amounted to €25.0 thousand (previous year: €25.0 thousand). Committee remuneration amounted to €8.0 thousand (previous year: €8.0 thousand) per year for the Risk and Audit Committee and for the Remuneration and Personnel Committee. Committee remuneration amounted to €4.0 thousand (previous year: €4.0 thousand) per year for the Mediation Committee and the Nomination Committee, whereby remuneration was paid for the Nomination Committee for the first time in 2016. An attendance fee of €500 (previous year: €500) is paid per Supervisory Board meeting. No fees are paid for attending committee meetings.

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

In the 2017 financial year, the company paid the members of the Supervisory Board of Wüstenrot & Württembergische AG total remuneration of €752.9 thousand (previous year: €754.2 thousand). Of this amount, further Supervisory Board mandates in the Group accounted for €86.1 thousand (previous year: €100.2 thousand). In the 2017 financial year, the company paid members of the Supervisory Board of Wüstenrot & Württembergische AG who had retired during the financial year pro rata temporis remuneration of €0 (previous year: €125.4 thousand).

Members of the Supervisory Board are also reimbursed upon request for expenses and the value-added tax due on Supervisory Board remuneration. However, this is not included in the designated expenses.

Advances and loans to members of the Supervisory Board of Wüstenrot & Württembergische AG amounted to €566.6 thousand (previous year: €812.0 thousand). The loans were granted by Group companies. The interest rates range from 1.5% to 7.9%. Loans amounting to €12.9 thousand (previous year: €32.3 thousand) were repaid by the members of the Supervisory Board. No liabilities were entered into in favour of these persons.

Subscription rights or other share-based remuneration for members of the Supervisory Board do not exist in the W&W Group. No reserves for current pensions or entitlements had to be created for members of the Supervisory Board or their survivors.

The company did not pay any remuneration or grant any benefits to members of the Supervisory Board for personally performed services, such as consulting or brokering services.

Remuneration of the individual members of the Supervisory Board

	Base remu-neration	Attendance fees	Committee remunera-tion	Group	Total	Total
in € thousands	2017	2017	2017	2017	2017	2016
Hans Dietmar Sauer (Vorsitzender)	62.5	2.5	48.0	–	113.0	108.6
Frank Weber (Stv. Vorsitzender)	43.8	2.5	16.0	16.0	78.3	76.5
Peter Buschbeck	25.0	2.0	8.0	–	35.0	34.5
Dr. Reiner Hagemann	25.0	2.5	12.0	–	39.5	37.7
Ute Hobinka	25.0	2.5	8.0	–	35.5	38.5
Jochen Höpken	25.0	2.5	4.0	–	31.5	29.7
Gudrun Lacher	25.0	2.5	4.0	–	31.5	17.7
Corinna Linner	25.0	2.0	20.0	–	47.0	38.7
Marika Lulay	25.0	2.0	–	–	27.0	15.5
Bernd Mader	25.0	2.5	8.0	–	35.5	20.0
Ruth Martin	25.0	2.5	4.0	–	31.5	33.3
Andreas Rothbauer	25.0	2.5	8.0	24.0	59.5	56.1
Hans-Ulrich Schulz	25.0	2.5	8.0	–	35.5	20.0
Christoph Seeger	25.0	2.5	8.0	30.0	65.5	62.1
Jutta Stöcker	25.0	2.5	4.0	–	31.5	17.7
Gerold Zimmermann	25.0	2.5	12.0	16.1	55.6	22.2
Subtotal	**456.3**	**38.5**	**172.0**	**86.1**	**752.9**	**628.8**
Christian Brand (ehemalig)	–	–	–	–	–	12.0
Wolfgang Dahlen (ehemalig)	–	–	–	–	–	25.3
Thomas Eichelmann (ehemalig)	–	–	–	–	–	20.8
Uwe Ilzhöfer (ehemalig)	–	–	–	–	–	41.5
Dr. Wolfgang Knapp (ehemalig)	–	–	–	–	–	13.8
Matthias Schell (ehemalig)	–	–	–	–	–	12.0
Total	**456.3**	**38.5**	**172.0**	**86.1**	**752.9**	**754.2**

Total remuneration for persons in key positions

The total remuneration for persons of Group management in key positions (Management Board and Supervisory Board of Wüstenrot & Württembergische AG) amounted to €6,316.7 thousand (previous year: €7,369.2 thousand). Of this amount, short-term employee benefits accounted for €5,382.4 thousand (previous year: €5,415.1 thousand), post-employment benefits accounted for €551.1 thousand (previous year: €451.9 thousand), other long-term benefits accounted for €383.2 thousand (previous year: €528.2 thousand) and termination benefits accounted for €0 thousand (previous year: €974.0 thousand).

(61) Number of employees

In terms of full-time equivalents, the number of employees of the W&W Group as at 31 December 2017 was 6,885 (previous year: 7,020). As at the reporting date, the number of employees was 8,166 (previous year: 8,395).

The average headcount in the last 12 months was 8,253 (previous year: 8,490). This average is calculated as the arithmetic mean of the end-of-quarter headcounts as of the reporting date between 31 March 2017 and 31 December 2017 and during the corresponding prior-year period and is distributed over the individual segments as follows:

Number of employees by segment on annual average

	31.12.2017	31.12.2016
Home Loan and Savings Bank	2,280	2,373
Life and Health Insurance	917	941
Property/Casualty Insurance	3,550	3,709
All other segments	1,506	1,467
Total	**8,253**	**8,490**

(62) Auditor

The Supervisory Board of Wüstenrot & Württembergische AG engaged KPMG AG Wirtschaftsprüfungsgesellschaft to audit the consolidated financial statements. The cost of the audit firm's services for the W&W Group amounted to €5,906 thousand (previous year: €4,541 thousand) for the financial year. Of this amount, audit services accounted for €4,489 thousand (previous year: €3,737 thousand), other assurance services accounted for €251 thousand (previous year: €433 thousand), tax advisory services accounted for €11 thousand (previous year: €10 thousand) and other services accounted for €1,155 thousand (previous year: €361 thousand).

The fee for the auditing services of KPMG AG Wirtschaftsprüfungsgesellschaft relates to the audit of the consolidated financial statements and the annual financial statements. In addition, KPMG AG Wirtschaftsprüfungsgesellschaft conducted audits of the annual financial statements and group reporting of various subsidiaries, as well as statutory audits in accordance with the German Securities Trading Act (WpHG), the German Stock Corporation Act (AktG), the German Act on the Supervision of Insurance Undertakings (VAG) and other legal provisions.

Other assurance services consisted of reviewing the half-year financial reports pursuant to Section 37w (5) WpHG. In addition, audits were conducted in connection with the introduction of new accounting standards and new IT applications, as well as during the project relating to the restructuring of construction financing business. Regarding the spin-off of one subsidiary, the separated balance sheet was audited in accordance with Audit Standard 490 “Auditing of Financial Statements and Their Components” promulgated by the Institute of Public Auditors in Germany (IDW).

Advisory services related to the implementation of the German Minimum Requirements for Risk Management (MaRisk), and the statutory auditor also provided us with advice in connection with the revision of the security guide for our SAP applications in the banking segment. Professional advice was also provided on issues relating to the auditing of accounting by the German Financial Reporting Enforcement Panel (DPR).

(63) Events after the reporting date

No material events that require reporting occurred after the reporting date.

(64) Corporate Governance Code

The Executive Board and Supervisory Board of the publicly traded Wüstenrot & Württembergische AG, Stuttgart, Germany, submitted the statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) and have made it permanently available to shareholders on the website of the W&W Group at →www.ww-ag.com (in German only).

(65) Group affiliation

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

(66) List of ownership interests pursuant to Section 315e (1) of the German Commercial Code (HGB) in conjunction with Section 313 (2) HGB

The list of ownership interests of the W&W Group as at 31 December 2017 is presented below. The overview lists all companies in which at least 5% is held within the W&W Group. In addition, use was made of the exemption provided for in Section 313 (3) sentence 4 HGB in conjunction with Section 313 (2) no. 4 HGB.

List of ownership interests

Name and registered office of the company	Interest in capital, in %	Type of conso-lidation[1]
Wüstenrot & Württembergische AG, Stuttgart		F
Affiliates		
Germany		
3B Boden-Bauten-Beteiligungs-GmbH, Ludwigsburg	100.00	F
Adam Riese GmbH, Stuttgart	100.00	F
Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart	100.00	F
Altmark Versicherungsmakler GmbH, Stuttgart	100.00	M
Altmark Versicherungsvermittlung GmbH, Stuttgart	100.00	M
Asendorfer Kippe ASK GmbH & Co. KG, Stuttgart	100.00	M
Berlin Leipziger Platz Grundbesitz GmbH, Stuttgart	100.00	M
Beteiligungs-GmbH der Württembergischen, Stuttgart	100.00	M
City Immobilien GmbH & Co. KG der Württembergischen, Stuttgart	100.00	F
City Immobilien II GmbH & Co. KG der Württembergischen, Stuttgart	100.00	F
Ganzer GmbH & Co. KG, Harrislee	100.00	M
Gerber GmbH & Co. KG, Stuttgart	100.00	F
Gestorf GmbH & Co. KG, Stuttgart	100.00	M
GMA Gesellschaft für Markt- und Absatzforschung mbH, Ludwigsburg	100.00	M
Hinterbliebenenfürsorge der Deutschen Beamtenbanken GmbH, Karlsruhe	100.00	M
IVB - Institut für Vorsorgeberatung Risiko- und Finanzierungsanalyse GmbH, Karlsruhe	100.00	M
Karlsruher Lebensversicherung AG, Karlsruhe	92.76	F
KLV BAKO Dienstleistungs-GmbH, Karlsruhe	93.10	M
KLV BAKO Vermittlungs-GmbH, Karlsruhe	76.20	M
LP 1 Beteiligungs-GmbH & Co. KG, Stuttgart	100.00	M
Miethaus und Wohnheim GmbH i.L., Ludwigsburg	100.00	M
Nord-Deutsche AG Versicherungs-Beteiligungsgesellschaft, Stuttgart	100.00	M
Schulenburg GmbH & Co. KG, Stuttgart	100.00	M
Stuttgarter Baugesellschaft von 1872 AG, Stuttgart	100.00	M
treefin AG, München	100.00	M
W&W Asset Management GmbH, Ludwigsburg	100.00	F
W&W brandpool GmbH, Stuttgart (ehemals: W&W Digital GmbH)	100.00	M
W&W Gesellschaft für Finanzbeteiligungen mbH, Stuttgart	100.00	F
W&W Informatik GmbH, Ludwigsburg2	100.00	F
W&W Produktion GmbH, Berlin	100.00	F
W&W Service GmbH, Stuttgart2	100.00	F
Windpark Golzow GmbH & Co. KG, Rheine	100.00	M
WL Erneuerbare Energien Verwaltungs GmbH, Stuttgart	100.00	M
WL Renewable Energy GmbH & Co. KG, Stuttgart	100.00	F
WL Sustainable Energy GmbH & Co. KG, Stuttgart	100.00	F

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart2	100.00	F
Württembergische Immobilien AG, Stuttgart	100.00	F
Württembergische Kö 43 GmbH, Stuttgart	94.00	M
Württembergische Krankenversicherung AG, Stuttgart	100.00	F
Württembergische Lebensversicherung AG, Stuttgart	94.89	F
Württembergische Logistik I GmbH & Co. KG, Stuttgart	100.00	M
Württembergische Logistik II GmbH & Co. KG, Stuttgart	100.00	M
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart	100.00	M
Württembergische Versicherung AG, Stuttgart	100.00	F
Württembergische Vertriebspartner GmbH, Stuttgart	100.00	M
Württembergische Verwaltungsgesellschaft mbH, Stuttgart	100.00	M
Württfeuer Beteiligungs-GmbH, Stuttgart	100.00	M
WürttLeben Alternative Investments GmbH, Stuttgart	100.00	F
WürttVers Alternative Investments GmbH, Stuttgart	100.00	F
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg	100.00	F
Wüstenrot Bausparkasse AG, Ludwigsburg	100.00	F
Wüstenrot Grundstücksverwertungs-GmbH, Ludwigsburg	100.00	M
Wüstenrot Haus- und Städtebau GmbH, Ludwigsburg	100.00	F
Wüstenrot Immobilien GmbH, Ludwigsburg	100.00	M
Austria		
G6 Zeta Errichtungs- und VerwertungsGmbH & Co OG, Vienna	99.90	M
Czech Republic		
WIT Services s.r.o., Prague	100.00	M
Wüstenrot hypoteční banka a.s., Prague	100.00	F
Wüstenrot stavební spořitelna a.s., Prague	100.00	F
France		
Württembergische France Immobiliere SARL, Strasbourg	100.00	M
Württembergische France Strasbourg SARL, Strasbourg	100.00	M
Ireland		
W&W Advisory Dublin DAC, Dublin	100.00	F
W&W Asset Management Dublin DAC, Dublin	100.00	F
W&W Europe Life Limited i.L., Dublin	100.00	M

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Strukturierte Unternehmen (konsolidierungspflichtig)		
Germany		
LBBW-AM 203, Stuttgart	100.00	F
LBBW-AM 567, Stuttgart	100.00	F
LBBW-AM 69, Stuttgart	100.00	F
LBBW-AM 76, Stuttgart	100.00	F
LBBW-AM 93, Stuttgart	100.00	F
LBBW-AM 94, Stuttgart	100.00	F
LBBW-AM AROS, Stuttgart	100.00	F
LBBW-AM BSW, Stuttgart	100.00	F
LBBW-AM Emerging Markets Bonds-Fonds 1, Stuttgart	100.00	F
LBBW-AM Emerging Markets Bonds-Fonds 2, Stuttgart	100.00	F
LBBW-AM Südinvest 160, Stuttgart	100.00	F
LBBW-AM USD Corporate Bond Fonds 1, Stuttgart	100.00	F
LBBW-AM USD Corporate Bond Fonds 2, Stuttgart	100.00	F
LBBW-AM WSV, Stuttgart	100.00	F
LBBW-AM WV Corp Bonds Fonds, Stuttgart	100.00	F
LBBW-AM WV P&F, Stuttgart	100.00	F
Ireland		
The W&W Global Income Fund ICAV - The W&W Private Debt Fund, Dublin	100.00	F
W&W Flexible Premium, Dublin	100.00	F
W&W Flexible Premium II, Dublin	100.00	F
W&W Global Strategies European Equity Value, Dublin	100.00	F
W&W Global Strategies South East Asian Equity Fund, Dublin	99.87	F
W&W International Global Convertibles Fonds, Dublin	93.90	F
Associates		
Germany		
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	E
BWK Holding GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	M
Eschborn Grundstücksgesellschaft mbH & Co. KG, Stuttgart	51.00	M
Keleya Digital-Health Solutions UG, Hamburg	30.00	M
V-Bank AG, München	14.76	E

1 Explanation of types of entities and consolidation:
F = Companies included in the consolidated financial statements by way of full consolidation
E = Companies included in the consolidated financial statements using the equity method
M = Not included in the consolidated financial statements due to minor significance.

2 Pursuant to Section 264 (3) of the German Commercial Code (HGB), W&W Service GmbH, Stuttgart, Germany, and W&W Informatik GmbH, Ludwigsburg, Germany, are exempt from the obligation to prepare, have audited and publish a management report in accordance with the rules applicable to corporations and limited liability companies. Pursuant to Section 264 b HGB, Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart, Germany, is exempt from the obligation to prepare, have audited and publish a management report in accordance with the rules applicable to corporations and limited liability companies.

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %
Other investments of more than 5% and less than 20%	
Germany	
Adveq Europe II GmbH, Frankfurt am Main	16.77
Adveq Technology III GmbH, Frankfurt am Main	18.84
Adveq Technology V GmbH, Frankfurt am Main	16.50
Auda Ventures GmbH & Co. Beteiligungs-KG, München	5.79
BPE2 Private Equity GmbH & Co. KG, Hamburg	10.00
Coller German Investors GmbH & Co. KG i.L., München	10.00
CROWN Premium Private Equity III GmbH & Co. KG, Grünwald	6.60
Deutsche Makler Akademie (DMA) gemeinnützige Gesellschaft mbH, Wiesbaden	7.14
Deutscher Solarfonds „Stabilität 2010“ GmbH & Co. KG, Frankfurt am Main	17.77
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin	19.82
EquiVest II GmbH & Co. Zweite Beteiligungs KG Nr. 1 für Vermögensanlagen, München	9.97
European Sustainable Power Fund Nr. 2 GmbH & Co. KG, Grünwald	12.10
GLL GmbH & Co. Messeturm Holding KG, München	5.97
IVZ Immobilien Verwaltungs GmbH & Co. Finanzanlagen KG, München	10.00
IVZ Immobilien Verwaltungs GmbH & Co. Südeuropa KG, München	10.00
NORD KB Micro-Cap V GmbH & Co. KG, Hannover	13.19
VV Immobilien GmbH & Co. United States KG i.L., München	9.98
YIELCO Special Situations GmbH & Co. KG, München	13.25
Hungary	
Fundamenta-Lakaskassza-Lakastakarekpenztar Zrt., Budapest	11.47
Ireland	
Crown Global Secondaries II plc, Dublin	7.22
White Oak Summit Fund I LP, Dublin	15.66
Luxembourg	
DB Secondary Opportunities SICAV-SIF - Sub Fund DB SOF II Feeder USD, Luxembourg	16.79
First State European Diversified Infrastructure Feeder Fund II SCA, SICAV-SIF, Luxembourg	14.37
InfraVia European Fund III SCSp, Senningerberg	14.96
United Kingdom	
ASF VI Infrastructure L.P., Edinburgh	6.40
ASF VII Infrastructure L.P., Edinburgh	18.93
Brookfield Capital Partners Fund III (NR A) L.P., George Town	12.17
Carlyle Cardinal Ireland Fund L.P., George Town	12.20
CBPE Capital Fund IX L.P., London	5.83
Glennmont Clean Energy Fund Europe 1 'A' L.P., London	15.41
Global Infrastructure Partners III-C2 L.P., London	11.52
Kennet III A L.P., St. Peter Port	6.73
Kennet IV L.P., St. Peter Port	18.83
Partners Group Emerging Markets 2007 L.P., Edinburgh	12.01
United States	
H.I.G. Whitehorse Offshore Loan Feeder Fund L.P., Miami	14.30
ISQ Global Infrastructure Fund (EU) L.P., Delaware	5.19

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Currency	Reporting date	Equity[1]	After-tax earnings[1]
Other investments[3] of 20% or more					
Germany					
Adveq Opportunity II Zweite GmbH, Frankfurt am Main	29.31	€	31.12.2016	30,535,841	3,955,400
DBAG Fund VI Feeder GmbH & Co. KG, Frankfurt am Main	30.71	€	31.12.2016	38,507,064	718,452
Elvaston Capital Fund III GmbH & Co. KG, Berlin	20.00				New investment 19.9.2017
Onshore Wind Portfolio 2012 GmbH & Co. KG, Frankfurt am Main	20.72	€	31.8.2017	113,896,915	5,399,036
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart	25.00	€	31.12.2016	795,959	923,329
VV Immobilien GmbH & Co. US City KG i.L., München	23.10	€	31.12.2016	9,489	93,086
Ireland					
BlackRock NTR Renewable Power Fund plc, Dublin	89.55	US$[2]	31.12.2016	60,329,000	2,173,000
Luxembourg					
AMP Capital Infrastructure Debt Fund (EUR) III L.P., Luxemburg	45.35	€	31.12.2016	21,558	1,206,827
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxemburg	25.68	€	31.12.2016	170,443,886	9,027,056
IKAV SICAV-FIS SCA - ecoprime TK I, Luxemburg	41.28	€	30.9.2017	45,639,549	2,437,904
IKAV SICAV-FIS SCA - Global Energy (Ecoprime III), Luxemburg	45.36	€	30.9.2017	54,534,078	395,642
IKAV SICAV-FIS SCA - Global PV Investments, Luxemburg	46.25	€	30.9.2017	51,583,884	1,707,118
Secondary Oppurtunities SICAV-SIF - Sub-fund SOF III Feeder USD, Luxemburg	35.48	US$[2]	31.12.2016	27,924,959	43,455
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxemburg	27.56	US$2	31.12.2016	434,813,326	36,469,634
United Kingdom					
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh	28.24	US$[2]	31.12.2016	130,555,964	516
Capital Dynamics Clean Energy and Infrastructure III L.P., Birmingham	21.28	£2	31.12.2016	45,489,650	1,249,821
EIG Global Private Debt (Europe UL) L.P., London	29.67	US$[2]	31.12.2016	21,121	515
HgCapital Renewable Power Partners 2 L.P., London	29.53	€	31.12.2016	58,915,530	2,930,164
Project Glow Co-Investment Fund L.P., George Town	51.72	CA$[2]	31.12.2016	32,993,403	2,771,026
United States					
ARDIAN North America Fund II L.P., Wilmington	49.56				New investment 31.8.2017
Project Finale Co-Investment Fund Holding LLC, Wilmington	30.00	US$[2]	31.12.2016	46,025,456	2,513,035

1 The figures relate to the most recent annual financial statements available on the reporting date.
2 US$/€-rate on 31 December 2016: 1.0541/1.0000. CA$/€-rate on 31 December 2016: 1.4188/1.0000 £/€-rate on 31 December 2016: 0.8562/1.0000.
3 The investments listed below involve structured entities.

Appendix to the notes to the consolidated financial statements

Country-by-Country-Reporting (§ 26a KWG)

The requirements set forth in Article 89 of Directive 2013/36/EU (country-by-country reporting) were transposed into German law in section 26a of the German Banking Act (KWG).

The regulatory scope of consolidation forms the basis.The disclosures are made country by country after intra-Group reconciliation. The allocation of the type of business is made according to the definitions in Section 1 KWG, and the allocation of the geographic location is made on the basis of the registered office. In this regard, the legally independent establishment in Luxembourg was listed separately.

Included companies

	Type of business	Registered office/city	Country
W&W Asset Management GmbH	Financial services institution	Ludwigsburg	Germany
W&W Gesellschaft für Finanzbeteiligungen mbH	Financial company	Stuttgart	Germany
W&W Informatik GmbH	Provider of ancillary services	Ludwigsburg	Germany
W&W Service GmbH	Provider of ancillary services	Stuttgart	Germany
Wüstenrot & Württembergische AG	Financial company	Stuttgart	Germany
Wüstenrot Bank AG Pfandbriefbank	Credit institution	Ludwigsburg	Germany
Wüstenrot Bausparkasse AG	Credit institution	Ludwigsburg	Germany
Wüstenrot hypoteční banka a.s.	Credit institution	Prague	Czech Republic
Wüstenrot stavební spořitelna a.s.	Credit institution	Prague	Czech Republic
Wüstenrot Bausparkasse AG, Luxembourg branch establishment	Credit institution	Munsbach	Luxembourg

Presented as revenue are the earnings before income taxes from continued operations without impairments, administrative expenses and other operating expenses. The number of recipients of wages and salaries in full-time equivalents was determined in accordance with Section 267 (5) of the German Commercial Code (HGB). Apart from current taxes under national tax rules, taxes on profit or loss also contain deferred taxes. Deferred taxes are recognised in the amount of the expected refund from or payment to the relevant tax authorities. Deferred taxes are calculated at the respective country-specific tax rates.

Country-specific disclosures for 2017

		Germany	Czech Republic	Luxembourg
Revenue	in € thousands	830,450	59,413	5,031
Recipients of wages and salaries in full-time equivalents	Number	3,964	289	7
Profit/loss before taxes	in € thousands	126,181	26,339	2,850
Taxes on profit/loss	in € thousands	–79,009	–4,905	–853
Public subsidies received	in € thousands	—	—	—

Country-specific disclosures for 2016

		Germany	Czech Republic	Luxembourg
Revenue	in € thousands	856,195	49,651	3,105
Recipients of wages and salaries in full-time equivalents	Number	3,960	312	7
Profit/loss before taxes	in € thousands	198,396	18,814	2,687
Taxes on profit/loss	in € thousands	–67,546	–3,542	216
Public subsidies received	in € thousands	—	—	—

Wüstenrot & Württembergische AG
Responsibility statement

To the best of our knowledge, and in accordance with applicable accounting principles, the consolidated annual financial statements present a true and accurate view of the Group's net assets, financial position and financial performance, and the Group Management Report provides a true and accurate presentation of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stuttgart, 26 February 2018

Jürgen A. Junker

Dr. Michael Gutjahr

Jens Wieland

Report of the independent statutory auditor

To Wüstenrot & Württembergische AG, Stuttgart, Germany

Report on the audit of the consolidated financial statements and of the report on the situation of the company and the Group

Audit opinions

We have audited the consolidated financial statements of Wüstenrot & Württembergische AG, Stuttgart, Germany, consisting of the consolidated balance sheet as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2017, as well as the notes to the consolidated financial statements, together with the a summary of significant accounting policies. In addition, we have audited the report on the situation of the company and the Group for Wüstenrot & Württembergische AG, Stuttgart, Germany, 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 "Corporate governance statement" in the report on the situation of the company and the group.

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

- the attached consolidated financial statements comply in all material respects with the IFRSs applicable in the EU and with the additional legal requirements that are applicable pursuant to Section 315e (1) of the German Commercial Code (HGB), and in compliance with those provisions, they present a true and accurate view of the Group's net assets and financial position as at 31 December 2017 and its financial performance for the financial year 1 January to 31 December 2017, and

- the attached report on the situation of the company and the Group as a whole presents a true and accurate view of the Group's position. The report on the situation of the company and the Group 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 report on the situation of the company and the Group does not cover the content of the aforementioned corporate governance statement.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations concerning the regularity of the consolidated financial statements or the report on the situation of the company and the Group.

Basis for the audit opinions

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

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

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

Measurement of unlisted securities, receivables and derivatives

The W&W Group holds, for the purposes of investment, receivables (primarily, registered bonds and debenture bonds), unlisted securities and derivative financial instruments. They are recognised in the consolidated financial statements under the items “Financial assets/liabilities measured at fair value through profit or loss”, “Financial assets available for sale”, “Receivables” and “Positive/negative market values from hedges”.

With respect to accounting standards, we refer to the explanations in the notes to the consolidated financial statements concerning the measurement of fair value and to Note 42 “Disclosures concerning the measurement of fair value”. Risk disclosures can be found in the opportunity and risk report, which is part of the report on the situation of the company and the Group, in the sections on market price risk and counterparty risk.

Risk for the financial statements
If quoted prices for identical financial instruments (Level 1 of the measurement hierarchy) are unavailable on active markets, measurement methods are used to determine fair value. In determining value, derived market data are used as input factors to the greatest possible extent (Level 2 of the measurement hierarchy). If these are not sufficiently current, parameters are also used that are not based on market data (Level 3 of the measurement hierarchy).

The carrying amounts of the securities, receivables and derivatives measured using this model (Levels 2 and 3 of the measurement hierarchy) amounted to €16,920.6 million. This constitutes 23.5% of total assets.

With financial instruments, there is a fundamental risk that fair value will not be determined in the correct amount. With financial instruments that are measured at fair value, there is a risk that they will not be recognised in the correct amount and that income and expenses based on the measurement will not be accurately captured in the income statement or in other comprehensive income. With financial assets that are recognised at amortised cost or at fair value in other comprehensive income, there is a risk that where an impairment needs to be taken, it will not be determined in the correct amount, such that a write-up or write-down does not occur.

With unlisted financial instruments that are measured using the model (Levels 2 and 3 of the measurement hierarchy), there is an increased risk that fair values will be unable to be ascertained on active markets on the reporting date. For these financial instruments, complex measurement methods are necessary. Moreover, these measurement methods use parameters that are subject to discretion.

Our audit approach

Our audit of unlisted securities, receivables and derivative financial instruments consisted, in particular, of the following significant audit procedures:
We audited the process for recording the portfolio data and 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 these financial instruments, we compared the parameters that were applied with those that are observable on active markets. If parameters could not be observed, then among other things, we gained an understanding of the yields and spreads that were applied for selected securities, receivables and derivative financial instruments and evaluated those yields and spreads. We audited the measurement methods that were applied.

In addition, for some securities, receivables and derivative financial instruments, we likewise calculated fair value with our own EDP programs and compared the results with the figures shown by the company.

For financial instruments measured at amortised cost or at fair value in other comprehensive income, we audited a portion of the portfolio for whether credit rating-related write-downs or write-ups were undertaken correctly.

Our conclusions

Unlisted securities, receivables and derivative financial instruments were measured in conformity with IFRS accounting standards. On the whole, the applied measurement methods and parameters were appropriate. Write-downs and write-ups were undertaken where necessary.

Measurement of the provision for future policy benefits in life insurance – gross

With respect to accounting standards, we refer to the explanations in the notes to the consolidated financial statements concerning the measurement methods for technical provisions. Risk disclosures can be found in the opportunity and risk report, which is part of the report on the situation of the company and the Group, in the section on underwriting risk.

Risk for the financial statements

In its consolidated financial statements, the company shows a provision for future policy benefits for life insurance in the amount of €26,273.7 million. This constitutes about 36.5% of total assets. This does not include the provision for future policy benefits for unit-linked insurance contracts.

The provision for future policy benefits is generally calculated by totalling the provisions for future policy benefits calculated for each individual contract. It is measured prospectively and is derived from the present values of future benefits, less future premiums. In doing so, a variety of machine-based and manual calculation steps are used to ascertain the provision in a manner that is independent of rates.

In this regard, IFRS accounting standards and regulatory requirements must be complied with. This includes, in particular, rules concerning biometric parameters, cost assumptions and interest rate assumptions, as well as rules concerning the additional interest reserve for the new portfolio and the assumptions to be made there concerning biometrics, probabilities of cancellations and capital payouts and interest rate reinforcement for the old portfolio. In some cases, the making of these assumptions is subject to discretion.

There is a risk that the provision for future policy benefits under each individual contract will be over- or under-valued because IFRS accounting standards and regulatory requirements were not complied with and inappropriate calculation parameters were applied.

Our audit approach

In connection with the audit of the provision for future policy benefits, part of our audit team included actuaries, and we performed the following significant audit procedures:

We audited whether the insurance contracts recorded in the portfolio management system were fully included in the provision for future policy benefits. In doing so, we relied on controls put in place by the company, and we audited whether they were suitable in terms of how they function and whether they were carried out. In this regard, in connection with reconciling the portfolio management systems, the statistics systems and the general ledger, we audited whether the method for transferring values worked flawlessly.

In order to verify that the provisions for future policy benefits under each individual contract were measured correctly, we calculated the provisions for future policy benefits, including the additional interest reserve and the interest rate reinforcement, for an alternating partial portfolio, likewise using our own EDP programs, and compared the results with the values ascertained by the respective subsidiary.

With respect to the additional interest reserve for the new portfolio that is to be created within the provision for future policy benefits, we audited the appropriateness of the assumptions made by the respective subsidiary concerning probabilities of cancellations and capital payouts, as well as concerning biometrics.

We audited whether the company applied the business plans for the old portfolio that have been approved German Federal Financial Supervisory Authority (BaFin). These also consisted of arrangements concerning interest rate reinforcement.

We audited whether the company properly applied the tables or, as the case may be, the individually adjusted tables that have been issued by the German Association of Actuaries (DAV) as being generally applicable. In doing so, using internal profit sourcing, we assured ourselves that sufficient collateral was available.

Furthermore, we compared the corresponding changes in the provision for future policy benefits during the reporting year with the forward projection provided by each subsidiary for its provision for future policy benefits in connection with internal profit sourcing. In doing so, we assured ourselves in particular that the individual components of the change and the corresponding parameters in the income statement were consistent.

Moreover, we reviewed the report by each responsible actuary. In particular, we assured ourselves that none of the reports contained assumptions that conflict with our audit results.

Our conclusions
The provision for future policy benefits was measured in conformity with IFRS accounting standards and regulatory requirements. On the whole, the applied parameters were appropriate.

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

With respect to accounting standards, we refer to the explanations in the notes to the consolidated financial statements concerning the measurement methods for technical provisions. Risk disclosures can be found in the opportunity and risk report, which is part of the report on the situation of the company and the Group, in the section on underwriting risk.

Risk for the financial statements
The gross provisions for outstanding insurance claims, including business underwritten as reinsurer, amounted to €2,345.6 million. This constitutes 3.3% of total assets. The vast majority of gross provisions relate to direct property/casualty insurance business.

The gross provision for outstanding insurance claims in direct business 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. In this regard, IFRS accounting standards and commercial law requirements must be complied with.

The provisions for reported insurance claims are estimated in accordance with the expected expense for each individual claim. For claims that are still unreported, provisions for late outstanding claims are created, which are calculated based on 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 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 IFRS accounting standards and commercial law requirements. On the whole, the applied methods and the underlying assumptions were appropriate.

Measurement of provisions for interest bonus options and refunds of closing fees (provisions for home loan savings business)

With respect to accounting standards, we refer to the explanations in the notes to the consolidated financial statements concerning the measurement methods for other provisions. Risk disclosures can be found in the opportunity and risk report, which is part of the report on the situation of the company and the Group, in the section on pool risks.

Risk for the financial statements

The consolidated financial statements show provisions for home loan savings business in the amount of €1,050.3 million. This constitutes 1.5% of total assets.

Provisions for home loan savings business depict the risk that where the requirements defined in the rate-specific General Terms and Conditions for Home Loan Savings Contracts (ABB) are met (e.g. loan waiver by the home loan savings customer), Wüstenrot Bausparkasse AG will have to grant the customer retroactive interest bonuses or refund closing fees.
The measurement methods used to calculate the provisions for home loan savings business are complex, and the relevant parameters and assumptions concerning the estimation of future customer behaviour are subject to substantial uncertainties and discretion. Even minor changes in those parameters and assumptions may result in substantial changes in the amount of the provisions. Significant discretionary decisions are associated, in particular, with estimating the probability of utilisation (bonus ratio) by using historical data from the home loan savings pool (empirical forward projection) or – in the absence of sufficient historical data – by deriving the bonus ratio from expert estimates.

There is a risk for the financial statements that based on the measurement methods applied, as well as the assumptions and discretionary decisions taken into account in this respect, future customer behaviour will not be estimated correctly, such that the provisions for home loan savings business will not be calculated accurately.

Our audit approach
Our audit of the provisions for home loan savings business consisted of the following audit procedures:

In order to gain an understanding of the measurement process, the measurement methods (including the assumptions and parameters) and the relevant internal control, we met with management and with representatives from the relevant company departments and reviewed the written rules of procedure.

We evaluated the appropriateness of the controls put in place to ensure the accuracy and completeness of the data included in the calculation. Following that, we audited their viability.

In particular, we reviewed whether the applied measurement methods were appropriate for calculating the provisions for home loan savings business and whether the key assumptions made by management were proper and coherent.

For the audit of the bonus ratios applied by the home loan and savings bank in connection with the empirical forward projection, we reviewed, in particular, the comparison that it had performed of the estimates that had been made for the previous financing year with the subsequent actual results and then analysed the results for whether they confirm the estimation method that was applied.

With regard to the rates in connection with which the bonus ratios were calculated using expert estimates, we reviewed, in particular, that validations of the bonus ratios performed by the home loan and savings bank (e.g. on the basis of not yet sufficient historical data or comparable rates) and likewise analysed them for whether they confirm the estimation method that was applied.

By comparing them with the General Terms and Conditions for Home Loan Savings Contracts, we audited whether all relevant rates were taken into consideration in the measurement methods.

Moreover, through random checks, we audited the database underlying the calculation for whether it was accurate and complete by comparing it with the portfolio management systems or by means of relevant documentation (e.g. General Terms and Conditions for Home Loan Savings Contracts).

In addition, we gained an understanding of the key steps taken to calculate the provisions.

Our conclusions
The measurement of the provision for home loan savings business is consistent with IFRS accounting standards and regulatory requirements. On the whole, the applied measurement methods and 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 consolidated financial statements and the report on the situation of the company and the Group, as well as our audit report.

Our audit opinions concerning the consolidated financial statements and the report on the situation of the company and the Group 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 consolidated financial statements, the report on the situation of the company and the Group or our knowledge obtained in the audit or
- otherwise appears to be materially misstated.

Responsibility of the Executive Board and the Supervisory Board for the consolidated financial statements and the report on the situation of the company and the Group

The Executive Board is responsible for preparing the consolidated financial statements in a manner that complies in all material respects with the IFRSs applicable in the EU and with the additional legal requirements that are applicable pursuant to Section 315e (1) of the German Commercial Code (HGB), as well as for ensuring that in compliance with those provisions, the consolidated financial statements present a true and accurate view of the Group’s net assets, financial position and financial performance, Furthermore, the Executive Board is responsible for the internal controls that it has specified as necessary in order to facilitate the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Executive Board is responsible for assessing the Group’s ability to continue as a going concern. In addition, it is responsible for disclosing, as applicable, matters related to going concern. Moreover, it is responsible for ensuring that accounting is performed on the basis of the going concern principle, unless it is planned to liquidate the Group or discontinue operations or there is no realistic alternative to this.

Furthermore, the Executive Board is responsible for preparing the report on the situation of the company and the Group that as a whole presents a true and accurate view of the Group’s position and that in all material respects is consistent with the consolidated financial statements, complies with German legal requirements and accurately depicts and 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 report on the situation of the company and the Group in conformity with German legal requirements and to enable sufficient and appropriate evidence to be provided for the statements in the report on the situation of the company and the Group.

The Supervisory Board is responsible for monitoring the Group's accounting process with respect to the preparation of the consolidated financial statements and the report on the situation of the company and the Group.

Responsibility of the statutory auditor for the audit of the consolidated financial statements and the report on the situation of the company and the group

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the report on the situation of the company and the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement is higher in the case of fraud than in the case of error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of the arrangements and measures relevant to the audit of the report on the situation of the company and the Group 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements and in the report on the situation of the company and the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements depict the underlying business transactions and events in such a way as to present a true and accurate view of the Group's net assets, financial position and financial performance in accordance with the IFRSs applicable in the EU and with the additional legal requirements that are applicable pursuant to Section 315e (1) of the German Commercial Code (HGB).

- Obtain sufficient and appropriate audit evidence for the accounting information of the companies or business activities in the Group in order to submit audit opinions concerning the consolidated financial statements and the report on the situation of the company and the Group. We are responsible for guiding, monitoring and conducting the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.

- Evaluate the consistency of the report on the situation of the company and the Group with the consolidated financial statements, its conformity with the law and its depiction of the view of the Group's situation.

- Perform audit procedures concerning the forward-looking statements made by the Executive Board in the report on the situation of the company and the Group. In doing so, on the basis of sufficient and appropriate audit evidence, we gain an understanding, in particular, of the key assumptions underlying the Executive Board's forward-looking statements and evaluate whether the statements were properly derived from those assumptions. We do not provide a separate audit opinion concerning the forward-looking statements or the underlying assumptions. There is a substantial, unavoidable risk that future events may significantly deviate from the forward-looking statements.

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

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

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

Other statutory and legal requirements

Other disclosures pursuant to Article 10 of the EU Audit Regulation

We were selected as the Group statutory auditor at the meeting of the Supervisory Board on 24 March 2017. We were given a mandate by the chairman of the Supervisory Board's Risk and Audit Committee on 7 June 2017. We have served as the Group statutory auditor of Wüstenrot & Württembergische AG without interruption since the 2011 financial year.

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

Responsible auditor

The auditor responsible for the audit is Dr Christof Hasenburg.

Stuttgart, 7 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Hasenburg	Stratmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)

Contents
Financial Statements W&W AG

Balance sheet as at 31 December 2017

Assets

in € thousands	cf. Note no.[1]	31.12.2017	31.12.2017	31.12.2017	31.12.2016
A. Intangible assets	1				
I. Licenses acquired against payment, industrial property rights and similar rights and assets, as well as licenses for such rights and assets				6	11
B. Capital investments					
I. Land, land-type rights and buildings, including buildings on third-party land	2		170,634		118,617
II. Capital investments in affiliated companies and participations	3				
1. Interests in affiliated companies		1,696,937			1,687,013
2. Loans to affiliated companies		345,511			316,900
3. Participations		60,818			46,649
4. Loans to companies in which an investment is maintained		–			6,500
			2,103,266		2,057,062
III. Other capital investments					
1. Shares, interests or shares in investment assets and other variable-yield securities	4	524,260			499,678
2. Bearer bonds and other fixed-income securities		134,744			89,354
3. Other loans	5	284,416			304,205
4. Deposits with credit institutions	6	52,128			94,177
thereof with affiliated companies: €20,300 thousand (previous year: €94,177 thousand)					
5. Other capital investments		87			87
			995,635		987,501
IV. Receivables from deposits with ceding companies			31,671		34,696
				3,301,206	3,197,876
C. Receivables					
I. Amounts receivable on reinsurance business			36,598		37,512
thereof from affiliated companies € – thousand (previous year: € – thousand)					
II. Other receivables	7		208,683		209,197
thereof from affiliated companies: €208,467 thousand (previous year: €195,340 thousand) thereof from companies in which an investment is maintained: €– thousand (previous year: €433 thousand)				245,281	246,709
Carryover				**3,546,493**	**3,444,596**

1 See numbered explanations in the notes to the consolidated financial statements

Assets

in € thousands	cf. Note no.	31.12.2017	31.12.2017	31.12.2017	31.12.2016
Carryover				**3,546,493**	**3,444,596**
D. Other assets					
I. Property, plant and equipment and inventories			1,375		186
II. Current accounts with banks, cheques and cash			48,634		49,461
thereof with affiliated companies: €2,587 thousand (previous year: €4,074 thousand)				50,009	49,647
E. Deferred assets					
I. Deferred interest and rental income			7,459		7,266
II. Other deferred assets	8		117		238
				7,576	7,504
F. Excess of plan assets over pension liabilities	9			482	185
Total Assets				**3,604,560**	**3,501,932**

Liabilities

in € thousands	cf. Note no.	31.12.2017	31.12.2017	31.12.2017	31.12.2016
A. Equity					
I. Share capital[1]	10	490,311			490,311
thereof less: mathematical value of own shares		1,040			1,427
			489,271		488,884
II. Capital reserve	11		994,084		993,464
III. Retained earnings	12				
Other retained earnings		387,577			365,577
			387,577		365,577
IV. Balance sheet profit	13		65,174		63,353
				1,936,106	1,911,278
B. Technical provisions					
I. Provision for unearned premiums					
1. Gross amount		20,167			20,258
2. Thereof to: the portion for ceded reinsurance business		2,556			2,216
			17,611		18,042
II. Provision for future policy benefits					
1. Gross amount		30,800			31,902
			30,800		31,902
III. Provision for outstanding insurance claims					
1. Gross amount		499,980			486,522
2. Thereof to: the portion for ceded reinsurance business		132,413			111,042
			367,567		375,480
IV. Claims equalisation provision and similar provisions			80,954		69,754
V. Other technical provisions					
1. Gross amount		5,373			5,915
2. Thereof to: the portion for ceded reinsurance business		–			1,023
			5,373		4,892
				502,305	500,070
Carryover				**2,438,411**	**2,411,348**

1 Information about authorised and contingent capital is contained in the notes.

Liabilities

in € thousands	cf. Note no.	31.12.2017	31.12.2017	31.12.2017	31.12.2016
Carryover				**2,438,411**	**2,411,348**
C. Other provisions					
I. Provisions for pensions and similar obligations	14		882,388		840,989
II. Tax provisions			77,925		67,434
III. Other provisions	15		30,443		34,001
				990,756	942,424
D. Deposits retained from ceded reinsurance business	16			18,587	17,450
E. Other liabilities					
I. Accounts payable on reinsurance business			31,271		34,640
thereof to affiliated companies: €26,274 thousand (previous year: €28,488 thousand)					
II. Liabilities to credit institutions			–		4,178
III. Sundry liabilities	17		125,493		91,834
thereof for taxes: €454 thousand (previous year: €932 thousand) thereof to affiliated companies: €121,850 thousand (previous year: €89,785 thousand)				156,764	130,652
F. Deferred liabilities	18			42	58
Total Liabilities				**3,604,560**	**3,501,932**

Income statement W&W AG HGB for the period 1 January to 31 December 2017

in € thousands	cf. Note no.	1.1.2017 bis 31.12.2017	1.1.2017 bis 31.12.2017	1.1.2017 bis 31.12.2017	1.1.2016 bis 31.12.2016
I. Technical account					
1. Premiums earned for own account					
a) Gross premiums written		340,407			323,552
b) Paid einsurance premiums		83,644			76,374
			256,763		247,178
c) Change in the gross provision for unearned premiums		91			-118
d) Change in the reinsurers' portion of the gross provision for unearned premiums		340			123
			431		5
				257,194	247,183
2. Allocated investment return transferred from the non-technical account, net of reinsurance	19			1,058	1,156
3. Other technical incomes for own account				429	445
4. Expenses for insurance claims for own account					
a) Payments for insurance claims					
aa) Gross amount		205,822			206,587
bb) Reinsurers' portion		43,683			48,935
			162,139		157,652
b) Change in the provision for outstanding insurance claims	20				
aa) Gross amount		17,796			-4,316
bb) Reinsurers' portion		21,842			-4,572
			-4,046		256
				158,093	157,908
5. Change in other net technical provisions					
a) Net provision for future policy benefits			1,102		1,637
b) Sundry net technical provisions			-481		-219
				621	1,418
6. Expenses for insurance business for own account	21				
a) Gross expenses for insurance business			112,236		100,530
b) Thereof less: received commissions and profit participations from ceded reinsurance business			19,660		16,801
				92,576	83,729
7. Other technical expenses for own account				1,241	1,218
8. Subtotal				**7,392**	**7,347**
9. Change in the claims equalisation provision and similar provisions				-11,200	-11,321
10. Net technical loss for own account				-3,808	-3,974
Carryover				**– 3,808**	**– 3,974**

in € thousands	cf. Note no.	1.1.2017 bis 31.12.2017	1.1.2017 bis 31.12.2017	1.1.2017 bis 31.12.2017	1.1.2016 bis 31.12.2016
Carryover				**-3,808**	**-3,974**
II. Non-technical account					
1. Income from capital investments					
a) Income from participations		14,603			14,085
thereof from affiliated companies: €11,670 thousand (previous year: €11,704 thousand)					
b) Income from other capital investments	22	32,921			48,132
thereof from affiliated companies: €18,111 thousand (previous year: €19,356 thousand)					
c) Income from write-ups	23	89,189			31,469
d) Gains from the disposal of capital investments	24	2,161			9,496
e) Income from profit pools, profit transfer agreements and partial profit transfer agreements		107,678			150,991
			246,552		254,173
2. Expenses for capital investments					
a) Capital investment management expenses, interest expenses and other expenses for capital investments		6,057			7,184
b) Depreciations on capital investments	25	30,163			38,549
c) Losses from the disposal of capital investments	26	550			614
d) Expenses from loss assumption		4,286			5,230
			41,056		51,577
			205,496		202,596
3. Income from technical interest			-1,100		-1,167
				204,396	201,429
4. Income from technical interest	27		102,090		60,995
5. Income from technical interest	28		179,621		141,628
				-77,531	-80,633
6. Net income from normal business activities				123,057	116,822
7. Extraordinary expenses	29		–		12,946
8. Net extraordinary result			,	–	-12,946
9. Income taxes	30		43,006		41,022
10. Other taxes			99		-39
				43,105	40,983
11. Annual Profit				**79,952**	**62,893**
12. Retained earnings carried forward from the previous year				222	460
13. Allocation to retained earnings					
d) Other retained earnings				15,000	–
14. Balance sheet profit				**65,174**	**63,353**

Notes

Notes concerning the annual financial statements

Wüstenrot & Württembergische AG draws up its annual financial statements and prepares its Management Report in accordance with the statutory requirements of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Act on the Supervision of Insurance Undertakings (VAG) and the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

Measurement methods for assets

Intangible assets

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

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

Assets recognised under the item “Land, land-type rights and buildings” are measured at cost less scheduled straight-line depreciation or at fair value, whichever is lower. Unscheduled 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.

Shares in affiliated companies

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

Loans to affiliated companies

Recognised under the item “Loans to affiliated companies” are bearer bonds, registered bonds, promissory notes and loans receivable. For accounting and valuation, please see the comments on the items below.

Participations

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

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

Pursuant to Section 341b (2) in conjunction with Section 253 (4) of the German Commercial Code (HGB), interests or shares in investment assets are recognised at average cost less unscheduled write-downs in accordance with the strict lower-value principle. If the reasons for a lower carrying amount no longer exist, the asset is written up to a maximum of its historical cost.

Bearer bonds and other fixed-income securities

Pursuant to Section 341b (2) in conjunction with Section 253 (4) of the German Commercial Code (HGB), bearer bonds and other fixed-income securities are recognised at average cost less unscheduled write-downs in accordance with the strict lower-value principle and are measured taking into account the requirement to reverse impairment losses.

Other loans

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

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

Pursuant to Section 341c (3) of the German Commercial Code (HGB), promissory notes, loans receivable and miscellaneous loans are measured at amortised cost by spreading the difference between cost and the repayment amount over the remaining term using the effective interest method.

In order to determine whether registered bonds, promissory notes or loans receivable are permanently impaired, ratings analyses are performed for issuers whose rating has deteriorated by two or more notches or whose securities are over-valued by at least 10%. If on the basis of the ratings analyses it can no longer be expected that the securities will be repaid in conformity with the contract, they are written down to the lower fair value. In addition, collective impairment is applied to registered bonds on a portfolio basis in accordance with experience in recent years.

Deposits with credit institutions

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

Other capital investments

Other capital investments are measured at cost.

Receivables from deposits with ceding companies and from reinsurance business

Receivables from deposits with ceding companies withheld by ceding companies and amounts receivables from reinsurance business are generally recognised at nominal value. In addition, amounts receivable from reinsurance business include receivables that were measured using the default probability of the S&P rating model and for which collective impairments are taken.

We recognise the default risk of reinsurers by taking a collective impairment for amounts receivable on reinsurance business and by deducting on the liabilities side the part that relates to the reinsurers' portions of technical provisions for insurance claims.

Other assets

Rent arrearages contained in the item "Other receivables" are recognised at their nominal values.

Property, plant and equipment are measured at cost less scheduled straight-line depreciation over their normal useful life. Assets with a net cost of up to €150 are depreciated in full in the year of acquisition. In accordance with tax rules, assets with a net cost of more than €150 and up to €1,000 are recognised in full in the year of acquisition and depreciated on a straight-line basis over a period of five years.

The excess of plan assets over pension liabilities relates to a surplus that results from the offsetting of reinsurance claims measured at fair value against liabilities under phased-in early retirement agreements. Insolvency-proof reinsurance claims are measured at the coverage capital specified in the business plan, which, under compliance with the strict lower-value principle, corresponds to amortised cost in accordance with Section 253 (4) of the German Commercial Code (HGB) and thus, in the absence of other measurement methods, to fair value within the meaning of Section 255 (4) sentence 4 HGB.

No use was made of the option to recognise deferred tax assets on the basis of the tax relief resulting under Section 274 (1) sentence 2 of the German Commercial Code (HGB).

Reversals of impairment losses

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

Derivatives

Currency forwards are concluded in order to economically hedge German covered mortgage bonds and bearer bonds. They are measured on a transaction-specific basis. Provisions are created for contingent losses from these transactions.

Acquired option rights are measured at cost in the amount of the option premium less write-downs in accordance with the strict lower-value principle, taking into account the requirement to reverse impairment losses. Option premiums for sold options are recognised under “Other liabilities” for as long as there is a duty to perform under the option. A risk of excess liability surplus under written options is accounted for by creating provisions for impending losses.

Determination of fair value

The fair value of land, land-type rights and buildings, including buildings on third-party land, is continuously verified using the discounted cash flow method.

We base the fair value of affiliated companies and participations on their capitalised income value or on the fair value determined using the net asset value method, in some cases also on cost or the liquidation value.

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

Interests or shares in investment assets are recognised at their most recently available redemption price.

Measurement methods for liabilities

Technical provisions

The provision for unearned premiums in assumed business is recognised in accordance with the information provided by the prior insurers and in compliance with supervisory rules.

The provision for future policy benefits for casualty insurance policies that provide for premium refunds and for life insurance business is created in accordance with the information provided by the prior insurers.

Provisions for outstanding insurance claims for assumed business are calculated in accordance with the information provided by the prior insurers, in some cases as augmented by our own findings.

The claims equalisation provision contained in item B. IV was created in accordance with the annex to Section 29 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

The provisions for nuclear installation risks and for major pharmaceutical risks arising under product liability insurance are created in accordance with Section 30 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

Other technical provisions are created in accordance with the information provided by the prior insurers, in some cases as augmented by our own findings.

The reinsurers’ portion of technical provisions is calculated in accordance with the contractual agreements.

Provisions for pensions and similar obligations

The provisions for pensions and similar obligations are calculated in accordance with actuarial principles. Pursuant to the German Accounting Law Modernisation Act (BilMoG), the amount needed to satisfy the obligation is determined using the projected unit credit method and recognised at the present value of the acquired pension entitlement. In determining these provisions, the following actuarial assumptions apply:

In %	31.12.2017	31.12.2016
Actuarial interest rate	3.69	4.01
Pension trend	2.00	2.00
Fluctuation	3.00	3.00
Rate area	3.50	3.50
Contract area	1.00	1.00
Biometrics	Heubeck mortality tables 2005G	Heubeck mortality tables 2005G

Since the 2016 financial year, the actual interest rate that has been applied pursuant to Section 253 (2) sentence 1 of the German Commercial Code (HGB), 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 German Commercial Code (HGB) amounted to €119.1 million.

The conversion expense from the first-time application of the German Accounting Law Modernisation Act (BilMoG) in 2010 amounted to €117.3 million and may be allocated over a period of up to 15 years. 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 previous year, W&W AG and seven of these companies recognised seven and nine outstanding instalments, respectively, in full as an extraordinary expense, meaning that there was no longer any under-coverage for the pension provisions of W&W AG or of these seven companies on the reporting date. At two of these companies, four-fifteenths was recognised as an extraordinary expense, meaning that adding a further one-fifteenth in 2017, there was still under-coverage totalling €3.2 million on the reporting date 2017. In connection with required netting, pledged reinsurance policies (€4.5 million; previous year: €4.3 million) were taken into account at fair value. This is composed of the coverage capital plus irrevocable participation contracts.

Tax provisions and miscellaneous provisions

Miscellaneous provisions and tax provisions are recognised in the amount needed to satisfy the obligations. In accordance with Section 253 (1) sentence 2 of the German Commercial Code (HGB), provisions with a term of longer than one year are generally determined in the amount needed to satisfy the obligations, taking into account future price and cost increases. Price and cost increases are in line with the inflation rate and are taken into account over the respective term of the provision at a rate of 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 maturity are recognised as interest income or interest expenses under “Other income” or “Other expenses”, as the case may be. Tax interest accrued as at the reporting date is recognised under “Miscellaneous provisions”.

Provisions for phased-in early retirement, social affairs and long-term service emoluments

A provision is created for the legal obligations under phased-in early retirement contracts existing on the reporting date, taking into account employer expenses for social insurance, in the amount of the present value of future top-up benefits (salary and supplemental contributions towards pension insurance) and compensation payments due to reduced pension insurance claims and the satisfaction arrearages from advance work performed by the employee. The provision is discounted in accordance with the specific maturities using the corresponding interest rates published by the German Bundesbank in accordance with the German Regulation on the Discounting of Provisions (RückAbzinsV). In addition, a salary trend of 2.50% p.a. is taken into account during measurement. Biometric factors are taken into account when calculating the provision via a flat-rate discount of 2.0%. In addition, pledged reinsurance policies are taken into account at fair value, which is composed of coverage capital plus irrevocably committed surplus participation, and netted against phased-in early retirement obligations as coverage assets.

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

Deposits retained from ceded reinsurance business and other liabilities

Deposits retained from ceded reinsurance business and other liabilities are recognised in the amount needed to satisfy them.

Currency translation

All business transactions are recognised in their original currency and translated into euros at the ECB's average spot exchange rate in effect on the relevant date.

We translate items associated with foreign insurance business at the ECB's average spot exchange rate in effect on the reporting date. The corresponding income and expenses are recognised in the income statement at the relevant ECB average spot exchange rate in effect on the settlement date.

We generally measure capital investments denominated in foreign currency in accordance with the rules of individual measurement in accordance with the lower-value principle. They are subsequently measured at the ECB's average spot exchange rate. We comply in economic terms with the principle of congruent coverage per currency.

Bank balances denominated in foreign currencies are measured at the ECB's average spot exchange rate in effect on the reporting date.

Pursuant to Section 256a of the German Commercial Code (HGB), translation gains and losses are recognised in the income statement where the remaining maturities are one year or less.

Currency 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

Active, non-Group reinsurance business is recorded in the following year, since the necessary accounting information from cedants for the current accounting year is not on hand at the time the financial statements are drawn up. Business assumed by affiliated companies is recognised in the reporting year. As a result of later recording, premium income for 2016 in the amount of €6.8 million (previous year: €7.1 million) was recognised in the 2017 reporting year.

Notes concerning assets

A. Investments (1)

Recognised under this item is the cost for purchasing data-processing software.

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

B. Capital investments

The change in investments is depicted in the table "Individual disclosures concerning assets". Rate gains resulting from currency translation are listed at €0 (previous year: €0.9 million) under write-ups, and rate losses, at €3.7 million (previous year: €0.9), under write-downs. These currency fluctuations are recognised in the income statement under the items "Other income" or "Other expenses", as the case may be.

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

As at the reporting date, our land used exclusively in the Group consisted of four (previous year: three) properties with a carrying amount of €170.6 million (previous year: €118.6 million). The first phase of construction for the campus project was completed in the reporting year.

Assets under construction have been in the portfolio since 2016 for the second phase of the campus project. In addition, a parcel of land was acquired in the reporting year for the second phase of the project.

No properties were sold during the reporting year.

II. Investments in affiliated companies and participations (3)

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

III. Other capital investments

1. Shares, interests or shares in investment assets and other variable-yield securities (4)

in € thousands	31.12.2017	31.12.2016
Interests or shares in investment assets	524,260	499,678
Total	**524,260**	**499,678**

3. Other loans (5)

in € thousands	31.12.2017	31.12.2016
Registered bonds	144,435	159,453
Promissory notes and loans receivable	139,981	144,752
Total	**284,416**	**304,205**

4. Deposits with credit institutions (6)

As at the end of the reporting year, we had overnight and term deposits invested in the amount of €52.1 million (previous year: €94.2 million), thereof €20.3 million (previous year: €94.2 million) in affiliated companies.

Fair value of capital investments

Valuation reserves

in € thousands	Carrying amount 31.12.2017	Fair value 31.12.2017	Valuation reserves[1] 31.12.2017	Carrying amount 31.12.2016	Fair value 31.12.2016	Valuation reserves[1] 31.12.2016
Land, land-type rights and buildings, including buildings on third-party land	170,634	174,060	3,426	118,617	121,514	2,897
Interests in affiliated companies	1,696,937	2,921,854	1,224,917	1,687,013	2,848,868	1,161,855
Loans to affiliated companies	345,511	381,188	35,677	316,900	334,176	17,276
Participations	60,818	81,627	20,809	46,649	65,715	19,066
Loans to companies in which an investment is maintained	–	–	–	6,500	6,650	150
Shares, interests or shares in investment assets and other variable-yield securities	524,260	573,817	49,557	499,678	540,021	40,343
Bearer bonds and other fixed-income securities	134,744	139,616	4,872	89,354	92,484	3,130
Registered bonds	144,435	160,523	16,088	159,453	179,631	20,178
Promissory notes and loans receivable	139,981	150,616	10,635	144,752	159,434	14,682
Deposits with credit institutions	52,128	52,145	17	94,177	94,246	69
Other capital investments	87	87	–	87	87	–
Deposits from reinsurance accepted	31,671	31,671	–	34,696	34,696	–
Total	**3,301,206**	**4,667,204**	**1,365,998**	**3,197,876**	**4,477,522**	**1,279,646**
Carrying amount of all investments, in %			**41.38**			**40,02**

1 Net perspective, balance of valuation reserves and hidden liabilities.

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

With regard to registered bonds, one item had a market value that is €166,660 below its carrying amount of €5,000,000. It was not written down because this circumstance was unrelated to creditworthiness. We expect to receive interest and amortisation payments as planned.

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

Derivative instrument/grouping	Type	Nominal value	Fair value	Measurement method applied	Carrying amount and item[1]
		in € thousands	in € thousands		in € thousands
Share-/Index-related transactions	Option OTC	32	– 75	Option-price model	– 75
Currency-related transactions	Currency forwards	90,406	207	Discounted cash flow method	–

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

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

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

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

Fund name	Investment objective	Certificate value under Section 36 of the German Investment Act (InvG)	Carrying amount	Discrepancy from the carrying amount	Distributions during the financial year
		in € thousands	in € thousands	in € thousands	in € thousands
LBBW AM-76	Mixed fund (up to 70%)	317,261	290,034	27,227	–
LBBW AM-EMB3	Pension fund	78,077	65,504	12,573	–
LBBW AM-W&W AG Corporate Bonds Fonds	Pension fund	61,638	56,500	5,138	–
W&W Flexible Point & Figure	Mixed fund (up to 70%)	39,189	39,189	–	–
W&W Flexible Premium II Fund B	Mixed fund (up to 70%)	28,033	27,006	1,027	–
LBBW AM-USD Corp. Bonds Fonds 3	Pension fund	23,249	23,249	–	759
LBBW AM Cove.Call USA Fund	Equity fund	15,453	12,314	3,139	260
W&W South East Asian Equity	Equity fund	10,666	10,213	453	67

We are unaware of any restrictions in the daily sell option. Only where all fund units are sold is there a termination notice period of three months.

C. Receivables

II. Other receivables (7)

in € thousands	31.12.2017	31.12.2016
Receivables from settlement transactions with affiliated companies and companies in which a participation interest is held	100,790	44,349
Receivables from profit and loss transfer agreements	107,678	150,991
Receivables from the tax office	6	13,161
Assets that have been pledged, deposited or assigned for the purposes of security[1]	70	–
Miscellaneous other receivables	139	695
Total	**208,683**	**209,196**

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

E. Deferred assets

II. Other deferred assets (8)

This essentially includes premiums from the acquisition of registered bonds in the amount of €0.1 million (previous year: €0.2 million).

F. Excess of plan assets over pension liabilities (9)

Assets that serve to cover liabilities under pension obligations or similar long-term obligations and that are inaccessible to all other creditors are required to be netted against the provisions for such obligations. If, in the process, the fair value of such assets exceeds the carrying amount of the provisions, the item "Excess of plan assets over pension liabilities" is to be created on the assets side of the balance sheet. The offsetting pursuant to Section 246 (2) sentence 3 of the German Commercial Code (HGB) of claims under reinsurance policies in the amount of €1.7 million (previous year: €1.3 million) with partial amounts of the phased-in early retirement provisions for satisfaction arrearages in the amount of €1.2 million (previous year: €1.2 million) resulted in an excess of €482 thousand (previous year: €185 thousand).

Notes concerning liabilities

A. Equity

A further employee share ownership programme was conducted in the first half-year of 2017. It enabled all employees of companies in the W&W Group to acquire up to 40 shares of W&W AG at a price of €13.60 per share, which represented a discount of €5.00 per share. Employees are required to hold these shares for at least three years. In connection with its employee share ownership programme, W&W AG issued a total of 74,015 shares of its stock within the Group in 2017 in exchange for payment of an acquisition price. That corresponds to an amount of €0.4 million (0.08%) of the relevant share capital. W&W AG has collected a total of €1.0 million from the issuance of treasury shares. The remaining balance of 198,765 treasury shares, representing an amount of €1,039,540.95 (0.21%) of share capital, is to be used for additional employee share ownership programmes.

I. Share capital (10)

Share capital of €489.3 million (previous year: €488.9 million) is divided into 93,749,720 (previous year: 93,749,720) registered no-par-value shares and is fully paid up, with each share mathematically representing €5.23 of share capital. In 2017 employees purchased a total of 74,015 treasury shares, resulting in an increase €0.4 million. The remaining balance of 198,765 treasury shares reduces the amount of share capital by €1.0 million.

Share capital

in € thousands	
As at 31 December 2016	488,884
Sale of treasury shares	387
As at 31 December 2017	**489,271**

II. Capital reserve (11)

As at the reporting date, the capital reserve amounted to €994.1 million (previous year: €993.5 million). It relates to the premium from the capital contribution of €271.9 million (previous year: €271.9 million) and other additional payments of €725.9 million (previous year: €725.9 million), less the difference of €3.7 million between the mathematical value of treasury shares and the acquisition costs or sales proceeds for them, which was allocated to the capital reserve.

Capital reserve

in € thousands	
As at 31 December 2016	993,464
Sale of treasury shares	620
As at 31 December 2017	**994,084**

III. Retained earnings

Retained earnings increased from €360.6 million to €365.6 million as a result of the resolution adopted by the Annual General Meeting to allocate €5.0 million from the 2016 unappropriated surplus.

Retained earnings

in € thousands	
As at 31 December 2016	365,577
Retained earnings from 2016 as allocated by the Annual General Meeting	7,000
Allocation from net profit	15,000
As at 31 December 2017	**387,577**

IV. Unappropriated surplus (13)

The unappropriated surplus amounted to €65.2 million (previous year: €63.4 million). This includes retained earnings in the amount of €0.2 million (previous year: €0.5 million) carried forward from the previous year.

Proposal for the appropriation of unappropriated surplus
The unappropriated surplus amounts to €65,174,244.51 .We propose that it be appropriated as follows:

in €	31.12.2017
Dividend of €0.65 per share	60,937,318.00
Allocation to retained earnings	4,000,000.00
Carry forward to new account	236,926.51
Total	**65,174,244.51**

The proposal assumes that at the time when the resolution on the appropriation of profit is adopted by the Annual General Meeting, the company does not hold any treasury shares, which pursuant to Section 71b of the German Stock Corporation Act (AktG) are not entitled to receive dividends. However, if the company holds treasury shares at the time when the resolution on the appropriation of profit is adopted by the Annual General Meeting, a dividend of €0.65 per share entitled to receive dividends will be proposed to the Annual General Meeting in the form of a correspondingly modified resolution on the appropriation of profit. The modification will be carried out in such a way that the total amount of the dividend will be reduced by the amount corresponding to the number of treasury shares held by the company multiplied by €0.65 (dividend per share entitled to receive dividends), with such amount then being carried forward to new account.

C. Other provisions

I. Provisions for pensions and similar obligations (14)

In addition to pension provisions for Wüstenrot & Württembergische AG and employees of the former Württembergische Feuerversicherung AG and Gemeinschaft der Freunde Wüstenrot GmbH, the pension provisions recognised here are pension provisions for nine (previous year: nine) subsidiaries. Wüstenrot & Württembergische AG assumed joint liability for the pension commitments of these subsidiaries in exchange for a one-time compensation payment in the amount of the former partial value and made an internal agreement with the subsidiaries to meet these pension obligations. The income and expenses from the change in these pension obligations are settled annually in cash with the subsidiaries. As at the reporting date, pension provisions amounted to €882.4 million (previous year: €841.0 million). This amount includes the netting of the asset value from reinsurance policies in the amount of €4.5 million (previous year: €4.3 million).

III. Other provisions (15)

in € thousands	31.12.2017	31.12.2016
Phased-in early retirement	845	947
Expenses for the annual financial statements	2,715	1,846
Holiday obligations and flex-time credits	3,016	2,968
Bonuses and performance incentives	4,199	4,670
Outstanding receivables in real estate	3,749	1,782
Expenses for omitted land maintenance	234	1,292
Employee long-service obligations	232	242
Legal risks	1,500	1,500
Interest expense under Section 233 a of the German Fiscal Code (AO)	8,022	10,884
Provision for sureties	2,194	4,574
Contributions to the employers' liability insurance scheme, compensatory levy for disabled persons, etc.	3,737	3,296
Total	**30,443**	**34,001**

“Miscellaneous provisions” also include benefits for phased-in early retirement. This item contains the portion of the provision that is not “out-financed” in an insolvency-proof manner through reinsurance. Pledged reinsurance policies for the credit balance under phased-in early retirement agreements, which are inaccessible to all other creditors and serve solely to satisfy these phased-in early retirement obligations, are netted with these. Income and expenses from discounting and from the assets to be offset are handled in an analogous manner. Pledged reinsurance policies are taken into account at their fair value. This is composed of the coverage capital plus irrevocable surplus participation.

As at 31 December, the item “Benefits for phased-in early retirement” was as follows:

in € thousands	31.12.2017	31.12.2016
Amount needed to satisfy vested claims	2,073	2,110
thereof capable of being netted with the coverage capital of reinsurance[1]	1,228	1,163
Carrying amount	**845**	**947**

1 The fair value of the coverage capital corresponds to cost.

D. Deposits retained from ceded reinsurance business (16)

Retained deposits have an indefinite term. Depending on individual trends in claims and the conditions on the capital market, the term may be longer than five years.

E. Other liabilities

III. Miscellaneous liabilities (17)

There are liabilities to affiliated companies in the amount of €121.9 million (previous year: €89.8 million), trade payables in the amount of €2.6 million (previous year: €0.5 million), liabilities for value-added taxes in the amount of €0.5 million (previous year: €0.9 million) and liabilities for severance payments in the amount of €0 (previous year: €0.3 million).

All liabilities have a remaining maturity of less than 12 months.

F. Deferred liabilities (18)

This consists solely of discounts for registered bonds in the amount of €0 (previous year: €0.1 million).

Notes concerning the income statement

I. Technical account

2. Technical interest income for own account (19)

Recognised here pursuant to Section 38 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV) is interest on pension provisions and the premium reserve after deduction of the reinsurers' portion. It also includes interest on the provision for future policy benefits for assumed reinsurance in life insurance business.

4. Expenses for insurance claims for own account

b) Change in the provision for outstanding insurance claims (20)
Gains in the amount of €21.0 million (previous year: €15.9 million) resulted from the settlement of the provision for outstanding insurance claims that was assumed from the previous financial year. These mainly come from the business lines general liability (€8.3 million), motor (€6.7 million), fire (€4.7 million) and other property insurance (€3.5 million).

6. Expenses for insurance business for own account (21)

Gross expenses for insurance business amounted to €112.2 million (previous year: €100.5 million), of which €111.7 million (previous year: €99.8 million) was attributable to acquisition costs and €0.6 million (previous year: €0.7 million) to general administrative expenses.

II. Non-technical account

1. Income from capital investments

b) Income from other capital investments (22)

in € thousands	2017	2016
Land, land-type rights and buildings, including buildings on third-party land	7,920	7,921
Other capital investments	25,001	40,211
Total	**32,921**	**48,132**

c) Income from write-ups (23)
Write-ups caused by the adjustment of the carrying amount from an affiliated company, which totalled €86.5 million, form a significant proportion of this item. In addition, income from write-ups includes write-ups for investment holdings of €2.5 million (previous year: €0) and exchange rate gains of €0 (previous year: €1.9 million).2,500,01,9 The break-down of this item is depicted in the notes under "Individual disclosures concerning assets".

d) Gains from the disposal of capital investments (24)

in € thousands	2017	2016
Affiliated companies	–	1,654
Loans to affiliated companies	–	5,824
Participations	985	404
Shares, interests or shares in investment assets and other variable-yield securities	871	–
Bearer bonds and other fixed-income securities[1]	305	1,614
Total	**2,161**	**9,496**

1 Thereof exchange rate gains of €26 thousand (previous year: €323 thousand).

2. Expenses for capital investments

b) Write-downs on capital investments (25)

The item includes unscheduled write-downs of €22.2 million that were taken in accordance with Section 253 (3) sentences 5 and 6 in conjunction with Section 277 (3) sentence 1 of the German Commercial Code (HGB). Of this amount, €20.9 million was attributable to affiliated companies and participations and €1.3 million to securities and interests or shares in investment assets.

The write-downs on affiliated companies and participations involve balance-sheet items that are measured like fixed assets, while the write-downs on securities and interests or shares in investment assets concern balance-sheet items classified as current assets. Currency write-downs amounted to €1.6 million.

c) Losses from the disposal of capital investments (26)

in € thousands	2017	2016
Participations	353	260
Bearer bonds and fixed-income securities	197	354
Total	**550**	**614**

4. Other income (27)

This item includes service income in the amount of €86.1 million (previous year: €55.1 million), income from the release of provisions created in previous years in the amount of 3.2 million (previous year: €0.6 million), exchange rate gains in the amount of €4.5 million (previous year: €2.5 million) and interest income in the amount of €6.7 million (previous year: €0.5 million).

5. Other expenses (28)

General administrative expenses constituted the largest item, coming in at €138.6 million (previous year: €99.0 million). It includes expenses for performed services in the amount of €86.1 million (previous year: €55.1 million). Other material items are expenses for pensions and support in the amount of €18.5 million (previous year: €18.8 million), interest expenses in the amount of €34.6 million (previous year: €29.1 million), exchange rate losses in the amount of €4.6 million (previous year: €3.0 million) and expenses for the creation of provisions in the amount of €0.5 million (previous year: €5.1 million). Interest expenses relate to the interest due on credit accounts resulting from assumption of joint liability for pension commitments in the amount of €17.4 million (previous year: €17.9 million) and interest expenses for the financial year from pension provisions in the amount of €12.8 million (previous year: €5.6 million).

With respect to phased-in early retirement agreements, income and expenses from discounting and from the assets to be offset in the amount of €21 thousand (previous year: €18 thousand) were offset against each other pursuant to Section 246 (2) sentence 2 of the German Commercial Code (HGB).

7. Extraordinary expenses (29)

As a result of the changes stemming from the German Accounting Law Modernisation Act (BilMoG) effective 1 January 2010, the following amounts for W&W-related employees were recognised under "Extraordinary expenses":

in € thousands	2017	2016
BilMoG addition to the provision for pensions and similar obligations (previous year: 7/15)	–	12,946
Total	**–**	**12,946**

The conversion expense from the first-time application of the German Accounting Law Modernisation Act (BilMoG) amounted to €27.7 million and may be allocated over a period of up to 15 years. In the years up to and including 2014, use was made of this right of allocation in these years, with one-fifteenth of this amount being recognised as an extraordinary expense. In 2015 three-fifteenths and then in 2016 the seven outstanding instalments in the amount of €12.9 million were fully recognised as an extraordinary expense, meaning that there was no longer any under-coverage in the financial year 2017.

9. Income taxes (30)

Tax expenses of €43.0 million (previous year: €41.0 million) result from current taxes for the financial year (€63.1 million), coupled with tax relief concerning the settlement of prior-year taxes (income of €20.1 million).

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

Other mandatory disclosures

Mandates

Memberships on supervisory boards required to be created by statute, as well as on comparable domestic and foreign control bodies (disclosures pursuant to Section 285, no. 10 of the German Commercial Code (HGB)):

a) Group mandates on domestic supervisory boards required to be created by statute
b) Third-party mandates on domestic supervisory boards required to be created by statute
c) Mandates on comparable control bodies

Members of the Supervisory Board of W&W AG

Hans Dietmar Sauer, Chairman
Former Chairman of the Executive Board
Landesbank Baden-Württemberg
b) Internationales Bankhaus Bodensee AG, Friedrichshafen, Deputy Chairman (until 23 March 2017)
Wüstenrot Holding AG, Ludwigsburg, Deputy Chairman (until 10 July 2017)

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

Peter Buschbeck
Former member of the Executive Board
UniCredit Bank AG
b) Bankhaus Neelmeyer AG, Bremen, Chairman (until 31 March 2017)
WealthCap Kapitalverwaltungsgesellschaft mbH, Munich (until 31 March 2018)
c) Wealth Management Capital Holding GmbH, Munich (until 31 March 2018)

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

Ute Hobinka[1]
Chairwoman of the Works Council
W&W Informatik GmbH
a) W&W Informatik GmbH, Ludwigsburg, Deputy Chairwoman

Jochen Höpken[1]
Task Group Chairman
ver.di (multi-service trade union)
b) FIDUCIA & GAD IT AG, Karlsruhe

Gudrun Lacher[1]
Insurance employee
Württembergische Versicherung AG

1 Employee representatives.

Corinna Linner
Linner Wirtschaftsprüfung
b) Wüstenrot Holding AG, Ludwigsburg
Donner & Reuschel AG, Munich/Hamburg
Cewe Stiftung & Co. KGaA, Oldenburg
c) DEG Deutsche Investitions- und Entwicklungs-gesellschaft mbH, Cologne (until 28 February 2017)

Marika Lulay
Managing Director & CEO
GFT Technologies SE

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

Ruth Martin
Former Member of the Executive Boards of
Württembergische Lebensversicherung AG
Württembergische Versicherung AG
Württembergische Krankenversicherung AG
c) Salus BKK, Munich

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

Hans-Ulrich Schulz
Former Member of the Executive Board
Wüstenrot Bausparkasse AG
b) Wüstenrot Holding AG, Ludwigsburg (until 10 July 2017)

Christoph Seeger[1]
Chairman of the Group Works Council
Wüstenrot Bausparkasse AG
a) Wüstenrot Bausparkasse AG, Ludwigsburg, Deputy Chairman

Jutta Stöcker
Former Member of the Executive Board
RheinLand-Versicherungsgruppe
b) RheinLand Versicherung AG, Neuss
RheinLand Lebensversicherung AG, Neuss
RheinLand Holding AG, Neuss (as of 6 July 2017)
ERGO Group AG, Düsseldorf

Gerold Zimmermann[1]
Chairman of the Group Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG
Chairman of the Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG, Stuttgart head office
a) Württembergische Versicherung AG, Stuttgart (starting 16 January 2017)

1 Employee representatives.

Members of the Executive Board of W&W AG

Jürgen A. Junker, Chairman
Group Legal and Compliance, Group Auditing, Communications, Group Development and Investor Relations, Digital Customer Office , Customer Data and Brands

a) Württembergische Lebensversicherung AG, Stuttgart (starting 20 January 2017), Chairman (starting 30 January 2017)
   Württembergische Versicherung AG, Stuttgart, Chairman (starting 10 February 2017)
   Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg, Chairman (starting 1 January 2017)
   Wüstenrot Bausparkasse AG, Ludwigsburg, Chairman (starting 1 January 2017)

Dr Michael Gutjahr
Group HR, Group Accounting, Group Risk Management and Compliance, Group Controlling, Cost Controlling, Retained Organisation

a) W&W Informatik GmbH, Ludwigsburg, Chairman

Jens Wieland
IT, Operations, Financial Management, Enterprise Architecture Management, Customer Data Protection and Operational Security

Supplementary disclosures

Contingent liabilities and other financial obligations

Outstanding payment obligations for participation commitments entered into amounted to €61.4 million. W&W AG has submitted a declaration to the Association of German Banks, pursuant to which it undertakes to indemnify the latter against all losses incurred through measures taken by the deposit protection fund for the benefit of Wüstenrot Bank AG Pfandbriefbank.

As a member of the German Reinsurance Pharma Pool (Pharma-Rückversicherungs-Gemeinschaft), we assumed pro rata liability in the amount of 1.41%. The pool currently has a total volume of €106.4 million.

By way of a release and hold harmless agreement dated 20 October 1993, Württembergische Versicherung AG assumed the risk under the contract executed by W&W AG via a London broker. Accordingly, Württembergische Versicherung AG recognised provisions for outstanding insurance claims in the amount of €51.7 million. Vis-à-vis third parties, W&W AG is liable for these obligations. From today's perspective, Württembergische Versicherung AG has sufficient reserves. As a result, liability on the part of W&W AG currently appears unlikely.

Wüstenrot Bausparkasse AG intends to collateralise loans of W&W AG that are not secured in rem. The loans were granted for residential housing purposes. W&W AG provided a guaranty on behalf of Wüstenrot Bausparkasse AG for the loan claim under the loans that existed at the time of contract conclusion. The guaranty will be reduced in step with loan repayments. As at the reporting date, the guaranty amounted to €47.4 million, taking into account the provision in the amount of €2.2 million that was created for loan guaranties.

In connection with an agreement concerning the takeover of staff that was concluded between W&W Service GmbH and WISAG Facility Management Süd-West GmbH & Co. KG, W&W AG provided WISAG Facility Management Süd-West GmbH & Co. KG with an unconditional, openended, directly enforceable guaranty, up to a total amount of €10.0 million. This guaranty constitutes surety for the fulfilment of all current and future financial liabilities of W&W Service GmbH under that agreement.

The Stuttgart Regional Council approved subsidies in connection with the formation of the "Feuerseepiraten" day care centre at the Stuttgart site. In return, the Regional Council received a bank guaranty in the amount of €0.2 million.

To the best of our current knowledge, we also believe going forward that the risk of a claim under the aforementioned contingent liabilities, as in the past, will not lead to any additional expense for the company.

Expenses for internal Group services are expected to amount to €73.9 million in 2018.

W&W AG has financial obligations in the amount of approximately €8 million under contracts concluded for the first and second phases of construction for the new W&W campus.

Authorised capital

Pursuant to Article 5 (5) of the Articles of Association of W&W AG, the Executive Board is authorised for a period of five years ending on 30 June 2019 to increase, on one or more occasions, the company's share capital by up to €100,000,000.00 via issuance of new registered no-par-value shares in exchange for cash or contributions in kind, subject to the approval of the Supervisory Board (Authorised Capital 2014). Shareholders are entitled to a statutory subscription right. Shareholders may also be accorded the statutory subscription right by having one or more credit institutions or companies equivalent thereto pursuant to Section 186 (5) of the German Stock Corporation Act (AktG) subscribe to the new shares under an obligation to offer them to shareholders for subscription (indirect subscription right). Subject to approval by the Supervisory Board, the Executive Board is authorised to preclude shareholders from exercising the statutory subscription right in the following cases:

- for fractional amounts; or
- with capital increases in exchange for contributions in kind for the purpose of acquiring (including indirectly) companies, parts of companies or participations in companies or for the purpose of acquiring other assets; or
- if, pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act (AktG), new shares are issued in exchange for cash at a price that is not significantly below the stock exchange price of the shares that are already listed and the pro rata amount of the new shares does not exceed 10% of the share capital at the time this authori-

sation is recorded in the commercial register or, if less, at the relevant time the authorisation was exercised. Counting towards the 10% limit are other shares that had been newly issued or, following buyback, resold by the company during the term of this authorisation under preclusion of the subscription right or, in accordance with Section 186 (3) sentence 4 AktG, in connection with a cash capital increase. Also counting towards the 10% limit are shares with respect to which a warrant or conversion right, a warrant or conversion obligation, or a right in favour of the company to delivery of shares exists on account of warrant bonds, convertible bonds or profit participation rights with warrant or conversion rights or obligations, or rights in favour of the company to delivery of shares that had been issued by the company or its subordinate Group companies during the term of this authorisation under preclusion of the subscription right pursuant to Section 221 (4) sentence 2 in conjunction with Section 186 (3) sentence 4 AktG; or

- insofar as it is necessary in order to grant holders of warrant rights or creditors of convertible bonds or profit participation rights with conversion rights that are issued by the company or its subordinate Group companies a right to subscribe to new shares to the extent to which they would be entitled after exercising warrant rights, conversion rights or rights to delivery of shares or after satisfying warrant or conversion obligations.

Subject to approval by the Supervisory Board, the Executive Board is authorised to stipulate the further details of the capital increase, its implementation, including the issue price, and the contribution to be paid for the new no-par-value shares. The Supervisory Board is authorised to modify the wording of the Articles of Association after implementation of an increase of the share capital out of Authorised Capital 2014 to conform to the respective increase of the share capital, as well as after expiry of the term of the authorisation.

Contingent capital

By resolution adopted at the Annual General Meeting on 28 May 2014, the Executive Board was authorised to issue warrant bonds, convertible bonds, profit participation rights, profit participation bonds or a combination of these instruments on or before 27 May 2019. Article 5 (6) of the Articles of Association accordingly provides that the share capital of W&W AG is contingently increased by the nominal amount of at most €240,000,003.46, divided into at most 45,889,102 no-par-value registered shares (Contingent Capital 2014). The contingent capital increase is to be implemented only if

- holders or creditors of warrant rights or conversion rights or those obligated to exercise the warrant or to convert under warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the company on or before 27 May 2019 make use of their warrant rights or conversion rights, or

- holders or creditors of warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the Company on or before 27 May 2019 are obligated to exercise the warrant or to convert and satisfy such obligation, or

- the company exercises a right to deliver to holders or creditors of warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 28 May 2014, are issued by the company or a subordinate Group company or guaranteed by the company on or before 27 May 2019 shares of the company in lieu of cash payment, either in whole or in part,

and provided that neither cash settlement is granted nor treasury shares or those of some other publicly traded company are used to service it. New shares are to be issued at the warrant or conversion price to be stipulated in accordance with the aforementioned authorisation resolution of 28 May 2014 or at the lower issue amount stipulated in accordance with the aforementioned authorisation resolution of 28 May 2014. The new shares participate in profit from the start of the financial year in which they come about. To the extent permitted by law, and subject to approval by the Supervisory Board, the Executive Board is authorised to stipulate that, in the event that a resolution on appropriation of profit has not been adopted for the financial year immediately preceding the year of issue at the time of issue, the new shares are to participate in profit from the start of the financial year immediately preceding the year of issue. Subject to approval by the Supervisory Board, the Executive Board is further authorised to stipulate the further details of the implementation of the contingent capital increase. Use may be made of the authorisation granted by resolution of the Annual General Meeting on 28 May 2014 to issue warrant bonds, convertible bonds and profit participation rights only if the warrant bonds, convertible bonds or profit participation rights are structured in such a way that the capital that is paid in for them satisfies the supervisory requirements in effect at the time the authorisation is used for eligibility as own funds at the level of the company and/or the Group and/or the financial conglomerate and does not exceed any intake limits. Furthermore, use may be made of the authorisation granted by resolution of the Annual General Meeting on 28 May 2014 to permit subordinate Group companies to issue warrant bonds, convertible bonds and profit participation rights and have them guaranteed by the company if this is permissible under the supervisory provisions applying in each case.

Corporate Governance Code

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board of our company have submitted the statement of compliance with the German Corporate Governance Code and have made it permanently accessible to shareholders on the company's website. It can also be found in the corporate governance statement in the Management Report.

Related party disclosures

Transactions with related parties are concluded at arm's length terms and conditions. Where employees are involved, preferential terms customary in the industry are used.

The control and profit transfer agreements concluded with Württembergische Versicherung AG, Wüstenrot Bank AG Pfandbriefbank, W&W Informatik GmbH, W&W Asset Management GmbH, W&W Produktion GmbH, W&W Service GmbH and W&W Digital GmbH remain in place.

Group affiliation

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

The company has received the following notifications pursuant to Section 21 (1) of the German Securities Trading Act (WpHG):

Company name	Registered office	Exceeds/falls below	Reporting threshold	Date	Share-holding	Number of votes	Attribution pursuant to Section 22 WpHG
Wüstenrot Stiftung Gemeinschaft der Freunde Deutscher Eigenheimverein e.V. (attribution via Wüstenrot Holding AG, Ludwigsburg)	Ludwigsburg, Stuttgart	Falls below	50%	17/08/2017	39.91%	37417638	Section 22 (1) sentence 1, no. 1 WpHG
Wüstenrot Stiftung Gemeinschaft der Freunde Deutscher Eigenheimverein e.V. (attribution via WS Holding AG, Stuttgart)	Ludwigsburg, Stuttgart	Exceeds	25%	17/08/2017	26.40%	24750000	Section 22 (1) sentence 1, no. 1 WpHG
Dr Lutz Helmig (attribution via HORUS Finanzholding GmbH)	Hallbergmoos, Germany	Exceeds	10%	11/12/2013	10.03%	9228134	Section 22 (1) sentence 1, no. 1 WpHG

Legal bases

Wüstenrot & Württembergische Aktiengesellschaft maintains its registered office in Stuttgart and is recorded in the Commercial Register of the Local Court of Stuttgart under Number HRB 20203.

Events after the reporting date

The sale of Wüstenrot Bank AG Pfandbriefbank is being pursued for strategic reasons and is expected to close during the 2018 financial year.

Expenses for the auditor

In addition to auditing the consolidated financial statements and the annual financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft audited the annual financial statements and Group reporting of various subsidiaries.

In addition, it conducted audits in connection with the introduction of new accounting standards and new IT applications.

It provided advisory services relating to the implementation of the German Minimum Requirements for Risk Management (MaRisk) and professional advice on issues relating to the auditing of accounting by the German Financial Reporting Enforcement Panel (DPR).

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

Employees

Number[1, 2]	2017	2016
Employees	491	478
Executives	40	32
Executive Board members	6	5
Total	**537**	**515**

1 Average headcount of employees according to Art. 285, no. 7 of the German Commercial Code (HGB).
2 Previous years figures adapted - formerly in termns of full-time equivalents.

Remuneration of the individual members of the Executive Board

The outlines of the remuneration system are depicted in detail in the remuneration report contained in the Management Report. The following remarks contain the disclosures required under Section 285, no. 9 of the German Commercial Code (HGB).

Total remuneration was examined by the Supervisory Board, and it bears a reasonable relationship to the duties and performance of Executive Board members, as well as to the company's condition. In addition to their work for the company, Dr Michael Gutjahr and Jens Wieland serve as board members or managing directors for other W&W Group companies.

Total remuneration paid to Executive Board members during the reporting year for performing their duties at Wüstenrot & Württembergische AG amounted to €1,740.2 thousand (previous year: €1,453.9 thousand) and is composed of the following elements:

Remuneration of the individual members of the Executive Board in 2017

	Term of office ends	Non-performance-related remuneration		Performance-related remuneration (short term)		Performance-related remuneration (sustained) from 2014	Performance-related remuneration (sustained) from 2013	Ancillary benefits		Total	
in € thousands		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Active members of the Executive Board											
Jürgen A. Junker	03/2021	1,010.0	637.5	68.6	87.1	–	–	34.0	23.7	1,112.6	748.3
Dr Michael Gutjahr	08/2020	261.1	253.4	18.7	36.8	30.0	35.9	7.4	7.3	317.2	333.4
Jens Wieland	06/2020	250.1	247.6	17.9	36.0	32.0	77.6	10.4	11.0	310.4	372.2
Total		**1,521.2**	**1,138.5**	**105.2**	**159.9**	**62.0**	**113.5**	**51.8**	**42.0**	**1,740.2**	**1,453.9**

Sustained performance-related remuneration for a prior financial year, i.e. the 2014 financial year, was earned with the close of the year 2017, since in the years 2015 to 2017 the W&W Group posted average IFRS after-tax earnings of at least €100 million p.a. and did not post a loss in any of the three years. This performance-related remuneration will be disbursed in 2018.

In addition to the earned performance-related remuneration shown in the above table, contingent claims to disbursement of performance-related remuneration for the years 2015-2017 were acquired (in each case, the amount of performance-related remuneration not yet disbursed):

Multi-year variable remuneration (sustainability component)

in € thousands	Financial year 2015, payable in 2019	Financial year 2016, payable in 2020	Financial year 2017, payable in 2021	Total
Jürgen A. Junker (starting 4/2017)	–	81.2	68.6	149,8
Dr Michael Gutjahr	31.2	34.8	18.7	84,7
Jens Wieland	32.2	33.8	17.9	83,9
Total	**63.4**	**149.8**	**105.2**	**318,4**
Three financial years determinative for achievement of targets	2016-2018	2017-2019	2018-2020	
Remuneration earned with the close of the financial year	2018	2019	2020	

Disbursement is made only if the aforementioned conditions occur or do not occur in the years 2018 to 2020. For 2017, the final amount will not be calculated until the Supervisory Board determines achievement of targets.

Performance-related remuneration for the 2016 financial year, which was disbursed in 2017 after ascertaining the degree to which targets were achieved, resulted in a release of €10.2 thousand (previous year: €17.1 thousand). The amount consists of releases for Jürgen A. Junker totalling €5.9 thousand (previous year: €0), for Dr Michael Gutjahr totalling €2.1 thousand (previous year: €2.7 thousand) and for Jens Wieland totalling €2.2 thousand (previous year: €3.2 thousand).

In the 2016 financial year, provisions in the amount of €159.9 thousand (previous year: €208.9 thousand) were created for acquired contingent claims to disbursement in 2020 of performance-related remuneration for the 2016 financial year. Once achievement of targets was ascertained, a release took place in the amount of €10.2 thousand (previous year: €17.1 thousand).

In addition, the company did not grant or pay remuneration that was not disbursed, remuneration converted into claims of another nature, remuneration used to increase other claims, or other remuneration that to date has not been indicated in any annual financial statements.

The present value of pensions attributable to the company amounts to €1,668.2 thousand (previous year: €4,290.3 thousand), in each case based on the final age of 61. Attributable to Dr Michael Gutjahr is the amount of €1,384.1 thousand (previous year: €1,239.3 thousand), as well as, based on a retirement age of 65, to Jürgen A. Junker the amount of €147.9 thousand (previous year: €53.3 thousand) and to Jens Wieland the amount of €136.2 thousand (previous year: €100.9 thousand). These benefits have to do with long-term post-employment benefits. Additions during the financial year that are attributable to the company amounted to €274.7 thousand (previous year: €165.1 thousand). Of these additions, attributable to Jürgen A. Junker is the amount of €94.6 thousand (previous year: €53.3 thousand), to Dr Michael Gutjahr the amount of €144.7 thousand (previous year: €153.6 thousand) and to Jens Wieland the amount of €35.3 thousand (previous year: €20.6 thousand).

The pension of Dr Michael Gutjahr amounted to €62.8 thousand (previous year: €61.5 thousand), whereby the pension is offset by occupational pension benefits against third parties. Because Dr Gutjahr may claim his pension when his term of office expires, he has no claim to a transitional allowance.

Jürgen A. Junker will be granted a transitional allowance in the amount of €200.0 thousand (previous year: €200.0 thousand) p.a. if his employment contract ends when his first term of office expires, unless Mr Junker refuses to accept a contract extension at the same terms or at terms more favourable to him or non-extension is based on a material reason within the meaning of Section 626 of the German Civil Code (BGB) for which he is responsible. The transitional allowance is payable from the end of the first term of office until Mr Junker reaches the age of 65, but not longer than until the end of the month in which he first begins to draw statutory pension insurance benefits or the company's occupational pension benefits. Mr Junker's claim to payment of the transitional allowance is to be offset by the amount he earns from new employment. Offsetting takes place only to the extent that his other earnings exceed €300.0 thousand p.a.

The company did not grant any loans to members of the Executive Board. No liabilities were entered into in favour of Executive Board members.

Total remuneration paid to former Executive Board members in the financial year amounted to €2,994.9 thousand (previous year: €1,821.8 thousand). Of this amount, €309.2 thousand (previous year: €273.7 thousand) was attributable to survivor benefits.

A reserve in the amount of €19,934.1 thousand (previous year: €17,310.6 thousand) was created for pension commitments to former members of the Executive Board and their survivors.

There were no other encumbrances on the company during the financial year for benefits to former members of the Executive Board or Supervisory Board or their survivors through severance payments, pensions, survivor benefits or other benefits of a related nature.

Remuneration of the Supervisory Board

The Supervisory Board remuneration is paid in the form of a fixed remuneration whose amount is determined by the Annual General Meeting. If the Annual General Meeting does not specify an amount, the amount of the prior year applies. Supplementary amounts are stipulated for the Chairman and the Deputy Chairman, as well as for committee activities. In addition, fees are paid for attending Supervisory Board meetings.

Annual base remuneration payable after the close of the financial year amounted to €25.0 thousand (previous year: €25.0 thousand). Committee remuneration amounted to €8.0 thousand (previous year: €8.0 thousand) per year for the Risk and Audit Committee and for the Remuneration and Personnel Committee. Committee remuneration amounted to €4.0 thousand (previous year: €4.0 thousand) per year for the Nomination Committee and the Conciliation Committee. An attendance fee of €500 (previous year: €500) is paid per Supervisory Board meeting. No fees are paid for attending committee meetings.

Base remuneration and committee remuneration are increased by 150% for the Chairman and by 75% for his deputies. In the 2017 financial year, the company paid the members of the Supervisory Board of Wüstenrot & Württembergische AG total remuneration of €668.8 thousand (previous year: €654.0 thousand). In the 2017 financial year, the company paid members of the Supervisory Board of Wüstenrot & Württembergische AG who had retired during the financial year pro rata temporis remuneration of €0 (previous year: €91.4 thousand).

Members of the Supervisory Board are reimbursed for expenses and the value-added tax due on Supervisory Board remuneration. However, this is not included in the designated expenses.

Wüstenrot & Württembergische AG has no receivables from members of the Supervisory Board as a result of granted advances or loans.

Subscription rights or other share-based remuneration for members of the Supervisory Board do not exist in the W&W Group. No reserves for current pensions or entitlements had to be created for members of the Supervisory Board or their survivors.

The company did not pay any remuneration or grant any benefits to members of the Supervisory Board for personally performed services, such as consulting or brokering services.

Remuneration of the individual members of the Supervisory Board in 2017

in € thousands	Base Remuneration 2017	Attendance fee 2017	Committee Remuneration 2017	Total 2017	Total 2016
Hans Dietmar Sauer (Chairman)	62.5	2.5	48.0	113.0	108.6
Frank Weber (Deputy Chairman)	43.8	2.5	16.0	62.3	60.5
Peter Buschbeck	25.0	2.0	8.0	35.0	34.5
Dr Reiner Hagemann	25.0	2.5	12.0	39.5	37.7
Ute Hobinka	25.0	2.5	8.0	35.5	35.5
Jochen Höpken	25.0	2.5	4.0	31.5	29.7
Gudrun Lacher	25.0	2.5	4.0	31.5	17.7
Corinna Linner	25.0	2.0	20.0	47.0	38.7
Marika Lulay	25.0	2.0	–	27.0	15.5
Bernd Mader	25.0	2.5	8.0	35.5	20.0
Ruth Martin	25.0	2.5	4.0	31.5	33.3
Andreas Rothbauer	25.0	2.5	8.0	35.5	35.5
Hans-Ulrich Schulz	25.0	2.5	8.0	35.5	20.0
Christoph Seeger	25.0	2.5	8.0	35.5	35.5
Jutta Stöcker	25.0	2.5	4.0	31.5	17.7
Gerold Zimmermann	25.0	2.5	12.0	39.5	22.2
Subtotal	**456.3**	**38.5**	**172.0**	**666.8**	**562.6**
Christian Brand (former)	–	–	–	–	12.0
Wolfgang Dahlen (former)	–	–	–	–	17.3
Thomas Eichelmann (former)	–	–	–	–	20.8
Dr Rainer Hägele (former)	–	–	–	–	15.5
Uwe Ilzhöfer (former)	–	–	–	–	13.8
Dr Wolfgang Knapp (former)	–	–	–	–	12.0
Matthias Schell (former)	–	1.0	–	12.0	29.8
Total	**456.3**	**38.5**	**172.0**	**666.8**	**654.0**

Individual disclosures concerning assets

Notes concerning assets

in € thousands	Carrying amounts	Additions	Disposals	Reclassifi-cations	Write-ups	Write-downs	Carrying amounts
A. Intangible assets	31.12.2016						31.12.2017
1. Licenses acquired against payment, industrial property rights and similar rights and assets, as well as licenses for such rights and assets	11	–				5	6
B. I. Land, land-type rights and buildings, including buildings on third-party land	**118,617**	**59,985**	**–**	**–**	**–**	**7,968**	**170,634**
B. II. Capital investments in affiliated companies and participations							
1. Interests in affiliated companies	1,687,013	11,340	67,916	–	86,462	19,962	1,696,937
2. Loans to affiliated companies	316,900	143,700	115,089	–	–	–	345,511
3. Participations	46,649	21,173	6,199	–	114	919	60,818
4. Loans to companies in which an investment is maintained	6,500	–	6,500	–	–	–	–
Total B. II.	**2,057,062**	**176,213**	**195,704**	**–**	**86,576**	**20,881**	**2,103,266**
B. Other capital investments							
1. Shares, interests or shares in investment assets and other variable-yield securities	499,678	26,502	4,129	–	2,463	254	524,260
2. Bearer bonds and other fixed-income securities	89,354	66,635	20,353	–	136	1,028	134,744
3. Other loans							
a) Registered bonds	159,453	5,000	20,000	–	14	32	144,435
b) Promissory notes and loans receivable	144,752	5,435	10,206	–	–	–	139,981
4. Deposits with credit institutions	94,177	55,842	94,177	–	–	3,714	52,128
5. Other investments	87	–	–	–	–	–	87
Total B. III.	**987,501**	**159,414**	**148,865**	**–**	**2,613**	**5,028**	**995,635**
Total	**3,163,191**	**395,612**	**344,569**	**–**	**89,189**	**33,882**	**3,269,541**

Write-downs contain exchange rate losses from deposits with credit institutions in the amount of €3.7 million, which are recognised under “Other non-technical net income”.

List of ownership interests

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/loss after taxes[1]
Germany						
3B Boden-Bauten-Beteiligungs-GmbH, Ludwigsburg	100.00		€	31.12.2016	108 729 204	1 845 312
Adam Riese GmbH, Stuttgart[2]		100.00	€	31.12.2017	25,000	–
Adveq Europe II GmbH, Frankfurt am Main		16.77	€	31.12.2016	9,599,039	– 2,102,633
Adveq Opportunity II Zweite GmbH, Frankfurt am Main		29.31	€	31.12.2016	29,215,053	5,810,791
Adveq Technology III GmbH, Frankfurt am Main		18.84	€	31.12.2016	5,168,228	1,010,939
Adveq Technology V GmbH, Frankfurt am Main		16.50	€	31.12.2016	56,245,481	6,305,425
Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart		100.00	€	31.12.2017	41,305,703	2,100,000
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
Asendorfer Kippe ASK GmbH & Co. KG, Stuttgart		100.00	€	31.12.2016	3,387,106	– 302,077
Auda Ventures GmbH & Co. Beteiligungs-KG, München		5.79	€	31.12.2016	16,885,087	154,546
Berlin Leipziger Platz Grundbesitz GmbH, Stuttgart		100.00	€	31.12.2017	2,151,406	68,090
Beteiligungs-GmbH der Württembergischen, Stuttgart		100.00	€	31.12.2017	2,997,207	172,998
BPE2 Private Equity GmbH & Co. KG, Hamburg		10.00	€	31.12.2016	4,772,298	5,171,182
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart		35.00	€	31.12.2016	260,692,860	18,107,166
BWK Holding GmbH Unternehmensbeteiligungs-gesellschaft, Stuttgart		35.00	€	31.12.2016	8,868,480	745,631
City Immobilien GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2017	105,129,759	6,844,730
City Immobilien II GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2017	106,572,185	2,011,336
Coller German Investors GmbH & Co. KG i.L., München		10.00	US$	31.12.2015	744,364	1,017,180
CROWN Premium Private Equity III GmbH & Co. KG, Grünwald		6.60	€	31.12.2016	45,301,210	21,663,005
DBAG Fund VI Feeder GmbH & Co. KG, Frankfurt am Main		30.71	€	31.12.2016	54,085,724	124,231
Deutsche Makler Akademie (DMA) gemeinnützige Gesellschaft mbH, Wiesbaden		7.14	€	31.12.2016	67,620	2,263
Deutscher Solarfonds „Stabilität 2010“ GmbH & Co. KG, Frankfurt am Main		17.77	€	31.10.2017	112,865,836	6,874,766
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin		19.82	€	31.12.2016	14,247	– 2,940
Elvaston Capital Fund III GmbH & Co. KG, Berlin	10.00	10.00		New investment 19.9.2017		
EquiVest II GmbH & Co. Zweite Beteiligungs KG Nr. 1 für Vermögensanlagen, München		9.97	€	31.12.2016	32,767,000	– 1,038,000
Eschborn Grundstücksgesellschaft mbH & Co. KG, Stuttgart		51.00	€	31.12.2017	4,925,472	– 19,398
European Sustainable Power Fund Nr. 2 GmbH & Co. KG, Grünwald	1.00	11.10	€	30.9.2017	463,473,557	20,536,093
Ganzer GmbH & Co. KG, Harrislee		100.00	€	31.12.2016	– 218,189	333,904
Gerber GmbH & Co. KG, Stuttgart		100.00	€	31.12.2017	268,206,723	1,295,452
Gestorf GmbH & Co. KG, Stuttgart		100.00	€	31.12.2016	367,179	31,633
GLL GmbH & Co. Messeturm Holding KG, München		5.97	€	31.12.2016	16,679	– 83,321
GMA Gesellschaft für Markt- und Absatzforschung mbH, Ludwigsburg		100.00	€	31.12.2016	1,507,275	126,395

List of ownership interests (continued)

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/ loss after taxes[1]
Hinterbliebenenfürsorge der Deutschen Beamtenbanken GmbH, Karlsruhe		100.00	€	31.10.2016	97,852	– 108
IVB – Institut für Vorsorgeberatung, Risiko- und Finanzierungsanalyse GmbH, Karlsruhe		100.00	€	31.10.2016	73,055	3,325
IVZ Immobilien Verwaltungs GmbH & Co. Finanzanlagen KG, München		10.00	€	31.12.2016	7,112,478	356,201
IVZ Immobilien Verwaltungs GmbH & Co. Südeuropa KG, München		10.00	€	31.12.2016	2,262,202	– 213,252
Karlsruher Lebensversicherung AG, Karlsruhe		92.76	€	31.12.2017	11,722,776	383,526
Keleya Digital-Health Solutions UG, Hamburg		30.00	€	31.12.2017	126,972	– 186,597
KLV BAKO Dienstleistungs-GmbH, Karlsruhe		93.10	€	31.12.2016	205,866	8,448
KLV BAKO Vermittlungs-GmbH, Karlsruhe		76.20	€	31.12.2016	215,003	8,910
LP 1 Beteiligungs-GmbH & Co. KG, Stuttgart		100.00	€	31.12.2017	116,968	– 38,193
Miethaus und Wohnheim GmbH i.L., Ludwigsburg		100.00	€	31.12.2017	1,976,745	– 15,959
NORD KB Micro-Cap V GmbH & Co. KG, Hannover		13.19		New investment 1.3.2017		
Nord-Deutsche AG Versicherungs-Beteiligungsgesellschaft, Stuttgart		100.00	€	31.12.2017	10,864,936	719,160
Onshore Wind Portfolio 2012 GmbH & Co. KG, Frankfurt am Main	4.41	16.31	€	31.8.2017	113,896,915	5,399,036
Schulenburg GmbH & Co. KG, Stuttgart		100.00	€	31.12.2016	786,696	– 329,169
Stuttgarter Baugesellschaft von 1872 AG, Stuttgart		100.00	€	31.12.2017	550,213	100,181
treefin AG, München		100.00	€	31.12.2016	219,583	– 373,749
V-Bank AG, München		14.76	€	31.12.2016	33,264,720	2,912,251
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart		25.00	€	31.12.2016	795,959	– 923,329
VV Immobilien GmbH & Co. United States KG i.L., München		9.98	€	31.12.2016	10,000	113,640
VV Immobilien GmbH & Co. US City KG i.L., München		23.10	€	31.12.2016	9,489	– 93,086
W&W Asset Management GmbH, Ludwigsburg[2]	100.00		€	31.12.2017	11,261,185	–
W&W brandpool GmbH, Stuttgart[2, 4]	100.00		€	31.12.2017	25,000	–
W&W Gesellschaft für Finanzbeteiligungen mbH, Stuttgart	100.00		€	31.12.2017	59,328,742	20,558,966
W&W Informatik GmbH, Ludwigsburg[2]	100.00		€	31.12.2017	473,025	–
W&W Produktion GmbH, Berlin[2]	100.00		€	31.12.2017	25,000	–
W&W Service GmbH, Stuttgart[2]	100.00		€	31.12.2017	100,153	–
Windpark Golzow GmbH & Co. KG, Rheine		100.00	€	31.12.2016	– 5,922,968	– 1,265,890
WL Erneuerbare Energien Verwaltungs GmbH, Stuttgart		100.00	€	31.12.2017	63,131	5,456
WL Renewable Energy GmbH & Co. KG, Stuttgart		100.00	€	31.12.2017	83,788,841	3,390,175
WL Sustainable Energy GmbH & Co. KG, Stuttgart		100.00	€	31.12.2017	83,732,709	3,403,379
Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2017	137,397,248	5,794,747
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 Krankenversicherung AG, Stuttgart	100.00		€	31.12.2017	43,748,122	5,000,000
Württembergische Lebensversicherung AG, Stuttgart	94.89		€	31.12.2017	406,511,724	23,000,000
Württembergische Logistik I GmbH & Co. KG, Stuttgart		100.00	€	31.12.2016	11,354,735	1,469,758
Württembergische Logistik II GmbH & Co. KG, Stuttgart		100.00	€	31.12.2016	27,187,651	1,215,056

List of ownership interests (continued)

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/ loss after taxes[1]
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart		100.00	€	31.12.2017	99,571	22,877
Württembergische Versicherung AG, Stuttgart[2]					350,563,107	88,000,000
Württembergische Vertriebspartner GmbH, Stuttgart[2]		100.00	€	31.12.2017	74,481	–
Württembergische Verwaltungsgesellschaft mbH, Stuttgart		100.00	€	31.12.2017	34,144	751
Württfeuer Beteiligungs-GmbH, Stuttgart		100.00	€	31.12.2017	1,104,180	– 18,853
WürttLeben Alternative Investments GmbH, Stuttgart[2]		100.00	€	31.12.2017	31,022,500	–
WürttVers Alternative Investments GmbH, Stuttgart[2]		100.00	€	31.12.2017	20,025,000	–
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg[2]	100.00		€	31.12.2017	286,032,313	–
Wüstenrot Bausparkasse AG, Ludwigsburg	100.00		€	31.12.2017	766,022,506	37,482,129
Wüstenrot Grundstücksverwertungs-GmbH, Ludwigsburg	100.00		€	31.12.2017	2,087,472	36,311
Wüstenrot Haus- und Städtebau GmbH, Ludwigsburg	100.00		€	31.12.2016	34,201,683	1,433,377
Wüstenrot Immobilien GmbH, Ludwigsburg	100.00		€	31.12.2017	3,478,382	793,117
YIELCO Special Situations GmbH & Co. KG, Munich		13.25	€	31.12.2016	16,134,970	– 124,351
France						
Württembergische France Immobiliere SARL, Strasbourg		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		89.55	US$	31.12.2016	60,329,000	2,173,000
Crown Global Secondaries II plc, Dublin		7.22	US$	31.12.2016	318,348,042	20,921,130
W&W Advisory Dublin Ltd., Dublin		100.00	€	31.12.2016	9,028,759	4,558,833
W&W Asset Management Dublin Ltd., Dublin		100.00	€	31.12.2016	8,545,335	5,086,758
W&W Europe Life Limited i. L., Dublin	100.00		€	31.12.2014	18,834,772	– 733,611
White Oak Summit Fund, ILP, Dublin	6.02	9.64	US$	31.12.2016	93,711,644	4,214,739
Luxembourg						
AMP Capital Infrastructure Debt Fund (EUR) III L.P., Luxemburg		45.35	€	31.12.2016	21,558	– 1,206,827
DB Secondary Opportunities SICAV-SIF – Sub Fund DB SOF II Feeder USD, Luxembourg		16.79	US$	31.12.2016	74,565,756	9,275,989
First State European Diversified Infrastructure Feeder Fund II SCA, SICAV-SIF, Luxembourg		14.37	€	31.12.2016	314,579,291	13,893,292
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxembourg	3.06	22.62	€	31.12.2016	170,443,886	9,027,056
IKAV SICAV-FIS SCA – ecoprime TK I, Luxembourg		41.28	€	30.9.2017	45,639,549	2,437,904
IKAV SICAV-FIS SCA – Global Energy (Ecoprime III), Luxembourg	15.12	30.24	€	30.9.2017	54,534,078	395,642
IKAV SICAV-FIS SCA – Global PV Investments, Luxembourg		46.25	€	30.9.2017	51,583,884	1,707,118
InfraVia European Fund III SCSp, Luxembourg-Senningerberg		14.96	€	31.12.2016	18,615,644	– 7,111,866
Secondary Opportunities SICAV-SIF – Sub-fund SOF III Feeder USD, Luxembourg		35.48	US$	31.12.2016	27,924,959	– 43,455
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxembourg	7.15	20.41	US$	31.12.2016	434,813,326	36,469,634

List of ownership interests (continued)

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/loss after taxes[1]
Austria						
G6 Zeta Errichtungs- und VerwertungsGmbH & Co OG, Vienna		99.90	€	31.12.2016	24,461,555	1,635,869
Czech Republic						
WIT Services s.r.o., Prague		100.00	CZK	31.12.2016	3,657,467	– 379,300
Wüstenrot hypoteční banka a.s., Prague	100.00		CZK	31.12.2016	2,076,000,000	190,000,000
Wüstenrot stavební spořitelna a.s., Prague	100.00		CZK	31.12.2016	3,435,000,000	215,000,000
Hungary						
Fundamenta-Lakáskassza-Lakástakarékpénztár Zrt., Budapest	11.47		HUF	31.12.2016	30,752,000	4,902,000
United Kingdom						
ASF VI Infrastructure L.P., Edinburgh		6.40	US$	31.12.2016	22, 001,040	6,680,698
ASF VII Infrastructure L.P., Edinburgh	6.11	12.82	New investment 30.12.2016			
Brookfield Capital Partners Fund III (NR A) L.P., George Town		12.20	US$	31.12.2016	867,342,000	1,385,000
Capital Dynamics Clean Energy and Infrastructure III L.P., Birmingham	2.85	21.28	£	31.12.2016	45,489,650	– 1,249,821
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh		28.24	US$	31.12.2016	130,555,964	– 516
Carlyle Cardinal Ireland Fund L.P., George Town		5.83	€	31.12.2016	121,134,000	– 2,002,000
CBPE Capital Fund IX A L.P., London		15.41	£	30.06.2017	60,953,901	– 6,518,544
EIG Global Private Debt (Europe UL) L.P., London		29.67	US$	31.12.2016	21,121	515
Glennmont Clean Energy Fund Europe 1 'A' L.P., London		11.52	€	31.12.2016	277,429,490	13,981,378
Global infrastructure Partners III-C2 L.P., London		9.60	US$	31.12.2016	76,575,268	– 6,084,813
HgCapital Renewable Power Partners 2 L.P., London		29.53	€	31.12.2016	58,915,530	2,930,164
Kennet III A L.P., St. Peter Port		6.73	€	31.12.2016	144,955,396	– 2,842,379
Kennet IV L.P., St. Peter Port		18.83	€	31.12.2016	72,335,619	– 502,369
Partners Group Emerging Markets 2007 L.P., Edinburgh		12.01	US$	31.12.2016	116,640,000	1,166,000
Project Glow Co-Investment Fund L.P., George Town		51.72	CA$	31.12.2016	32,993,403	2,771,026
United States						
ARDIAN North America Fund II L.P., Wilmington	11.80	37,76		New investment 1.3.2017		
H.I.G. Whitehorse Offshore Loan Feeder, Miami		14,30	US$	31.12.2016	78,851	78,851
ISQ Global Infrastructure Fund (EU) L.P., Delaware		5,19	US$	31.12.2016	2,193,191,539	– 35,959,063
Project Finale Co-Investment Fund Holding LLC, Wilmington		30,00	US$	31.12.2016	46,025,456	2,513,035

1 The figures relate to the most recent annual financial statements available on the reporting date.
2 Profit and loss transfer agreement in place.
3 Pursuant to Section 16 (4) of the German Stock Corporation Act (AktG), the indirect interest (or: ownership interest; or: ownership share) consists of interests that belong to a dependent company or to another company for the account of the company or a company dependent on it.
4 Formerly W&W Digital GmbH, Berlin

Individual disclosures concerning the income statement

in € thousands	Gross premiums written		Net technical income/loss for own account (prior to claim equalisation provisions)		Net technical income/loss for own account (after claim equalisation provisions)	
	2017	2016	2017	2016	2017	2016
Fire insurance	52,986	49,287	2,538	787	– 1,287	– 175
Other property insurance	81,350	75,825	1,001	– 44	– 1,131	– 4,410
Total fire and other property insurance	**134,336**	**125,112**	**3,539**	**743**	**– 2,418**	**– 4,585**
Motor insurance	120,614	115,361	– 8,267	– 5,484	– 12,634	– 10,098
General liability insurance	31,753	30,719	10,007	6,873	8,565	5,568
Casualty insurance	20,588	20,184	1,677	5,230	1,677	5,230
Transport and aviation hull insurance	3,174	3,220	– 803	251	228	31
Other insurance	23,961	22,783	– 745	– 2,072	– 1,210	– 1,926
Total property/casualty insurance business	**334,426**	**317,379**	**5,408**	**5,541**	**– 5,792**	**– 5,780**
Life insurance	5,981	6,173	1,984	1,806	1,984	1,806
Total	**340,407**	**323,552**	**7,392**	**7,347**	**– 3,808**	**– 3,974**

Commissions and other remuneration paid to insurance agents, personnel expenses

in € thousands	2017	2016
Wages and salaries	38, 699	38, 002
Social remittances and expenses for support	5, 807	5, 560
Expenses for pension scheme	3, 305	2, 145
Total	**47, 811**	**45, 707**

W&W AG does not have its own mobile sales force. As a result, the table required by the German Regulation on the Accounting of Insurance Undertakings (RechVersV) contains only personnel expenses and no commissions or other remuneration paid to insurance agents.

Wüstenrot & Württembergische AG
Responsibility statement

To the best of our knowledge, and in accordance with applicable accounting principles, the annual financial statements present a true and accurate view of the net assets, financial position and financial performance of the company, and the Combined Management Report presents a true and accurate view of the performance, results and position of the W&W AG, together with a description of the material opportunities and risks associated with the expected development of the company.

Stuttgart, 23 February 2018

Jürgen A. Junker

Dr. Michael Gutjahr

Jens Wieland

Wüstenrot & Württembergische AG
Auditor's report

Audit opinions

We have audited the annual financial statements of Wüstenrot & Württembergische 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 report on the situation of the company and the Group 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 "Corporate governance statement" in the report on the situation of the company and the Group.

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

- the attached annual financial statements comply in all material respects with the requirements of the German Commercial Code (HGB) applicable to insurance undertakings and present a true and accurate view of the company's net assets and financial position as at 31 December 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 report on the situation of the company and the Group as a whole presents a true and accurate view of the company's position. The report on the situation of the company and the Group 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 report on the situation of the company and the Group does not cover the content of the aforementioned corporate governance statement.

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

Basis for the audit opinions

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

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 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 interests in affiliated companies and participations

With respect to accounting standards, we refer to the explanations in the notes concerning the measurement methods for assets with respect to participations and determination of fair value. Risk disclosures can be found in the section of the opportunity and risk report contained in the report on the situation of the company and the Group with respect to market price risks.

Risk for the financial statements
Interests in affiliated companies and participations are not traded on an active market and amount to €1,757.8 million. This constitutes 48.8% of the balance sheet total.

With respect to carrying amounts, investments are associated with the fundamental risk that the fair value as at the reporting date will be lower than the carrying amount and that a necessary write-down to the lower fair value will be omitted.

Interests in affiliated companies and participations are associated with an increased risk particularly because their fair value on the reporting date cannot be derived from active markets. The determination of the fair values of these interests is complex and is based on the application of various measurement methods, including a number of factors that are subject to discretion and estimates. The most significant assumptions are the planning assumptions about expected earnings (e.g. premiums and interest surpluses) and expenses (e.g. loss expenses and general administrative expenses), as well as those about the capitalisation interest rates used for discounting.

Our audit approach
In connection with the audit of the interests in affiliated companies and participations, part of our audit team included enterprise valuation experts, and we performed the following significant audit procedures:

- We selected a sample of the interests in affiliated companies and participations and audited the suitability of the measurement methods utilised in each case.

- Where fair value was determined using the capitalised earnings method or, in individual cases, a liquidation value method, we reviewed, in particular, the most significant planning assumptions for a sample of the interests in affiliated companies and participations, all of which were operating subsidiaries, in connection with verifying the plausibility of planning. In doing so, we drew on the knowledge we gained from the current audit of the financial statements and from past audits, as well as on publicly available information and on information provided by the client. We reviewed explanations and documentation that we received.

- In addition, for this sample, we compared the planning submitted to us with that approved by the responsible supervisory boards. Also, by means of a retrospective comparison, we compared the planning from the previous year with the business performance actually achieved and reviewed the deviations.

- We audited the capitalisation interest rates used for discounting and how they were determined pursuant to the capital asset pricing model. This related to the base interest rate and the market risk premium, as well as the individually specified beta factors, country risk premiums and growth discounts.

- For interests in affiliated companies and participations whose fair value was determined using a net asset value value method (e.g. by fund managers), we reconciled the fair values for a sample with the information available at the company, taking into account capital changes as at the reporting date. Where the net asset value was determined by the company itself, we audited the determinations of value for a sample, including the material assumptions and parameters (e.g. discounting rate).

- In addition, we audited whether write-downs and write-ups were performed accurately.

Our conclusions
The measurement of the interests in affiliated companies and participations is in complete conformity with the requirements of commercial law. On whole, the measurement methods and parameters that were employed are appropriate. Depreciations and write-ups have been applied where necessary.

Measurement of provisions for pensions and similar obligations (pension provisions)

With respect to the accounting standards, we refer to the explanations in the notes concerning the measurement methods for liabilities with respect to provisions for pensions and similar obligations. Other disclosures about pension provisions can be found in the notes concerning liabilities (section C.1). Risk disclosures can be found in the section of the opportunity and risk report in the report on the situation of the company and the Group concerning market price risks.

Risk for the financial statements
In its annual statements, the company recognised a pension provision in the amount of €882.4 million (about 24.5% of the balance sheet total). This includes the pension commitments taken on by Group companies in connection with the assumption of joint liability.

The pension provisions are generally calculated by totalling the provisions for all persons eligible for a pension under an individual contract.

The provisions are measured in accordance with reasonable commercial judgement in the amount needed to satisfy the obligations using the projected unit credit method.

In the process, the requirements of commercial law must be observed, such as those concerning the actuarial interest rate. In addition, appropriate assumptions must be made concerning biometric variables (including mortality tables) and trends (including pension increases, salary trends and fluctuations).

There is a risk that a pension provision in an individual contract may be over or under-valued if the parameters are defined inconsistently or inappropriately.

Our audit approach
In connection with the audit of the pension provision, part of our audit team included actuaries, and we performed the following significant audit procedures:

- We audited whether the personnel data recorded in the personnel management system were fully included in the pension provisions. In doing so, we relied on controls put in place by the company, and we audited whether they were suitably structured and carried out in terms of how they function. In addition, in connection with reconciling the calculation system with the general ledger, we audited whether the method for transferring values worked flawlessly.

- For the purpose of auditing whether the pension provisions in individual contracts were calculated in accordance with the pension schemes, we likewise calculated the pension provision for a subgroup of persons with our own EDP programs and compared the results with the figures calculated by the company. In this regard, we also audited whether the parameters employed to determine the pension provision (actuarial interest rate, mortality tables and trend assumptions) are permissible and appropriate.

- In addition, we audited whether the recognised pension provision contains all partial provisions from the agreements concerning the assumption of joint liability for pension commitments.

- Moreover, we analysed how the pension provisions are developing with respect to the provision amount, the number of persons per pension scheme and the average provision amount.

Our conclusions
On the whole, the measurement of the pension provision is in conformity with the requirements of commercial law. The parameters employed are 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 report on the situation of the company and the Group, as well as our audit report.

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

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

- is materially inconsistent with the annual financial statements, the report on the situation of the company and the Group 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 report on the situation of the company and the Group

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

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

Furthermore, the Executive Board is responsible for preparing the report on the situation of the company and the Group 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 report on the situation of the company and the Group in conformity with applicable German legal requirements and to enable sufficient and appropriate evidence to be provided for the statements in the report on the situation of the company and the Group.

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

Responsibility of the statutory auditor for the audit of the annual financial statements and the report on the situation of the company and the Group

Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether the report on the situation of the company and the Group as a whole presents a true and accurate view of the company's position and in all material respects is consistent with the annual financial statements and the knowledge gained in the audit, complies with German 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 report on the situation of the company and the Group.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in conformity with Section 317 of the German Commercial Code (HGB) and with the EU Audit Regulation, as well as in accordance with the German standards for the proper auditing of financial statements promulgated by the Institute of Public Auditors in Germany (IDW), 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 report on the situation of the company and the Group.

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

- Identify and assess the risks of material misstatement of the annual financial statements and the report on the situation of the company and the Group, 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 report on the situation of the company and the Group 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 report on the situation of the company and the Group 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 report on the situation of the company and the Group with the annual financial statements, its conformity with the law and its depiction of the view of the company's condition.

- Perform audit procedures concerning the forward-looking statements made by the Executive Board in the report on the situation of the company and the Group. 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 24 March 2017. We were given a mandate by the chairman of the Supervisory Board's Risk and Audit Committee on 7 June 2017. We have served as the statutory auditor of Wüstenrot & Württembergische AG without interruption since the 2011 financial year.

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

Responsible auditor

The auditor responsible for the audit is Dr Christof Hasenburg.

Stuttgart, 7 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr Hasenburg
Wirtschaftsprüfer
(German public auditor)

Stratmann
Wirtschaftsprüfer
(German public auditor)

Wüstenrot & Württembergische AG
Report of the Supervisory Board

The Supervisory Board fulfilled its duties in accordance with statutory requirements, the Articles of Association and the bylaws in the 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 Wüstenrot & Württembergische AG is composed of 16 members. The company is required by law to have women make up at least 30% of the Supervisory Board. Following the election by the Annual General Meeting on 9 June 2016, the Supervisory Board consists of 10 men and six women. As a result, women make up 38% of the Supervisory Board. Further details about the composition of the Supervisory Board can be found in the corporate governance statement.

Over the course of the 2017 financial year, the Supervisory Board experienced no changes in its membership.

Full Supervisory Board

In the previous year, the Supervisory Board had four ordinary meetings, as well as a separate full-day strategy session, at which 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 and the Group concerning the strategy, planning, business performance, risk position and the ratings of Group companies. In addition, the issue of risk management was addressed at length by the Supervisory Board and by the Risk and Audit Committee. To this end, detailed risk reports were prepared and then presented to the Supervisory Board for discussion. The business, risk and IT strategy was submitted to and discussed with the Supervisory Board. The Executive Board submitted the report of the Audit department to the Supervisory Board and the Risk and Audit Committee and the report of the Group Compliance Officer to the Risk and Audit Committee, and in both cases it reported on annual planning for 2018. The head of Internal Audit and the Group Compliance Officer took part in the meeting of the Risk and Audit Committee. In addition, the Chairman of the Executive Board and the Chairman of the Supervisory Board exchanged information on an ongoing and, where necessary, prompt basis about all key developments and decisions.

At the forefront of the meetings of the Supervisory Board of Wüstenrot & Württembergische AG was the strategy of the W&W Group. The Supervisory Board concerned itself with the transformation programme “W&W@2020”, as well as the new programme “W&W Besser!” that emerged from it. The discussions focused on digitalisation measures, digital business models and the consequences that these have for the Group structure, personnel developments and the IT structure within the Group. Another key point of the discussions was the sustainable earning power of the W&W Group. In particular, the environment of low interest rates, increasing regulation and changed customer behaviour in the “new digital reality” were addressed. Other priorities were measures to strengthen the attractiveness of W&W stock.

Business performance and trends in results in the individual segments were addressed at length, as were the current situation on the capital markets, current regulatory developments and the expected impact on the Group. In connection with the discussion of investment management, special attention was given to the Home Loan and Savings Bank division, particularly the future alignment of Wüstenrot Bank AG Pfandbriefbank, and to changes in the investment in V-Bank. The Supervisory Board received extensive reports on capital investment management in W&W AG. The Supervisory Board had detailed discussions about operational planning for 2018 and further medium-term planning, as well as about measures to strengthen the risk-bearing capacity of the W&W companies.

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 both at Wüstenrot & Württembergische AG and in the W&W Group. 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, utilisation of the amendment of the German Home Loan and Savings Bank Act (BausparkG) and the CSR Directive, as well as with the expertise profile for the full Supervisory Board and the development plan based on it. The Board structure was streamlined, making governance in the Group leaner Group-wide. The bylaws for the Supervisory Board and for the Executive Board were modified to conform to regulatory changes.

At every meeting, the Supervisory Board concerned itself in detail with the German Corporate Governance Code. Together with the Executive Board, it adopted updated statements of compliance in March and December 2017, which were published on the company's website. In the course of the audit, the auditor found no evidence that the statements of compliance were inaccurate.

In accordance with the requirements of the German Corporate Governance Code, the Supervisory Board reviewed the efficiency of its work by means of a self-assessment, and at its meeting in March 2018 it concerned itself extensively with the results, which on whole may be considered positive.

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.

The members of the Supervisory Board attended the majority of the meetings. The same can be reported about the Remuneration and Personnel, Nomination and Risk and Audit Committees. If members of the Supervisory Board were unable to attend meetings of the Supervisory Board or its committees, they were excused and cast their votes in writing.

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 four committees, which are able to prepare resolutions for deliberation and adoption by the full Supervisory Board, as well as adopt resolutions themselves. These are the Risk and Audit Committee, the Nomination Committee, the Remuneration and Personnel Committee and the Conciliation Committee. Further details about the composition and working methods of the Supervisory Board committees can be found in the corporate governance statement.

In 2017, the **Risk and Audit Committee** had two ordinary meetings and met once by teleconference. The committee also adopted by way of written circulation four resolutions concerning the approval of so-called "non-audit services" by the auditor. The **Remuneration and Personnel Committee** had two ordinary meetings. The **Nomination Committee** had two meetings. The **Mediation Committee** did not meet. The issues falling within the purview of the respective committees were thoroughly discussed at committee meetings. The committee chairs reported to the Supervisory Board about the work of the committees at ensuing meetings.

Based on recommendations by the **Remuneration and Personnel Committee** and the **Nomination Committee,** the Supervisory Board also discussed remuneration matters, particularly the remuneration system for the Executive Board, and it took note of the report of the Executive Board on the structuring of the remuneration system for employees. The Supervisory Board and the Nomination Committee reviewed and evaluated the professional qualifications and aptitude of each member of the Executive Board and the Supervisory Board in accordance with the Supervisory Board's guideline on "Fit and proper requirements for managers and members of the Supervisory Board". They also reviewed the Executive Board's principles for selecting and appointing senior executives. In addition, the Supervisory Board and the Nomination Committee reviewed and evaluated the structure, size, composition and performance of the Executive Board and the Supervisory Board. The reporting of the Executive Board continued to cover current personnel issues.

The **Risk and 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". In addition, by resolution of the Supervisory Board, the Risk and Audit Committee was tasked with preparing the audit of the separate non-financial Group report (CSR report). The committee reviewed the report at its meeting on 20 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 consolidates financal statements

The Supervisory Board examined at length the annual financial statements and the consolidated financial statements for the 2017 financial year, the combined Management Report for Wüstenrot & Württembergische AG and the W&W Group as at 31 December 2017, as well as the proposal of the Executive Board concerning the appropriation of unappropriated surplus. The annual financial statements, the consolidated financial statements and the combined Management Report are complete and in conformity with the estimates made by the Executive Board in the reports to be issued to the Supervisory Board in accordance with Section 90 of the German Stock Corporation Act (AktG). The proposal of the Executive Board concerning the appropriation of net income corresponds to consistent accounting policies that take into consideration the company's liquidity position and planned investments. Therefore the Supervisory Board agrees with the proposal of the Executive Board.

KPMG AG Wirtschaftsprüfungsgesellschaft, Stuttgart, which was appointed auditor by the Supervisory Board, duly audited the annual financial statements and the consolidated financial statements for the 2017 financial year prepared by the Executive Board, as well as the combined Management Report for Wüstenrot & Württembergische AG and the W&W Group for the 2017 financial year, and it issued an unqualified audit certificate.

The auditor reported the material results of its audit to the Supervisory Board orally and in writing. The audit report was sent to each member of the Supervisory Board. In addition, the auditor reported both at the meeting of the Risk and Audit Committee on 20 March 2018 and at the accounting meeting of the Supervisory Board on 21 March 2018. The submitted audit report meets the statutory requirements of Section 321 of the German Commercial Code (HGB) and was taken into account by the Supervisory Board in connection with its own audit. There were no circumstances that could call into question the auditor's independence.

Based on a recommendation by the Risk and Audit Committee, the Supervisory Board reviewed the separate non-financial Group report (CSR report) at its meeting on 21 March 2018, which included oral and written input from the auditor about the methodology and key results of its audit. The audit report was sent to each member of the Supervisory Board. The result of the auditor's audit of the CSR report is consistent with the result of the review by the Supervisory Board. The Supervisory Board raised no objections to the CSR report.

Following the result of the audit of the annual financial statements, the consolidated financial statements and the combined Management Report as well as the proposal of the Executive Board concerning the appropriation the surplus, the Supervisory Board raised no objections, and at its meeting on 21 March 2018, it approved the annual financial statements as well as the consolidated financial statements. Accordingly, the annual financial statements are deemed approved pursuant to Section 172 sentence 1 of the German Stock Corporation Act (AktG).
The Risk and Audit Committee and the Supervisory Board discussed the solvency overview for W&W AG and the W&W Group as at 31 December 2016, as well as the auditor's report on it.

Composition of the Executive Board

The Executive Board experienced no changes in its membership in the 2017 financial year.

The Supervisory Board gave its approval to a modification of the Executive Board's business allocation plan, effective 1 June 2017, which created a new Group department – Group Risk Management and Compliance – and the role of Chief Risk Manager in the Group, both of which are part of Dr Gutjahr's responsibility.

The Supervisory Board expresses its gratitude and appreciation to the Executive Board and all employees at all Group companies for their work and their tireless commitment.

Stuttgart, 21 March 2018

The Supervisory Board

Hans Dietmar Sauer
Chairman

Wüstenrot & Württembergische AG
Glossary

Actuarial interest rate
Interest rate that is used by a life insurance company to calculate the provision for future policy benefits as well as, customarily, premiums, and that is guaranteed for the entire maturity. If a higher amount of interest is earned, customers receive most of this as profit participation.

Additional interest reserve
An additional provision for future policy benefits mandated by statute for life insurance contracts in the new portfolio (see also interest reinforcement for the old portfolio) in order to cover interest obligations in an environment of low interest rates. The legal basis is Section 341f (2) of the German Commercial Code (HGB) in conjunction with Section 5 of the German Policy Benefit Provision Regulation (DeckRV).

Affiliated companies
This term refers to the parent company (Group parent company) and all subsidiaries. Subsidiaries are companies over which the parent company can exercise a controlling influence on business policy. This is the case, for example, where the Group parent company directly or indirectly holds the majority of voting rights or has the right to appoint or remove the majority of the members of the Supervisory Board, or where there are contractual rights of control.

Allocation
If a home loan and savings customer has met all of a home loan savings plan's allocation conditions with his savings, the building savings contract is allocated. The home loan and savings customer may then dispose of → building savings contract balances and (after granting sufficient collateral) the → loan under the building savings contract.

Asset liability management
Asset liability management describes the coordination of the maturity structure of assets and liabilities, as well as control of the associated market and liquidity risks.

Associated company
An associated company is a company over which the Group as owner has a decisive influence. It is neither a subsidiary nor a joint venture. Decisive influence typically exists where the Group maintains an ownership of 20-50%.

Black-Scholes Model
Measurement model for ascertaining the fair value of options, which takes into consideration the strike price, the maturity of the option, the current price of the underlying, the risk-free interest rate and the → volatility of the underlying.

Building savings contract volume
This is defined when the contract is concluded and normally determines the volume of the home loan savings resources available for → allocation.

Cancellation (lapse rate)
Contracts that are terminated or made non-contributory by the policyholder before an insured event occurs. The lapse rate is the proportion of cancellations based on the average insurance portfolio.

Cap
A cap is an agreement between the seller of the cap and the buyer that, when a fixed market interest rate rises above an agreed interest rate limit, the seller will refund to the buyer the amount of the difference as relates to an agreed nominal amount.

Capital investments
Premium income from the operations of insurance companies is typically allocated to provisions and reserves. Pursuant to statutory provisions, the assigned amounts must be invested in such a way as to achieve the greatest possible security and profitability while maintaining the insurance company's liquidity at all times. This is done by ensuring an appropriate mix and spread with respect to investment types.
By capital investments, we mean:
- Financial assets at fair value through profit or loss
- Non-current assets held for sale
- Financial assets available for sale
- Loans and advances – senior fixed-income securities
- Loans and advances – subordinated securities and loans and advances
- Loans and advances – first-tier loans and advances to institutional investors
- Loans and advances – other loans and advances to credit institutions
- Financial assets recognised using the equity method
- Investment property

Capital investments for the account and risk of life insurance policyholders
These mainly include capital investments in unit-linked life insurance and additional capital investments designed to cover liabilities under contracts where the benefit is index-linked. Policyholders are entitled to the income earned from these capital investments, but they also have to bear any losses themselves.

Cash reserve
The cash reserve consists of cash in hand, deposits with the German Bundesbank and central bank that are payable on demand, balances with foreign postal giro offices, and debt instruments issued by public sector entities.

Combined ratio
Actuarial profitability indicator used by property/casualty insurance companies, total of the loss ratio and the operating expense ratio.

Compliance
Compliance refers to all measures that are taken to ensure the legally and ethically correct behaviour of companies, governing bodies and employees. Compliance is designed to protect the company against misconduct, which can lead to pecuniary losses, damage to image and the failure to meet corporate objectives. It is also designed to protect the interests of employees, customers and business partners.

Compliance statement
Section 161 of the German Stock Corporations Act (AktG) obligates the executive board and supervisory board of a listed company to declare annually that the recommendations of the German → Corporate Governance Code were complied with or which recommendations of the Code were not applied.

Contingent liabilities
Unrecognised liabilities that are unlikely to occur, for example contingent liabilities arising from guaranty obligations.

Corporate Governance Code
The German Corporate Governance Code contains nationally and internationally recognised standards of good and responsible corporate governance. Apart from conditions that have to be observed by companies as applicable statutory law, the Code also contains recommendations and suggestions. Companies can deviate from recommendations, but they are obligated to disclose this annually. Suggestions can be deviated from without disclosure.

Credit provision ratio
The credit provision ratio means the ratio of the individual and portfolio impairment provisions to the associated credit volume.

D&O insurance
Directors & officers insurance is a type of liability insurance for managers. It covers executive board members, supervisory board members and senior executives against claims that may be brought against them as a result of a professional error.

Deferred taxes
Deferred taxes must be created for temporary differences resulting from the different valuation methods applied to assets and liabilities in the tax and IFRS balance sheets, where the tax effects arise in future periods.

Derivative financial instruments
Derivative financial instruments are forward transactions structured as a fixed or option transaction whose value depends on one or more underlying variables. Important examples of derivative financial instruments are options, futures, forwards and swaps.

Direct credit
The part of the surplus earned by the insurance company that is credited directly to customers during the financial year.

Earnings per share
Earnings per share are calculated by dividing the consolidated net profit attributable to the common shareholders of the parent company by the weighted average number of common shares outstanding during the reporting period.

Effective interest rate method
Pursuant to IAS 39, the effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability. It is also used to allocate interest receivable or interest payable over the relevant period. Using the effective interest rate, for example, a discount is spread over the maturity of the financial instrument and reduced to zero.

Equalisation reserve
Reserve to be created in accordance with officially established, actuarial-based methods in order to compensate for fluctuations in claims development in various years. In years with a relatively low/relatively high number of claims, additions/withdrawals are made.

Equity method
Units or shares in associated companies and joint ventures are recognised in accordance with this method. In doing so, the valuation corresponds to the Group‘s share of equity of these companies.

Expenditure for insurance Business (administrative costs)
Commissions, salaries, materials costs and other expenditure for the sale and ongoing management of insurance contracts.

Fair value
The amount at which an asset is exchanged between knowledgeable, willing and unrelated business partners. The fair value is the current market value, insofar as there is an active market. If an active market does not exist, fair value is determined using recognised valuation methods.

Financial assets/liabilities at fair value through profit or loss
One of the categories into which financial instruments have to be classified for the purpose of recognition pursuant to IAS 39.9. Financial assets that are measured at market value are allocated to this category. On the assets side, these are → financial assets held for trading and designated financial instruments, and on the liabilities side, these are → financial liabilities held for trading. Changes in the measurement of market value are recognised in profit or loss through the consolidated income statement.

Financial assets available for sale
According to IFRS, the category "Financial assets available for sale" represents the most important category into which financial instruments are to be classified. It includes financial assets that cannot be allocated to financial investments held to maturity, to financial assets at fair value through profit and loss, or to receivables. The financial instruments in this category are recognised at fair value on the reporting date.

Financial assets held for trading
Allocated to this category are fixed-income and variable-yield securities and → derivative financial instruments that were acquired solely for trading purposes. They are recognised at → fair value and are reported in the balance sheet under financial assets at fair value through profit or loss.

Financial conglomerate
A financial conglomerate offers financial services (banking and insurance services). A financial conglomerate is defined as a group of companies consisting of a parent company, its subsidiaries and those companies in which the parent company or one of its subsidiaries maintains a long-term equity investment. The group must include at least one company in the banking or investment services sector and one company in the insurance sector, and one of these companies must be subject to supervision by the German Federal Financial Supervisory Authority (BaFin).

Financial liabilities held for trading
This position contains negative market values from derivatives and the short selling of securities. Short selling is undertaken in order to generate profits from short-term price fluctuations. Liabilities held for trading are measured and recognised analogously to financial assets held for trading.

For own account
In insurance terminology, "for own account" (f.o.a.) means after deduction of the reinsurance component.

Futures
Standardised forward transactions under which a commodity available on a cash, capital, precious-metal or foreign exchange market is to be delivered or purchased at the exchange price at a particular time in the future.

Genuine securities repurchase transaction (repo)
A genuine securities repurchase transaction (repo) is a contract in which the buyer assumes the obligation to retransfer the securities acquired under a repurchase agreement at a predetermined time or at a time determined by the seller.

German covered bonds
German covered bonds are:
- covered bonds based on acquired mortgages (German covered mortgage bonds)
- covered bonds based on acquired loans and advances due from governmental agencies (public German covered bonds)
- covered bonds based on acquired ship mortgages (German covered ship mortgage bonds)

Gross/net
In underwriting, gross/net means the respective position or ratio before or after deducting reinsurance.

Gross new business
For home loan and savings banks, gross new business describes new business as the sum of all building savings contracts applied for and accepted during a certain period of time.

Guarantee assets
Separate assets to be set aside by insurance companies in order to guarantee the claims of policyholders (→ provision for future policy benefits).

Guarantee needs
Guarantee needs have to do with the interest rate obligation under insurance contracts measured by taking into account a current market interest rate, less the provision for future policy benefits. Valuation reserves for fixed-income securities are to be taken into account with regard to the participation of policyholders in valuation reserves only to the extent that they exceed guarantee needs. Net profit may be distributed only to the extent that it exceeds the guarantee needs. The legal basis is Section 56a (2) et seq. of the Insurance Supervision Act (VAG) in conjunction with Section 8 of the German Regulation on the Minimum Premium Refund in Life Insurance (MindZV).

Hedge accounting
Hedge accounting is an accounting procedure for depicting how the value of a hedge (e.g. an interest rate swap) and the value of an underlying (e.g. a loan) trend in opposite directions. The object of → hedging is to minimise the impact on the income statement that results from the measurement of derivatives and recognition of the results in profit or loss.

Hedging
Coverage against price risks through an adequate counter-position, particularly through → derivative financial instruments. There are two basic models, depending on the risk to be secured: fair value hedges are used to secure assets or liabilities against risks of changes in value, and cash flow hedges mitigate the risk of fluctuations in future cash flows.

IFRS/IAS
The abbreviation IFRS stands for International Financial Reporting Standards and describes the international principles of financial reporting. Since 2002, the designation IFRS applies to the overall concept of the standards enacted by the International Accounting Standards Board (IASB). Standards already enacted continue to be called International Accounting Standards (IAS).

Interest book management
Interest book management means the active management of risks of interest rate changes, particularly with regard to credit institutions. In so doing, regulatory requirements need to be taken into account that aim at limiting potential risks of interest rate changes.

Interest rate swap
An interest rate swap is a contractual agreement between two parties to exchange interest payments in a currency.

Interest reinforcement
An additional provision for future policy benefits required by BaFin for life insurance contracts in the old portfolio (see also additional interest reserve for the new portfolio) in order to cover interest obligations in an environment of low interest rates. The calculation rule is dealt with in connection with the business plan for the old portfolio.

Interim loan
Loan granted against a building savings contract that has reached the minimum savings balance but has not yet been allocated. It is subsequently replaced with the allocated → building savings contract volume.

IRBA (Internal Ratings Based Approach)
Banks, banking groups and financial holding groups may rely on their own internal estimates of risk components when determining minimum capital requirements and in providing backing for risk-weighted assets for counterparty risks. The approval of BaFin is required in order to use IRBA.

ISDA (International Swaps and Derivatives Association)
The ISDA is an international trading organisation of participants on the derivatives market. The main purpose of the association is to research and mitigate risks in derivatives trading and in risk management in general. The association has published an ISDA Master Agreement, which is used for the standardised settlement of derivative transactions.

Issuer rating
An issuer rating (for banks and insurance companies) represents the current opinion of a rating agency about a debtor's general financial ability to meet its financial obligations. This opinion relates in particular to a debtor's ability and willingness to settle its financial liabilities in full and on time.

Loan under a building savings contract
After allocation of a building savings contract, there is a claim to a loan under a building savings contract, which is granted for housing financing activities. The amount of the loan under a building savings contract is typically determined by the difference between the → building savings contract volume and the building savings contract balance. Special features of this loan are a fixed low interest rate for the entire term, the ability to subordinate collateral and the right to make unscheduled payments at any time.

Loss ratio
Percentage ratio of loss expenses to premiums attributable to the financial year, i.e. those that are "earned".

Mixed funds
Investment funds that invest both in equities and in fixed-income securities.

Monte Carlo simulation
Simulation of random numbers.

Net interest
When calculating the net interest on capital investments, all realised income and expenses associated with the capital investments are taken into account and compared with the average value of the capital investment portfolio (according to carrying amounts). This also includes profits and losses from the disposal of capital investments, as well as depreciations. Net interest can therefore fluctuate considerably from year to year.

Net new business
For home loan and savings banks, net new business describes the sum of all contracts paid in during a certain period of time.

New business (annual portfolio contributions)
Annual portfolio contributions in property/casualty business that are added to the total portfolio over the course of the year on account of new contracts or contract amendments with a new business character (new contract or contract change to a different contract group).

New premium
This contains annual premiums from new life insurance business, including one-off premiums.

Non-controlling interests in equity
Interests in own funds of consolidated subsidiaries that, in the Group's view, are held by outside third parties.

Non-technical account
The result from those types of income and expenses that are not allocated to direct insurance business.

Options
Forward contracts where the buyer is entitled but not obligated to purchase (call option) or sell (put option) the subject of the option within a certain period at a price agreed to in advance. The seller of the option (writer) is obligated to provide or accept the subject of the option and receives a fee for granting the option.

OTC (over the counter) derivatives
→ Derivative financial instruments that are not standardised and not traded on a stock exchange but instead are individually negotiated between two contractual partners.

Paid in
A newly concluded building savings contract is deemed paid in after payment in full of the conclusion fee.

Portfolio value from acquired insurance contracts
The value recognised upon acquisition of an insurance company as the countervalue for the acquired insurance contracts.

Premiums, written/earned
The premium is the price for the benefit to be provided by the insurer. It can be paid either continually or as a one-off premium. Written premiums are premium revenues received for the respective financial year. Earned premiums are the amounts attributable to the financial year.

Primary insurance
Primary insurance is established through a direct contractual relationship between the insurance company and the policyholder and is described as direct insurance business.

Provision for future policy benefits
The insurance company creates a provision for future policy benefits in order to be able to guarantee the promised insurance cover at any time.

Provision for outstanding insurance claims
This is a provision for expenses arising from claims that occurred in the respective financial year but have not yet been able to be settled. It also includes provisions for claims that occurred before the reporting date but have not yet been reported.

provision for premium refunds
The provision for premium refunds comes from that part of gross profit that is not credited directly to policyholders. It therefore includes those shares of the profit that are directly credited to customers in subsequent financial years. Consistent profit participation can thus be granted to policyholders from this provision, irrespective of fluctuating annual results. In addition, a deferred provision for premium funds must be created in IFRS financial statements for valuation differences between HGB and IFRS.

Provision for unearned premiums
These premium revenues are allocated to income from future financial years. They are calculated individually and to the day for each insurance contract.

Public funds
Investment funds whose units can be purchased by anyone (see also → special funds). Purchase and sale are possible when stock exchanges are open.

Public German covered bonds
Bonds issued by a mortgage bank to public authorities for the purposes of refinancing loans.

Quoted prices
Quoted prices are characterised by the fact that they are readily and regularly available. Quotes are made via a stock exchange, a broker, an industry group, a pricing service or a supervisory authority. Prices must be accessible to the public. Prices quoted on a stock exchange, as well as pricing on OTC markets, are publicly available if the prices are available to the public, for example via Reuters or Bloomberg.

Reinsurance
An insurance company insures part of its risk with another insurance company (the reinsurer).

Reserve buffer
Includes the valuation reserves and free → provisions for premium refunds, plus the amounts attributable to non-tied final profit participation funds.

Reserve for financial assets available for sale
Market value changes to assets belonging to the category "Financial assets available for sale" are recognised directly in equity in the reserve for financial assets available for sale. It is a component of equity.

Result attributable to non-controlling interests
Shares in consolidated net profit that, in the Group's view, are attributable to outside third parties.

Retained earnings
Recognised as retained earnings in individual HGB financial statements are only those amounts that were accrued from net income in the financial year or in previous financial years. They strengthen the company's financial matter.

Retrocession
Assumption of the risks of reinsurance companies by other reinsurers.

Risk provision
This is where impairments to gross recognised receivables are depicted. Under → IFRS, the risk provision for recognised receivables is openly deducted from receivables and shown on the assets side. For off-balance-sheet transactions (e.g. loan commitments), other risk provisions are created on the liabilities side, where necessary.

RORAC (return on risk-adjusted capital)
Return on risk-adjusted capital is a key performance indicator for measuring income, taking into account the risk capital used.

Solvency ratio
Term from the insurance industry. The solvency ratio indicates the relationship between an insurance company's own funds and the value of its capital investments as weighted according to investment risk. The higher the ratio, the more risks the insurance company may assume pursuant to European investment regulations.

Special funds
Investment funds that are open only to a limited group of investors. These are usually institutional investors, such as insurance companies, pension funds, foundations, etc. (See also → public funds.)

Stress test
The stress test simulates the effects that future negative developments on the capital markets – such as a drop in share prices accompanied by a rise in interest rates – can have on the coverage of guaranteed benefits and the solvency of the company.

Structured entity
With a structured entity, voting and comparable rights are not the definitive factors in determining who controls the company. Voting rights merely cover administrative duties, whereas material activities are performed pursuant to contractual arrangements.

Underwriting result
The result from income and expenses from insurance business primarily comprises premiums, claims expenses, premium refunds and expenses for insurance operations. In addition, in life insurance business, the corresponding capital investment result and the change in the provision for future policy benefits form part of it.

Valuation reserves
Difference between the fair value and the carrying amount of certain asset classes. In HGB financial statements, this includes capital investments. In IFRS financial statements, this includes financial instruments that are not recognised at → fair value and property held as a financial investment.

Value at risk (VaR)
The VaR is a measure of risk that indicates what value the loss of a certain risk position will not exceed with a stipulated probability of default (confidence level) during a stipulated time interval.

Value-oriented net sales
New and replacement business less portfolio cancellations (in each case, according to annual contributions to the portfolio) of each insurance line in property/casualty insurance, weighted with factors. The factors are determined according to the respective profitability. As a rule, the more profitable the line, the higher the weighting factors. Positive value-oriented net sales means strong income growth.

Value-oriented net valuation amount
Total premium from new business by product group, weighted with value-oriented factors. The factors are determined according to the profitability of each product group. As a rule, the more profitable a product group, the higher the weighting factor.

Volatility
The standard deviation, translated to one year, of the logarithmic growth of a risk factor.

Zillmerisation
Zillmerisation is the most common method in Germany for offsetting contract and sales costs against the first premiums paid for traditional life and health insurance. It is named after the mathematician August Zillmer (1831-1893). A provision for future policy benefits is calculated only after redemption of the contract and sales costs.

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