REPORT 2018

Württembergische Versicherung AG

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

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

Juergen Dittmar, Permanent Representative for and behalf of Württembergische Versicherung Aktiengesellschaft UK Branch	Andreas Klauck Controlling Württembergische Versicherung Aktiengesellschaft

W&W württembergische

Ihr Fels in der Brandung.

Württembergische Versicherung AG
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Executive Board and Supervisory Board

Executive Board

Thomas Bischof – Chairman
(Chairman since 1 July 2018)
Sales
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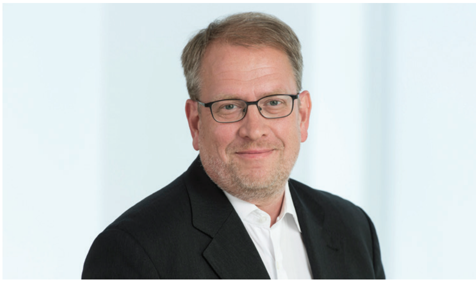
Customer Data and Brands

Alexander Mayer
(from 1 January 2019)
Investments
Accounting

Franz Bergmüller
Private Customers
Claims

Dr. Susanne Pauser
Human Resources
Compliance
Money Laundering
Complaint Management

Jens Lison
(from 1 January 2019)
Corporate Customers
Motor
Actuarial Services & Reinsurance



Jens Wieland
IT
Operations
Risk Management

Retired from the Executive Board:
Dr. Michael Gutjahr (until 31 December 2018)
Norbert Heinen (until 31 December 2018)

Supervisory Board

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

Hubert Sebold[1]
Deputy Chairman
Deputy Chairman of the Group Works Council
Württembergische Versicherung AG/
Württembergische Lebensversicherung AG
Deputy Chairman of the Works Council
Württembergische Versicherung AG/Württembergische
Lebensversicherung AG, Karlsruhe site

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

Claudia Diem
(until 17 May 2018)
Member of the Executive Board
Baden-Württembergische Bank

Prof. Dr Nadine Gatzert
(until 17 May 2018)
Chair of Insurance Economics and Risk Management at
Friedrich Alexander University in Erlangen-Nuremberg

Jochen Haller
(until 17 May 2018)
Former Managing Director of IHK Ludwigsburg district
chamber of commerce

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

Christian Hörtkorn
(until 17 May 2018)
Managing Partner
Dr. Friedrich E. Hörtkorn GmbH

Ulrich Kraft
Managing Director
KRAFT Baumanagement GmbH

Fränzi Kühne
(since 17 May 2018)
Director
Torben, Lucie und die gelbe Gefahr GmbH

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

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

Richard Peters[1]
(since 17 May 2018)
Head of the District Administration of RD Rheinland
Württembergische Versicherung AG
Chairman of the Works Council of
Württembergische Versicherung AG District
Administration Cologne

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

Dr Heiko Winkler
(until 17 May 2018)
Former Chairman of the Executive Boards
of Westfälische Provinzial Versicherung AG,
Westfälische Provinzial Lebensversicherung AG,
Provinzial NordWest Holding AG

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

1 Employee representatives.

Württembergische Versicherung AG
Management report

Fundamentals

Business model

Overview of Württembergische Versicherung AG

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

Wüstenrot & Württembergische AG (W&W AG) holds 100% of the share capital of Württembergische Versicherung AG. The W&W Group positions itself and its subsidiaries as a financial planning specialist for financial security, property investment, risk protection and private wealth management.

Since the merger of the tradition-rich companies Wüstenrot and Württembergische in 1999, Württembergische Versicherung AG has been a part of the Wüstenrot & Württembergische Group in the Insurance division. The W&W Group brings together the Home Loan and Savings Bank and Insurance divisions as equally strong pillars and offers financial planning solutions for retail and commercial customers from a single source. Since spring 2018, the company has operated a third division, W&W brandpool. In this way, the W&W Group is continuing to press ahead with the digitisation of its business and enhance its business model.

In the year under review, the Executive Board underwent changes. Currently, Württembergische Versicherung AG is developing its corporate customer business. For this purpose, the company has established a dedicated field of responsibility for corporate customers. As of 1 January 2019, Jens Lison assumed responsibility for this field. The objective is to develop the corporate customer business potential even more effectively.

As of 1 July 2018, Thomas Bischof was appointed as the new Chairman of the Executive Board of Württembergische Versicherung AG and Württembergische Lebensversicherung AG. In 2017, he had already assumed responsibility for sales. In the course of the generation change, he succeeds Norbert Heinen.

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

The W&W Group is strengthening its financial management functions throughout the Group. In this context, Dr. Michael Gutjahr, the member of the Executive Board of W&W AG who is in charge of finance and HR, will focus on the growing challenges in the fields of group management, accounting and digital transformation. He is succeeded by Alexander Mayer, who has been in charge of investments and accounting in the Executive Boards of Württembergische Versicherung AG and Württembergische Lebensversicherung AG since 1 January 2019.

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

"W&W Better!" – venture into new areas is bearing fruit!

Württembergische Versicherung AG provides insurance services as a part of the financial planning specialist W&W. The vision of the W&W Group is "Creating value, securing value". In this spirit, we further enhanced our business model in 2018. By regularly launching new initiatives in order to make good things even better, we are striving to continue to pursue our successful course.

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

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

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

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

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

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

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

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

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

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

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

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

Product mix

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

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

In the year under review, the portfolio share of premium car policies remained at a very high level in the motor business segment. The performance level rose once again with the introduction of the new component “Wertausgleich+” in comprehensive motor insurance. The “Wertausgleich+” component secures the replacement value/ purchase price compensation, thereby further increasing the attractiveness of the premium car policies. The introduced telematics solution was received well. We have revised the niche segment motorcycles, making it even more attractive. We have also introduced the Premium and Compact product lines and rates.

The corporate customers business segment continued to grow, following on the successful previous year. The commercial core product “company policy” continues to form the basis for growth. The integration of cyber insurance as a component in the corporate policy has made this product considerably more attractive. Moreover, the service spectrum has been further expanded by including new target group products.

The legal expenses insurance and personal accident insurance were revised. The introduction of a customer loyalty advantage in the legal expenses insurance is especially noteworthy. The assistance benefits have been further expanded in both legal expenses insurance and personal accident insurance. In the product rating of Franke & Bornberg, the “PremiumSchutz” option available for the two products was rated as “outstanding” (FFF).

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

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

Sales channels

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

Commitment to sustainability

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

Württembergische Versicherung AG meets these criteria for non-financial reporting. Pursuant to Section 289b (2) sentence 1 no. 1 of the German Commercial Code (HGB), Württembergische Versicherung AG is exempt from the duty to prepare a separate non-financial report because it is included in the W&W Group Management Report.

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

Regulatory requirements

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

Business management system

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

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

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

For the financial years 2018 and 2019, these are earnings before taxes and the profit transfer in accordance with the German Commercial Code (HGB), along with the combined ratio (net). The combined ratio describes the ratio of expenses for insurance business and expenses for insurance claims to premiums earned.

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

Employees

As at 31 December 2018, Württembergische Versicherungsgruppe had 3,182.3 employees (previous year: 3,218.8 employees), calculated on the basis of full-time equivalents, excluding trainees.

Ratings

In the year under review, **Standard & Poor’s (S&P)** again confirmed the ratings of the core companies in the W&W Group with a stable outlook. Württembergische Versicherung AG has thus retained its “A–” rating. The risk management of the W&W Group continues to be classified in the “strong” category.

Business report

Business environment

Macroeconomic environment

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

Capital markets

Bond markets

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

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

Stock markets

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

Industry trends

In 2018, the financial services industry was again dominated by the continuing low interest rates 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.

Württembergische Versicherung AG occupies the 9th spot in the current ranking for property and personal accident insurers in the domestic direct business, based on gross premiums written. According to provisional calculations by the German Insurance Association (GDV), premium income went up about 3.3% towards the end of the year, reaching €70.6 billion (previous year €68.3 billion). Property insurance recorded the highest growth at 4.4%. With an increase of 3.4%, motor insurance also contributed to this premium growth. At 4.0%, the performance of legal expense insurance was the same as in the previous year.

Following high claims due to natural disasters and some major claims in property insurance, the claims expenses in the financial year went up 5.2%, an increase significantly above the premium growth rate. All in all, the technical result underwent a significant reduction to €3.4 billion (previous year: €4.5 billion). At 76%, the loss ratio in the financial year was slightly above the level of the previous year. The combined ratio (ratio of claims and expenses to premiums earned) deteriorated to approximately 95%.

Business development and position of the company

Business performance

The claims development in the financial year 2018 was excellent. The claims equalisation provisions were further strengthened with an addition of €12.6 million (previous year: €4.2 million). In 2018, Württembergische Versicherung AG achieved a gross combined ratio of 89.6% in its direct domestic business, more than 5 percentage points below the expected average of competitors. This reflects our cautious, income-oriented underwriting policy. Our gross premiums rose by 5.5%, a rate significantly higher than that of the market (3.3%).

New business clearly exceeded the figure of the previous year, coming in at €246.9 million (previous year: €232.0 million). Net income from investments dropped 60.7% to €40.8 million (previous year: €103.9 million).

Earnings before taxes and profit transfer declined from €169.6 million to €131.4 million.

Technical result marked by positive claims development

Despite the moderately higher gross claims expenses for damage from natural disasters amounting to €88.5 million (previous year: €73.6 million), Württembergische Versicherung AG saw a significant improvement of the claims development in the financial year 2018. The technical result before the allocation to the claims equalisation provisions increased from the already high amount of €151.7 million in the previous year to €167.4 million. After the allocation to the claims equalisation provisions, which was higher than in the previous year, the technical result amounted to €154.8 million (previous year: €147.5 million).

Lower net investment income

Net income from investments dropped 60.7% to €40.8 million (previous year: €103.9 million). Though current investment income increased to €94.9 million (previous year: €93.1 million) due to higher distributions from participations, the balance from write-ups and write-downs deteriorated from €4.6 million to €51.0 million. This especially reflected the write-downs on equity funds and pension funds that invest in emerging markets and bonds denominated in US$. Moreover, the balance from disposal gains and disposal losses dropped from €25.0 million to €11.2 million, especially as lower gains were realised and losses were incurred from the return of certificates for equity funds.

The net interest rate on investments stood at 1.5% (previous year: 3.9%).

Net profit, profit transfer to W&W AG

Despite the excellent actuarial development over the year, the net income from operations declined from €169.6 million to €131.4 million due to the significant drop in net income from investments. An amount of €131.7 million (previous year: €77.8 million) was transferred to the sole shareholder W&W AG. In 2018, no further amounts were allocated to the retained earnings. In connection with the adoption of the financial statements for 2017, the Executive Board and the Supervisory Board had allocated €44.0 million to the retained earnings, which had resulted in an outstanding unappropriated surplus of €44 million and thus in a sustainable strengthening of equity by a total of €88.0 million.

Financial performance

New business and premium income

Measured in terms of the annual contribution to the portfolio, new business amounted to €246.9 million, significantly more than in the previous year (€232.0 million). The cancellations in the portfolio of Württembergische Versicherung AG increased by a slight 1.4%.

The premiums of Württembergische Versicherung AG continued to grow well in 2018. Gross premium income increased by 5.5% to €1,847.7 million (previous year: €1,751.2 million). The premium income of Württembergische Versicherung AG for own account increased by 5.3% to €1,492.6 million (previous year: €1,416.8 million).

The net share after accounting for the reinsurers' portion fell slightly to 80.8% (previous year: 80.9%).

Gross premiums written in motor insurance increased by 5.5% from €765.5 million to €807.4 million. In retail customer business, premium income underwent year-on-year growth of 4.4% to €633.7 million (previous year: €606.9 million). In corporate customer business, Württembergische Versicherung AG's gross premium income written rose by 7.3% to €406.6 million (previous year: €378.8 million).

Claims development in the financial year

Despite an increase in gross claims expenses for natural disasters to €88.5 million (previous year: €73.6 million), the gross loss ratio of the financial year for domestic business amounted to 69.9%, less than the already very good figure of the previous year (72.1%).

Claims expenses for own account in Germany rose from €899.5 million to €924.5 million. The net loss ratio fell slightly to 62.0% (previous year: 63.6%). The amount of €12.6 million (previous year: €4.2 million) was added to the claims equalisation provisions.

Continued robust reserves

In 2018, net technical provisions increased from €2,330.1 million to €2,364.8 million. The main reason for this change was the increase in the provision for outstanding insurance claims as well as the further strengthening of the claims equalisation provisions.

Technical provisions for own account

	2018	2017	Change
			in %
Provisions for claims			
in € million	1,788.5	1,773.8	0.8
in % of premiums written	119.8	125.2	
in % of claims payments	197.3	205.1	
Claims equalisation provisions			
in € million	423.9	411.3	3.1
in % of premiums written	28.4	29.0	
Technical provisions			
Total in € million	2,364.8	2,330.1	1.5
in % of premiums written	158.4	164.5	

Expense ratio

The expense ratio (gross) in Germany deteriorated especially due to the higher remuneration of the mobile sales force as a result of the growth (+9.4%) to 27.6% (previous year: 26.7%). Total expenses for insurance business grew 8.6% from €467.8 million to €508.2 million, an increase higher than the premium growth rate.

Other expenses

Other expenses receded from €322.8 million to €270.3 million. Last year, this included a voluntary contribution to the Württembergische Pensionskasse.

Combined ratio better than strategic goal

Despite the higher cost ratio in the domestic business, the favourable claims trend resulted in a further improvement of the combined ratio of Württembergische Versicherung AG. In the financial year 2018, the combined ratio (gross) came in at 89.6%, a figure evenlower than that of the previous year (90.9%) and significantly below the strategic goal of 94%.

The business segments of Württembergische Versicherung AG

Gross premium income by business segment

	2018	Share
	in € million	in %
Motor	807.4	43.7
Retail customers	633.7	34.3
Corporate customers	406.6	22.0
Total	**1,847.7**	**100.0**

Motor

The business segment motor comprises the business lines motor liability, motor comprehensive insurance, motor accident insurance and traffic service insurance of Württembergische Versicherung AG. In 2018 premiums written increased by 5.5% to €807.4 million (previous year: €765.5 million).

Both the company's tied-agents organisation and the broker sales channel posted an increase in new business. Measured against the annual contribution to the portfolio, the new business in motor insurance underwent year-on-year growth of 6.5% to €178.7 million (previous year: €167.9 million).

The loss ratio in the financial year improved to 81.3% (previous year: 84.0%). Income from the previous year's claims dropped to €37.0 million (previous year: €44.1 million). The net technical result from the motor business segment rose significantly from €24.9 million to €34.9 million.

Private customers

This business segment mainly comprises the business lines residential buildings, household, general accident insurance, legal expenses and liability business involving private households. The gross premiums written went up 4.4% to €633.7 million (previous year: €606.9 million).

Net income from the retail customer segment came in at €73.8 million, a figure below the excellent level of the previous year (€86.2 million). With strong premium increases in the retail customer segment, general accident insurance and household insurance made the largest contributions to net income. All business lines – except for the residential building insurance – recorded positive results in the financial year 2018.

In the business line for residential building insurance, further success is evident from the measures to improve the profitability; however, the figures were impacted by the losses from natural disasters, which were much higher than in the previous year. While net income had been posted in the previous year, a net loss of €6.7 million (previous year: net income of €12.0 million) was recorded in 2018. The combined ratio (net) was 101.9%, i.e. above 100% (previous year: 88.7%). The gross premiums written increased by 7.8%, especially due to the successful increase of average premiums by 7.5%.

Corporate customers

This business segment includes the commercial and industrial property and liability business lines. Income in this segment from gross premiums written rose 7.3% from €378.8 million to €406.6 million.

In the financial year 2018, the gross loss ratio in the corporate customer business was 48.4% (previous year: 57.6%), significantly less than in the previous year, which had seen several major claims. The run-off ratio went up only slightly. Net income improved from €41.4 million to €57.6 million.

Business line reports

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

Direct business

- Personal accident insurance

Personal accident insurance comprises the business lines general personal accident insurance, aviation personal accident insurance and motor personal accident insurance. In the year under review, gross premiums increased by 2.3% from €136.2 million to €139.3 million. At the same time, the number of claims fell to 14,311 (previous year: 14,653). Despite the higher number of claims in the financial year, the loss ratio declined to 46.3% (previous year: 49.2%), an effect attributable to the significantly higher run-off result. In the technical account, personal accident insurance generated net income of €24.9 million (previous year: €23.8 million).

- General liability insurance

This business line consists of general liability business involving retail and corporate customers, as well as the aviation liability business. Gross premium income from this business line increased 4.3% from €199.2 million to €207.8 million. The loss ratio for the financial year improved from 52.3% to 48.1%. In the liability business line, the net technical result after the claims equalisation provision dropped to €66.9 million (previous year: €59.5 million).

- Motor insurance

In the year under review, gross premium income increased by 5.5% to €795.9 million (previous year: €754.3 million). Motor insurance recorded a positive net technical result before claims equalisation provisions of €34.8 million (previous year: €24.8 million). An amount of €3.8 million was allocated to claims equalisation reserves (previous year: withdrawal of €2.7 million).

- Motor liability insurance

In 2018, the motor liability insurance of Württembergische Versicherung AG covered 1,757,973 insured risks (previous year: 1,712,707). This corresponds to an increase of 2.6%. The number of reported claims amounted to 90,678, a figure similar to that of the previous year (89,961). In 2018, gross premiums written increased by 4.5% from €436.1 million to €455.5 million. The average claim rose by 3.8% to €3,728 (previous year: €3,592). The loss ratio in the financial year improved to 85.0% (previous year: 85.9%). The run-off gain in the motor liability insurance amounted to €31.7 million, less than in the previous year (€35.3 million). The net technical result before claims equalisation provisions stood at €19.6 million (previous year: €22.2 million). An amount of €5.1 million was allocated to the claims equalisation reserves (previous year: withdrawal of €5.8 million).

- Other motor insurance

Other motor insurance includes comprehensive and partial cover insurance. Gross premium income from this business line rose by 7.0% from €318.2 million to €340.4 million. The loss ratio in the financial year improved to 77.1% (previous year: 82.4%). In the other motor insurance business line, Württembergische Versicherung AG thus generated net income before the claims equalisation provision of €15.3 million (previous year: €2.6 million). In the financial year 2018, €1.3 million were withdrawn from the claims equalisation provisions (previous year: allocation of €3.1 million).

- Fire insurance

This business line comprises industrial fire insurance, general fire insurance and agricultural fire insurance. Gross premium income increased by 5.7% from €67.9 million to €71.8 million. The gross loss ratio for the financial year dropped significantly to 69.4% (previous year: 106.0%). One of the reasons for this development was the greatly reduced burden from individual major claims. Despite the significant strengthening of the claims equalisation provision in the amount of €10.5 million (previous year: €0.2 million), the net technical result before claims equalisation provisions improved slightly from €1.1 million to −€1.0 million.

- Household insurance

In 2018, gross premium income from household insurance increased by 3.4% to €94.3 million (previous year: €91.2 million). Following a clear improvement in the previous year, the claims situation remained almost the same in the year under review. The loss ratio of the financial year increased slightly from 35.8% to 36.3%. The net technical result improved to €24.1 million (previous year: €23.4 million).

- Residential building insurance

As in the previous year, premiums increased significantly. In 2018, gross premiums increased by 7.8% to €186.2 million (previous year: €172.7 million), though the number of policies increased only slightly by 0.9% to 455,436. Due to an increased number of natural disaster claims, reported claims rose considerably by 16.6% from 43,898 to 51,179. At the same time, the average claim went up by 6.4% from €2,367 to €2,518. The loss ratio in the reporting period rose to 74.5% (previous year: 61.5%). For the first time in several years, the net technical result was negative, amounting to €6.7 million, significantly below the income of €12.0 million that had been generated in the previous year.

- Other property insurance

This business line comprises insurance for burglary and damage from ruptured water lines, glass breakage, storms and natural disasters, as well as technical insurance, extended coverage and products that span multiple business lines in the commercial and industrial area. The entire business line posted a gross premium increase of 7.7% to €183.6 million (previous year: €170.5 million). The loss ratio of the financial year increased only slightly to 67.9% (previous year: 66.0%). As a result, the net technical result before the claims equalisation provision amounted to €1.8 million (previous year: €3.7 million). An amount of €15.0 million was withdrawn from the claims equalisation provisions (previous year: allocation of €2.9 million).

- Transport and aviation insurance

Gross premiums written in transport and aviation insurance increased by 16.8% to €22.3 million (previous year: €19.1 million). The net loss ratio improved from 69.3% to 55.7%. Following a narrow underwriting loss of €0.8 million before the claims equalisation provision in the previous year, positive income of €1.6 million was generated in the reporting period. An amount of €1.3 million was allocated to the claims equalisation reserves (previous year: withdrawal of €0.5 million).

- Legal expenses insurance

Gross premium income from legal expenses insurance increased by 4.1% to €119.6 million (previous year: €114.9 million). The number of reported claims increased by 3.6% from 106,816 to 110,641. By contrast, the average claim dropped from €700 to €664. The loss ratio improved from 62.2% to 55.7%. The technical result before the claims equalisation provision came in at €11.4 million (previous year: €6.2 million). An amount of €7.0 million (previous year: €1.9 million) was allocated to the claims equalisation provision.

- Travel assistance insurance

This business line consists solely of travel service insurance. Gross premium income increased by 4.3% from €10.3 million to €10.7 million. The gross loss ratio for the financial year improved to 58.4% (previous year: 62.6%). The net technical result before claims equalisation provisions remained unchanged at €0.2 million. An amount of €0.9 million (previous year: €0.8 million) was allocated to the claims equalisation provision.

- Other insurances

The fire business interruption insurance and other products that pertain to multiple business lines are summarised under other insurances. In the financial year 2018, gross premiums in this area increased by 8.1% to €16.1 million (previous year: €14.9 million). Year on year, the gross loss ratio of the financial year increased significantly to 52.6% (previous year: 90.0%). Other insurances generated a net technical result before claims equalisation provisions of €3.9 million (previous year: €0.1 million). An amount of €1.1 million was allocated to the claims equalisation reserves (previous year: withdrawal of €1.3 million).

Assumed reinsurance business

Until the end of 2007, the assumed reinsurance business had been underwritten almost exclusively by the London branch of Württembergische Versicherung AG. It mainly comprises the processing of policies from the business lines technical insurance, transport insurance, liability insurance, fire insurance and other insurance. Assumed reinsurance business generated a net technical result of €1.6 million (previous year: €0.0 million).

Assets position

Investments

Challenges for the investments

In the financial year 2018, the situation remained difficult for investment management due to the persistently low interest rates as well as economic and geopolitical risks. The front and back offices closely coordinated their operations at all times. For instance, we continued to ensure that the high requirements were met with respect to the quality of our investments.

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

The entire carrying amount of investments was €2.7 billion, as in the previous year.

Continued development of the bearer bonds in the direct portfolio

New investments in the amount of €406.4 million were made mainly in bearer bonds in the direct portfolio. These investments were broadly diversified and mainly targeted issues of public obligors and financial institutions. Taking repayments and sales into consideration, the carrying amount of these securities increased from €560.6 million to €706.1 million. Their share of the total investments increased to 26.3% (previous year: 20.8%).

In the just-completed financial year, the portfolio of registered bonds, promissory notes, loans and other loans decreased slightly. Their carrying amount fell from €603.4 million to €515.6 million. Their share in the total investment portfolio declined from 22.4% to 19.2%.

Through the return of equity and pension fund certificates and as a result of write-downs, the carrying amount of the shares in investment assets declined from €859.3 million to €704.9 million. Accordingly, the portfolio ratio of all investments dropped from 31.8% to 26.3%.

Significant decline of share ratio
In view of the volatility of the stock markets and the significant risks involved, the equity exposure of Württembergische Versicherung AG was reduced. Taking into account the futures entered into and the market value of the option positions, the equity ratio thus amounted to 5.3% (previous year: 11.0%). As at the end of the year, 88.0% of the equity exposure were hedged.

Participations continue to grow
Notwithstanding disposals, the carrying amount of participations and interests in affiliated companies nevertheless increased from €401.8 million to €452.7 million. Participations were acquired in the fields of renewable energies, private equity, private debt and infrastructure.

Real estate
In the 2018 financial year, the carrying amount of real estate directly held by Württembergische Versicherung AG decreased to €75.1 million (previous year: €82.1 million) due to scheduled depreciation amounting to €7.1 million.

Against the backdrop of the construction of the W&W campus in Kornwestheim, the residual useful life of the administration building at the Feuerseeareal in Stuttgart has become shorter, resulting in depreciation that was €5.1 million higher than in the previous year.

Through its real estate management subsidiary Württembergische Immobilien AG, Württembergische Versicherung AG acquired shares in a property company that owns serviced apartments in Vienna. Based on market value, the share of directly and indirectly held real estate in total investments increased from 10.6% to 11.1%.

Lower valuation reserves
Although interest rates on the capital markets in the euro zone dropped slightly in the course of 2018, the net reserves (i.e. reserves less liabilities) dropped from €257.0 million in the previous year to €201.9 million in the year under review. This was especially due to declining equity prices, higher interest rates outside the euro zone, profit-taking and expanded credit spreads for bonds with longer terms to maturity. As in previous years, the valuation option pursuant to Section 341b (2) of the German Commercial Code (HGB) was not exercised.

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

Financial position

Capital structure

Due to the business model of the property and personal accident insurance, the liabilities side is dominated by the technical provisions.

These amounted to €2,364.8 million (previous year: €2,330.1 million) and thus accounted for 76.3% (previous year: 76.8%) of the liabilities. Of this amount, the provision for outstanding insurance claims accounted for €1,788.5 million (previous year: €1,773.8 million), the claims equalisation provision and similar provisions for €423.9 million (previous year: €411.3 million), the provision for unearned premiums for €117.0 million (previous year: €114.4 million) and the provision for future policy benefits and other technical provisions for €35.4 million (previous year: €30.5 million).

Following the outstanding unappropriated surplus in the previous year and the associated increase of the equity to €350.6 million, the entire income was again transferred to the parent company W&W AG. Subordinated liabilities again amounted to €30.0 million.

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

Liquidity

We manage our liquidity in such a way as to enable us to meet our financial obligations at all times and on a sustained basis. In 2018 our liquidity was always sufficient. For further information about the liquidity position, please see the opportunity and risk report.

Overall view

The net assets, financial position and financial performance of Württembergische Versicherung AG are stable and orderly. Following the successful year 2017, the actuarial performance of 2018 was again marked by excellent claims development. Net income from investments was 60.7% lower than in the previous year. Nevertheless, we are highly satisfied with the results achieved.

Comparison of business development with outlook

The following comparison of current business performance with the forecasts made in last year's annual report shows that as a whole, Württembergische Versicherung AG performed well.

At +6.4%, the new business was considerably higher than in the previous year, as projected. Especially the new business in the motor and private customer business increased considerably compared to 2017.

Thanks to the excellent claims development, the combined ratio (net) remained further below the target figure of 94% than expected, despite the higher cost ratio.

As a whole, the outstanding technical result was marked by the very good claims development in 2018. It was better than expected. This was also attributable to the risk-conscious underwriting policy that we have pursued in recent years. Due to the projected decline in investment income, in particular, earnings before taxes amounted to €131.4 million (previous year: €169.6 million) – significantly less than in the previous year, but still at a high level, as predicted.

Opportunity and risk report

Opportunity report

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

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

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

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

External influences

Company and customers

Opportunities through changed customer needs and changed values

Württembergische Versicherung AG wants to make financial planning from a single source an everyday reality. To ascertain our customers' needs and gain constant customer feedback, we engage in intensive market research. The Net Promoter Score (NPS) is used to gauge the willingness of customers to recommend us and their satisfaction with the products and service of Württembergische Versicherung AG. Our sales organisations and partners also provide valuable impetus for changes in customer needs and trends.

Our customers increasingly expect simple, transparent, individualised and flexible products as well as networking across all interaction channels. The growing need for financial security offers tremendous business opportunities. With its sustainable, integrated advisory approach and its target group concepts and solutions, Württembergische Versicherung AG adapts strategically to the changed financial planning market.

Especially in times of uncertainty, there is great demand for a stable financial provider with a high degree of credibility. As a reliable provider, Württembergische Versicherung Group stands out with its long-standing tradition and insurance expertise. We combine this outstanding foundation with our personal advisory approach and new digital possibilities. Digital advances have materially changed the expectations of many existing and potential customers. Communication between customers, sales and back office is increasingly taking place on the basis of digital technology. The dissemination and use of digital media enable more intensive and targeted customer contact along with corresponding sales potential. In the age of the Internet, social media and intensified use of various devices such as smartphones, speed is vital to achieve customer satisfaction and is thus increasingly becoming a critical success factor.

Customers want to be able to contact us regardless of office hours or distance via their preferred medium and manage their affairs independently via self-service. The increasing mobility and new lifestyles of customers pave the way for individualised offers and approaches.

Opportunities due to demographic changes and the dynamics of change

Demographic change and a changing society offer new growth opportunities.

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

Economy

Opportunities through interest rate trends and capital markets

The low interest rate policy in Europe continues to pose challenges for financial services providers, but also offers opportunities. The economic prospects in our core market of Germany remain positive. The forecasts for Germany assume continued, though slight, economic growth, a low unemployment rate, rising income and stable saving rates. In view of these economic trends, we anticipate corresponding momentum in customer business.

Moreover, the importance of effective investments is rising. As a traditionally large investor, we have long-standing capital market expertise and a comprehensive risk management system. Our investments are based on a strategic asset allocation that we align with opportunities and risks in the course of our consistent value and risk-oriented investment strategy, while maintaining the flexibility needed for making use of opportunities at short notice.

Politics

Opportunities through increasing regulation and consumer protection

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

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

Technology

Opportunities through digitisation and technical progress

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

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

In 2018, we further expanded our new digital brand Adam Riese and introduced the fourth product within a year. Like personal liability insurance, legal expenses insurance, business liability insurance and dog owner liability insurance, household insurance is also designed to make use of a fully digital application and settlement process. Additional products, such as a contents insurance, are in the planning stage.

Opportunities in the data age

The responsible, targeted use of customer data enables us to create personalised products. With additional information, we can better assess risks and avoid claims. In addition, new, attractive business models arise through the use of data.

Opportunities through digital networking

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

Internal influencing factors

Opportunities through market position

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

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

Approaching customers via multiple sales channels enables us to systematically place our financial planning products. Our strategic aim is to meet the needs of our customers. When designing our products, we always focus on what they want. Accordingly our products regularly receive the highest rating. We also have significant opportunities through optimisation of our sales channels. These consist, in particular, of the determined digitisation of customer contact points and relieving employees of routine administrative tasks.

Opportunities through our employees

As a sound and attractive employer, we are able to retain highly qualified employees and executives on a long-term basis. By acquiring new employees, we constantly expand our know-how.

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

Risk management system of Württembergische Versicherung AG

The targeted and controlled assumption of risk for the purpose of achieving defined return targets is an integral part of our corporate governance. As an insurance company, the management of risks is one of our core competencies. Thus, our risk management system is an element of our business organisation.

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

Core functions and objectives

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

- **Legal:** To ensure compliance with relevant risk-related internal and external requirements.
- **Protection of the going concern:** Avoidance of risks that endanger the going concern – protecting the company as a whole and preserving the capital base as a key precondition for the going concern.
- **Quality assurance:** Establishment of a joint risk understanding, pronounced risk awareness, a risk culture and transparent risk communication.
- **Value creation:** Governance and action impetus in the case of deviations from the risk profile, impetus for risk hedging and conservation of value, promotion and assurance of sustainable value creation for shareholders, perception of opportunities.

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

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

Risk management framework

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

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

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

Capital management

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

It is controlled in parallel from two perspectives:

Regulatory capital adequacy

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

Economic capital adequacy

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

Responsibilities in the risk management system/risk governance

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

The **Executive Board** bears the overall responsibility for the proper organisation of the business of Württembergische Versicherung AG and thus also for an appropriate, effective risk management system. Accordingly, the Executive Board ensures that the risk management system is effectively implemented, maintained and enhanced. This also includes developing, promoting and integrating an appropriate risk culture.

In its role as the control body overseeing the Executive Board, the **Supervisory Board** of Württembergische Versicherung 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 **Audit Committee** regularly assures itself that the organisation of risk management in each area of responsibility is appropriate and effective. It reports to the Supervisory Board on this.

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

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

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

We ensure compliance with internal governance rules by means of our internal governance body structure. The **Group Board Risk** is a key element of this structure. This central body coordinates risk management and monitors the risk profile in the W&W Group. Moreover, it deliberates on Group-wide risk organisation standards and the use of risk management methods and instruments that are uniform throughout the Group. Other central bodies are the Group Liquidity Committee, the Group Compliance Committee, the Group Credit Committee and the Group Security Committee.

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

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

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

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

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

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

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

Risk management process

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

Risk identification

Within the scope of the risk inventory, we regularly record, update and document assumed or potential risks. On the basis of an initial assessment by the responsible business units, we use threshold values to classify our risks as material or immaterial risks. In connection with this assessment, we also evaluate the extent to which individual risks can take on a material character through interaction or accumulation (risk concentrations). The risks that we classify as material are actively managed in the following four steps of the risk management process. By contrast, risks that are classified as immaterial are reviewed at least once a year by the individual business units. We present the results of risk identification in our risk inventory. In doing so, we describe which companies may experience individual risks.

Risk assessment

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

Risk taking and risk governance

In our risk strategy, we define how assumed and future risks are to be handled. On this basis, the operational business units decide whether a risk conforms to these requirements and should be assumed (risk taking). During the year, we manage the risk positions we assume with the help of the methods determined in the risk strategy. This includes thresholds, signal systems and limit and line systems (risk governance). The regulatory and economic risk-bearing capacity as well as division-specific indicators are used as key management parameters. These perspectives examine our ability to comply with our obligations towards all claimants.

Risk monitoring

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

Risk reporting

We regularly report to the Risk Board, the Executive Board and the Supervisory Board in a timely manner about the risk position of Württembergische Versicherung AG. Among other things, these reports present the amount of available capital, the risk capital requirement, the compliance with limits and lines and the risk governance measures that have already been taken and that still need to be taken. Ad-hoc risk communication takes place when material events occur.

Risk profile and material risks

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

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

The risk areas are quantified according to our economic model. Market price risks accounted for 33.0% (previous year: 46.0%), counterparty risks for 6.5% (previous year: 9.7%), insurance risks for 55.2% (previous year: 38.5%) and operational risks for 5.3% (previous year: 5.8%). The rise in the field of actuarial risks is attributable to a changed modelling of the natural disaster risk and the portfolio growth. We take business risks into consideration in our calculation of risk-bearing capacity by applying a discount when determining the capital available for risk coverage. For Württembergische Versicherung AG, the main liquidity risk pertains to the inability to settle claims after unusually high losses. As these are already shown as part of the insurance risk, no separate risk capital requirement is presented.

As at the reporting date 31 December 2018, the total risk capital requirements of Württembergische Versicherung AG amounted to €725.6 million. The individual risk areas and – where relevant to the overall assessment – the individual risk types are described in the following sections.

Market price risks

We define market price risks as potential losses resulting from the uncertainty concerning the future development (size, volatility and structure) of market risk factors. Such market risk factors include interest rates, share prices, commodities prices, real estate prices and enterprise values, risk premiums (credit spreads) for a given credit risk as well as foreign exchange risks.

Strategic asset allocation forms the basis of our investment policy, making it one of the most significant factors that influence our situation with respect to market price risks. In this context, we place emphasis on an appropriate mix and spread of asset classes, as well as on broad diversification by industry, region and investment style. With our investments, we pursue a security-oriented investment policy. The principle of business prudence, which is codified in the German Act on the Supervision of Insurance Undertakings (VAG) and constitutes a principles-based approach, forms the regulatory framework for our investment policy. Additionally, various investment-related interpretation decisions of the German Federal Financial Supervisory Authority (BaFin) are taken into consideration. When making investments, the security, quality, liquidity and profitability of the portfolio as a whole must be ensured. Our internal investment policy, which contains detailed regulations concerning the compliance with investment principles and a company-specific schedule of investments with respect to both quality and quantity, is based on the principle of business prudence.

Apart from the general internal policy, there are special policies for the use of items such as forward purchases, forward sales, derivative financial instruments, structured products and asset-backed securities.

The said internal policies, which govern the operational investment activities, are supplemented by an internal investment risk management policy. This policy describes the strategic, organisational and operational framework of the investment risk management.

Interest rate risk

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

▪ Increase by 50 basis points	€52.3 million
▪ Increase by 100 basis points	€104.9 million
▪ Decline by 100 basis points	+€104.1 million
▪ Decline by 50 basis points	+€51.8 million

Share risk

Sudden and severe price slumps on stock markets may impair risk-bearing capacity in the form of write-downs through profit or loss. Share risks are reduced with corresponding hedging strategies using derivatives (e.g. put options, short futures). We continued to maintain a high hedging level in our equity portfolio in 2018. Further disclosures concerning hedges are presented in the notes concerning assets. To assess market price risks, we regularly conduct simulations for our share portfolios (including share-based derivatives). Where the price fluctuates by +/–10% or +/–20%, the market value of all equities would change as follows:

▪ Increase by 20%	+ €21.5 million
▪ Increase by 10%	+ €10.3 million
▪ Decrease by 10%	€9.1 million
▪ Decrease by 20%	€16.7 million

Real estate risk

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

Foreign currency risk

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

Credit spread risk

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

The core elements of our risk management methods and our risk controlling for the risk area market price risk are as follows: Asset liability management, limit system and economic risk-bearing capacity model, risk line system, participation controlling, congruent coverage, new products process and market monitoring.

Counterparty credit risk

Counterparty credit risks are potential losses arising from the default or deterioration of the credit rating of borrowers, investments or other debtors (e.g. reinsurers, brokers).

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

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

Counterparty credit risks associated with investments

Pursuant to our strategic orientation, our bond portfolio has a conservative credit rating structure, with 94.8% (previous year: 92.8%) of investments being in the investment grade range. Our bond exposure generally has a good collateralisation structure. Most of the investments with financial institutions are secured by government guarantees or by cover funds.

By way of various special securities funds, we hold investments in bonds of issuers in the field of emerging markets. This market segment is impaired by global economic and political risks as well as country-specific problems that are attributable to various causes. The exposure is being monitored carefully. A (re-)investment ban exists for debtors that are especially problematic. Currently, no specific defaults are evident in our fund mandates. As at 31 December 2018, their volume by carrying amount totalled €206.4 million, a share of 7.7% of our investment portfolio. We will maintain this exposure, as we can see a long-term performance potential with attractive returns.

Other counterparty risks

The risk of receivables default in reinsurance business has consistently remained at a low level. Currently, no material risks are foreseeable. Also, our retrocessionaires have good credit ratings. As at the end of the reporting period, recognised receivables from reinsurance business amounted to €49.0 million (previous year: €33.6 million). Of these, 4.6% (previous year: €6.8%) were owed by companies with an “A–” or better rating and 95.4% (previous year: 93.2%), by companies with a “BBB” rating as classified by Standard & Poor’s. Disclosures concerning receivables from policyholders, insurance agents and others are presented in the notes concerning assets.

Insurance risks

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

Württembergische Versicherung AG conducts primary insurance business in property and personal accident insurance for retail and commercial customers in its core market Germany. In doing so, it also relies on digital sales channels (e.g. the digital brand Adam Riese). The discontinuation of new underwriting at the UK branch of Württembergische Versicherung AG at the end of 2007 has greatly reduced the international risk exposure of our company. In accordance with internal provisions, we only enter into insurance transactions whose risks do not pose a threat to the company as a going concern. This is supported by means of optimisations in cost and claims management. Incidental risks that cannot be influenced are limited with suitable and adequate protective instruments (e.g. reinsurance).

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

Württembergische Versicherung AG no longer engages in active reinsurance business. Terror risks have been largely excluded from the policies or forwarded to the special insurer Extremus.

Facts and analysis results that have a bearing on risk are presented in the quarterly risk report and discussed in the Executive Board, in bodies that meet on a regular basis and in diverse workgroups and projects. We use a stochastic model to measure insurance risks in the economic model. We collaborate with specialised reinsurance companies and brokers for the purpose of simulating natural disaster events.

The loss from insurance risks is limited by means of defined risk limits. The limit utilisation is monitored continually. The principles and objectives of the underwriting policy and the definition of permissible transactions and the associated responsibilities are documented in strategies and underwriting guidelines and are reviewed at least once a year. Our pricing and underwriting policy is risk and income-oriented. Risks are underwritten according to defined guidelines and under consideration of sector-specific maximum underwriting amounts. For example, the natural disaster risk is countered with risk-oriented prices, adjusted contract terms and conditions for critical disaster zones and risk exclusions. Apart from risk balancing through our sector and product mix, efficient loss management and a cautious loss reserve policy limit the gross insurance risk. Adequate reinsurance protection for individual risks and for accumulation risks across business lines significantly reduces the insurance risks in property and personal accident insurance. The reinsurance programme is adjusted on a yearly basis under consideration of risk-bearing capacity.

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

Premium risk

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

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

in %	Loss ratios	Run-off ratios
2008	72.0	5.9
2009	63.3	9.7
2010	69.5	7.8
2011	64.4	8.7
2012	67.2	7.5
2013	74.1	6.8
2014	68.5	4.9
2015	65.8	6.8
2016	63.8	6.7
2017	63.8	6.6
2018	61.8	7.1

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

Reserve risk

A reserve risk exists in the event of inadequate claims reserves. The settlement of claims can fluctuate with respect to time and amount; thus, the reserves set up may not be sufficient in the case of a significant increase in claims benefits for past claims. Moreover, despite the discontinuation of new underwriting for the UK subsidiary,Württembergische Versicherung AG is liable for the business underwritten until and including 2007. While the resulting reserve risk is virtually unchanged, it is still significant due to the increase in the volume of claims reserves to be settled to €82.7 million (previous year: €77.7 million) as a result of the commutation of a reinsurance contract within the Group.

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

Operational risks

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

Operational risks are unavoidable when engaging in general business activities.

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

Business risks

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

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

If the company's reputation or brand is damaged, there is a risk of losing business volume immediately or in the future. This could lower the enterprise value. As financial planning specialists, we greatly depend on our reputation among customers and business partners as a sound, secure company. We continuously monitor Württembergische Versicherung AG's public image, and when critical events occur, we strive to maintain our reputation through transparent communication policies.

The strategic goals of Württembergische Versicherung AG are operationalised and advanced by means of strategic measures. In the context of "W&W Better!", the individual action fields are bundled and stringently managed. The principles and objectives of business policies and the sales and revenue goals derived from them are contained in the business strategy and the sales forecasts. The Executive Board is responsible for managing business risks. Depending on the reach of a decision, coordination with the W&W Group and with the Supervisory Board may be necessary.

Liquidity risks

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).

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

Our liquidity management is geared towards being able to meet our financial commitments at all times and on a sustained basis. Our investment policy focuses, among other things, on ensuring liquidity at all times. In this context, we observe and always comply with existing statutory, supervisory and internal provisions. Through forward-looking planning and operational cash management, the established systems are designed to identify liquidity shortages and respond to expected liquidity shortages with suitable measures at an early stage.

Assessment of the overall risk profile

As in the previous year, economic and regulatory risk-bearing capacity was sufficient in the year under review. As at the reporting date, the regulatory risk-bearing capacity was likely well above 100%. The final results will be published in the second quarter. The ratio calculated as at 31 December 2017 was reported to the German Federal Financial Supervisory Authority (BaFin) in the second quarter of 2018. The calculated ratio was 195.7%.

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

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

Developments and outlook

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

Systematic advancement of the existing Group-wide risk management system is intended to ensure the stable, sustained development of Württembergische Versicherung AG in future as well. In the 2019 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 along our risk management process. In addition, the W&W Group is making targeted preparations for future regulatory requirements through extensive Group-wide projects.
All told, Württembergische Versicherung AG is well equipped to successfully implement the internal and external requirements for risk management.

Outlook

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

Macroeconomic outlook

The ongoing strong domestic demand is a sign that the German economy continues to develop positively, meaning that that W&W Group will most likely continue to find itself in a favourable economic environment in 2019. Private consumer demand and corporate investments are expected to be the most important growth drivers. The prospects for the German real estate sector remain favourable in view of the fact that interest rates are still very low and the demand for housing and renovation continues to be strong. Most analysts project the German economy will grow 0.8 1.2% in 2019. The economic outlook is thus slightly more restrained than in 2018, but nevertheless favourable.

We expect the historically low interest rates on the European bond markets to persist in 2019. As the Fed has indicated a break in its interest rate hike for the time being, the potential for higher interest rates is limited. The ECB itself intends to raise the key interest rates for the first time in autumn 2019. The yield curve will probably be somewhat steeper. However, this scenario will only materialise if the political situation remains stable.

Generally speaking, the conditions on the European stock markets are favourable. Rising corporate profits and the lack of other investment alternatives suggest an investment in equities. However, price fluctuations are likely to remain high in 2019 as well, especially due to higher political risks that could pose a threat to the economic outlook and curb the risk tolerance of investors and thus their interest in equities. In particular, an escalation of the current trade dispute between the leading economic regions could result in a significant slowdown in the global economy and a noticeable worsening of the economic environment for companies. Moreover, dwindling economic dynamics could curb the world of commerce.

Industry outlook

The favourable economic situation of private households supports the business performance in property and personal accident insurance, about two thirds of whose premium income comes from private households. Despite the advanced market penetration in many areas, further quantity growth is expected. On the other hand, current challenges (e.g. lower investment income, need for investments in digitisation) could impact business performance.

In the industrial and commercial sectors, weaker economic performance usually affects the premium growth only after a certain delay. Thus, a slightly weaker, but all in all still steady premium growth can be expected.

Premium growth of about 2.7% is expected on the property/personal accident insurance market.

Growth rates in private property insurance are expected to reach high levels similar to those of the previous year. An increase of 4.6% is considered to be possible. In the business line motor insurance, the premium income will perform slightly less dynamically. Premium growth of 3.0% is expected for 2019. Moderate premium growth is anticipated in all other business lines, though below that of the previous year.

Future business performance

The following outlooks relate to the coming financial year and are based on estimates made in the macroeconomic outlook chapter. For the company forecasts, our planning assumptions included moderately increasing interest rates and share prices.

In property and personal accident insurance, we continue to strive for greater income from the sale of insurance to private and corporate customers. In 2019, we target a moderate increase of the new business compared to the previous year. The claims development in the financial year 2018 was extraordinarily good. We expect claims development in 2019 to continue to be good, but normalised. A combined ratio (net) of less than the long-term goal of 94% is anticipated.

We expect the earnings before taxes and the profit transfer to drop significantly in 2019. This is due to the technical result declining to its normal level along with only a minor rise in investment income. For our forecasts, we assume normal claims development and no extraordinary events on the capital markets. Opportunities and risks may result from the further development of claims, interest rates, capital markets, the economy and the political climate. The strategic alignment, e.g. in relation to additional sales channels or cost optimisation, represents an additional opportunity. Other risks may arise from counterparty defaults and increased regulatory or statutory requirements.

Overall view

Despite political and foreign trade risks, Württembergische Versicherung AG as part of the W&W Group continues to operate in a favourable economic environment, backed by private consumer demand and corporate investments.

With “W&W Better!”, the focus is on the benefits for the customer and the unique W&W concept of financial planning from a single source.

For further information about the strategy of the W&W Group and the product mix of Württembergische Versicherung AG, please see the section “Business model” in the chapter “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. The liquidity planning shows that in 2019, we will have sufficient liquidity available at all times. For further information about the liquidity position, please see the opportunity and risk report in the section “Liquidity risks”.

Given the anticipated normalised claims development, we expect a significant decline in earnings before taxes and the profit transfer to the parent company in 2019.

In addition to the aforementioned challenges, further risks such as extreme losses, special capital market events or political uncertainty can have a significant impact on our net income.

Proviso concerning forward-looking statements

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

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

Therefore, the company does not assume any 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

Relationships with affiliated companies

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

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

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

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

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

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

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.

The settlement of claims in the field of the legal expenses insurance has been transferred to Württembergische Rechtsschutz Schaden-Service-GmbH under a service agreement that regulates the services and the billing according to the full cost principle.

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

The domestic reinsurance business is largely reinsured by W&W AG, which in turn passes on some of the assumed risks to external reinsurers via retrocession. Some of the insurance transactions underwritten overseas, small portions of the domestic insurance business and the business reinsured via the German market pool are excluded from this arrangement.

Corporate governance statement

The Supervisory Board of Württembergische Versicherung AG has adopted a target ratio of 25% for the proportion of women on the Supervisory Board. Currently, four women serve on the Supervisory Board; the target has been reached. For the proportion of women on the Executive Board, the Supervisory Board has determined a target ratio of 20%, which is to be reached by 30 June 2022. Currently, one woman serves on the Executive Board.

The Executive Board of Württembergische Versicherung AG has determined that women are to make up 25% of the first executive level below the Executive Board and 30% of the second executive level. These goals are to be reached by 30 June 2022.

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

In the Annual Report 2017, we published a report on equality and equal remuneration pursuant to the German Transparency in Remuneration Act (EntgTransG).

According to the five-year rule pursuant to Section 22 (1) of the German Transparency in Remuneration Act (Entg-TranspG), we did not prepare a new report for 2018.

Württembergische Versicherung AG
Annual financial statements

Balance sheet as at 31 December 2018

Assets

in € thousands	See notes, no.[1]	31.12.2018	31.12.2018	31.12.2018	31.12.2017
A. Intangible assets					
Licenses acquired against payment, industrial property rights and similar rights and assets, as well as licenses for such rights and assets	1			10	30
B. Investments					
I. Land, land-type rights and buildings, including buildings on third-party land	2		75,051		82,123
II. Investments in affiliated companies and participations	3				
1. Interests in affiliated companies		235,867			206,661
2. Loans to affiliated companies		47,762			52,050
3. Participations		216,881			195,150
			500,510		453,861
III. Other investments					
1. Shares, interests or shares in investment assets and other variable-yield securities		707,104			859,721
2. Bearer bonds and other fixed-income securities	4	706,135			560,616
3. Mortgage debt claims, mortgage loans and annuities	5	89,853			89,736
4. Other loans	6	515,621			603,382
5. Deposits with credit institutions		86,247			49,909
6. Other investments		2			2
			2,104,962		2,163,366
				2,680,523	2,699,350
C. Receivables					
I. Receivables from direct insurance business due from:	7				
1. Policyholders		19,118			19,121
2. Insurance brokers		30,638			31,104
			49,756		50,225
II. Amounts receivable on reinsurance business			49,049		36,628
Thereof from affiliated companies: €46,807 thousand (previous year: €34,131 thousand)					
III. Other receivables	8		164,625		146,113
Thereof from affiliated companies: €145,213 thousand (previous year: €126,618 thousand)				263,430	232,966
Carryover				**2,943,963**	**2,932,346**

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

Assets

in € thousands		31.12.2018	31.12.2018	31.12.2018	31.12.2017
Carryover				**2,943,963**	**2,932,346**
D. Other assets					
I. Property, plant and equipment and inventories	9		10,971		11,526
II. Current accounts with banks, cheques and cash			116,282		64,617
				127,253	76,143
E. Deferred assets					
I. Deferred interest and rental income			18,193		19,293
II. Other deferred assets	10		1,632		2,143
				19,825	21,436
F. Excess of plan assets over pension liabilities	11			7,011	4,617
Total				**3,098,052**	**3,034,542**

Liabilities

in € thousands		31.12.2018	31.12.2018	31.12.2018	31.12.2017
A. Equity					
I. Called-up capital	12				
Share capital			109,312		109,312
II. Capital reserve	13		76,694		76,694
III. Retained earnings	14				
Other retained earnings			164,557		120,557
IV. Unappropriated profit			–		44,000
				350,563	350,563
B. Subordinated liabilities	15			30,000	30,000
C. Technical provisions	16				
I. Provision for unearned premiums					
1. Gross amount		134,850			131,508
2. Thereof to: portion for ceded reinsurance business		17,867			17,094
			116,983		114,414
II. Provision for future policy benefits					
1. Gross amount		79			71
2. Thereof to: portion for ceded reinsurance business		12			11
			67		60
III. Provision for outstanding insurance claims					
1. Gross amount		2,288,027			2,289,333
2. Thereof to: portion for ceded reinsurance business		499,507			515,505
			1,788,520		1,773,828
IV. Claims equalisation and similar provisions			423,945		411,311
V. Other technical provisions					
1. Gross amount		37,929			35,818
2. Thereof to: portion for ceded reinsurance business		2,623			5,373
			35,306		30,445
				2,364,821	2,330,058
Carryover				**2,745,384**	**2,710,621**

Liabilities

in € thousands		31.12.2018	31.12.2018	31.12.2018	31.12.2017
Carryover				**2,745,384**	**2,710,621**
D. Other provisions					
I. Tax provisions			6,172		6,567
II. Other provisions	17		58,531		58,387
				64,703	64,954
E. Deposits retained from ceded reinsurance business				27	119
F. Other liabilities					
I. Liabilities from direct insurance business owed to:	18				
1. Policyholders		62,156			52,823
2. Insurance brokers		33,780			33,432
			95,936		86,255
II. Accounts payable on reinsurance business			257		8,079
Thereof to affiliated companies: €— thousand (previous year: €7,876 thousand)					
III. Miscellaneous liabilities	19		191,643		164,397
Thereof for taxes: €20,722 thousand (previous year: €20,333 thousand) Thereof to affiliated companies: €146,861 thousand (previous year: €199,352 thousand)				287,836	258,731
G. Deferred liabilities	20			102	117
Total liabilities				**3,098,052**	**3,034,542**

Personal accident and liability insurance

We confirm that the provision for future policy benefits as presented in the balance sheet under the liability items C. II. 1. and C. III. 1. in the amount of €156,642 thousand was recognised pursuant to Section 341f of the German Commercial Code (HGB) and on the basis of the legal regulations issued on the basis of Section 88 (3) of the German Insurance Supervision Act (VAG) (actuarial confirmation). For the legacy portfolio in the meaning of Section 336 of the German Insurance Supervision Act (VAG), the provision for future policy benefits was calculated according to the business plan last approved on 10 July 1992 and supplemented on 21 January 1997.

Stuttgart, 28 January 2019

Responsible actuary
Daniel Männle

Income statement for the period 1 January to 31 December 2018

in € thousands		1.1.2018 to 31.12.2018	1.1.2018 to 31.12.2018	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
I. Technical account					
1. Premiums earned for own account	21				
a) Gross premiums written		1,847,703			1,751,211
b) Premiums ceded to reinsurers		355,092			334,383
			1,492,611		1,416,828
c) Change in the gross provision for unearned premiums		−3,342			−1,639
d) Change in the reinsurers' portion of the gross provision for unearned premiums		773			33
			−2,569		−1,606
				1,490,042	1,415,222
2. Technical interest income for own account	22			1,377	1,326
3. Other technical income for own account				2,235	2,430
4. Expenses for insurance claims for own account					
a) Payments for insurance claims					
aa) Gross amount		1,144,546			1,066,074
bb) Reinsurers‘ portion		238,181			201,057
			906,365		865,017
b) Change in the provision for outstanding insurance claims	23				
aa) Gross amount		−1,972			52,950
bb) Reinsurers‘ portion		−16,479			18,016
			14,507		34,934
				920,872	899,951
5. Change in other net technical provisions					
a) Net provision for future policy benefits			−7		−2
b) Other net technical provisions			−4,860		−2,723
				−4,867	−2,725
6. Expenses for insurance business for own account					
a) Gross expenses for insurance business	24		508,365		467,957
b) Thereof less: received commissions and profit participations from ceded reinsurance business			115,935		110,346
				392,430	357,611
7. Other technical expenses for own account				8,048	7,030
8. Subtotal				**167,437**	**151,661**
9. Change in the claims equalisation provision and similar provisions				−12,634	−4,161
10. Underwriting income for own account				154,803	147,500
Carryover				**154,803**	**147,500**

in € thousands		1.1.2018 to 31.12.2018	1.1.2018 to 31.12.2018	1.1.2018 to 31.12.2018	1.1.2017 to 31.12.2017
Carryover				**154,803**	**147,500**
II. Non-technical account					
1. Income from investments					
a) Income from participations Thereof from affiliated companies €9,270 thousand (previous year: €1,046 thousand)			23,639		14,450
b) Income from other investments Thereof from affiliated companies €9,318 thousand (previous year: €8,556 thousand)					
aa) Income from land, land-type rights and buildings, including buildings on third-party land		10,046			10,026
bb) Income from other investments		60,936			68,570
			70,982		78,596
c) Income from write-ups	25		19,211		23,924
d) Gains from the disposal of capital investments	26		33,326		26,590
e) Income from profit pools, profit transfer agreements and partial profit transfer agreements			264		54
			147,422		143,614
2. Expenses for investments					
a) Investment management expenses, interest expenses and other expenses for investments		8,018			8,068
b) Write-downs on investments	27	70,233			19,339
c) Losses from the disposal of investments	28	22,169			1,639
d) Expenses from loss assumption		6,154			10,629
			106,574		39,675
			40,848		103,939
3. Income from technical interest			1,377		1,326
				39,471	102,613
4. Other income	29		207,398		242,261
5. Other expenses	30		270,309		322,775
				–62,911	–80,514
6. Net income from operations				131,363	169,599
7. Income taxes			–321		1,062
8. Other taxes			–34		2,709
				–355	3,771
9. Profits transferred under a profit transfer agreement				131,718	77,828
10. Net profit				**—**	**88,000**
11. Allocation to other retained earnings				—	44,000
12. Unappropriated surplus				**—**	44,000

Notes

Notes concerning the annual financial statements

Accounting policies for assets

Intangible assets

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

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

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

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

Interests in affiliated companies

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

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

Participations

Participations are measured at cost. Pursuant to Section 341b (1) in conjunction with Section 253 (3) sentence 5 of the 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), shares, interests or shares in investment assets and other variable-yield securities are recognised at average cost less unscheduled write-downs in accordance with the strict lower-value principle. If the reasons for a lower carrying amount no longer exist, the asset is written up to a maximum of its historical cost.

Bearer bonds and other fixed-income securities

Pursuant to Section 341b (2) in conjunction with Section 253 (4) of the 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.

Mortgage debt claims, mortgage loans and annuities

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

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

Individual and collective impairment provisions are offset against assets.

Other loans

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

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

Pursuant to Section 341c (3) of the German Commercial Code (HGB), promissory notes, loans receivable and miscellaneous loans are measured at amortised cost by spreading the difference between cost and the repayment amount over the residual maturity using the effective interest method.

In order to determine whether registered bonds, promissory notes or loans receivable are permanently impaired, ratings analyses are performed for issuers whose rating has deteriorated by two or more notches or whose securities are over-valued by at least 10%. If, on the basis of the ratings analyses, it can no longer be expected that the securities will be repaid in conformity with the contract, they are written down to the lower fair value. In addition, collective impairments are taken on registered bonds on a portfolio basis in accordance with experience in recent years.

Deposits with credit institutions

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

Other investments

Other investments are measured at cost.

Other assets

Property, plant and equipment are measured at cost less scheduled straight-line depreciation over their normal useful life. Assets with a net cost of up to €250 are depreciated in full in the year of acquisition. In accordance with tax regulations, assets with a net cost of more than €250 and up to €1,000 are recognised in full in the year of acquisition and depreciated on a straight-line basis over a period of five years.

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

The excess of plan assets over pension liabilities relates to a surplus that results from the offsetting of reinsurance claims measured at fair value against liabilities under phased-in early retirement agreements. Insolvency-proof reinsurance claims were measured at fair value, which is composed of the coverage capital and irrevocable participation contracts. The coverage capital corresponds to the amortised cost under consideration of the lower-value principle pursuant to Section 253 (4) of the German Commercial Code (HGB).

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) was not used.

Reversals

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

Derivatives

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

Valuation units

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

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

Determination of fair value

The fair value of land, land-type rights and buildings, including buildings on third-party land, is continuously verified using the discounted cash flow method. Properties newly acquired during the financial year are measured on the basis of external appraisals.

We base the fair value of affiliated companies and participations on their capitalised earnings value or on the fair value determined using the net asset value method, in some cases also on cost, the liquidation value or the proportional share of equity.

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

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

Accounting policies for liabilities

Subordinated liabilities

Subordinated liabilities are recognised at their settlement value.

Technical provisions

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

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

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

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

For transport including secondary business lines, a collective reserve is calculated for direct German business according to established actuarial procedures, taking supplementary premiums into consideration. This is done on the basis of the calculation of the best estimate of the final claims level per subscription year by means of a modified chain ladder procedure.

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

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

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

The claims equalisation provision contained in item C.IV. was created in accordance with the annex to Section 29 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV).

We recognise the amounts presented under "Other technical provisions" as follows:

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

Other provisions

A provision is created for the legal obligations under phased-in early retirement contracts existing on the reporting date, taking into account employer expenses for social insurance, in the amount of the present value of future top-up benefits (salary and supplemental contributions towards pension insurance) and compensation payments due to reduced pension insurance claims and the 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 2.5% p.a. is taken into account during measurement. Biometric factors are taken into account when calculating the provision via a flat-rate discount of 2.0%. In addition, pursuant to Section 285 no. 25 of the German Commercial Code (HGB), pledged reinsurance policies are accounted for at fair value and netted against phased-in early retirement obligations as coverage assets. The fair value is composed of the coverage capital, which corresponds to the acquisition costs, plus irrevocable participation contracts.

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 calculated in the amount needed to satisfy the obligations by applying the Heubeck mortality tables 2018 G and an interest rate of 1.4% under the projected benefit obligation method. Fluctuation and future salary increases are taken into account.

Other miscellaneous provisions and tax provisions are recognised in the required settlement amount. In accordance with Section 253 (1) sentence 2 of the German Commercial Code (HGB), provisions with a term of more than one year are generally calculated in the amount needed to satisfy the obligations, taking into account future price and cost increases. Price and cost increases are in line with the inflation rate and are taken into account over the respective term of the provision at 1.75%. The rate used to discount miscellaneous provisions corresponds to the average rate of the past seven years published by the German Bundesbank pursuant to the German Regulation on the Discounting of Provisions (RückAbzinsV) for the respective assumed residual maturity. Results from discounting and compounding, from changes in the discounting rate and from the interest rate effects of a changed estimate of the residual maturity are recognised as interest income or interest expenses under “Other income” or “Other expenses”, as the case may be. Tax interest accrued as at the reporting date is recognised under “Miscellaneous provisions”. The terms of the tax provisions are usually less than one year and are not discounted (pursuant to the German Fiscal Code (AO), interest starts to apply after 14 months).

Retained deposits and other liabilities

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

Accounts payable on reinsurance business, liabilities from direct insurance business and miscellaneous liabilities are recognised in the amount 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 investments denominated in foreign currency in accordance with the rules of individual measurement in conformity with the lower-value principle. They are subsequently measured at the ECB’s average spot exchange rate.

Bank balances denominated in foreign currencies are measured at the ECB’s average spot exchange rate in effect on the reporting date.

Pursuant to Section 256a of the German Commercial Code (HGB), translation gains and losses are recognised in the income statement where the remaining term to maturity is one year or less.

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

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

Currency exchange rate gains and losses from current bank account balances denominated in foreign currency are recognised under “Other income” or “Other expenses”, as the case may be.

Recording of income and expenses on an accrual basis

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

As a result of later posting, premium income for 2017 in the amount of €915 thousand was recognised in the year under review.

Notes concerning assets

A. Intangible assets (1)[1]

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

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

B. Investments

The change in investments is presented in the notes under “Individual disclosures concerning assets”.

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

As at the reporting date, our land consisted of 20 (previous year: 20) properties with a carrying amount of €75,051 thousand (previous year: €82,123 thousand). The fair value of our land and buildings amounted to €122,268 thousand (previous year: €121,277 thousand).

No properties were acquired or sold during the reporting year.

Of our property, shared ownership interests accounted for €3,638 thousand (previous year: €3,752 thousand).

Of our real estate portfolio, land and buildings with a carrying amount of €62,506 thousand (previous year: €69,269 thousand) are used by the Group.

II. Investments in affiliated companies and participations (3)

Pursuant to Section 285 no. 11 in conjunction with Section 271 (1) of the German Commercial Code (HGB), the disclosures concerning participations are set forth in the table “List of shareholdings”. The list sets forth all companies in which Württembergische Versicherung AG holds 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 investments

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

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

4. Other loans (6)

in € thousands	31.12.2018	31.12.2017
Registered bonds	293,718	293,946
Promissory notes and loans receivable	199,896	287,430
Miscellaneous loans	22,007	22,006
Total	**515,621**	**603,382**

1 See balance sheet and income statement chapters.

Fair value of investments

This item consists of:

Valuation reserves

in € thousands	Carrying amount 2018	Fair value 2018	Valuation reserves, by liability[1] 2018	Carrying amount 2017	Fair value 2017	Valuation reserves, by liability[1] 2017
Land, land-type rights and buildings, including buildings on third-party land	75,051	122,268	47,217	82,123	121,277	39,154
Interests in affiliated companies	235,867	254,897	19,030	206,661	225,486	18,825
Loans to affiliated companies	47,762	47,850	88	52,050	55,124	3,074
Participations	216,881	261,920	45,039	195,150	240,702	45,552
Shares, interests or shares in investment assets and other variable-yield securities	707,104	718,741	11,637	859,721	881,432	21,711
Bearer bonds and other fixed-income securities	706,135	715,462	9,327	560,616	575,790	15,174
Mortgage debt claims, mortgage loans and annuities	89,853	92,259	2,406	89,736	92,272	2,536
Other loans						
Registered bonds	293,718	330,497	36,779	293,946	335,112	41,166
Promissory notes and loans receivable	199,896	224,395	24,499	287,430	341,234	53,804
Miscellaneous loans	22,007	27,912	5,905	22,006	37,978	15,972
Deposits with credit institutions	86,247	86,237	−10	49,909	49,912	3
Other investments	2	2	–	2	2	–
Total	**2,680,523**	**2,882,440**	**201,917**	**2,699,350**	**2,956,321**	**256,971**
Carrying amount of all investments, in %			**7.53**			**9.52**

1 Net perspective, balance of valuation reserves and hidden liabilities

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

With regard to other loans in the form of registered bonds and promissory notes totalling a carrying amount €58,000 thousand, the market value is €1,410 thousand below the carrying amount. They were not written down, because the impairment is expected to be merely temporary. Interest and amortisation payments are expected be made as scheduled.

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

Derivative instrument/ grouping	Type	Nominal value	Fair value	Measurement method applied	Carrying amount and item[1]
		in € thousands	in € thousands		in € thousands
Share/index-related transactions	Option-OTC	150	2,706	Option-price model	1,259
Currency-related transactions	Currency forwards	391,005	649	Discounted cash flow method	–

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

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

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

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

1. Disclosures concerning hedged items and securities

Type of valuation unit created	Type of risk hedged	Type of included assets, liabilities and pending transactions not accounted for	Carrying amount of the included hedged items	Amount of risks hedged[1] (nominal)
			in € thousands	in € thousands
Mikro-Hedge	Risk of changes in interest rates	Securities (HI), swaps (HE)	9,155	–2,377

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

2. Disclosures concerning the effectiveness of valuation units

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

Abbreviations:

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

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

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

Definition of micro hedge:
A „micro hedge“ means the hedging of an individual item by means of a single hedge.

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

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

Fund name	Investment objective	Certificate value under Section 36 of the German Investment Act (InvG)	Carrying amount	Discrepancy from the carrying amount	Distributions during the financial year
		in € thousands	in € thousands	in € thousands	in € thousands
LBBW AM-USD Corp. Bonds Fonds 2	Bond fund	187,876	187,876	–	5,108
LBBW AM-EMB2	Bond fund	176,485	176,485	–	9,102
LBBW AM-WV P&F	Mixed funds (up to 70%)	109,079	109,079	–	2,610
W+W Gl.In.-W+W F.Pr.li Eo	Mixed funds (up to 70%)	65,194	65,194	–	1,125
LBBW AM-WV Corp Bonds fund	Bond fund	61,490	58,969	2,521	858
W+W Gl.Strat.-Se Asi.Eq.	Equity fund	41,220	39,523	1,697	54
LBBW AM Covered Call USA fund	Equity fund	43,640	37,613	6,027	748
Gam M.B.-Loc.Em.Bd Caadl	Bond fund	29,902	29,902	–	1,895
Total		**714,886**	**704,641**	**10,245**	**21,500**

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

C. Receivables

I. Receivables from direct insurance business due from (7):

1. Policyholders

A collective impairment provision of €1,959 thousand (previous year: €1,896 thousand) was created for outstanding amounts on the basis of statistical surveys.

2. Insurance brokers

Receivables from direct insurance business due from insurance brokers amounted to €30,638 thousand (previous year: €31,104 thousand).

III. Other receivables (8)

in € thousands	31.12.2018	31.12.2017
Loans and advances to employees and agents	335	205
Submission of claims settled for the account of foreign companies	1,667	1,963
Receivables from coinsurance business for third-party account	2,404	2,348
Current tax assets	28	15
Interest and rent arrears	298	294
Assets that have been pledged, deposited or assigned for the purposes of security[1]	7,110	7,630
Miscellaneous other receivables	7,570	7,040
Receivables from affiliated companies and participations	145,213	126,618
Total	**164,625**	**146,113**

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

Miscellaneous other receivables consist of accrued, unbilled, allocable operating expenses of €318 thousand (previous year: €307 thousand).

Remaining term to maturity of receivables

Receivables with a remaining term to maturity of more than one year amounted to €107,300 thousand (previous year: €101,457 thousand). They consist of the asset value from reinsurance policies for pension commitments and relate to the item “Other receivables”.

D. Other assets

I. Property, plant and equipment and inventories (9)

Depreciation of €776 thousand (previous year: €815 thousand) was applied to durable assets at the rates permissible under tax regulations. A compound item that is depreciated over five years was recognised for medium-value assets. In the financial year, depreciation of this item amounted to €175 thousand.

E. Deferred assets

II. Other deferred assets (10)

The premium from the purchase of registered bonds is recognised here in the amount of €1,584 thousand (previous year:€1,972 thousand).

F. Excess of plan assets over pension liabilities (11)

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 of claims under reinsurance policies in the amount of €14,197 thousand (previous year: €11,908 thousand) with partial amounts of the phased-in early retirement provisions for outstanding settlement amounts €7,186 thousand (previous year: €7,291 thousand) pursuant to Section 246 (2) sentence 3 of the German Commercial Code (HGB) results in an excess of € 7 011 thousand (previous year:€ 4 617 thousand).

Notes concerning liabilities

A. Equity

I. Share capital (12)

As at 31 December 2018, the company's share capital amounted to €109,312 thousand. It is divided into 4,270,000 registered no-par-value shares and is fully paid up, with each share mathematically representing €25.60 of the share capital.

II. Capital reserve (13)

This item relates to the premium from capital contributions.

III. Retained earnings (14)

As a result of the resolution adopted by the Annual General Meeting to allocate €44.0 million from the unappropriated surplus for 2017, the retained earnings increased from €120.6 million to €164.6 million.

B. Subordinated liabilities (15)

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

C. Technical provisions (16)

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

D. Other provisions

II. Miscellaneous provisions (17)

in € thousands	31.12.2018	31.12.2017
Phased-in early retirement	5,851	5,444
Restructuring measures	2,144	7,737
Expenses for the annual financial statements	1,274	1,201
Holiday obligations and flex-time credit	9,489	9,409
Bonuses and performance incentives	13,393	12,171
Profit shares and competition awards	20,839	16,291
Employee long-term service obligations and sales agent compensation obligations	1,924	2,011
Others	3,617	4,123
Total	**58,531**	**58,387**

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

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

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

in € thousands	31.12.2018	31.12.2017
Amount needed to satisfy vested claims	13,037	12,736
thereof capable of being netted with the coverage capital of reinsurance	7,186	7,292
Carrying amount	**5,851**	**5,444**

The total carrying amount of the reinsurance policies pledged for the purpose of protecting phased-in early retirement assets against insolvency amounted to €14.2 million (previous year: €11.9 million).

F. Other liabilities

I. Liabilities from direct insurance business to (18):

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

2. Insurance brokers
Liabilities to insurance brokers from direct insurance business amounted to €33,780 thousand (previous year: €33.432thousand).

III. Miscellaneous liabilities (19)

in € thousands	31.12.2018	31.12.2017
Taxes	20,722	20,333
Trade payables	366	1,330
Coinsurance business for third-party account	287	500
Other miscellaneous liabilities	23,407	22,882
Miscellaneous liabilities to affiliated companies	146,861	119,352
Total	**191,643**	**164,397**

In the financial year, advance payments of operating expenses accrued in the amount of €454 thousand (previous year: €452 thousand) and were recognised under the item "Miscellaneous liabilities".

Remaining term to maturity of the liabilities
Most of these liabilities have a remaining term to maturity of up to one year. Liabilities with a remaining term to maturity of more than five years amounted to €281 thousand (previous year: €285 thousand). They pertain to the item "Miscellaneous liabilities".

G. Deferred liabilities (20)

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

Notes concerning the income statement

I. Technical account

1. Premiums earned for own account (21)

Pursuant to Section 51 of the German Regulation on the Accounting of Insurance Undertakings (RechVersV), the premiums are described in the notes under “Individual disclosures concerning the income statement”. Domestic gross premiums written amounted to €1,847,676 thousand (previous year: €1,751,111 thousand). Premiums from indirect business amounted to €41 thousand (previous year: €92 thousand). The number of at least one-year insurance policies is shown in the notes under “Annex to the notes”.

2. Income from technical interest for own account (22)

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

4. Expenses for insurance claims for own account

The gross expenses for insurance claims are presented in the notes under “Individual disclosures concerning the income statement” pursuant to Section 51 of the German Insurance Enterprises Accounting Regulation (RechVersV).

b) Change in the provision for outstanding insurance claims (23)

The run-off of the provision for outstanding insurance claims, which was carried forward from the previous year, resulted in run-off gains for own account in the amount of €125,583 thousand (previous year: €115,023 thousand).

6. Expenses for insurance business for own account

a) Gross expenses for insurance business (24)
The breakdown of this item is shown in the notes under “Individual disclosures concerning the income statement”. Expenses for the annual financial statements amounted to €167,254 thousand (previous year: €146,387 thousand), and administrative expenses to €341,111 thousand (previous year: €321,570 thousand).

II. Non-technical account

1. Income from investments

c) Income from write-ups (25)
Income from write-ups includes exchange rate gains of €4,929 thousand (previous year: €1,368 thousand). The breakdown of this item is presented in the notes under “Individual disclosures concerning assets”.

d) Gains from the disposal of investments (26)

in € thousands	2018	2017
Participations[1]	1,724	5,984
Bearer bonds and other fixed-income securities[2]	5,969	8,560
Registered bonds and promissory notes	21,721	–
Deposits with credit institutions[3]	982	–
Shares, interests or shares in investment assets and other variable-yield securities	2,491	12,046
Other investments	439	–
Total	**33,326**	**26,590**

1 Thereof exchange rate gains of €176 thousand (previous year: €244)
2 Thereof exchange rate gains of €24 thousand (previous year: €90)
3 Thereof exchange rate gains of €982 thousand (previous year: €0)

2. Expenses for investments

b) Write-downs on investments (27)

Pursuant to Section 253 (3) sentences 5 and 6 in conjunction with Section 277 (3) sentence 1 of the German Commercial Code (HGB) and pursuant to Section 253 (4) HGB, this item also contains unscheduled write-downs in the amount of €62,903 thousand. Of this amount, affiliated companies and participations accounted for €7,823 thousand, and securities and interests or shares in investment assets accounted for €54,590 thousand.

Write-downs on affiliated companies and participations involve balance-sheet items that are measured like fixed assets, while write-downs on securities and interests or shares in investment assets concern balance-sheet items classified as current assets. Currency write-downs amounted to € 2 086 thousand.

c) Losses from the disposal of investments (28)

in € thousands	2018	2017
Participations[1]	7,419	266
Shares and variable-yield securities	11,429	362
Bearer bonds and fixed-income securities[2]	1,162	1,011
Deposits with credit institutions[3]	906	–
Other investments	1,253	–
Total	**22,169**	**1,639**

1 Thereof exchange rate losses €248 thousand (previous year: €164 thousand)
2 Thereof exchange rate losses €331 thousand (previous year: €5 thousand)
3 Thereof exchange rate losses €906 thousand (previous year: €0 thousand)

4. Other income (29)

Material items are:

Commission from the brokering of insurance policies and home loan savings contracts for other companies in the amount of €14,761 thousand (previous year: €14,214 thousand), other cost refunds (management tasks, etc.) in the amount of €162,015 thousand (previous year: €189,107 thousand), exchange rate gains in the amount of €3,354 thousand (previous year: €12,084 thousand), income from the pension scheme in the amount of €12,544 thousand (previous year: €16,665 thousand), income from the reversal of miscellaneous provisions in the amount of €5,049 thousand (previous year: €1,301 thousand). While other income in the previous year had included currency income of €1,222 thousand from the translation of deposits with credit institutions, currency income in the financial year was recognised under “Net income from investments”.

5. Other expenses (30)

Material items are:

in € thousands	2018	2017
Commission payments, competition awards and sales expenses from the brokering of insurance policies and home loan savings contracts for other companies	26,192	24,886
Expenses for other services (e.g. management tasks)	160,261	187,514
Interest expenses from the compounding of long-term provisions	125	69
Addition of interest to the pension provision	46,865	30,168
Exchange rate losses[1]	1,781	7,905
Interest on subordinated liabilities	1,761	1,761
Expenses for the pension scheme	10,171	10,307
Voluntary special contribution to WürttPK[2]	–	35,010
Other expenses that affect the company as a whole:		
Annual financial statement costs	1,898	1,871
Contributions to professional associations, chambers of industry and trade and insurance supervision fees	1,626	1,711
Legal and tax consulting expenses	542	628
Projects	11,982	8,937

1 While other expenses in the previous year had included currency expenses of €5,138 thousand from the translation of deposits with credit institutions, currency expenses in the financial year were recognised under "Net income from investments".
2 In connection with a flat-rate strengthening of the provision for future policy benefits in the financial year 2017

With respect to phased-in early retirement agreements, expenses from compounding and income from discounting and from assets being offset in the amount of €79 thousand (previous year: €150 thousand) were netted pursuant to Section 246 (2) second sentence of the German Commercial Code (HGB).

7. Income taxes (31)

The carrying amounts for land, land-type rights and buildings, participations, shares and interests in investment assets and other variable-yield securities, bearer bonds, provisions for outstanding insurance claims as well as balancing items pursuant to Section 4f of the German Income Tax Act (EstG) in connection with provisions for pensions differ from one another under commercial law and tax law accounting rules. This resulted in deferred tax assets. Deferred taxes were calculated using a tax rate of 30.6%. After exercising the option in Section 274 (1) sentence 2 of the German Commercial Code (HGB), deferred tax assets were not capitalised.

Other mandatory disclosures

Mandates

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

Legal bases

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

Events after the reporting date

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

Supplementary disclosures

Commissions and other remuneration paid to insurance agents, personnel expenses

in € thousands	2018	2017
Commissions of any nature paid to insurance agents within the meaning of Section 92 of the HGB (German Commercial Code) for direct business	303,164	277,052
Other remuneration paid to insurance agents within the meaning of Section 92 HGB	44,224	35,587
Wages and salaries	171,896	172,360
Social remittances and expenses for support	32,356	32,911
Expenses for the pension scheme	15,671	49,445
Total	**567,311**	**567,355**

Employees

Number[1]	2018	2017
Back office	2,304	2,334
Mobile sales force	684	773
Trainees	129	132
Total	**3,117**	**3,239**

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

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

The remuneration paid to the members of the Supervisory Board amounted to €246 thousand (previous year: €233 thousand), and that paid to the members of the Executive Board to €1,521 thousand (previous year: €1,568 thousand). Former members of the Executive Board were paid €1,073 thousand (previous year: €1,135 thousand). In the financial year, pension commitments for former members of the Executive Board amounted to €16,390 thousand (previous year: €16,533 thousand). As at the reporting date, no loan claims existed against members of the Executive Board. As at the reporting date, no loan claims existed against members of the Supervisory Board.

Related party disclosures

Transactions with related parties are concluded at arm's-length terms and conditions. Where employees are involved, preferential terms customary in the industry are used.

The control and profit transfer agreements concluded with Württembergische Vertriebspartner GmbH, WürttVers Alternative Investments GmbH and Adam Riese GmbH remain in place.

Expenses for the auditor

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

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

Contingent liabilities and other financial obligations

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

Outstanding contribution obligations for participation commitments entered into amounted to €94.9 million (thereof to affiliated companies: €6.0 million).

Irrevocable loan commitments in the amount of €0.6 million (previous year: €6.5 million) consist of remaining obligations under loans that have been granted but not yet drawn down or fully drawn down. The risk of a change in interest rates is low for irrevocable loan commitments due to their short terms.

Liabilities in the amount of €14.2 million (previous year: €11.9 million) exist from the pledging of reinsurance policies to protect phased-in early retirement assets against insolvency pursuant to Section 8a of the German Phased-in Early Retirement Act (AltTZG).

Liabilities in the amount of € 51,3 million (previous year: € 50,5 million) exist from the pledging of reinsurance policies to protect employee-financed pension liabilities against insolvency.

Another liability exists in connection with the occupational pension scheme. Employees who joined one of the two sponsoring companies, Württembergische Versicherung AG or Württembergische Lebensversicherung AG, prior to 1 January 2002 could be accepted as members of the pension fund of Württembergische (WürttPK). Being a legally independent, regulated pension fund, WürttPK is subject to supervision by the German Federal Financial Supervisory Authority (BaFin). WürttPK benefits are financed through contributions by members and subsidies by the sponsoring undertakings. According to the Articles of Association, the sponsoring undertakings are obligated to make contributions. In accordance with the business plan, the sponsoring undertakings handle administration at no cost. In addition, there is secondary liability in some cases under the German Occupational Pensions Act (BetrAVG).

Under the contract of December 1991, the pension commitments were transferred to Württembergische AG Versicherungs-Beteiligungsgesellschaft (predecessor company of W&W AG) in exchange for a one-time compensation payment in the amount of the partial value at the time, which thus assumed joint liability and responsibility for fulfilment. Württembergische Versicherung AG settles income and expenses from the change in the pension obligations annually in cash with W&W AG. The pension obligation owed to employees of Württembergische Versicherung AG in the amount of €570,929 thousand is offset by an indemnification claim against W&W AG in the same amount.

Pursuant to Section 253 (2) sentence 1 of the German Commercial Code (HGB), the actual interest rate applied is the average market interest rate over the past 10 years. The discount rates published by the German Bundesbank on 31 October 2018 with a 10-year average interest rate were modified by taking the average monthly decline in interest rates from 1 January to 31 October 2018 and extrapolating it for the months of November and December 2018.

The difference between measurement of the provision for pensions and similar obligations using the 10-year average interest rate and that using the 7-year average interest rate pursuant to Section 253 (6) of the German Commercial Code (HGB) amounted to €87.5 million.

Other financial obligations from various real estate leases amount to €9.1 million.

Expenses for internal Group services are expected to amount to €168.6 million in 2019.

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 may need to be recognised in this area.

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.

In connection with the sale of Württembergische U.K. Limited in 2008, we assumed financial obligations in the usual scope.

Pursuant to the waiver of recourse and indemnification agreement that exists in the W&W Group, in the event that an agent provides faulty advice in connection with the brokering of an insurance product that the company sells, the company has agreed to waive potential recourse claims against the agent, unless the agent acted wilfully and the damage is covered by general liability insurance.

With respect to the agent's own liability in connection with the brokering of insurance or financial services products offered by an insurance company within the W&W Group, by a collaboration partner or in the course of further advice, the company has also agreed to grant indemnity where faulty advice was provided. The minimum insurance cover is limited to €200 thousand per claim and a total of €300 thousand per year.

Claims in connection with advisory errors in the context of the insurance brokerage are subject to the applicable minimum insurance cover of the pecuniary damage liability insurance for insurance brokers/advisors and financial investment brokers/fee-based financial investment advisors of €1,300 thousand per claim and €1,925 thousand per year.

In connection with the 2019 motor loyalty campaign, long-standing motor customers received personal vouchers in 2018 for reduction of the deductible by €100 for partial and comprehensive insurance claims that arise between 1 January 2019 and 31 December 2019. A total of 269,015 vouchers were sent out, which represents a maximum financial obligation of €26.9 million, with potential extra expenses of €0.2 million.

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

As a result of existing control and profit-and-loss transfer agreements, we expect compensatory payments in the amount of €34,284 thousand over the next three years for losses incurred by start-ups.

Group affiliation

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

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

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

The accounting and valuation methods applied in departure from German law in the separate consolidated financial statements include, in particular, the prohibition of creating a claims equalisation provision and the recognition of certain financial assets at fair value, whereas the German Commercial Code (HGB) provides for uniform measurement at amortised cost or recognition at the nominal value less repayments made. As a matter of principle, the category of "Financial assets in other comprehensive income (OCI)" is measured at fair value outside profit or loss.

Stuttgart, 25 February 2019

The Executive Board

Thomas Bischof	Franz Bergmüller	Jens Lison
Alexander Mayer	Dr. Susanne Pauser	Jens Wieland

Individual disclosures concerning assets

Notes concerning assets

in Tsd €	Carrying amounts 2017	Additions	Reclassifi-cations	Disposals	Write-ups	Write-downs	Carrying amounts 2018
A. Intangible assets							
Licenses acquired against payment, industrial property rights and similar rights, as well as licenses for such rights and assets	30	–	–	–	–	20	10
B.I. Land, land-type rights and buildings, including buildings on third-party land	82,123	22	–	–	–	7,094	75,051
B.II. Investments in affiliated companies and participations							
1. Interests in affiliated companies	206,661	18,091	–	–	11,115	–	235,867
2. Loans to affiliated companies	52,050	–	–	–	–	4,288	47,762
3. Participations	195,150	41,276	–	19,987	3,977	3,535	216,881
4. Total B.II.	**453,861**	**59,367**	**–**	**19,987**	**15,092**	**7,823**	**500,510**
B.III. Other investments							
1. Shares, interests or shares in investment assets and other variable-yield securities	859,721	25,124	–	127,959	1,274	51,056	707,104
2. Bearer bonds and other fixed-income securities	560,616	406,366	–	258,465	1,152	3,534	706,135
3. Mortgage debt claims, mortgage loans and annuities	89,736	5,793	–	5,615	–	61	89,853
4. Other loans							
a) Registered bonds	293,946	–	–	–	8	236	293,718
b) Promissory notes and loans receivable	287,430	79,649	–	167,183	–	–	199,896
c) Loans and advance payments on	-	–	–	–	–	–	–
d) Miscellaneous loans	22,006	1	–	–	–	–	22,007
5. Deposits with credit institutions	49,909	35,082	–	–	1,685	429	86,247
6. Other investments	2	–	–	–	–	–	2
7. Total B.III.	**2,163,366**	**552,015**	–	**559,222**	**4,119**	**55,316**	**2,104,962**
Total	**2,699,380**	**611,404**	–	**579,209**	**19,211**	**70,253**	**2,680,533**

Individual disclosures concerning liabilities

C. Technical provisions[1]

in € thousands	Provisions (gross) for outstanding insurance claims		Claims equalisation provision and similar provisions		Total technical provisions (gross)	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
1. Direct insurance business						
Personal accident insurance	204,717	191,733	–	–	224,815	211,710
Liability insurance	425,185	444,115	62,118	57,820	515,650	529,815
Motor liability insurance	1,054,833	1,052,480	111,829	106,748	1,185,409	1,177,159
Other motor insurance	58,219	58,338	78,869	80,168	150,239	150,529
Fire and property insurance						
Fire insurance	79,265	94,757	25,790	15,259	112,915	117,550
Combined household insurance	16,095	16,699	–	–	30,113	30,937
Combined building insurance	88,222	73,086	68,377	69,707	186,644	171,968
Other property insurance	89,757	81,842	40,026	55,012	152,265	158,474
	273,339	266,384	134,193	139,978	481,937	478,929
Transport and aviation insurance	20,209	21,264	7,299	5,966	29,618	28,757
Legal expenses insurance	171,092	168,251	21,642	14,623	207,218	196,990
Travel assistance insurance	780	811	6,638	5,755	7,690	6,820
Other insurance	35,063	40,294	1,357	253	37,663	41,670
Total	**2,243,437**	**2,243,670**	**423,945**	**411,311**	**2,840,239**	**2,822,379**
2. Assumed insurance business	44,590	45,663	–	–	44,590	45,663
3. Total insurance business	2,288,027	2,289,333	423,945	411,311	2,884,829	2,868,042

1 See „Notes concerning liabilities“ in the notes

Individual disclosures concerning the income statement[1]

in € thousands	Gross premiums written 2018	Gross premiums written 2017	Earned premiums (gross) 2018	Earned premiums (gross) 2017	Earned premiums (net) 2018	Earned premiums (net) 2017
1. Direct insurance business						
Personal accident insurance	139,343	136,229	139,450	136,448	118,433	115,787
Liability insurance	207,831	199,193	206,887	199,928	173,951	168,206
Motor liability insurance	455,538	436,054	455,433	436,002	385,287	368,924
Other motor insurance	340,375	318,249	340,337	318,256	285,448	264,702
Fire and property insurance						
Fire insurance	71,763	67,901	71,550	67,775	39,790	38,409
Combined household insurance	94,341	91,235	94,561	91,229	79,907	76,920
Combined building insurance	186,178	172,668	185,309	171,282	147,955	138,184
Other property insurance	183,617	170,486	182,587	169,897	121,831	114,593
	535,899	502,290	534,007	500,183	389,483	368,106
Transport and aviation insurance	22,268	19,058	22,268	19,058	18,664	15,885
Legal expenses insurance	119,573	114,861	119,219	114,650	101,319	97,414
Travel assistance insurance	10,696	10,255	10,693	10,256	9,089	8,717
Other insurance	16,139	14,930	16,026	14,699	8,340	7,487
Total	**1,847,662**	**1,751,119**	**1,844,320**	**1,749,480**	**1,490,014**	**1,415,228**
2. Assumed insurance business	41	92	41	92	28	–6
3. Total insurance business	1,847,703	1,751,211	1,844,361	1,749,572	1,490,042	1,415,222

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

	Gross expenses for insurance claims		Gross expenses for insurance business		Reinsurance balance saldo[1]	
in € thousands	2018	2017	2018	2017	2018	2017
1. Direct insurance business						
Personal accident insurance	64,509	67,179	48,404	45,898	–2,234	–150
Liability insurance	59,603	60,309	75,710	68,508	–8,444	–11,569
Motor liability insurance	355,422	339,096	82,783	76,992	1,955	2,005
Other motor insurance	257,085	253,495	69,071	64,052	1,703	2,489
Fire and property insurance						
Fire insurance	36,563	65,070	20,174	18,685	–	–
Combined household insurance	30,869	30,191	34,429	32,002	–	–
Combined building insurance	137,980	105,395	51,735	45,711	–	–
Other property insurance	112,145	100,066	65,574	60,138	–	–
	317,557	300,722	171,912	156,536	–8,181	1,741
Transport and aviation insurance	12,100	11,875	7,624	7,188	–462	–967
Legal expenses insurance	66,361	71,285	41,456	38,142	–145	775
Travel assistance insurance	6,373	6,244	4,696	4,448	186	205
Other insurance	2,136	10,507	6,678	6,174	–1,769	2,279
Total	**1,141,146**	**1,120,712**	**508,334**	**467,938**	**–17,391**	**–3,192**
2. Assumed insurance business	1,428	–1,688	31	19	708	–1,739
3. Total insurance business	1,142,574	1,119,024	508,365	467,957	–16,683	–4,931

1 From the perspective of Württembergische Versicherung AG

in € thousands	Net underwriting income/ expense f. o. a. (before claims equalisation provision)		Change in the claims equalisation provision and similar provisions		Net underwriting income/ expense f. o. a. (after claims equalisation provision)	
	2018	2017	2018	2017	2018	2017
1. Direct insurance business						
Personal accident insurance	24,901	23,783	–	–	24,901	23,783
Liability insurance	63,832	59,520	–4,298	7,425	59,534	66,945
Motor liability insurance	19,571	22,157	–5,081	5,776	14,490	27,933
Other motor insurance	15,268	2,643	1,298	–3,068	16,566	–425
Fire and property insurance						
Fire insurance	9,508	–860	–10,531	–199	–1,023	–1,059
Combined household insurance	24,057	23,437	–	–	24,057	23,437
Combined building insurance	–6,733	12,020	1,331	–10,266	–5,402	1,754
Other property insurance	1,841	3,703	14,986	–2,905	16,827	798
	28,673	38,300	5,786	–13,370	34,459	24,930
Transport and aviation insurance	1,614	–805	–1,333	469	281	–336
Legal expenses insurance	11,392	6,155	–7,018	–1,914	4,374	4,241
Travel assistance insurance	–188	–228	–884	–774	–1,072	–1,002
Other insurance	3,975	113	–1,104	1,295	2,871	1,408
Total	**169,038**	**151,638**	**–12,634**	**–4,161**	**156,404**	**147,477**
2. Assumed insurance business	–1,601	23	–	–	–1,601	23
3. Total insurance business	167,437	151,661	–12,634	–4,161	154,803	147,500

Annex to the notes

Number of at least one-year insurance policies

in units	31.12.2018	31.12.2017
Personal accident insurance	733,351	720,370
Liability insurance	1,203,397	1,183,453
Motor liability insurance	1,757,973	1,712,707
Other motor insurance	1,289,188	1,244,263
Fire and property insurance		
Fire insurance	178,735	174,791
Combined household insurance	729,814	730,637
Combined building insurance	455,436	451,392
Other property insurance	969,780	941,833
	2,333,765	**2,298,653**
Transport and aviation insurance	28,530	26,112
Legal expenses insurance	719,254	699,713
Travel assistance insurance	623,249	614,047
Other insurance	106,417	98,322
Total	**8,795,124**	**8,597,640**

List of ownership interests

Name and registered office of the company	Direct interest in equity	Indirect interest in equity	Currency	Reporting date	Equity[1]	Net income/ expense after taxes[1]
	in %	in %				
Germany						
Adam Riese GmbH, Stuttgart[2]	100.00		€	31.12.2018	25,000	–
Altmark Versicherungsmakler GmbH, Stuttgart	100.00		€	31.12.2018	2,417,911	534,529
Altmark Versicherungsvermittlung GmbH, Stuttgart	100.00		€	31.12.2018	316,621	87,661
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	17.50		€	31.12.2017	252,343,474	7,150,614
BWK Holding GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	17.50		€	31.12.2017	9,713,786	845,306
Deutsche Makler Akademie (DMA) gemeinnützige Gesellschaft mbH, Wiesbaden	7.14		€	31.12.2017	407,953	41,422
Elvaston Capital Fund III GmbH & Co. KG, Berlin		10.00	€	31.12.2017	45,943,000	–283,000
NORD KB Micro-Cap V GmbH & Co. KG, Hannover		6.94	€	31.12.2017	21,065,000	–3,840,000
Nord-Deutsche AG Versicherungs-Beteiligungsgesellschaft, Stuttgart	100.00		€	31.12.2018	14,927,618	–27,653
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart	25.00		€	31.12.2017	1,384,000	–612,000
Württembergische Immobilien AG, Stuttgart	100.00		€	31.12.2018	120,851,216	3,549,839
Württembergische Kö 43 GmbH, Stuttgart		89.90	€	31.12.2018	23,048,127	751,663
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart	100.00		€	31.12.2018	100,728	24,034
Württembergische Vertriebspartner GmbH, Stuttgart[2]	100.00		€	31.12.2018	74,481	–
WürttVers Alternative Investments GmbH, Stuttgart[2]	100.00		€	31.12.2018	34,025,000	–
YIELCO Special Situations GmbH & Co. KG, Munich		5.05	€	31.12.2017	26,820,568	313,734
France						
Württembergische France Immobiliere SARL, Strasbourg[3]		100.00	€	30.9.2018	15,204,577	1,205,078
Württembergische France Strasbourg SARL, Strasbourg	100.00		€	30.9.2018	50,510,307	2,376,154
Ireland						
BlackRock NTR Renewable Power Fund plc, Dublin	22.39		US$	31.12.2017	60,583,000	1,158,000
White Oak Summit Fund ILP, Dublin	6.02		US$	31.12.2017	178,408,956	9,576,971
White Oak Yield Spectrum Feeder ICAV, Dublin	6.35		US$	31.12.2017	55,463,530	–692,197

List of ownership interests

Name and registered office of the company	Direct interest in equity	Indirect interest in equity	Currency	Reporting date	Equity[1]	Net income/expense after taxes[1]
	in %	in %				
Luxembourg						
AMP Capital Infrastructure Debt Fund (EUR) III L.P., Luxembourg	10.47		€	31.12.2017	97,734,166	3,230,415
CI III Lux Feeder Fund FCP-RAIF, Luxembourg	8.97		New investment 25.6.2018			
DB Secondary Opportunities SICAV-SIF – Sub Fund DB SOF II Feeder USD, Luxembourg	7.63		US$	31.12.2017	36,569,401	28,823,354
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxembourg	6.11		€	31.12.2017	383,833,914	7,593,843
IKAV SICAV-FIS SCA – Ecoprime Energy, Luxembourg	8.78		€	30.9.2018	94,282,516	4,217,164
IKAV SICAV-FIS SCA – ecoprime TK I, Luxembourg	10.86		€	30.9.2018	43,283,088	2,537,728
IKAV SICAV-FIS SCA – Global Energy (Ecoprime III), Luxembourg	15.12		€	30.9.2018	51,445,469	1,883,252
Secondary Opportunities SICAV-SIF – Sub-fund SOF III Feeder USD, Luxembourg	16.77		US$	31.12.2017	56,582,390	458,556
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxembourg		10.21	US$	31.12.2017	122,248,863	–2,946,767
Austria						
G6 Zeta Einrichtungs- und VerwertungsGmbH & Co OG, Vienna		99.90	€	31.12.2017	23,371,117	1,627,191
SAMARIUM drei GmbH & Co OG, Vienna		99.00	New investment 28.3.2018			
United Kingdom						
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh	8.47		US$	31.12.2017	149,258,903	–1,000
EIG Global Private Debt (Europe UL) L.P., London	8.09		US$	31.12.2017	38,459,000	1,088,000
United States						
ARDIAN North America Fund II L.P., Wilmington		6.78	US$	31.12.2017	109,930,294	–8,178,080

1 The figures relate to the most recent annual financial statements available on the reporting date.
2 Profit and loss transfer agreement in place.
3 The direct interest amounted to less than 0.01%.

Württembergische Versicherung AG
Auditor‘s report

Report of the independent statutory auditor

To Württembergische Versicherung AG, Stuttgart

Report on the audit of the annual financial statements and the management report

Audit opinion

We have audited the annual financial statements of Württembergische Versicherung AG, Stuttgart, comprising the balance sheet as at 31 December 2018, the income statement for the financial year from 1 January to 31 December 2018 and the notes, including the presentation of the accounting and valuation methods. In addition, we have audited the management report of Württembergische Versicherung AG for the financial year 1 January to 31 December 2018. In accordance with German statutory provisions, we have not audited the content of the corporate governance statement, which is contained in the section “Other disclosures” in the management report.

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

- the attached annual financial statements comply in all material respects with the requirements of the German Commercial Code (HGB) applicable to insurance undertakings and present a true and accurate view of the company’s net assets and financial position as at 31 December 2018 and its financial performance for the financial year from 1 January to 31 December 2018 in accordance with the German standards of proper accounting, and
- the attached management report on whole presents a true and accurate view of the company’s position. The management report is consistent with the annual financial statements in all material respects, complies with German statutory requirements and accurately presents the opportunities and risks of future development. Our audit opinion concerning the management report does not cover the content of the aforementioned corporate governance statement.

Pursuant to Section 322 (3) sentence 1 of the 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 management report.

Basis for the audit opinions

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

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of other loans

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

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

Risk for the financial statements
Other loans are unlisted and amount to €515.6 million. This figure represents 16.6% of the total assets.

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

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

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

- We audited the process for recording the portfolio data and select parameters (in particular, exchange rates and termination rights) in the portfolio management system, including the controls put in place for this purpose. Using functional audits, we assured ourselves of the effectiveness of the installed controls.
- For other loans, we compared the parameters that were applied with those that are observable on the market. Where parameters could not be observed on the market, we examined and evaluated factors such as the yield curves, volatilities and spreads that were applied for selected loans. We audited the appropriateness of the measurement methods applied.
- In addition, for a selection of other loans, we likewise calculated the fair value with our own EDP programs and compared the results with the figures shown by the company.
- We audited a sub-group to check whether the write-downs and write-ups were undertaken accurately.

Our conclusions
The methods used to determine the fair value of unlisted other loans were proper and in conformity with the accounting standards that are required to be applied. The underlying assumptions and parameters were appropriately derived.

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

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

Risk for the financial statements
The gross provision for outstanding insurance claims amounted to €2,288.0 million. This figure represents 73.9% of the total assets.

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

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

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

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

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

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

Our conclusions
The methods used to determine the carrying amount of the sub-provision for reported and unreported insurance claims in direct property/personal accident insurance business were proper and in conformity with the accounting standards that are required to be applied. The underlying assumptions and parameters were derived in an appropriate manner.

Other information

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

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

Our audit opinions concerning the annual financial statements and the management report do not cover the other information, and as a result, we do not provide an audit opinion or any other form of audit conclusion concerning it.
In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement is higher in the case of fraud than in the case of error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of the arrangements and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of the accounting policies used by the Executive Board and the reasonableness of the estimates and related disclosures made by the Executive Board.
- Draw conclusions on the appropriateness of the Executive Board's use of the going-concern basis of accounting and, based on the audit evidence obtained, about whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying business transactions and events in such a way as to present a true and accurate view of the company's net assets, financial position and financial performance in accordance with the German standards of proper accounting.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with the law and its presentation of the view of the company's position.
- Perform audit procedures concerning the forward-looking statements made by the Executive Board in the management report. In doing so, on the basis of sufficient and appropriate audit evidence, we gain an understanding, in particular, of the key assumptions underlying the Executive Board's forward-looking statements and evaluate whether the statements were properly derived from those assumptions. We do not issue an independent opinion on the forward-looking statements and the underlying assumptions. There is a significant unavoidable risk that future events will differ materially 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 the audit report, unless laws or other legal provisions exclude public disclosure of 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 23 March 2018. On 6 June 2018, we received a mandate from the Chairman of the Audit Committee. We have served as the statutory auditor of Württembergische Versicherung AG without interruption since the 2011 financial year.

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

Responsible auditor

The auditor responsible for the audit is Dr Georg Hübner.

Stuttgart, 8 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Hasenburg Auditor	Dr Hübner Auditor

Württembergische Versicherung AG
Report of the Supervisory Board

The Supervisory Board fulfilled its duties in the 2018 financial year in accordance with statutory requirements, the Articles of Association and the bylaws. It monitored the management of business and was directly involved in all matters of fundamental importance for the company.

Composition

In accordance with the Articles of Association, the Supervisory Board of Württembergische Versicherung AG is composed of 12 members. Effective at the conclusion of the Annual General Meeting of 17 May 2018, the mandates of all members of the Supervisory Board ended. Since the subsequent election of the employee and shareholder representatives, the composition of the Supervisory Board has been as follows:

On 24 April 2018, Nicolé Benzinger-Henzler, Gisbert Hasenfuß, Petra Sadowski, Hubert Sebold and Gerold Zimmermann were re-elected to the Supervisory Board as employee representatives, effective from the end of the Annual General Meeting on 17 May 2018. Richard Peters was newly elected to the Supervisory Board as employee representative. On 17 May 2018, the Annual General Meeting elected six shareholder representatives to the Supervisory Board. Jürgen A. Junker, Ulrich Kraft and Hans Peter Lang were re-elected, and Claudia Diem, Christian Hörtkorn and Fränzi Kühne were newly elected to the Supervisory Board. The shareholder representatives were also elected effective as of the end of the Annual General Meeting.

The members will belong to the Supervisory Board with a term that runs until the end of the Annual General Meeting that decides on the financial year ended 31 December 2022.

Prof. Dr. Nadine Gatzert, Jochen Haller and Dr. Heiko Winkler retired from the Supervisory Board on the shareholder side and Werner Emil Roth on the employee side. The Supervisory Board would like to thank the departing members for their commitment and constructive collaboration.

By resolution of the Supervisory Board of 17 May 2018, Jürgen A. Junker was elected as Chairman and Hubert Sebold as Deputy Chairman. Due to the election of the members of the Supervisory Board, the Board re-staffed its Conciliation Committee, Personnel Committee and Audit Committee by resolution of 17 May 2018. Hans Peter Lang was appointed as financial expert of the Supervisory Board.

Pursuant to Section 111 (5) of the German Stock Corporation Act (AktG), the Supervisory Board, as the organ of a company subject to co-determination, has set a goal of having women make up 25% of the Supervisory Board. Currently, four women serve on the Supervisory Board; the goal has been reached.

Full Supervisory Board

In the year under review, the Supervisory Board held three ordinary meetings and one extraordinary meeting at which it considered at length the development of the company. The reports of the Executive Board, written presentations and meeting documentation were submitted to it in a timely fashion for the purpose of preparing for the meetings. The Executive Board reported regularly to the Supervisory Board in writing and verbally and in a timely and comprehensive manner about all issues of relevance to the company concerning its strategy, planning, business performance, investment management and risk position. Moreover, the Supervisory Board and the Audit Committee comprehensively addressed the subjects of risk management and non-audit services by the auditor. To this end, detailed reports were prepared on the business, risk and IT strategy and then presented to the Supervisory Board for information and discussion. The Executive Board submitted the report of the Internal Audit department to the Supervisory Board and the Audit Committee, and it submitted the report of the Compliance Officer to the Audit Committee. The Head of Internal Audit and the Compliance Officer participated in the meeting of the 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.

In the financial year ended, the meetings of the Supervisory Board of Württembergische Versicherung AG mainly addressed the further development of the corporate strategy as well as the programme “W&W Better!”. The discussions focused on the Insurance division to ensure sustainable profitability. In particular, the new sales strategy “Vertrieb. Besser!”, increasing regulation and changed customer behaviour in the “new digital reality” were addressed. A product design that suits the digital world was presented and explained.

Business performance and trends in results in the individual segments of Württembergische Versicherung AG were addressed at length, as were the current situation on the capital markets and current regulatory developments. It had detailed discussions about operational planning for 2019 and further medium-term planning.

All measures requiring approval by law or under the company’s regulations were submitted to the Supervisory Board.

In addition, the Supervisory Board concerned itself with central issues of corporate governance. The Supervisory Board examined in depth the expertise profile for the full Supervisory Board and the development plan derived from it, as well as the parameters for the composition of the Supervisory Board. In the development plan adopted at the end of 2017, measures were defined for broadening the expertise of Supervisory Board members, and these were implemented during the financial year 2018. Due to the elections in the Supervisory Board, its members once again evaluated their strengths in the fields of investment, actuarial practice and accounting by means of a self-assessment. This in turn forms the basis for the development plan that the Supervisory Board prepares each year. The plan identifies areas where the Supervisory Board as a whole or its individual members wish to acquire greater expertise. At its December meeting, the Supervisory Board adopted the development plan for 2019. The self-assessment and the development plan were forwarded to the supervisory authority.

The Supervisory Board reviewed the efficiency of its work by means of a self-assessment, and at its March 2018 meeting, it discussed the results, which on whole may be considered positive.

There were no conflicts of interest requiring disclosure in 2018.

Efficient work of committees

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

In 2018, the **Audit Committee** held two ordinary meetings. In the course of the year, the Audit Committee passed resolutions in four circular resolutions concerning the tendering procedure for the auditor and the internal investment risk management policy. The **Personnel Committee** held two ordinary meetings and one extraordinary meeting. The **Conciliation Committee** did not meet. The subjects for which the respective committees are responsible were discussed in detail in committee meetings. The committee chairs reported to the Supervisory Board about the work of the committees at the subsequent Supervisory Board meeting.

In addition to topics dealt with by virtue of law and by virtue of the bylaws of the Supervisory Board, the **Audit Committee** mainly concerned itself with the tendering of the audit for the financial years 2020 and 2021 and the years thereafter. In organisational terms, the selection process was supported by a coordination unit established for this purpose. The selection procedure was carried out by the Audit Committee. The resolutions necessary for this were adopted by circular procedure following extensive discussion. In December 2018, the Audit Committee made three recommendations to the Supervisory Board for the audit mandate, and it gave its preference for one of the recommendations, providing the reasons for same, on the basis of which the Supervisory Board adopted a resolution selecting the auditor for the financial year 2020. Furthermore, strategic asset allocation and the amended internal investment guidelines were submitted for decision, and the amendments to the special internal investment guidelines were brought to the attention of the Supervisory Board.

Based on recommendations by the **Personnel Committee,** the Supervisory Board also discussed remuneration matters, particularly the remuneration system for the Executive Board, and it took note of the report of the Executive Board on the structuring of the remuneration system for employees. The Supervisory Board reviewed and evaluated the professional qualifications and aptitude of each member of the Executive Board and the Supervisory Board in accordance with the Supervisory Board's guideline on "Fit and proper requirements for managers and members of the Supervisory Board". In addition, the Supervisory Board reviewed and evaluated the structure, size, composition and performance of the Executive Board and the Supervisory Board. The reporting by the Executive Board continued to cover current personnel issues.

Audit of the annual financial statements

The Supervisory Board thoroughly examined the annual financial statements and the management report for the 2018 financial year. The annual financial statements and the management report are complete and in conformity with the estimates made by the Executive Board in the reports to be issued in accordance with Section 90 of the German Stock Corporation Act (AktG).

KPMG AG Wirtschaftsprüfungsgesellschaft, Stuttgart, which was appointed auditor by the Supervisory Board, duly audited the annual financial statements prepared by the Executive Board for the 2018 financial year, as well as the management report, and it issued an unqualified audit report.

The auditor reported the material results of its audit to the Supervisory Board orally and in writing. The audit report was sent to each member of the Supervisory Board. In addition, the auditor reported both at the meeting of the Audit Committee on 27 March 2019 and at the accounting meeting of the Supervisory Board on 28 March 2019. The submitted audit report meets the statutory requirements of Section 321 of the German Commercial Code (HGB) and was taken into account by the Supervisory Board in connection with its own audit. There were no circumstances that could challenge the independence of the auditor.

Following the final result of the audit of the annual financial statements and of the management report, the Supervisory Board did not raise any objections and approved the annual financial statements prepared by the Executive Board at its meeting on 28 March 2019. Accordingly, the annual financial statements are deemed approved pursuant to Section 172, first sentence of the German Stock Corporation Act (AktG).

The Supervisory Board discussed the solvency overview for Württembergische Versicherung AG as at 31 December 2017, as well as the auditor's report on it.

Composition of the Executive Board

On 1 July 2018, Thomas Bischof succeeded Norbert Heinen as Chairman of the Executive Board and Head of Division. In this connection, the Supervisory Board implemented the respective changes in the business allocation plan.

As of the end of 31 December 2018, Dr. Michael Gutjahr and Norbert Heinen retired from the Executive Board. As of 1 January 2019, Jens Lison and Alexander Mayer were appointed as members of the Executive Board. These changes in the Executive Board were reflected in a new business allocation plan as of 1 January 2019. The Supervisory Board thanks the retired members of the Executive Board for their services, their great commitment and the significant contribution they made to the development of the company.

The year 2018 placed high demands on management and the workforce. The Supervisory Board would like to thank the members of the Executive Board, senior managers, the members of the Works Council and the employees for their personal commitment and the contributions they made towards achieving the common objectives.

Stuttgart, 28 March 2019

The Supervisory Board

Jürgen A. JunkerChairman

Württembergische Versicherung AG
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GBWVE2018

württembergische

Ihr Fels in der Brandung.