Württembergische Versicherung AG

2019

Annual Report

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 an correkt translation, however as per the disclaimer the German original is legally binding.

ppa. Ditt

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

i.V. Klauck

Andreas Klauck
Controlling
Württembergische Versicherung Aktiengesellschaft

württembergische

Ihr Fels in der Brandung.

Württembergische Versicherung AG
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Dr. Susanne Pauser
Human Resources
Compliance
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Jens Lison
(from 1 January 2019)
Corporate Customers
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Jens Wieland
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Alexander Mayer
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Retired from the Executive Board:
Franz Bergmüller (until 30 June 2019)

Supervisory Board

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

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

Hartmut Bader[1]
(from 1 December 2019)
Deputy Chairman of the Works Council Württembergische Versicherung AG/Württembergische Lebensversicherung AG, Stuttgart head office

Nicolé Benzinger-Henzler[1]
Head of VUS Processes Sales Württembergische Versicherung AG Trade union member
DHV – Die Berufsgewerkschaft e. V.

Claudia Diem
Member of the Executive Board
Baden-Württembergische Bank

Gisbert Hasenfuss[1]
Insurance employee Württembergische Versicherung AG

Christian Hörtkorn
Managing Partner Dr. Friedrich E. Hörtkorn GmbH

Ulrich Kraft
Managing Partner
KRAFT Baumanagement GmbH

Fränzi Kühne
Director
Torben, Lucie und die gelbe Gefahr GmbH

Hans Peter Lang
Member of the Board of Directors
W&W Asset Management GmbH

Richard Peters[1]
Head of the District Administration Cologne
Württembergische Versicherung AG
Chairman of the Works Council
Württembergische Versicherung AG, Cologne site
Deputy Chairman of the Central Works Council
Württembergische Versicherung AG/
Württembergische Lebensversicherung AG

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

Gerold Zimmermann[1]
(until 30 November 2019)
Former Chairman of the Group Works Council Württembergische Versicherung AG/Württembergische Lebensversicherung AG Former member of the Works Council Württembergische Versicherung AG/ Württembergische Lebensversicherung AG, Stuttgart head office

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 a wide range of property and casualty insurance products. Thanks to the wide selection of products that it offers, Württembergische is one of Germany's largest property and casualty insurers. Germany is the company's core market.

Wüstenrot & Württembergische AG (W&W AG) holds 100% of the share capital of Württembergische Versicherung AG. Since the merger of the tradition-rich companies Wüstenrot and Württembergische in 1999, Württembergische Versicherung AG has been a part of the W&W Group in the Insurance division. The W&W Group brings together the Insurance, Housing and brandpool divisions and offers financial planning solutions for private and commercial customers from a single source.

The Management Board is the central steering body of the W&W Group. It concerns itself with, among other things, Group control and with setting and developing the business strategy. In addition to the members of the Executive Board of W&W AG, the Management Board is composed of the division heads Bernd Hertweck (Housing), Thomas Bischof (Insurance) and Daniel Welzer (brandpool). Operational and company-specific issues of the individual companies are handled at the divisional level.

The Executive Board of Württembergische Versicherung AG experienced changes during the reporting year:

As of 1 January 2019, Alexander Mayer was appointed as a member of the Executive Boards of Württembergische Versicherung AG and Württembergische Lebensversicherung AG. In this capacity, he is responsible for investments and accounting. His predecessor Dr. Michael Gutjahr had already departed from the Executive Boards of Württembergische Versicherungen as of 31 December 2018.

As of 1 January 2019, Jens Lison was appointed as Executive Board member responsible for the newly formed corporate customer remit of Württembergische Versicherung AG.

As of 30 June 2019, Franz Bergmüller departed from the Executive Board of Württembergische Versicherung AG.

Norbert Heinen, who had served as Chairman of the Executive Board of Württembergische Versicherungen until 2018 and most recently as Executive Board member responsible for life insurance, passed away on 8 April 2019.

By building the new W&W campus at the Ludwigsburg/Kornwestheim location, W&W AG, as builder-owner, is investing in the future of the corporate group. Employees moved into the first section of the building on schedule in late 2017, and work on the second section commenced in 2018. The entire project, located on an approximately six-hectare site, is scheduled to be completed by 2023. In all, the campus will then have seven interconnected office buildings with some 4,000 modern work stations for Wüstenrot and Württembergische employees.

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

Württembergische Versicherung AG is part of the W&W Group, which provides financial planning from a single source.

Our aim is to make this a reality in light of increasing competition, notwithstanding the continuing slowdown in the German economy, as well as due to the persistent phase of low interest rates and growing regulatory requirements. We have set ourselves the objective of becoming better every day. To become better does not mean to follow a rigid programme, but to adopt an attitude that guides all actions of the team. This is reflected in our strategic map "W&W Better!".

In 2019, Württembergische Versicherung AG achieved further implementation results.

- In order to gain more time for customer service, a comprehensive project was launched to optimise agency processes. Nearly 700 agencies with approximately 1,300 agents successfully took part in 2019.
- In addition to our own strong mobile sales force organisation, broker business was also further expanded.
- Adam Riese has already gained more than 90,000 customers for its digital insurances.
- The W&W FinanzGuide app is being continuously expanded so that W&W customers have digital access to their products at all times. Customers give the app a rating of 4.3 out of 5 stars.

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 casualty insurance. This includes:

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

As in previous years, the portfolio share of premium car policies remained at a very high level in the motor business segment. The range of products was expanded to include motor flexi-policies that are specific to the person. Especially worthy of emphasis here is the family driver policy, which has seen a very high rate of acceptance among customers. Furthermore, new rates were introduced for commercial risks (lorries, tractor units, delivery vans and trailers), and the rate for luxury vehicles was made more attractive as of July 2019.

In 2019, the above-market-average growth in the corporate customers segment that had taken place in the previous year was surpassed. The commercial core product "company policy" continues to form the basis for growth. A significant increase was also recorded in the large commercial/industrial segments. The product portfolio for our medium-sized customers was supplemented with a commercial surety insurance, and the good growth was strengthened by means of the inclusion of this profitable line of business. Additionally, the development of target group-specific products continued.

The insurance policies for household contents, residential buildings and glass were redesigned. In particular, the new components are worth mentioning. With "PremiumPlus", conventional insurance cover can be expanded with all-risk coverage. The "FahrradPlus" component comprises full coverage and mobility protection for all of a customer's bicycles. The new "CyberPlus" component offers financial protection against online attacks and password abuse. In the product rating of Franke & Bornberg, the "PremiumSchutz" option available for household contents and private residential buildings was rated as "outstanding" (FFF).

In addition, FOCUS-MONEY awarded Württembergische Versicherung AG the title of "fairest insurer" for its residential housing insurance for the fourth year in a row. As part of the KUBUS study conducted by MSR Consulting, Württembergische Versicherung AG was rated "very good" in 2019 as a full-service insurance provider in the categories "service quality" and "value for money".

Sales channel mix

In selling our products, we place great emphasis on the competence and reliability of personal advice. In this context, the tied agents of Württembergische with its mobile sales force throughout Germany play a key role. This sales force is supported by the 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 online brand Adam Riese. Moreover, broker sales and numerous cooperation partners from the banking and insurance sector are making a key contribution to our success.

Commitment to sustainability

In accordance with the CSR-Richtlinie-Umsetzungsgesetz (German Act Transposing the CSR Directive), Württembergische Versicherung AG is under the obligation to publish a non-financial statement or a non-financial report.

However, pursuant to Section 289b (2) sentence 1 no. 1 of the Handelsgesetzbuch (HGB, German Commercial Code), 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) HGB and published in the Bundesanzeiger (Federal Gazette) together with the annual report. It is also made available to the public on the W&W Group's website at www.ww-ag.com/nachhaltigkeitsberichte (German version only).

Sustainability and corporate social responsibility have for years been integral elements of the Group's principles. This has been embedded in the group strategy and is taken care of by the Group Development department. The sustainability policy of the W&W Group summarises its understanding of sustainability and is regularly updated.

Regulatory requirements

The quarterly notifications required under Solvency II and the annual reporting by Württembergische Versicherung AG were sent to the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, German Federal Financial Supervisory Authority) on time. The requirements for coverage ratios were more than satisfied.

In 2019, the European Insurance and Occupational Pensions Authority (EIOPA) presented regulations for the "Solvency II Review 2020" for consultation under Solvency II. The changes being discussed relate to far-reaching modifications to both the qualitative and the quantitative requirements for insurance companies. The arrangements are not expected to be finalised until 2021 at the earliest.

Furthermore, the consequences of the increasing digitalisation of the industry are manifesting themselves in additional supervisory requirements for IT.

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 management parameters in the form of quantitative targets. The key performance indicators are derived on this basis.

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

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

For the financial years 2019 and 2020, these are earnings before taxes and the profit transfer in accordance with the 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 2019, Württembergische Versicherungsgruppe had 3,121.3 employees (previous year: 3,182.3 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.

Business report

Business environment

Macroeconomic environment

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

Capital markets

Bond markets

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

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

Stock markets

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

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

Industry trends

The year 2019 was marked by ongoing global trade conflicts and recession trends in the German industry. However, the service sector continued to support the economy in 2019, and according to preliminary calculations of the German Insurance Association (GDV), the insurance sector has generated a robust business result.

By the end of the year, the premium income in property and casualty insurance had increased by approximately 3.2% to €72.9 billion (previous year: €70.7 billion). At 5.6%, property insurance recorded the highest growth. Due to the stable demand for real estate, rising insurance amounts and expanded coverage, the premium performance in private property insurance increased by an above-average 6.0%. Non-private property insurance recorded growth of 5.0%. Due to the great price competition, motor insurance merely made a moderate contribution of 2.0% to this premium growth.

Following a presumably below-average claims development in property insurance, which more than balances the expected deterioration in the claims development in motor insurance, the claims expenses in the financial year underwent an increase of 1.7%, a figure significantly below the growth rate of the premiums. The total technical result amounted to €4.7 billion, more than in the previous year (€4.1 billion). At approximately 74%, the loss ratio for the financial year was lower than in the previous year. The combined ratio (ratio of claims and expenses to premiums earned) improved to approximately 93%.

Business development and position of the company

Business development

Once again, the claims development in the financial year 2019 was excellent. The claims equalisation reserves were further strengthened with an addition of €10.6 million (previous year: €12.6 million). In 2019, Württembergische Versicherung AG achieved a gross combined ratio of 90.8%, a figure significantly below the prospective average of the competitors. This reflects our income-oriented underwriting policy. Our gross premiums rose by 5.8%, a rate significantly higher than that of the market (3.2%).

New business significantly exceeded the figure of the previous year, coming in at €266.6 million (previous year: €249.1 million). At €111.1 million, the net income from investments more than doubled (previous year: €40.8 million).

Net income before taxes and profit transfer rose from €131.4 million to €139.1 million.

Technical result marked by ongoing positive claims development

Due to significantly lower gross claims expenses for natural disasters in the amount of €72.0 million (previous year: €88.5 million) and other reasons, the claims development of Württembergische Versicherung AG was once again excellent in the 2019 financial year. After an extremely high technical result of €167.4 million before allocation to the claims equalisation reserves in the previous year, a similar figure of €157.6 million was reached in the financial year ended. After the allocation to the claims equalisation reserves, which was slightly lower than in the previous year, the technical result amounted to €147.0 million (previous year: €154.8 million).

Significantly higher net investment income

Compared to the previous year, the net income from investments more than doubled to €111.1 million (previous year: €40.8 million). This was especially due to the higher write-ups on interests in investment assets in the field of shares and annuities, which had previously been written down. The balance from write-ups and write-downs improved from -€51.0 million to €30.5 million. Despite the extremely low capital market interest, the current income from investments increased by 8.4% to €102.9 million (previous year: €94.9 million), a development that was mainly attributable to higher distributions of interests in investment assets. The balance of disposal gains and losses dropped from €11.2 million to -€3.0 million, as lower profits were realised in the field of bonds. Disposal losses were incurred especially due to derivatives concluded for hedging purposes. The net interest rate on investments was 4.0% (previous year: 1.5%).

Net profit, profit transfer to W&W AG

While the technical result underwent a slight decline and the income from investments experienced a significant increase, the net income from operations increased from €131.4 million to €139.1 million despite the encumbrance of the other comprehensive income due to an increase of the restructuring provisions (€16.8 million) and an additional supplemental payment to WürttPK (€20.4 million). An amount of €140.4 million (previous year: €131.7 million) was transferred to the sole shareholder W&W AG.

Financial performance

New business and premium income

Measured in terms of the annual portfolio contribution, new business amounted to €266.6 million, more than in the previous year (€249.1 million). The cancellations in the portfolio of Württembergische Versicherung AG increased from €201.8 million to €218.9 million. For the first time, the annual contribution to the portfolio surpassed the €2-billion mark.

The premiums of Württembergische Versicherung AG continued to grow well in 2019. Gross premium income increased by 5.8% to €1,954.2 million (previous year: €1,847.7 million). Our digital brand Adam Riese also recorded good growth, significantly increasing its gross premium income written to €6.2 million, a significant increase over the previous year (€ 1.5 million). The main focus was on the private customer business. In just over two years, Adam Riese has thus already become a full-fledged market player. A further expansion of the product offering is in the pipeline.

The premium income of Württembergische Versicherung AG for own account increased by 5.2% to€1,569.8 million (previous year: €1,492.6 million).

The net share after accounting for the reinsurers' portion fell slightly to 80.3% (previous year: 80.8%).

Gross premiums written in motor insurance increased by 3.8% from €807.4 million to €838.4 million. In the private customer business, premium income underwent year-on-year growth of 6.0% to €671.6 million (previous year: €633.7 million). In the corporate customer business, Württembergische Versicherung AG's gross premium income written rose by 9.2% to €444.1 million (previous year: €406.6 million).

Claims development in the financial year

While the gross claims expenses for natural disasters dropped to €72.0 million (previous year: €88.5 million), the gross loss ratio of the financial year for the domestic business improved from the already very good figure of 69.9% in the previous year to 69.5% in the year under review.

Claims expenses for own account in Germany rose from €924.5 million to €1,017.8 million. The net loss ratio rose to 65.0% (previous year: 62.0%). An amount of €10.6 million (previous year: €12.6 million) was added to the claims equalisation reserves.

Continued robust reserves

In 2019, net technical provisions increased from €2,364.8 million to €2,437.2 million. The main reason was the increase in the provision for outstanding insurance claims as well as the further strengthening of the claims equalisation reserves.

Technical provisions for own account

	2019	2018	Change
			in %
Provisions for claims			
in € million	1,843.3	1,788.5	3.1
in % of premiums written	117.4	119.8	
in % of claims payments	196.3	197.3	
Claims equalisation provisions			
in € million	434.5	423.9	2.5
in % of premiums written	27.7	28.4	
Technical provisions			
Total in € million	2,437.2	2,364.8	3.1
in % of premiums written	155.2	158.4	

Expense ratio

The expense ratio describes the ratio of the expenses for insurance operations to the premiums earned. Despite the growth-induced increase of the remuneration of the mobile sales force, the expense ratio (gross) improved to 27.2% (previous year: 27.6%). Total expenses for the insurance business grew by 4.1% from €508.2 million to €529.2 million, an increase lower than the premium growth rate.

Combined ratio further improved

The persistently favourable claims trend along with the reduced cost ratio resulted in a further improvement of the combined ratio of Württembergische Versicherung AG. In the financial year 2019, the combined ratio (gross) came in at 89.4%, which is even lower than that of the previous year (89.5%) and significantly below the target of 94%.

The business segments of Württembergische Versicherung AG

Gross premium income by business segment

	2019	Share
	in € million	in %
Motor	838.4	42.9
Retail customers	671.6	34.4
Corporate customers	444.1	22.7
Total	**1,954.2**	**100.0**

Motor
The business line motor comprises the business lines motor liability, motor comprehensive insurance, motor accident insurance and traffic service insurance of Württembergische Versicherung AG. In 2019, premiums written increased by 3.8% to €838.4 million (previous year: €807.4 million).

Following the strong growth in the previous year, the new business in motor insurance increased by another 1.3% to €181.1 million (previous year: €178.7 million), measured on the basis the annual portfolio contribution.

The loss ratio of the financial year increased to 82.5% (previous year: 81.3%). Income from the previous year's claims (gross) was €37.8 million, slightly more than in the previous year (€37.0 million). Following a significant increase in the previous year, the net technical income from the motor business segment declined from €34.9 million to €20.4 million.

Private customers
This business line mainly comprises the business lines residential buildings, household, general accident insurance, legal expenses and liability business involving private households. Gross premium written underwent a significant increase of 6.0% to €671.6 million (previous year: €633.7 million).

In line with the targeted growth increase in private customer insurance, new business increased by 22.0% to €43.1 million (previous year: €35.3 million), measured on the basis of the annual portfolio contribution.

Net income from the private customer segment came in at €86.5 million, which is more than the already very good figure of the previous year (€73.8 million). With a premium increase of 3.3% and 4.4%, respectively, general personal accident insurance and household insurance made the largest contributions to net income in this segment. All business lines recorded positive results in the 2019 financial year.

Corporate customers

The business segment corporate customers includes the commercial and industrial property and liability insurance business lines. Income from gross premiums written in this segment rose 9.2% from €406.6 million to €444.1 million.

In the corporate customer business, the growth efforts resulted in an increase of new business by 21.3% to €42.5 million in terms of the annual portfolio contribution (previous year: €35.0 million).

In the financial year 2019, the gross loss ratio in the corporate customer business increased to 58.9% (previous year: 48.4%), mainly due to the greatly reduced run-off. This also resulted in a decline of the net income from €57.6 million to €24.0 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 3.2% from €139.3 million to €143.8 million. While the number of reported claims went up to 14,894 (previous year: 14,311), the claims expenses for the financial year dropped by 5.4% to €72.6 million. Accordingly, the loss ratio dropped to 45.6% (previous year: 46.3%) despite a significant decline of the run-off result. In the technical account, personal accident insurance generated a higher net income of €27.0 million (previous year: €24.9 million).

- Liability insurance

This business line consists of general liability business involving retail and corporate customers, as well as the aviation liability business. Gross premium income from this business line increased 6.4% from €207.8 million to €221.1 million. The loss ratio of the financial year increased from 48.1% to 51.7%. In the liability business line, the net technical income after the claims equalisation reserves improved to €66.0 million (previous year: €59.5 million).

- Motor insurance

In the year under review, gross premium income increased by 3.7% to €825.3 million (previous year: €795.9 million). Motor insurance recorded a positive net technical result before claims equalisation reserves of €19.6 million (previous year: €34.8 million). The amount of €11.6 million (previous year: €3.8 million) was added to the claims equalisation reserves.

- Motor liability insurance

In 2019, the motor liability insurance of Württembergische Versicherung AG covered 1,779,074 risks (previous year: 1,757,973). The number of reported claims was 90,087, slightly less than in the previous year (90,678). In 2019, gross premiums written increased by 2.5% from €455.5 million to €466.8 million. The loss ratio of the financial year increased slightly to 85.5% (previous year: 85.0%). The run-off gain in motor liability insurance amounted to €32.4 million, which was more than in the previous year (€31.7 million). The net technical income before claims equalisation reserves stood at €11.4 million (previous year: €19.6 million). An amount of €5.9 million (previous year: €5.1 million) was allocated to the claims equalisation reserves.

- Other motor insurance

Other motor insurance includes comprehensive and partial cover insurance. Gross premium income from this business line rose by 5.3% from €340.4 million to €358.5 million. The loss ratio for the financial year increased slightly to 79.7% (previous year: 77.1%). In the other motor insurance business line, Württembergische Versicherung AG thus generated net income before the claims equalisation reserves of €8.2 million (previous year: €15.3 million). In the financial year 2019, an amount of €5.6 million (previous year: €1.3 million) was added to the claims equalisation reserves.

- Fire insurance

This insurance business line comprises the industrial fire insurance, the general fire insurance and the agricultural fire insurance. Gross premium income increased by 10.7% from €71.8 million to €79.4 million. The gross loss ratio for the financial year increased significantly to 84.1% (previous year: 69.4%). Due to the significant strengthening of the claims equalisation reserves in the amount of €10.5 million in the previous year (2019: withdrawal of €1.1 million), the net technical income after claims equalisation reserves improved from -€1.0 million to €0.9 million.

- Household insurance

In 2019, gross premium income from household insurance increased by 4.4% to €98.5 million (previous year: €94.3 million). Following up on the excellent previous years, the claims situation continued to improve. The loss ratio for the financial year dropped from 36.3% to 33.3%. The net technical income improved to €25.2 million (previous year: €24.1 million).

- Residential building insurance

One of the factors that the residential insurance business line benefited from compared to the previous year was the much lower level of expenses for natural disasters. While a net loss had been reported in 2018, a net gain of €10.9 million (previous year: -€6.7 million) was reached in 2019. The combined ratio (net) reached a very good value of 90.7% (previous year: 101.9%), thus remaining significantly below 100%. As in the previous year, premiums increased considerably. In 2019, gross premiums increased by 9.9% to €204.6 million (previous year: €186.2 million), though the number of contracts merely underwent a slight increase of 1.5% to 462,201. The premium growth thus resulted especially from the successful increase in average premiums. Due to the reduced number of natural disaster claims, the number of reported claims underwent a major decline of 18.0% from 51,179 to 41,952. At the same time, the average claim went up by 11.3% from €2,518 to €2,803. In the reporting period, the loss ratio improved significantly to 57.9% (previous year: 74.5%).

- 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 9.1% to €200.3 million (previous year: €183.6 million). The loss ratio in the financial year improved to 61.5% (previous year: 67.9%). Year on year, the net technical result before claims equalisation reserves underwent a significant increase to €11.0 million (previous year: €1.8 million). An amount of €7.6 million was added to the claims equalisation reserves (previous year: withdrawal of €15.0 million).

- Transport and aviation insurance

Gross premiums written in transport and aviation insurance increased by 6.9% to €23.8 million (previous year: €22.3 million). The gross loss ratio of the financial year deteriorated from 75.6% to 89.8%. Following the narrow technical gain of €1.6 million before claims equalisation reserves that had been generated in the previous year, a loss of €3.3 million was incurred in the year under review. An amount of €4.4 million was withdrawn from the claims equalisation reserves (previous year addition of €1.3 million), so that at the bottom line, a profit was reached after claims equalisation reserves.

- Legal expenses insurance

Gross premium income from legal expenses insurance increased by 5.4% to €126.0 million (previous year: €119.6 million). The number of reported claims increased by 7.5% from 110,641 to 118,977. The loss ratio deteriorated from 55.7% to 60.3%. The technical result before the claims equalisation reserves came in at €6.3 million (previous year: €11.4 million). Due to the stable claims development in the past, the conditions for the recognition of claims equalisation reserves were no given for the first time in the year under review. In accordance with the statutory provisions, the reversal takes place over a period of five years in the amount of €4.3 million per year (previous year: addition of €7.0 million).

- Travel assistance insurance

This business line consists solely of travel service insurance. Gross premium income increased by 15.2% from €10.7 million to €12.3 million. The gross loss ratio for the financial year improved to 53.8% (previous year: 58.4%). The net technical income before claims equalisation reserves increased with a profit of €0.5 million, after a slight loss of -€0.2 million in the previous year. An amount of €1.2 million (previous year: €0.9 million) was allocated to the claims equalisation reserves.

- Other insurances

This business line comprises fire business interruption insurance and other products that span multiple business lines. In the financial year 2019, gross premiums in this area increased by 18.6% to €19.1 million (previous year: €16.1 million). Year on year, the gross loss ratio of the financial year increased significantly to 71.1% (previous year: 52.6%). Other insurances generated a net technical result before claims equalisation reserves of -€0.4 million (previous year: €4.0 million). An amount of €1.4 million was withdrawn from the claims equalisation reserves (previous year: addition of €1.1 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 posted a net technical income of €0.8 million (previous year: -€1.6 million).

Net assets

Investments

Challenges for the investments

Persistently high economic and geopolitical uncertainties and especially the extremely low interest rates determined the framework for investments in the financial year ended. Thus, the challenges that the investment policy and the risk management were faced with in order to achieve an appropriate risk/return profile for the investments were again very high.

We react to this setting 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 €2.9 billion, 8.4% more than in the previous year.

Continued development of the bearer bonds in the direct portfolio

New investments in the amount of €339.2 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 €706.1 million to €898.8 million. Their share of the total investments increased to 30.9% (previous year: 26.3%).

In the financial year just ended, the portfolio of registered bonds, promissory notes, loans and other loans decreased slightly. Their carrying amount fell from €515.6 million to €465.5 million. Their share in the total investment portfolio declined from 19.2% to 16.0%.

Especially due to the investment in pension fund certificates and as a result of write-ups, the carrying amount of the units in investment assets went up from €704.9 million to €809.9 million. Accordingly, the portfolio ratio of all investments increased from 26.3% to 27.9%.

Increase in equity weighting

To participate in the opportunities of the stock markets, the equity exposure of Württembergische Versicherung AG was expanded. Taking into account the futures entered into and the market value of the option positions, the equity ratio thus amounted to 7.9% (previous year: 5.3%). As at the end of the year, 83.3% of the equity exposure were hedged.

Participations continue to grow

As in previous years, the carrying amount of participations and interests in affiliated companies continued to increase. Thus, this item went up from €452.7 million to €475.9 million. Participations were acquired in the field of alternative investments (renewable energies, private equity, private debt and infrastructure). Based on the market value, these participations accounted for 10.7% of the total investments.

Real estate

In the financial year 2019, the carrying amount of real estate directly held by Württembergische Versicherung AG decreased to €67.9 million (previous year: €75.1 million) due to scheduled depreciation amounting €7.2 million.

Due to a write-up, the carrying amount of indirectly held real estate increased to €191.2 million (previous year: €185.9 million).

Higher valuation reserves

In the course of 2019, the net reserve, i.e. the balance from reserves and liabilities, underwent a significant increase to €254.4 million (previous year: €201.9 million). The main reason for this was the lower capital market interest. Moreover, higher share prices and the increased value of participations and real estate contributed to this development. As in previous years, the valuation option pursuant to Section 341b (2) HGB was not exercised.

Derivative financial instruments

Württembergische Versicherung AG made use of derivative financial instruments to manage and hedge the equity exposure as well as interest rate and currency risks as in previous years. 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 casualty insurance, the liabilities side is dominated by the technical provisions.

These amounted to €2,437.2 million (previous year: €2,364.8 million) and thus accounted for 74.3% (previous year: 76.3%) of the liabilities. Of this amount, the provision for outstanding insurance claims accounted for €1,843.3 million (previous year: €1,788.5 million), the claims equalisation reserves and similar provisions for €434.5 million (previous year: €423.9 million), the provision for unearned premiums for €121.7 million (previous year: €117.0 million), and the provision for future policy benefits and other technical provisions for €37.6 million (previous year: €35.4 million).

Under the existing profit transfer agreement, the entire profit was transferred to the parent company W&W AG. The equity thus amounted to €350.6 million, as in the previous year. 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 2019 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 2018, the actuarial performance of 2019 was again marked by excellent claims development. At €111.1 million, the net income from investments more than doubled compared to the previous year. All in all, we are very satisfied with the results achieved.

Comparison of business performance with forecast

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

While our forecast had predicted a moderate increase, the new business turned out to be 5.7% higher than in the previous year. In particular, new business in the private and corporate customer business grew considerably compared to 2018.

As the actuarial development was again very good, the combined ratio (net) remained further below the target figure of 94% than expected.

In 2019, the income before taxes was marked by exceptional business performance. Apart from the income from investments, which was more than double the amount of the previous year, the technical result, too, was better than expected. This was also attributable to the risk-conscious underwriting policy that we have pursued in recent years. All in all, the income before taxes amounted to €139.1 million, even more than in the previous year, which had already been high (€131.4 million). In our forecast, we had predicted a significant decline.

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 evaluation are discussed in the management within the scope of strategy retreats and then incorporated into strategic planning.

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

In the following, we concentrate on the main opportunities, making distinction 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. For us, this also includes offering our customers simple, transparent, individualised and flexible products, as well as networking across all interaction channels.

The growing need for financial security offers tremendous business opportunities. With its sustainable, integrated advisory approach and its target group concepts and solutions, Württembergische Versicherung AG adapts strategically to the changed financial planning market.

Digital advances have materially changed the expectations of many existing and potential customers. Communication between customers, sales and back office is increasingly taking place on the basis of digital technology. In this regard, however, customers increasingly expect customised offers and approaches. The dissemination and use of digital media enables more intensive and targeted customer contact along with corresponding sales potential. In this regard, we combine our personalised advisory approach with new digital opportunities. In the age of the Internet, social media and intensified use of 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.

Opportunities through demographic change
Demographic change and a changing society offer new growth opportunities. In our view, society is demanding more flexibility with regard to products, advice 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 developing new products and using all manner of communication media, we are adapting to these changes.

Economy

Opportunities through interest rate trends and capital markets
The low interest rate policy in Europe continues to pose challenges for financial services providers, but also offers opportunities. Against this backdrop, the importance of effective investments is rising. As an investor with upwards of €49 billion in investment capital, the W&W Group has long-standing capital market expertise and a comprehensive risk management system. Our capital investment is based on a strategic asset allocation that we align with opportunities and risks in the course of a consistent value and risk-oriented investment strategy, while maintaining flexibility in order to make use of opportunities at short notice.

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.

Technology

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

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

With our new digital brand Adam Riese, we accommodate this development. Meanwhile, Adam Riese already has five products in the market, which attract our customers through digitally simplified product design, fast online policies and a fully digital claims process.

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 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 influences

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 broad potential customer pool of millions of people in our core market, Germany.

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

Opportunities through our employees

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

For this reason, the W&W Group offers a variety of programmes and services relating to health management, qualification, and agile, networked and flexible working, particularly at the new W&W campus. Similarly, W&W provides various opportunities for retention and networking specifically for its trainees and students of the cooperative university. For further information, please see the chapter "Employees" in the annual report of the W&W Group.

Risk report

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 to 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 function:** 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 W&W Group.

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 and affirmed 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 and limits are derived on the basis of these calculations. 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 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 is regularly informed 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, their duty is to monitor 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 compliance with all internal and external regulations. It thus assists the risk management function with respect to compliance issues and legal risks.
- The Internal Audits department represents our third line of defence, independently reviewing the adequacy and efficiency of the Group's internal control system as well as the effectiveness of the corporate processes.

Persons or divisions charged with exercising 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 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 processes.

Risk management process

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

Risk identification

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

Risk assessment

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

Risk taking and risk governance

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

The risk areas are quantified according to our economic model. Market price risks accounted for 38.8% (previous year: 33.0%), counterparty risks for 6.1% (previous year: 6.5%), insurance risks for 50.1% (previous year: 55.2%) and operational risks for 5.0% (previous year: 5.3%). 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 2019, the total risk capital requirements of Württembergische Versicherung AG amounted to €811.9 million. The individual risk areas and – where relevant to the overall assessment – the individual risk types are described in the following sections.

Market price risk

We define market price risk as potential losses resulting from the uncertainty concerning future trends (size, volatility and structure) in market risk factors. Such market risk factors include interest rates, 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 “prudent person principle”, which is codified in the Versicherungsaufsichtsgesetz (VAG, German Insurance Supervision Act) and constitutes a principles-based approach, forms the regulatory framework for our investment policy. Additionally, various investment-related interpretation decisions of BaFin are taken into consideration. When making investments, the security, quality, liquidity and profitability of the portfolio as a whole must be ensured. This principle of entrepreneurial prudence is at the heart of our internal capital investment guidelines, which contain precise rules concerning compliance with investment policies and a company-specific schedule of investments with respect to both quality and quantity.

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.

The risk profile of the investments is increasingly being influenced by ESG (environment, social, governance) risks. Within the context of the compliance with the Deutsche Nachhaltigkeitskodex (German Sustainability Code), the W&W Group and thus Württembergische Versicherung AG has undertaken to consider sustainability aspects in its investments. Thus, the investment portfolio is analysed with a view to ESG aspects. In line with the investment strategy, investments in defined non-sustainable sectors and industries are ruled out. The possibilities to take sustainability aspects into consideration in the investments are continually expanded (e.g. investment in green bonds or renewable energies).

Interest rate risk

If interest rates remain persistently low, this could 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 fixed-interest securities would undergo the following market value changes:

▪ Increase by 50 basis points	- €60.4 million
▪ Increase by 100 basis points	- €120.1 million
▪ Decline by 100 basis points	+ €125.8 million
▪ Decline by 50 basis points	+ €61.8 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 2019. Further disclosures concerning hedges are presented in the chapter “Notes concerning assets”. To assess market price risks, we regularly conduct simulations for our share portfolios (including share-based derivatives). Where the price fluctuates by +/-10% or +/-20%, the market value of all equities would change as follows:

▪ Increase by 20%	+ €42.4 million
▪ Increase by 10%	+ €21.2 million
▪ Decline by 10%	- €20.7 million
▪ Decline by 20%	- €40.4 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 exchange 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, we hedge most of the current positions. In our open foreign exchange exposure, we mainly concentrate on US dollars. 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. The credit spread refers to the risk premium in the form of higher interest on a security subject to credit risk in relation to a comparable security without risk. Thus, a clear distinction is made between credit spread risk, migration risk and expected default risk. Accordingly, for securities, the only credit spread changes that are taken into consideration are those that do not result in a change (migration including default) in the rating. Risk capital requirements are calculated as value at risk with a confidence level of 99.5% on the basis of changes in the credit spread over a one-year period.

The key elements of our risk management methods and our risk controlling in the market price risk area 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.

Due to the coronavirus crisis and the associated uncertainties concerning the further development, it must be expected that in 2020, Württembergische Versicherung AG will be exposed to significantly higher market price risks (see section "Business risks").

Counterparty credit risks

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 fixed-interest 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 loan 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 94.0% (previous year: 94.8%) 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 liens.

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; rather, further significant stabilisation was evident in the course of 2019. As at 31 December 2019, the volume of emerging market bonds totalled €260.0 million (based on market value), a share of 8.2% of our investment portfolio. We will maintain this exposure, as we can see 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 €40.8 million (previous year: €49.0 million). Of these, 5.8% (previous year: 4.6%) were owed by companies with an "A-" or better rating, and 94.3% (previous year: 95.4%), by companies with a "BBB" rating as classified by Standard & Poor's. Disclosures concerning receivables from policyholders, insurance agents and others are presented in the chapter "Notes concerning assets" in the notes.

Due to the coronavirus crisis and the associated uncertainties concerning the further development, it must be expected that in 2020, Württembergische Versicherung AG will be exposed to significantly higher counterparty credit risks (see section "Business risks").

Insurance risks

In property and casualty 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 casualty 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 optimisation of 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 depicted in the quarterly risk report and discussed in the Executive Board, in bodies that meet on a regular basis and in diverse workgroups and projects. To measure insurance risks in the economic model, we use a stochastic model. We collaborate with specialised reinsurance companies and brokers for the purpose of simulating natural disaster events.

The loss from insurance risks is to be 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 casualty insurance. The reinsurance programme is adjusted on a yearly basis under consideration of risk-bearing capacity.

Once claims occur, Württembergische Versicherung AG promptly creates specific and general 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 risks mainly result 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) is as follows:

in %	Loss ratios	Run-off ratios
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
2019	63.3	6.3

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 if claims reserves are inadequate. 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. Through the successful run-off of major claims in 2019, the volume of the claims reserve dropped to €73.3 million (previous year: 82.7 million), which however continues to be regarded as significant.

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.

Due to the coronavirus crisis and the associated uncertainties concerning the further development, it must be expected that in 2020, Württembergische Versicherung AG will be exposed to some significantly higher insurance risks (see section “Business risks”).

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 enterprises engage 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.

Due to the coronavirus crisis and the associated uncertainties concerning the further development, it must be expected that in 2020, Württembergische Versicherung AG will be exposed to some significantly higher operational risks (see section “Business risks”).

Business risks

We define business risks as potential losses incurred as a result of management decisions concerning the business strategy and its execution or the failure to achieve strategic targets. This also includes 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 were to suffer damage, there is a risk of losing business volume immediately or in the future. This could lower the enterprise value. 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.

Coronavirus
Should the coronavirus pandemic spread in Germany, this could impact Württembergische Versicherung AG. Moreover, employee absences could result in operational risks to business processes. For business-critical processes, these risks would be mitigated through the business continuity management. However, impairments cannot be fully ruled out.

Württembergische Versicherung AG has not escaped the indirect effects of the coronavirus crisis on the economy and on the capital markets. The capital markets had already dropped considerably in March 2020. This was evident especially from the declining share prices, further interest declines, larger spreads, reduced market liquidity and, in general, a highly volatile environment.

As the year progresses, there are great uncertainties with respect to the forecast for the capital market performance. The negative economic consequences of the coronavirus crisis also suggest a deterioration of the credit quality and credit defaults. Moreover, effects of the coronavirus crisis on the new business cannot be excluded. Any countermeasures that the governments and central banks may take might have an alleviating effect.

Depending on how things develop, the coronavirus crisis can thus result in an income decline and a deterioration of the financial, assets and risks position, especially if the coronavirus crisis should persist.

The principles and objectives of business policies and the sales and revenue goals derived from them are contained in the business strategy and the sales forecasts. The Executive Board is responsible for managing business risks. Depending on the reach of a decision, coordination with the W&W Group and with the Supervisory Board may be necessary.

Liquidity risk

Liquidity risk means the danger that liquidity is not sufficiently available, that it can be obtained only at increased cost (refinancing risk) or that it can be realised only with discounts (market liquidity risk) in order to satisfy payment obligations at maturity (avoidance of insolvency risk).

Market 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 applicable 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.

Due to the coronavirus crisis and the associated uncertainties concerning the further development, it must be expected that in 2020, Württembergische Versicherung AG will be exposed to significantly higher market liquidity risks (see section “Business risks”).

Assessment of the overall risk profile

As in the previous year, the 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 2018 was reported to BaFin in the second quarter of 2019. The calculated ratio was 189.1%.

By March, the coronavirus crisis had already resulted in a major decline in the financial markets. As the year progresses, great uncertainties remain with respect to the further development of financial markets, and a noticeable slump of the economic growth is feared. Expected countermeasures on the part of governments and central banks may have an alleviating effect. In view of these developments, it must be expected that Württembergische Versicherung AG will be exposed to much higher risks in the course of 2020, especially if the coronavirus crisis should persist.

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, 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.

Enhancements and planned measures

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. Thus, the insurance supervision has made the topic of sustainability a key topic.

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 2020 financial year, we intend to continually and rigorously expand the standards achieved in our risk management system. For this purpose, we have defined an ambitious development programme with a number of measures along our risk management process, also under consideration of the aspect of sustainability. In addition, the W&W Group is making targeted preparations for future regulatory requirements through extensive Group-wide projects.

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

Outlook

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

Macroeconomic outlook

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

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

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

Industry outlook

We expect that the anticipated substantial strain on the economy and continued high price competition will dampen premium growth in property and casualty insurance. By contrast, the demand for insurance by private households, which account for approximately two thirds of the premium income, could have a supportive effect. Prior to the outbreak of the coronavirus crisis, the GDV had expected that premium income would rise by a total of 2.5% in 2020.

In private property insurance, slightly lower growth rates than in the previous year were expected. An increase of 4.7% was considered to be possible. In the motor insurance business line, a moderate performance similar to that of the previous year was expected, and a premium growth of 2.0% was anticipated for 2020. Moderate premium growth was anticipated in all other business lines, though below that of the previous year.

Future business performance

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

In property and casualty insurance, we continue to strive for greater income from the sale of insurance to private and corporate customers. In 2020, we plan new business (annual contributions to the portfolio) at the level of the previous year. The claims development in the financial year 2019 was very good. We expect the claims development in 2020 to remain stable. A combined ratio (net) of less than the long-term goal of 94% is planned.

We expect the income before taxes and the profit transfer to drop slightly in 2020. Though the technical result remains ambitious, this is due to the decline of the income from investments, which was higher in 2019. For our forecasts, we assume normal claims development and no extraordinary events on the capital markets. However, in view of the currently acute turmoil on the capital markets, as well as the consequences of the coronavirus crisis, which cannot yet be estimated, it is not possible to make a reliable forecast at this time. Should the coronavirus crisis persist, this would be expected to impair income. Opportunities and risks may result from the further development of claims, capital markets, the economy and the political climate. The strategic orientation, e.g. with respect to additional sales channels or cost optimisation, represents an additional opportunity. Additional risks may arise from counterparty defaults, increased regulatory or statutory requirements and the further development of the coronavirus crisis.

Overall view

Despite political, foreign trade and economic risks, Württembergische Versicherung AG as part of the W&W Group continues to grow in an environment characterised by a growing demand of private households for insurances.

“W&W Better!”, “Vertrieb.Besser!” and “Komposit.Besser!” focus on the benefit for the customer and the W&W-typical concept of one-stop financial planning.

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. Liquidity planning shows that in 2020 we will have sufficient liquidity available at all times. For further information about the liquidity position, please see the section “Liquidity risks” in the “Opportunity and risk report”.

If the income from investments goes down, we expect 2020 to see a slight decline in the income before taxes and the profit transfer to the parent company.

Apart from the said 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 constitute estimates that were made on the basis of information that is available at the present time and is considered to be material. They can be associated with known and unknown risks and uncertainties, but also with opportunities. Because of the variety of factors that influence our business operations, actual results may differ from those currently anticipated.

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

Other disclosures

Relationships with affiliated companies

W&W AG, Stuttgart, Germany, holds 100% of our share capital. Wüstenrot Holding AG holds 39.91% and WS Holding AG holds 26.40% of the shares in W&W AG. Both holding companies are wholly owned by Wüstenrot Foundation Gemeinschaft der Freunde Deutscher Eigenheim e.V.

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 as a result of contracts for the outsourcing of services and functions. They govern services that have been transferred in whole or in part, including appropriate compensation. The compensation paid to W&W Asset Management GmbH is volume-dependent.

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 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 German market pools 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 and of 20% for the Executive Board. The target ratios have been reached.

The Executive Board of Württembergische Versicherung AG has decided 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 our 2017 Annual Report, we published a report on equality and equal remuneration pursuant to the Entgelttransparenzgesetz (EntgTransG, German Transparency in Wage Structures Act).

In accordance with the five-year rule in Section 22 (1) EntgTransG, we did not prepare a new report for 2019.

Württembergische Versicherung AG
Annual financial statements

Balance sheet as at 31 December 2019

Assets

in € thousands	See notes, no.[1]	31.12.2019	31.12.2019	31.12.2019	31.12.2018
A. Intangible assets					
Licenses acquired against payment, industrial property rights and similar rights and assets, as well as licenses for such rights and assets				–	10
B. Investments					
I. Land, land-type rights and buildings, including buildings on third-party land	1		67,907		75,051
II. Investments in affiliated companies and participations	2				
1. Interests in affiliated companies		238,279			235,867
2. Loans to affiliated companies		52,050			47,762
3. Participations		237,602			216,881
			527,931		500,510
III. Other investments					
1. Shares, interests or shares in investment assets and other variable-yield securities		811,339			707,104
2. Bearer bonds and other fixed-income securities	3	898,794			706,135
3. Mortgage debt claims, mortgage loans and annuities	4	84,155			89,853
4. Other loans	5	465,477			515,621
5. Deposits with credit institutions		49,717			86,247
6. Other investments		2			2
			2,309,484		2,104,962
				2,905,322	2,680,523
C. Receivables					
I. Receivables from direct insurance business due from:	6				
1. Policyholders		13,862			19,118
2. Insurance brokers		35,431			30,638
			49,293		49,756
II. Amounts receivable on reinsurance business			40,802		49,049
Thereof from affiliated companies: €38,436 thousand (previous year: €46,807 thousand)					
III. Other receivables	7		179,241		164,625
Thereof from affiliated companies: €160,855 thousand (previous year: €145,213 thousand)				269,336	263,430
Carryover				**3,174,658**	**2,943,963**

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

Assets

in € thousands		31.12.2019	31.12.2019	31.12.2019	31.12.2018
Carryover				**3,174,658**	**2,943,963**
D. Other assets					
I. Property, plant and equipment and inventories	8		10,432		10,971
II. Current accounts with banks, cheques and cash			72,012		116,282
				82,444	127,253
E. Deferred assets					
I. Deferred interest and rental income			15,374		18,193
II. Other deferred assets	9		1,255		1,632
				16,629	19,825
F. Excess of plan assets over pension liabilities	10			7,150	7,011
Total assets				**3,280,881**	**3,098,052**

Equity and liabilities

in € thousands		31.12.2019	31.12.2019	31.12.2019	31.12.2018
A. Equity					
I. Called-up capital	11				
Share capital			109,312		109,312
II. Capital reserve	12		76,694		76,694
III. Retained earnings					
Other retained earnings			164,557		164,557
				350,563	350,563
B. Subordinated liabilities	13			30,000	30,000
C. Technical provisions	14				
I. Provision for unearned premiums					
1. Gross amount		141,528			134,850
2. Thereof to: portion for ceded reinsurance business		19,821			17,867
			121,707		116,983
II. Provision for future policy benefits					
1. Gross amount		80			79
2. Thereof to: portion for ceded reinsurance business		12			12
			68		67
III. Provision for outstanding insurance claims					
1. Gross amount		2,325,215			2,288,027
2. Thereof to: portion for ceded reinsurance business		481,878			499,507
			1,843,337		1,788,520
IV. Claims equalisation and similar provisions			434,540		423,945
V. Other technical provisions					
1. Gross amount		40,891			37,929
2. Thereof to: portion for ceded reinsurance business		3,390			2,623
			37,501		35,306
				2,437,153	2,364,821
Carryover				**2,817,716**	**2,745,384**

Equity and liabilities

in € thousands		31.12.2019	31.12.2019	31.12.2019	31.12.2018
Carryover				**2,817,716**	**2,745,384**
D. Other provisions					
I. Tax provisions			4,728		6,172
II. Miscellaneous provisions	15		89,621		58,531
				94,349	64,703
E. Deposits retained from ceded reinsurance business				25	27
F. Other liabilities					
I. Liabilities from direct insurance business owed to:	16				
1. Policyholders		66,966			62,156
2. Insurance brokers		35,173			33,780
			102,139		95,936
II. Accounts payable on reinsurance business			308		257
III. Miscellaneous liabilities			266,237		191,643
Thereof for taxes: €21,727 thousand (previous year: €20,722 thousand) Thereof to affiliated companies: €215,620 thousand (previous year: €146,861 thousand)				368,684	287,836
	18				
G. Deferred liabilities				107	102
Total liabilities				**3,280,881**	**3,098,052**

Personal accident and liability insurance

We confirm that the provision for future policy benefits as presented in the balance sheet under the liability items C. II. 1. and C. III. 1. in the amount of €148,685 thousand was recognised pursuant to Section 341f HGB and the legal regulations issued on the basis of Section 88 (3) VAG (actuarial confirmation).

Stuttgart, 28 January 2020

Responsible actuary
Daniel Männle

Income statement
for the period 1 January to 31 December 2019

in € thousands		1.1.2019 to 31.12.2019	1.1.2019 to 31.12.2019	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
I. Technical account					
1. Premiums earned for own account	19				
a) Gross premiums written		1,954,208			1,847,703
b) Premiums ceded to reinsurers		384,372			355,092
			1,569,836		1,492,611
c) Change in the gross provision for unearned premiums		–6,677			–3,342
d) Change in the reinsurers' portion of the gross provision for unearned premiums		1,954			773
			–4,723		–2,569
				1,565,113	1,490,042
2. Income from technical interest for own account	20			1,371	1,377
3. Other technical income for own account				2,326	2,235
4. Expenses for insurance claims for own account					
a) Payments for insurance claims					
aa) Gross amount		1,177,224			1,144,546
bb) Reinsurers' portion		238,333			238,181
			938,891		906,365
b) Change in the provision for outstanding insurance claims	21				
aa) Gross amount		34,584			–1,972
bb) Reinsurers' portion		–17,755			–16,479
			52,339		14,507
				991,230	920,872
5. Change in other net technical provisions					
a) Net provision for future policy benefits			562		–7
b) Other net technical provisions			–2,757		–4,860
				–2,195	–4,867
6. Expenses for insurance business for own account					
a) Gross expenses for insurance business	22		529,347		508,365
b) Thereof less: received commissions and profit participations from ceded reinsurance business			120,056		115,935
				409,291	392,430
7. Other technical expenses for own account				8,511	8,048
8. Subtotal				**157,583**	**167,437**
9. Change in the claims equalisation provision and similar provisions				–10,595	–12,634
10. Underwriting income for own account				146,988	154,803
Carryover				**146,988**	**154,803**

in € thousands		1.1.2019 to 31.12.2019	1.1.2019 to 31.12.2019	1.1.2019 to 31.12.2019	1.1.2018 to 31.12.2018
Carryover				**146,988**	**154,803**
II. Non-technical account					
1. Income from investments					
a) Income from participations Thereof from affiliated companies €5,174 thousand (previous year: €9,270 thousand)			25,389		23,639
b) Income from other investments Thereof from affiliated companies €11,069 thousand (previous year: €9,318 thousand)					
aa) Income from land, land-type rights and buildings, including buildings on third-party land		10,431			10,046
bb) Income from other investments		65,529			60,936
			75,960		70,982
c) Income from write-ups	23		47,188		19,211
d) Gains from the disposal of capital investments	24		8,983		33,326
e) Income from profit pools, profit transfer agreements and partial profit transfer agreements			1,530		264
			159,050		147,422
2. Expenses for investments					
a) Investment management expenses, interest expenses and other expenses for investments		10,358			8,018
b) Write-downs on investments	25	16,721			70,233
c) Losses from the disposal of investments	26	12,026			22,169
d) Expenses from loss assumption		8,840			6,154
			47,945		106,574
			111,105		40,848
3. Income from technical interest			1,371		1,377
				109,734	39,471
4. Other income	27		238,341		207,398
5. Other expenses	28		355,954		270,309
				–117,613	–62,911
6. Net income from operations				139,109	131,363
7. Extraordinary expenses	29		27		
8. Net extraordinary income				–27	
9. Income taxes	30		420		–321
10. Other taxes			–1,753		–34
				–1,333	–355
11. Profits transferred under a profit transfer agreement				140,415	131,718
12. Net profit				—	—

Notes

Notes concerning the annual financial statements

Accounting policies for assets

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

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

Interests in affiliated companies

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

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) 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) 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 recognised in their nominal amounts.

Other investments

Other capital investments are measured at cost.

Other assets

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.

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.

The excess of plan assets over pension liabilities relates to a surplus that results from the offsetting of reinsurance claims measured at fair value against liabilities under phased-in early retirement agreements. Insolvency-proof reinsurance claims are measured at the coverage capital specified in the business plan, plus irrevocably committed participation contracts, which, under compliance with the strict lower-value principle, corresponds to amortised cost in accordance with Section 253 (4) HGB and thus, in the absence of other measurement methods, to fair value within the meaning of Section 255 (4) sentence 4 HGB.

The option to recognise deferred tax assets on the basis of the tax relief resulting under Section 274 (1) sentence 2 HGB was not used.

Reversals of impairment losses

For assets that were written down in previous years to a lower fair value, the impairment loss must be reversed if the reasons for taking the impairment no longer exist. In conformity with the principles in Section 253 (5) 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 created for contingent losses from these transactions.

Acquired option rights are measured at cost in the amount of the option premium less write-downs in accordance with the strict lower-value principle, taking into account the requirement to reverse impairment losses. Option premiums for sold options are recognised under “Miscellaneous liabilities” for as long as there is a duty to perform under the option. A risk of excess liability surplus under written options is accounted for by creating provisions for impending losses.

Valuation units

Interest rate swaps are consolidated exclusively with the underlying receivables and securities to form valuation units pursuant to Section 254 HGB.

In the accounts, these valuation units are presented according to the “freeze method” pursuant to Section 254 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. In these appraisals, the market value of the properties is determined using the income approach pursuant to Sections 17 to 20 of the Immobilienwertermittlungsverordnung (ImmoWertV; German Property Value Determination Ordinance) and, to additionally verify the earning power, the asset value of the property in accordance with Section 21 ImmoWertV.

We base the fair value of investments in 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 reinsurers’ portion is calculated on the basis of the individual reinsurance policies.

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 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 Bundesfinanzministerium (German Federal Ministry of Finance) dated 2 February 1973. In the transport business line, lump-sum procedures are applied. The reinsurers' portion is calculated in accordance with the quota share.

The claims equalisation reserves contained in item C.IV. were created in accordance with the annex to Section 29 of the Versicherungsunternehmens-Rechnungslegungsverordnung (RechVersV; German Regulation on the Accounting of Insurance Undertakings).

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

The provision for unused premiums from dormant motor insurance is calculated per policy, and the provision for cancellations is calculated on the basis of statistical surveys. The provision for the "Unfall 60 plus" policy, which covers claims requirements that increase with age, is calculated actuarially per policyholder. For obligations 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 outstanding settlement amounts from advance work performed by the employee. The provision is discounted in accordance with the specific maturities using the corresponding interest rates published by the German Bundesbank in accordance with the Rückstellungsabzinsungsverordnung (RückAbzinsV; German Regulation on the Discounting of Provisions). 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 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 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 1.09% 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 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 1.5%. The rate used to discount other provisions corresponds to the average rate of the past seven years published by the German Bundesbank pursuant to 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". Tax provisions usually have a term of less than one year and are not discounted (pursuant to the Abgabenordnung [Fiscal Code of Germany], interest starts to apply after 15 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 HGB, translation gains and losses are recognised in the income statement where the remaining terms to maturity are one year or less.

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

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

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

Recording of income and expenses on an accrual basis
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 2018 in the amount of €1,002 thousand was recognised in the year under review.

Notes 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 (1)

As at the reporting date, our land consisted of 20 (previous year: 20) properties with a carrying amount of €67,907 thousand (previous year: €75,051 thousand). The fair value of our land and buildings amounted to €123,478 thousand (previous year: €122,268 thousand).

No properties were acquired or sold during the reporting year. The underlying useful lives of the buildings amount to 40 to 50 years.

Of our property, shared ownership interests accounted for €3,524 thousand (previous year: €3,638 thousand).
Of our real estate portfolio, land and buildings with a carrying amount of €55,676 thousand (previous year: €62,506 thousand) are used by the Group.

II. Investments in affiliated companies and participations (2)

Pursuant to Section 285 no. 11 in conjunction with Section 271 (1) 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 HGB.

III. Other investments

2. Bearer bonds and other fixed-income securities (3)
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 (4)
At the end of the year under review, there were two pending forced sale proceedings in the field of mortgages.

4. Other loans (5)

in € thousands	31.12.2019	31.12.2018
Registered bonds	274,181	293,718
Promissory notes and loans receivable	169,488	199,896
Miscellaneous loans	21,808	22,007
Total	**465,477**	**515,621**

Fair value of investments
This item consists of:

Valuation reserves

in € thousands	Carrying amount 2019	Fair value 2019	Valuation reserves, by liability[1] 2019	Carrying amount 2018	Fair value 2018	Valuation reserves, by liability[1] 2018
Land, land-type rights and buildings, including buildings on third-party land	67,907	123,478	55,571	75,051	122,268	47,217
Interests in affiliated companies	238,279	265,548	27,269	235,867	254,897	19,030
Loans to affiliated companies	52,050	55,426	3,376	47,762	47,850	88
Participations	237,602	287,428	49,826	216,881	261,920	45,039
Shares, interests or shares in investment assets and other variable-yield securities	811,339	833,462	22,123	707,104	718,741	11,637
Bearer bonds and other fixed-income securities	898,794	919,941	21,147	706,135	715,462	9,327
Mortgage debt claims, mortgage loans and annuities	84,155	88,296	4,141	89,853	92,259	2,406
Other loans						
Registered bonds	274,181	312,949	38,768	293,718	330,497	36,779
Promissory notes and loans receivable	169,488	193,810	24,322	199,896	224,395	24,499
Miscellaneous loans	21,808	29,597	7,789	22,007	27,912	5,905
Deposits with credit institutions	49,717	49,761	44	86,247	86,237	–10
Other investments	2	2	–	2	2	–
Total	**2,905,322**	**3,159,698**	**254,376**	**2,680,523**	**2,882,440**	**201,917**
Carrying amount of all investments, in %			**8.76**			**7.53**

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, these positions have a carrying amount of €2,000 thousand and market values that are €11 thousand below the carrying amount. They were not written down, since, in view of the issuers' creditworthiness, the impairment is expected to be of a merely temporary, interest-induced nature. Interest and amortisation payments are expected be made as scheduled.

Write-downs of an amount of €0.03 thousand were not performed for participations of a carrying amount of €4 thousand, since due to the expected performance, this impairment is only temporary.

Section 285 no. 19 HGB – disclosures concerning derivative instruments not recognised at fair value

Derivative financial instrument/grouping	Type	Nominal value	Fair value	Measurement method applied	Carrying amount and item[1]
		in € thousands	in € thousands		in € thousands
Currency-related transactions	Currency forwards	442,186	1,051	Discounted cash flow method	–24

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
Micro-Hedge	Risk of changes in interest rates	Securities (HI), swaps (HE)	9,155	–2,659

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 hedged item and/or hedge, etc.) are allocated to the value components not included in the valuation unit, a comparison of these parameters is sufficient for the prospective and retroactive 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	197,455	197,455	–	5,211
LBBW AM-EMB2	Bond fund	209,804	209,804	–	9,316
LBBW AM-WV P&F	Mixed funds (equity weighting up to 70%)	126,244	120,825	5,419	4,247
W+W Gl.In.-W+W F.Pr.Ii Eo	Mixed funds (equity weighting up to 70%)	50,581	50,581	–	890
LBBW AM-WV Corp Bonds Fonds	Bond fund	60,615	58,969	1,646	4,729
W+W Gl.Strat.-Se Asi.Eq.	Equity fund	47,385	39,523	7,862	–
LBBW AM Covered Call USA Fonds	Equity fund	48,915	43,045	5,870	5,433
LBBW AM-US Municipals 2	Bond fund	31,166	30,546	620	546
LBBW AM-HI.Y.Corp Bonds Fonds	Bond fund	25,442	25,120	322	120
Gam M.B.-Loc.Em.Bd Caadl	Bond fund	33,875	33,875	–	2,086
Total		**831,482**	**809,743**	**21,739**	**32,578**

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

C. Receivables

I. Receivables from direct insurance business due from (6):

1. Policyholders
A collective impairment provision of €2,161 thousand (previous year: €1,959 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 €35,431 thousand (previous year: €30,638 thousand).

III. Other receivables (7)

in € thousands	31.12.2019	31.12.2018
Loans and advances to employees and agents	625	335
Submission of claims settled for the account of foreign companies	2,222	1,667
Receivables from coinsurance business for third-party account	2,477	2,404
Current tax assets	152	28
Interest and rent arrears	274	298
Assets that have been pledged, deposited or assigned for the purposes of security[1]	121,820	114,410
Miscellaneous other receivables	4,726	7,570
Receivables from affiliated companies and participations	46,945	37,913
Total	**179,241**	**164,625**

1 Thereof pledged cash collateral from margin exposures relating to OTC derivatives in the amount of €7,910 thousand (previous year: €7,110 thousand) as well as reinsurances with affiliated companies for the insolvency hedging of pension obligations in the amount of €113,910 thousand (previous year: €107,300 thousand).

Miscellaneous other receivables consist of accrued, unbilled, allocable operating expenses of €336 thousand (previous year: €318 thousand).

Remaining terms to maturity of receivables
Receivables with a remaining term to maturity of more than one year amount to €117,700 thousand and mostly relate to receivables from reinsurance policies on pension commitments.

D. Other assets

I. Property, plant and equipment and inventories (8)

Depreciation of €708 thousand (previous year: €776 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 €189 thousand.

E. Deferred assets

II. Other deferred assets (9)

The premium from the purchase of registered bonds is recognised here in the amount of €1,195 thousand (previous year: € 1,584 thousand).

F. Excess of plan assets over pension liabilities (10)

Assets that serve to cover liabilities under pension obligations or similar long-term obligations and that are inaccessible to all other creditors must 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 €15,238 thousand (previous year: €14,197 thousand) with partial amounts of the phased-in early retirement provisions for outstanding settlement amounts €8,088 thousand (previous year: €7,186 thousand) pursuant to Section 246 (2) sentence 3 HGB results in an excess of €7,150 thousand (previous year: €7,011 thousand).

Notes concerning liabilities

A. Equity

I. Share capital (11)

As at 31 December 2019, 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 (12)

This item relates to the premium from capital contributions.

B. Subordinated liabilities (13)

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 (14)

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

D. Other provisions

II. Miscellaneous provisions (15)

in € thousands	31.12.2019	31.12.2018
Phased-in early retirement	5,377	5,851
Restructuring measures[1]	18,917	2,144
Expenses for the annual financial statements	1,299	1,274
Holiday obligations and flex-time credit	12,167	9,489
Bonuses and performance incentives	18,682	13,393
Profit shares and competition awards	21,571	20,839
Employee long-term service obligations and sales agent compensation obligations	6,301	1,924
Others	5,307	3,617
Total	**89,621**	**58,531**

1 In the financial year under review, a restructuring provision was recognised to improve the processes of the back office and of the mobile sales force.

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 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 participation contracts.

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

in € thousands	31.12.2019	31.12.2018
Amount needed to satisfy vested claims	13,466	13,037
thereof capable of being netted with the coverage capital of reinsurance	8,088	7,186
Carrying amount	**5,378**	**5,851**

F. Other liabilities

I. Liabilities from direct insurance business to (16):

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 €35,173 thousand (previous year: €33,780 thousand).

Residual terms of the item “Liabilities from direct insurance business”
Liabilities with a remaining term to maturity of more than one year amount to €4,989 thousand; thereof, €1,446 thousand have a remaining term to maturity of five years.

III. Miscellaneous liabilities (17)

in € thousands	31.12.2019	31.12.2018
Taxes	21,727	20,722
Trade payables	1,132	366
Coinsurance business for third-party account	402	287
Other miscellaneous liabilities	27,356	23,407
Miscellaneous liabilities to affiliated companies	215,620	146,861
Total	**266,237**	**191,643**

In the financial year, advance payments of operating expenses accrued in the amount of €451 thousand (previous year: €454 thousand) and were recognised under the item “Miscellaneous liabilities”.

Remaining terms to maturity of the item “Miscellaneous liabilities”
Liabilities with a remaining term to maturity of more than one year amount to €5,593 thousand; thereof, €4,659 thousand have a remaining term to maturity of more than five years.

G. Deferred liabilities (18)

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 (19)

Pursuant to Section 51 RechVersV, the premiums are described in the notes under "Individual disclosures concerning the income statement". Domestic gross premiums written amounted to €1,954,182 thousand (previous year: €1,847,676 thousand). Premiums from indirect business amounted to €25 thousand (previous year: €41 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 (20)

Pursuant to Section 38 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 RechVersV.

b) Change in the provision for outstanding insurance claims (21)
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 €113,141 thousand (previous year: €125,583 thousand).

6. Expenses for insurance business for own account

a) Gross expenses for insurance business (22)
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 €171,265 thousand (previous year: €167,254 thousand), and general administrative expenses to €358,082 thousand (previous year: €341,111 thousand).

II. Non-technical account

1. Income from investments

c) Income from write-ups (23)
Income from write-ups includes exchange rate gains of € 1 982 thousand (previous year: € 4 929thousand). The breakdown of this item is presented in the notes under "Individual disclosures concerning assets".

d) Gains from the disposal of investments (24)

in € thousands	2019	2018
Participations[1]	2,559	1,724
Bearer bonds and other fixed-income securities[2]	2,680	5,969
Registered bonds and promissory notes	–	21,721
Deposits with credit institutions[3]	2,354	982
Shares, interests or shares in investment assets and other variable-yield securities	1,078	2,491
Other investments	312	439
Total	**8,983**	**33,326**

1 Thereof exchange rate gains of €534 thousand (previous year: €176 thousand)
2 Thereof exchange rate gains of €86 thousand (previous year: €24 thousand)
3 Thereof exchange rate gains of €2,354 thousand (previous year: €982 thousand)

2. Expenses for investments

b) Write-downs on investments (25)
Pursuant to Section 253 (3) sentences 5 and 6 in conjunction with Section 277 (3) sentence 1 HGB and pursuant to Section 253 (4) HGB, this item also contains unscheduled write-downs in the amount of €9,436 thousand. Of this amount, affiliated companies and participations accounted for €3,910 thousand, and securities and interests or shares in investment assets accounted for €5,502 thousand.

The write-downs on affiliated companies and participations involve balance-sheet items that are measured like fixed assets, while the write-downs on securities and interests or shares in investment assets concern balance-sheet items classified as current assets. Currency write-downs amounted to €443 thousand.

c) Losses from the disposal of investments (26)

in € thousands	2019	2018
Participations[1]	6,284	7,419
Shares and variable-yield securities	2,826	11,429
Bearer bonds and fixed-income securities[2]	859	1,162
Deposits with credit institutions[3]	1,450	906
Other investments	607	1,253
Total	**12,026**	**22,169**

1 Thereof exchange rate losses of €18 thousand (previous year: €248 thousand)
2 Thereof exchange rate losses of €197 thousand (previous year: €331 thousand)
3 Thereof exchange rate losses of €1,450 thousand (previous year: €906 thousand)

4. Other income (27)

Material items are:

in € thousands	2019	2018
Commission from the brokering of insurance policies and home loan savings contracts for other companies	14,015	14,761
Other cost refunds (management tasks, etc.)	195,444	162,015
Exchange rate gains[1]	312	3,354
Income from pension scheme	13,381	12,544
Income from the reversal of the miscellaneous provisions	3,503	5,049

1 Thereof realised exchange rate gains of €207 thousand (previous year: €1,495 thousand)

5. Other expenses (28)

Material items are:

in € thousands	2019	2018
Commission payments, competition awards and sales expenses from the brokering of insurance policies and home loan savings contracts for other companies	25,794	26,192
Expenses for other services (e.g. management tasks)	193,783	160,261
Interest expenses from the compounding of long-term provisions	71	125
Addition of interest to the pension provision	54,038	46,865
Exchange rate losses[1]	2,760	1,781
Interest on subordinated liabilities	1,758	1,761
Negative interest	776	536
Expenses for the pension scheme	10,384	10,171
Supplemental payment to WürttPK[2]	20,438	–
Other expenses that affect the company as a whole:		
Costs of preparing the annual financial statements	1,999	1,898
Contributions to professional associations, chambers of industry and trade and insurance supervision fees	1,847	1,626
Legal and tax consulting expenses	632	542
Projects[3]	27,594	11,982

1 Thereof unrealised exchange rate losses of €2,760 thousand (previous year: €1,781 thousand).
2 Includes a voluntary special supplement for the purpose of generally strengthening the provision for future policy benefits.
3 Higher project costs were recognised due to the recognition of a provision to improve the processes of the back office and of the mobile sales force.

With respect to phased-in early retirement agreements, expenses of €64 thousand (previous year: €79 thousand) from compounding and income of €353 thousand (previous year: €313 thousand) from the discounting of the assets to be netted were offset against each other pursuant to Section 246 (2) sentence 2 HGB.

7. Extraordinary expenses (29)

Within the scope of the merger of Nord-Deutsche AG Versicherungs-Beteiligungsgesellschaft with Württembergische Versicherung AG, which was performed in the reporting period, a merger loss of €28 thousand arose.

9. Income taxes (30)

The tax item amounting to €420 thousand (previous year: €-321 thousand) contains foreign income taxes and taxes at source.

The carrying amounts for land, land-type rights and buildings, participations, shares and interests in investment assets and other variable-yield securities, bearer bonds, technical provisions as well as balancing items pursuant to Section 4f of the Einkommensteuergesetz (German Income Tax Act) 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 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

Concerning potential effects of the coronavirus pandemic on the W&W Group please refer to the information in the management report.

No other material reportable events took place after the balance sheet date.

Supplementary disclosures

Commissions and other remuneration paid to insurance agents, personnel expenses

in € thousands	2019	2018
Commissions of any nature paid to insurance agents within the meaning of Section 92 of the HGB (German Commercial Code) for direct business	321,113	303,164
Other remuneration paid to insurance agents within the meaning of Section 92 HGB	40,780	44,224
Wages and salaries	185,496	171,896
Social remittances and expenses for support	35,030	32,356
Expenses for the pension scheme	37,891	15,671
Total	**620,310**	**567,311**

Employees

Number[1]	2019	2018
Back office	2,349	2,304
Mobile sales force	722	684
Trainees	129	129
Total	**3,200**	**3,117**

1 Average employee headcount for the year pursuant to Section 285, no. 7 HGB.

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 € 248 thousand (previous year: € 246thousand), and that paid to the members of the Executive Board to €2,141 thousand (previous year: €1,521 thousand). Former members of the Executive Board were paid €1,047 thousand (previous year: €1,073 thousand). In the financial year, pension commitments for former members of the Executive Board amounted to €17,054 thousand (previous year: €16,390 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 VAG. Moreover, further assurance services in connection with foreign premiums as well as services for the analysis and backup of data were performed.

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 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 and fund investments made amounted to €136,1 million (thereof to affiliated companies: €4.0 million).

Irrevocable loan commitments in the amount of €0,0 million (previous year: €0,6 million 0,6) 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.

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 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 Betriebsrentengesetz (German Occupational Pensions Act). In view of the creditworthiness of WürttPK, there are no indications for secondary liability claims.

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 €623,363 thousand is offset by an indemnification claim against W&W AG in the same amount, resulting in a netted balance sheet presentation of zero. In view of the creditworthiness of W&W AG, there are no indications that it would not be able to fulfil the obligations conferred, which would result in recourse to WV.

Pursuant to Section 253 (2) sentence 1 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 2019 and extrapolating it for the months of November and December 2019.

The difference between the measurement of the provision for pensions and similar obligations using the 10-year average and the 7-year average interest rate pursuant to Section 253 (6) HGB amounted to €81.1 million.

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 2020 motor loyalty campaign, long-standing motor customers received personal vouchers in 2019 for reduction of the deductible by €100 for partial and comprehensive insurance claims that arise between 1 January 2020 and 31 December 2020. A total of 197,259 vouchers were sent out, which represents a maximum financial obligation of €19.7 million, with potential extra expenses of €0.1 million.

To the best of our current knowledge, we also believe going forward that the risk of a claim under the aforementioned contingent liabilities, as in the past, will not lead to any additional expense for the company.

Other financial obligations from various leases amount to €7.4 million.

Expenses for internal Group services are expected to amount to €174.7 million in 2020.

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 €36,045 thousand over the next three years for losses incurred by start-ups.

Group affiliation

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

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

Therefore, the conditions for the exemption of the company from the group accounting obligation pursuant to Section 291 (2) no. 4 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 claims equalisation reserves and the recognition of certain financial assets at fair value, whereas the 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, 18 March 2020

The Executive Board

Thomas Bischof

Jens Lison

Alexander Mayer

Dr. Susanne Pauser

Jens Wieland

Individual disclosures concerning assets

Notes concerning assets

	Carrying amounts 2018	Additions	Reclassifi-cations	Disposals	Write-ups	Write-downs	Carrying amounts 2019
in Tsd €							
A. Intangible assets							
Licenses acquired against payment, industrial property rights and similar rights, as well as licenses for such rights and assets	10	–	–	–	–	10	-
B.I. Land, land-type rights and buildings, including buildings on third-party land	75,051	35	–	–	–	7,179	67,907
B.II. Investments in affiliated companies and participations							
1. Interests in affiliated companies	235,867	14,104	–	14,955	3,263	–	238,279
2. Loans to affiliated companies	47,762	–	–	–	4,288	–	52,050
3. Participations	216,881	53,739	–	30,242	1,134	3,910	237,602
4. Total B.II.	**500,510**	**67,843**	**–**	**45,197**	**8,685**	**3,910**	**527,931**
B.III. Other investments							
1. Shares, interests or shares in investment assets and other variable-yield securities	707,104	90,297	–	21,374	35,918	606	811,339
2. Bearer bonds and other fixed-income securities	706,135	339,200	–	143,202	1,556	4,895	898,794
3. Mortgage debt claims, mortgage loans and annuities	89,853	547	–	6,265	37	17	84,155
4. Other loans							
a) Registered bonds	293,718	–	5,252	25,007	324	106	274,181
b) Promissory notes and loans receivable	199,896	2,002	- 5,252	27,158	–	–	169,488
c) Miscellaneous loans	22,007	–	–	199	–	–	21,808
5. Deposits with credit institutions	86,247	–	–	37,190	668	8	49,717
6. Other investments	2	–	–	–	–	–	2
7. Total B.III.	**2,104,962**	**432,046**	–	**260,395**	**38,503**	**5,632**	**2,309,484**
Total	**2,680,533**	**499,924**	–	**305,592**	**47,188**	**16,731**	**2,905,322**

Individual disclosures concerning liabilities

C. Technical provisions[1]

in € thousands	Provisions (gross) for outstanding insurance claims 31.12.2019	31.12.2018	Claims equalisation provision and similar provisions 31.12.2019	31.12.2018	Total technical provisions (gross) 31.12.2019	31.12.2018
1. Direct insurance business						
Personal accident insurance	215,600	215,600	–	–	235,963	224,815
Liability insurance	420,952	420,952	56,411	62,118	506,860	515,650
Motor liability insurance	1,066,489	1,066,489	117,744	111,829	1,203,994	1,185,409
Other motor insurance	66,953	66,953	84,515	78,869	165,864	150,239
Fire and property insurance						
Fire insurance	80,291	80,291	24,642	25,790	113,624	112,915
Combined household insurance	16,513	16,513	–	–	30,619	30,113
Combined building insurance	89,030	89,030	75,592	68,377	196,609	186,644
Other property insurance	89,248	89,248	47,642	40,026	160,878	152,265
	275,082	275,082	147,876	134,193	501,730	481,937
Transport and aviation insurance	24,295	24,295	2,862	7,299	28,597	29,618
Legal expenses insurance	179,165	179,165	17,313	21,642	211,774	207,218
Travel assistance insurance	900	900	7,819	6,638	9,619	7,690
Other insurance	35,043	35,043	–	1,357	37,114	37,663
Total	**2,284,479**	**2,284,479**	**434,540**	**423,945**	**2,901,515**	**2,840,239**
2. Assumed insurance business	40,736	40,736	–	–	40,736	44,590
3. Total insurance business	2,325,215	2,325,215	434,540	423,945	2,942,251	2,884,829

1 See “Notes concerning liabilities” in the notes

Individual disclosures concerning the income statement[1]

	Gross premiums written		Earned premiums (gross)		Earned premiums (net)	
in € thousands	2019	2018	2019	2018	2019	2018
1. Direct insurance business						
Personal accident insurance	143,811	139,343	143,749	139,450	122,089	118,433
Liability insurance	221,052	207,831	220,115	206,887	184,847	173,951
Motor liability insurance	466,838	455,538	466,864	455,433	395,246	385,287
Other motor insurance	358,468	340,375	358,450	340,337	300,324	285,448
Fire and property insurance						
Fire insurance	79,433	71,763	78,791	71,550	41,665	39,790
Combined household insurance	98,458	94,341	98,531	94,561	83,277	79,907
Combined building insurance	204,625	186,178	202,989	185,309	162,458	147,955
Other property insurance	200,263	183,617	198,868	182,587	129,536	121,831
	582,779	535,899	579,179	534,007	416,936	389,483
Transport and aviation insurance	23,794	22,268	23,794	22,268	19,980	18,664
Legal expenses insurance	125,977	119,573	125,315	119,219	106,523	101,319
Travel assistance insurance	12,318	10,696	11,707	10,693	9,923	9,089
Other insurance	19,147	16,139	18,334	16,026	9,245	8,340
Total	**1,954,184**	**1,847,662**	**1,947,507**	**1,844,320**	**1,565,113**	**1,490,014**
2. Assumed insurance business	24	41	24	41	–	28
3. Total insurance business	1,954,208	1,847,703	1,947,531	1,844,361	1,565,113	1,490,042

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

in € thousands	Gross expenses for insurance claims		Gross expenses for insurance business		Reinsurance balance saldo[1]	
	2019	2018	2019	2018	2019	2018
1. Direct insurance business						
Personal accident insurance	65,505	64,509	49,060	48,404	–2,234	
Liability insurance	75,592	59,603	77,878	75,710	–8,444	
Motor liability insurance	366,726	355,422	82,668	82,783	1,955	
Other motor insurance	280,169	257,085	69,952	69,071	1,703	
Fire and property insurance						
Fire insurance	59,579	36,563	21,910	20,174	–	
Combined household insurance	30,213	30,869	36,677	34,429	–	
Combined building insurance	117,607	137,980	56,755	51,735	–	
Other property insurance	103,583	112,145	70,412	65,574	–	
	310,982	317,557	185,754	171,912	–8,181	
Transport and aviation insurance	20,608	12,100	7,743	7,624	–462	
Legal expenses insurance	75,547	66,361	43,966	41,456	–145	
Travel assistance insurance	6,400	6,373	4,841	4,696	186	
Other insurance	11,213	2,136	7,478	6,678	–1,769	
Total	**1,212,742**	**1,141,146**	**529,340**	**508,334**	**–17,391**	
2. Assumed insurance business	- 934	1,428	7	31	708	
3. Total insurance business	1,211,808	1,142,574	529,347	508,365	–16,683	

1 From the perspective of Württembergische Versicherung AG

in € thousands	Net underwriting income/ expense f. o. a. (before claims equalisation provision) 2019	2018	Change in the claims equalisation provision and similar provisions 2019	2018	Net underwriting income/ expense f. o. a. (after claims equalisation provision) 2019	2018
1. Direct insurance business						
Personal accident insurance	27,034	24,901	—	—	27,034	24,901
Liability insurance	60,257	63,832	5,707	–4,298	65,964	59,534
Motor liability insurance	11,370	19,571	–5,914	–5,081	5,456	14,490
Other motor insurance	8,187	15,268	–5,647	1,298	2,540	16,566
Fire and property insurance						
Fire insurance	— 292	9,508	1,149	–10,531	857	–1,023
Combined household insurance	25,209	24,057	—	—	25,209	24,057
Combined building insurance	10,879	–6,733	–7,214	1,331	3,665	–5,402
Other property insurance	10,955	1,841	–7,616	14,986	3,339	16,827
	46,751	28,673	–13,681	5,786	33,070	34,459
Transport and aviation insurance	–3,280	1,614	4,436	–1,333	1,156	281
Legal expenses insurance	6,323	11,392	4,328	–7,018	10,651	4,374
Travel assistance insurance	512	— 188	–1,180	–884	— 668	–1,072
Other insurance	–401	3,975	1,356	–1,104	955	2,871
Total	**156,753**	**169,038**	**–10,595**	**–12,634**	**146,158**	**156,404**
2. Assumed insurance business	830	–1,601	—	—	830	–1,601
3. Total insurance business	157,583	167,437	–10,595	–12,634	146,988	154,803

Annex to the notes

Number of at least one-year insurance policies

in units	31.12.2019	31.12.2018
Personal accident insurance	746,995	733,351
Liability insurance	1,242,093	1,203,397
Motor liability insurance	1,779,074	1,757,973
Other motor insurance	1,314,171	1,289,188
Fire and property insurance		
Fire insurance	183,417	178,735
Combined household insurance	737,392	729,814
Combined building insurance	462,201	455,436
Other property insurance	1,007,136	969,780
	2,390,146	**2,333,765**
Transport and aviation insurance	30,965	28,530
Legal expenses insurance	758,190	719,254
Travel assistance insurance	629,023	623,249
Other insurance	113,249	106,417
Total	**9,003,906**	**8,795,124**

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 after taxes[1]
	in %	in %				
Germany						
Adam Riese GmbH, Stuttgart[2]	100.00		€	31.12.2019	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
Berlin Leipziger Platz Grundbesitz GmbH, Stuttgart (from 2.1.2020: Württembergische Akademie GmbH)	100.00		€	31.12.2019	2,098,062	17,103
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	17.50		€	31.12.2018	241,927,171	5,078,280
BWK Holding GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	17.50		€	31.12.2018	10,563,870	850,083
Elvaston Capital Fund III GmbH & Co. KG, Berlin		6.08	€	31.12.2019	96,219,795	552,599
NORD KB Micro-Cap V GmbH & Co. KG, Hannover		5.37	€	31.12.2018	35,225,406	–2,639,388
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart	25.00		€	31.12.2018	1,871,956	427,703
Württembergische Immobilien AG, Stuttgart	100.00		€	31.12.2019	120,257,087	673,389
Württembergische Kö 43 GmbH, Stuttgart		89.90	€	31.12.2018	23,048,127	751,663
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart	100.00		€	31.12.2019	76,694	–
Württembergische Vertriebspartner GmbH, Stuttgart[2]	100.00		€	31.12.2019	74,481	–
WürttVers Alternative Investments GmbH, Stuttgart[2]	100.00		€	31.12.2019	46,025,000	–
Australia						
REI Property Sub Trust, Sydney		100.00	€	New investment 26.9.2018		
France						
Württembergische France Immobiliere SARL, Strasbourg[3]		100.00	€	30.9.2019	15,267,223	1,207,596
Württembergische France Strasbourg SARL, Strasbourg	100.00		€	30.9.2019	45,513,011	1,884,704
Ireland						
BlackRock NTR Renewable Power Fund plc, Dublin	22.39		US$	31.12.2018	69,211,000	813,000
White Oak Summit Fund ILP, Dublin	6.02		US$	31.12.2018	202,347,890	11,501,278
White Oak Yield Spectrum Feeder ICAV, Dublin	6.35		US$	31.12.2018	255,963,522	6,999,562

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 after taxes[1]
	in %	in %				
Luxembourg						
CI III Lux Feeder Fund FCP-RAIF, Luxembourg	8.97		€	31.12.2018	6,664,526	–1,501,087
DB Secondary Opportunities SICAV-SIF – Sub Fund DB SOF II Feeder USD, Luxembourg	7.63		US$	31.12.2018	24,792,328	–151,893
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxembourg	6.11		€	31.12.2018	121,747,600	7,029,646
IKAV SICAV-FIS SCA – Ecoprime Energy, Luxembourg	8.78		€	30.9.2019	97,086,659	4,170,420
IKAV SICAV-FIS SCA – ecoprime TK I, Luxembourg	10.86		€	30.9.2019	40,469,740	3,289,197
IKAV SICAV-FIS SCA – Global Energy (Ecoprime III), Luxembourg	15.12		€	30.9.2019	31,290,201	741,647
Secondary Opportunities SICAV-SIF – Sub-fund SOF III Feeder USD, Luxembourg	16.77		US$	31.12.2018	60,192,296	–136,611
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxembourg		10.21	US$	31.12.2018	698,563,003	45,001,211
Austria						
G6 Zeta Einrichtungs- und VerwertungsGmbH & Co OG, Vienna		99.90	€	31.12.2018	22,380,678	1,704,423
SAMARIUM drei GmbH & Co OG, Vienna		99.00	€	31.12.2018	9,359,894	301,683
United Kingdom						
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh	9.06		US$	31.12.2018	160,824,829	–998
EIG Global Private Debt (Europe UL) L.P., London	8.09		US$	31.12.2018	105,853,000	2,893,000

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 2019, the income statement for the financial year from 1 January to 31 December 2019 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 2019. In accordance with German statutory provisions, we have not audited the content of the components of the management report that are mentioned in the section "Other information" of our auditor's 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 2019 and its financial performance for the financial year from 1 January to 31 December 2019 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 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 Institut der Wirtschaftsprüfer (IDW, Institute of Public Auditors in Germany). Our responsibility in accordance with those provisions and standards is described extensively in the section of our auditor's report entitled "Responsibility of the statutory auditor for the audit of the annual financial statements and the management report". We are independent of the company in accordance with the requirements of European and German commercial law, as well as professional rules, and we 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 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of 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 €456.5 million. This figure represents 14.2% 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 provisions for outstanding insurance claims amounted to €2 325,2 million. This figure represents 70,9% 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 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 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 past experience. Recognised actuarial methods are used for this purpose.

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

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

- We examined the process for calculating the provisions, identified the key controls and tested them for their appropriateness and effectiveness. We assured ourselves that the controls, which are designed to ensure the timely processing of insurance claims and thus their correct valuation, were appropriately set up and effectively carried out.
- For a sub-group of insurance claims, we used the records for various insurance branches and types to gain an understanding of the amount of the individual provisions for reported insurance claims.
- We audited the calculations made 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 and/or the Supervisory Board is/are responsible for the other information. The other information comprises:

- the declaration concerning the corporate governance pursuant to Section 289f (4) HGB (information on the female ratio), which is contained in the section “Other information” in the management report and
- the combined non-financial report of the W&W Group, which the management makes reference to.

The other information also comprises the other parts of the annual report.

The other information does not comprise the annual financial statements, the information in the management report, whose content has been audited, and our corresponding auditor’s 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, we must read the above-mentioned other information and check whether the other information

- is materially inconsistent with the annual financial statements, the disclosures in the management report, whose content has been audited, or our knowledge obtained in the audit or
- otherwise appears to be significantly misrepresented.

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

The Executive Board is responsible for preparing the annual financial statements in a manner that conforms in all material respects with the provisions of the HGB 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 in order to provide sufficient and appropriate evidence 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 auditor’s 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 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, 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.

For the audit, we use our best judgement and maintain a critical attitude. 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 auditor's 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. We draw our conclusions on the basis of the audit findings gained by the date of our auditor's 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 release any independent audit opinion on the future-oriented disclosures or on the underlying assumptions. There is a material inevitable risk of future events diverging greatly from the future-oriented disclosures.

Among other things, we discuss the planned scope and timing of the audit as well as significant audit findings including any deficiencies of the internal control system that we identify during our audit with the persons responsible for the monitoring.

We issue a declaration to the persons responsible for the monitoring, confirming that we have complied with relevant independence requirements, and discuss all relationships and other matters that could reasonably be assumed to have an impact on our independence as well as the protective measures taken with them.

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 auditor's report, unless laws or other legal regulations prohibit the public disclosure of the respective 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 28 March 2019. On 12 June 2019, we received a mandate from the Chair of the Audit Committee. We have served as the statutory auditor of Württembergische Versicherung AG without interruption since the financial year 2011.

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, 20 March 2020

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 2019 financial year in accordance with statutory requirements, the Articles of Association and the bylaws. It monitored the management of business and was directly involved in all matters of fundamental importance for the company.

Composition

In accordance with the Articles of Association, the Supervisory Board of Württembergische Versicherung AG is composed of 12 members.

The Supervisory Board experienced one change in its membership during the 2019 financial year. As of the end of 30 November 2019, Mr Gerold Zimmermann departed from the Supervisory Board and from the Audit Committee of the Supervisory Board. He was replaced by Mr Hartmut Bader as an elected substitute member of the Supervisory Board. By means of unanimous written consent, the Supervisory Board elected Mr Hubert Sebold to fill the vacancy in the Audit Committee. The vacancy in the Conciliation Committee, which arose due to the departure of Mr Zimmermann, was filled by Mr Richard Peters through a resolution of the employee representations by means of unanimous written consent.

The Supervisory Board would like to thank Mr Zimmermann for his commitment and constructive collaboration.

Pursuant to Section 111 (5) 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 target has been reached.

Full Supervisory Board

In the year under review, the Supervisory Board held two 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 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.

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 other discussions in the Supervisory Board focused on the digitisation measures, digital business models, the new sales strategy “Vertrieb.Besser!”, the new programmes “Komposit.Besser!” and “Schaden.Besser!” as well as the increasing level of regulation and the changed customer behaviour in the “new digital reality”. 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.

The Supervisory Board elaborated the operational planning for 2020 and further medium-term planning in detail.

In the course of the year, the Supervisory Board adopted resolutions on a replacement of the trustee, the reappointment of Thomas Bischof as well as replacement members of the Audit Committee and Conciliation Committee due to the departure of Gerold Zimmermann by means of four written circulations.

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

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

At its December meeting, the Supervisory Board adopted the development plan for 2020. The self-assessment and the development plan were forwarded to the supervisory authority.

The Supervisory Board reviewed the efficiency of its work by means of a self-assessment, and at its March 2019 meeting, it discussed the results, which on whole may be considered positive.

There were no conflicts of interests requiring disclosure in 2019.

Efficient work of committees

In order to enable it to efficiently perform its duties, the Supervisory Board created 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 2019, the **Audit Committee** held two ordinary meetings. 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 by virtue of law and by virtue of the bylaws of the Supervisory Board, the **Audit Committee** mainly concerned itself with matters concerning the risk-bearing capacity. In organisational terms, the policy for the provision of non-audit services was revised by the auditor and adopted in amended form. Furthermore, strategic asset allocation and the amended internal investment guidelines were submitted for decision.

The **Personnel Committee** prepared the personnel and compensations matters of the members of the Executive Board for the Supervisory Board. It took care of compensation topics and examined the compensation system for the Executive Board and employees. It 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 guideline for managers and members of the Supervisory Board". In addition, it reviewed and evaluated the structure, size, composition and performance of the management and the Supervisory Board. Moreover, it took care of current HR-related matters.

Audit of the annual financial statements

The Supervisory Board thoroughly examined the annual financial statements and the management report for the 2019 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 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 2019 financial year, as well as the management report, and it issued an unqualified auditor's report.

The auditor reported the material results of its audit to the Supervisory Board verbally and in writing. The audit report was sent to each member of the Supervisory Board. In addition, the auditor reported both at the meeting of the Audit Committee on 26 March 2020 and at the accounting meeting of the Supervisory Board on 27 March 2020. The submitted audit report meets the statutory requirements of Section 321 HGB and was taken into account by the Supervisory Board in connection with its own audit. There were no circumstances that could call into question the independence of the auditor.

Following 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 27 March 2020. Accordingly, the annual financial statements are deemed approved pursuant to Section 172 sentence 1 AktG.

The Supervisory Board discussed the solvency overview for Württembergische Versicherung AG as at 31 December 2018, as well as the auditor's report on it.

Composition of the Executive Board

As of the end of 30 June 2019, Mr Franz Bergmüller departed from the Executive Board. In this connection, the Supervisory Board implemented the respective changes in the business allocation plan.

The Supervisory Board would like to thank Mr Bergmüller for his services and his great commitment. On 19 July 2019, Mr Thomas Bischof's office term as member and Chairman of the Executive Board was, by means of a procedure outside a Supervisory Board Meeting on 1 July 2020, extended until 30 June 2025.

The year 2019 placed high demands on management and the workforce. The Supervisory Board expresses its gratitude and appreciation to the Executive Board and to the employees for their work and their tireless commitment.

Stuttgart, 27 March 2020

The Supervisory Board

Jürgen A. JunkerChairman

Württembergische Versicherung AG
Imprint and contact

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Ihr Fels in der Brandung.