2020

Annual Report

Wüstenrot & Württembergische AG

w&w gruppe

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

Wüstenrot & Württembergische AG
Key figures

W&W Group (according to IFRS)

Consolidated balance sheet		31.12.2020	31.12.2019
Total assets	€ bn	76.5	75.2
Capital investments	€ bn	51.3	49.0
Senior fixed income securities	€ bn	12.4	13.0
Senior debenture bonds	€ bn	25.8	24.0
Building loans	€ bn	22.8	21.5
Liabilities to customers	€ bn	22.5	21.6
Technical provisions	€ bn	39.4	37.4
Equity	€ bn	5.1	4.8
Equity per share	€	53.80	51.23

Consolidated profit and loss statement		1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Net financial result (after credit risk adjustments)	€ mn	1,812.5	2,353.5
Premiums/contributions earned (net)	€ mn	4,415.1	4,249.2
Insurance benefits (net)	€ mn	-4,455.4	-4,650.5
Earnings before income taxes from continued operations	€ mn	306.9	353.0
Consolidated net profit	€ mn	210.8	249.1
Total comprehensive income	€ mn	322.8	658.4
Earnings per share	€	2.24	2.65

Other information	31.12.2020	31.12.2019
Employees (full-time equivalent head count)	6,473	6,754
Employees (number of employment contracts)	7,666	7,991

Key sales figures		1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Group			
Gross premiums written	€ mn	4,491.0	4,319.7
New construction financing business (including brokering for third parties)	€ mn	6,748.8	6,347.7
Sales of own and third-party investment funds	€ mn	530.2	481.7
Housing			
New home loan savings business (gross)	€ mn	12,560.8	13,545.6
New home loan savings business (net)	€ mn	10,361.7	11,178.8
Life and Health Insurance			
Gross premiums written	€ mn	2,445.7	2,372.7
New premiums	€ mn	815.3	731.5
Property/Casualty Insurance			
Gross premiums written	€ mn	2,054.7	1,954.4
New premiums (measured in terms of annual contributions to the portfolio)	€ mn	275.7	266.6

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

		1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Net income	€ mn	100.3	90.0
Dividend per share[1]	€	0.65	0.65
Share price at year-end	€	16.52	19.36
Market capitalisation at year-end	€ mn	1,548.5	1,814.0

1 Subject to approval by the Annual General Meeting.

Financial calendar

Annual General Meeting

Annual General Meeting	Thursday, 20 May 2021

Financial reports

2020 Annual Report	Wednesday, 31 March 2021
Interim management statement as at 31 March	Wednesday, 12 May 2021
Half-yearly financial report as at 30 June	Friday, 13 August 2021
Interim management statement as at 30 September	Friday, 12 November 2021

Wüstenrot & Württembergische AG
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Letter to shareholders W&W AG

Jürgen A. Junker, Chairman of the Executive Board

"We have become even more resilient"

Dear shareholders,

In 2020 the W&W Group faced special challenges. The global coronavirus pandemic and its massive impact on the daily lives of all people were, for us, a test of our company's ability to withstand crisis and to adapt. The good news: The W&W Group passed this test with flying colours. At all times during the past year, we were fully capable of acting and ultimately posted gratifying growth. And we did not cease to invest in our future – in new products, in new digital processes and technologies, and in providing our employees with basic and advanced training.

The pandemic has shown that the venture into the digital future of the W&W Group that we embarked upon four years ago is successful and sustainable. Everything that we can influence and control is on the right path. Our Group has probably never been positioned as resiliently as it is today. In this regard, we have become more agile and nimble in the past years. Today, we are in a better position to identify changes in the market and convert them into innovative and attractive offers for our customers. With the aid of our new digital capabilities and our significantly expanded digital infrastructure, we stayed in close contact with our customers despite the pandemic and were able to increase new business further. Another gratifying point: In contrast to many other companies, we were able to avoid short-time working in the crisis year 2020 and did not need to establish a job-loss programme due to the crisis. On the contrary: We require a strong staff for the continued transformation of our Group, a process that is far from over.

The success of our transformation is most readily apparent in the key figures of the W&W Group. Because of the economic impact of the coronavirus pandemic, we adjusted our original earnings target for 2020 in the first half of the year, expecting consolidated net income after taxes to come in below the medium- to long-term target corridor of €220 to 250 million. At €210.8 million, consolidated net profit for the year as a whole is at a very solid level in view of the extraordinary conditions that prevailed last year. The net income of W&W AG pursuant to the German Commercial Code (HGB) came in at €100.3 million, following a profit of €90 million posted for the previous year. This, too, underscores the profitability of our company, particularly in view of the fact that we were once again very conservative in our accounting. It enables us to continue to invest in digitalisation, to grow under our own steam and to guarantee to you, dear shareholders, a stable ability to pay dividends.

In line with this objective, the Executive Board and Supervisory Board will propose at the Annual General Meeting on 20 May 2021 that a stable dividend of €0.65 per share be distributed. Based on the price of W&W stock at the end of 2020, this would mean a dividend yield of 3.93%, which as in past years is higher than the expected average dividend yield on the MDAX and the SDAX.

Under the present circumstances, we are satisfied with our financial performance in the past year. We expanded our market position and at the same time kept an eye on costs. In the first phase of our transformation that began in 2017, we focused primarily on making significant investments in new products and systems, optimising the investment portfolio and sharpening our market profile. Now, in the next phase, we are going a step further. This is because we want to penetrate our target markets even better and tap into new customer groups, but also service our existing customers even more intensively.

Towards this end, it is necessary for us to continue to push ahead with the digitalisation of products and processes, intensify the management of our customer data and lower our costs, which in some cases are too high, to at least the market level. The focus in the coming years will be more strongly on cost efficiency and at the same time on our customers. Since 2014 our Group has increased its efficiency by an average of five percent a year, and we are striving to achieve this rate for the coming years, as well.

Group-wide, we currently have more than 6.5 million existing customers. By 2025, our aim is not only to increase the number of new customers. We also want every customer of our mobile sales force to have at least three contracts with us on average. In this regard, we provide advice to our customers through whatever channel they desire: in person, by phone, digitally.

In the past years, we took many steps to lay the foundation for achieving this goal. For instance, we are rigorously continuing the expansion of our strong sales organisation in the Housing division as well as in the insurance divisions. An important role is also being played by the digital brand Adam Riese, which had more than 176,000 contracts in its portfolio at the end of 2020. We plan to develop Adam Riese – a genuine success story since the start of 2018 – into a direct brand, beyond property/casualty business. In addition, platforms such as “Wüstenrot Wohnwelt” and our initiative “Partner for SMEs” on the insurance side are very well suited for drawing new customer groups to our Group. The Wüstenrot and Württembergische brands thus remain our strong anchor on the market, as in the past.

If we continue to push ahead with the transformation as decisively as we have in past years, the W&W Group has every chance, including in the medium term, of becoming one of the leading providers in Germany for home loan savings, residential financing and insurance, as well as taking a top position in terms of direct offers for retail customers. In this regard, we will be efficiently positioned with an agile and flexible organisation.

At the same time, we want to be known as an employer that offers a variety of possibilities for advancement and where employees are happy to work. In addition, we are creating a work environment in the W&W Group that is further increasing the already high level of employee satisfaction and making our Group more attractive in the competition for top talents.

An important role in this process will be played by the new W&W campus in Kornwestheim, which is scheduled to be completed in 2023 and will facilitate new forms of cross-team collaboration. Nevertheless, flexible working-time models, working from home and digital communication will remain a part of our work life, even after the coronavirus pandemic is overcome. Moreover, we plan to dedicate ourselves to the issue of sustainability to an even greater degree than in the past.

For the current 2021 financial year, we are confident that we will able to continue the successful new business performance of past years. Because of restrictions on public and economic life occasioned by the coronavirus, the market environment remains uncertain and difficult to assess. In addition, the persistent level of zero and low interest rates and growing regulatory requirements in the financial sector remain burdensome factors for our businesses. On the whole, a reliable forecast of the Group net profit for 2021 is not possible due to the economic and political uncertainties posed by the covid pandemic. However, we stick to the target of W&W Group to reach a medium to long term Group result of €220 to € 250 million.

We would like to extend our sincere thanks to all employees, regardless of where they work in the W&W Group. They tackled the challenges of the past year in an outstanding manner and thus ensured that our customers could rely on W&W as their financial planning partner even in difficult times. I would also like to thank you, dear shareholders, for your continued trust in our company. The W&W Group is ready for the next phase of company development, in which we intend to unite growth that outpaces the market average with cost efficiency and resilience.

Sincerely yours,

Jürgen A. Junker, Vorstandsvorsitzender

Our Management Board

The Management Board of the W&W-Group

Together to the future

The W&W Group has separated its activities into three divisions: Housing, Insurance and brandpool. The Excecutive Board of W&W AG and the heads of the divisions form the Management Board, which serves as the central steering entity of the W&W Group.

Jürgen A. Junker

CEO of the
W&W Executive Board
Corporate Legal
Audit
Communication
Strategy

Bernd Hertweck

Head of Housing Division
Chairman of the Executive Board of
Wüstenrot Bausparkasse AG

Dr. Michael Gutjahr

CFO of the
W&W Executive Board
(until 31 August 2020)
Human Resources
Capital Investments
Accounting

Thomas Bischof

Head of Insurance Division
(until 31 December 2020)
Chairman of the Executive Board of
Württembergische Versicherung AG,
Württembergische Lebensversicherung
AG and Württembergische
Krankenversicherungs AG

Alexander Mayer

CFO of the
W&W Executive Board
(as of 1 September 2020)
Capital Investments
Accounting

Zeliha Hanning

Head of Insurance Division
(as of 1 January 2021)
Chairwoman of the Executive Board of
Württembergische Versicherung AG and
Member of the Executive Board of
Württembergische
Lebensversicherung AG

Jürgen Steffan

CRO of the
W&W Executive Board
(as of 1 September 2020)
Controlling
Risk management
Compliance

Jacques Wasserfall

Head of Insurance Division
(as of 1 January 2021)
Chairman of the Executive Board of
Württembergische Lebensversicherung
AG and of the Executive Board of
Württembergische
Krankenversicherung AG

Jens Wieland

CIO of the
W&W Executive Board
IT

Daniel Welzer

Head
of brandpool division
Managing Director of W&W brandpool
Gmbh and Adam Riese GmbH

Our Supervisory Board

Hans Dietmar Sauer

Chairman
Former Chairman of the Executive Board
Landesbank Baden-Württemberg and of
Landeskreditbank Baden-Württemberg

Frank Weber[1]

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

Petra Aichholz[1]

Insurance employee
Württembergische Versicherung AG

Peter Buschbeck

Member of the Executive Board
Investors Marketing AG

Prof Dr Nadine Gatzert

Professor of the academic department of insurance and risk management at the Erlangen-Nürnberg Friedrich-Alexander-university

Dr. Reiner Hagemann

Former Chairman of the Executive Board
Allianz Versicherungs-AG
Former Member of the Executive Board
Allianz AG

Ute Hobinka[1]

Chairwoman of the Works Council
W&W Informatik GmbH

Jochen Höpken[1]

Task Group Chairman
Vereinte Dienstleistungsgewerkschaft ver.di

1 Employee representatives.

Corinna Linner

Linner Wirtschaftsprüfung

Marika Lulay

Managing Director & CEO and Member of the Supervisory Board of GFT Technologies SE

Bernd Mader[1]

Head of Customerservice and Operations
Württembergische Versicherung AG

Andreas Rothbauer[1]

Chairman of the Works Council
Wüstenrot Bausparkasse AG, Ludwigsburg site

Hans-Ulrich Schulz

Former Member of the Executive Board
Wüstenrot Bausparkasse AG

Christoph Seeger[1]

Chairman of the Group Works Council
Wüstenrot Bausparkasse AG

Jutta Stöcker

Former Member of the Executive Board
RheinLand-Versicherungsgruppe

Susanne Ulshöfer[1]

Member of the Works Council
Wüstenrot Bausparkasse AG, Ludwigsburg site

Combined Management Report
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Wüstenrot & Württembergische AG Combined Management Report

Group Fundamentals

Business model

Overview of the Group and Wüstenrot & Württembergische AG (W&W AG)

The W&W Group, which came into existence in 1999 as a result of the merger of the two long-standing companies Wüstenrot and Württembergische today, consists of the Housing, Insurance and brandpool divisions. It offers approximately 6.5 million customers financial planning solutions that meet their needs. In doing so, the W&W Group focuses on omni-channel sales, ranging from its own mobile sales force to cooperation partners and sales agents, broker activities and digital initiatives. Today, approximately 13,000 people work as in-house staff or in the mobile sales force for the listed group headquartered in Stuttgart, Germany. The W&W Group operates almost exclusively in Germany and is represented there by two key offices in Stuttgart and Ludwigsburg/Kornwestheim.

In the **Housing** division, the focus is on the home loan savings business of Wüstenrot Bausparkasse AG, along with the construction financing that it offers. Other areas include the property development business of Wüstenrot Haus- und Städtebau GmbH and real estate brokerage by Wüstenrot Immobilien GmbH.

The acquisition of Aachener Bausparkasse AG (ABAG) by Wüstenrot Bausparkasse AG was approved by the authorities in November 2019 following conclusion of the ownership control procedures, and ownership changed hands as at 1 January 2020. The purchase strengthens Wüstenrot Bausparkasse, Germany's most venerable home loan and savings bank, on its path to increased growth.

Effective 1 April 2020, Wüstenrot & Württembergische AG sold its Czech subsidiaries Wüstenrot stavební sporitelna a.s. and Wüstenrot hypotecní banka a.s. to MONETA Money Bank.

In the **Insurance** division, the W&W Group offers a wide range of life and health insurance products as well as property/casualty insurance products. The key companies in this division are Württembergische Versicherung AG, Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG.

Changes were made to the Executive Boards of Württembergische insurance group. With effect from 1 January 2021, Zeliha Hanning was appointed to the Executive Boards of Württembergische Versicherung AG und Württembergische Lebensversicherung AG, responsible for sales. At the same date she has taken over as Chair of the Executive Board of Württembergische Versicherung AG. As of 1 July 2020, Jacques Wasserfall has been appointed to the Executive Board of Württembergische Lebensversicherung AG and on 1 January 2021 took Chair of the Executive Boards of Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG. Both are succeeding Thomas Bischof.

The **brandpool** division manages the digital brand Adam Riese and the digital activities of the W&W Group. It is also dedicated to financial planning and invests in further digital business models in the areas of housing, finance, health, family, education and mobility. The aim is to develop an ecosystem of independent, decentralised brands.

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 was composed of the division heads Bernd Hertweck (Housing), Thomas Bischof (Insurance) and Daniel Welzer (brandpool) in the 2020 financial year. Following the departure of Thomas Bischof, Zeliha Hanning will represent property insurance on the Management Board from 2021, and Jacques Wasserfall will represent life and health insurance. Operational and company-specific issues of the individual companies are handled at the divisional level.

Wüstenrot & Württembergische AG (W&W AG), head-quartered in Stuttgart, Germany, is the Group's strategic management holding company. It coordinates all activities, sets standards and manages capital. As an individual entity, its operations are almost exclusively restricted to reinsuring the insurance policies written by the Group. It also renders services for the Group as a whole. W&W AG is a publicly traded company.

The **Executive Board** of W&W AG also experienced changes during the reporting year: The Supervisory Board appointed Alexander Mayer as CFO to the Executive Board of the holding company W&W AG, effective 1 September 2020. He took the place of Dr Michael Gutjahr, who retired effective 1 September 2020 after 32 years with the W&W Group and its predecessor companies, including 21 years as a member of the Executive Board. Alexander Mayer has been CFO of Württembergische Versicherung AG and Württembergische Lebensversicherung AG since 1 January 2019 and Director of W&W Asset

Management GmbH since 1 August 2009. As of 1 January 2015 he became management spokesman for W&W Asset Management GmbH. He has additionally assumed the investments and accounting remit on the Executive Board of W&W AG.

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 Besser!"

The vision of the W&W Group is high solidity and a sustainable increase in enterprise value. To achieve this, we are positioning ourselves as a company that makes it possible to obtain financial planning from a single source.

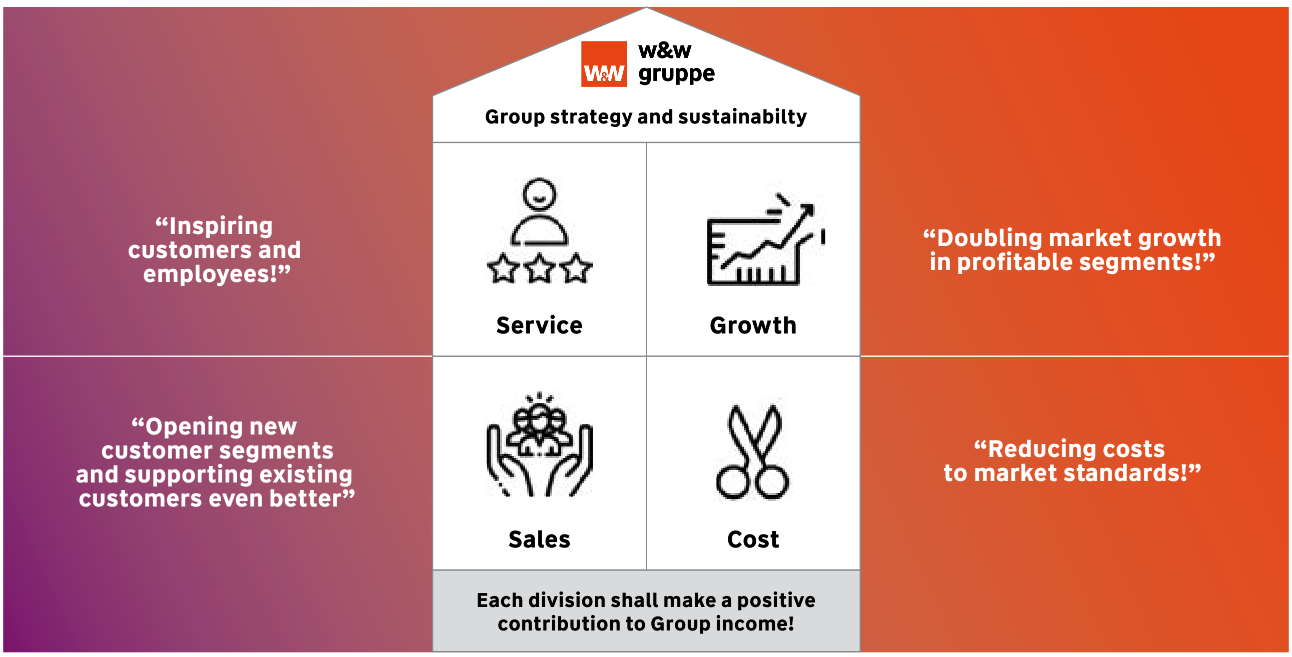
We have set ourselves the objective of becoming better every day. Therefore, we modified the strategic implementation of "W&W Besser!" in 2020 to conform to changed basic conditions and focus on four approaches:

- Service – Inspiring customers and employees
- Doubling market growth in profitable segments
- Sales – Opening new customer segments and supporting existing customers even better
- Reducing costs to market standards

"W&W Besser!" is not considered a rigid programme. Rather, it is an attitude that is intended to guide all actions of employees. With W&W Besser!, the W&W Group succeeded in continuing to grow, despite the coronavirus pandemic, the persistent phase of zero and negative interest rates and increasing regulatory requirements.

The digital transformation of the W&W Group accelerated further as a result of the coronavirus crisis. The new communications media have enabled us to stay in close contact with our customers, particularly during these uncertain times. Our employees also have been able to use all digital options in a flexible manner, sustained by a broad variety of information and qualification offers (e. g. virtual leadership). In 2020 we scored high marks in terms of employee satisfaction.

"W&W Besser!"



"W&W Besser!" made it possible to post further implementation achievements in 2020. A few select examples:

The **Housing** division meanwhile represents building saving, construction financing, residential construction and brokerage. It is thus more and more a point of contact for customers in the field of housing. This is also made clear by the brand identity: Housing means Wüstenrot.

- Wüstenrot Bausparkasse AG, Germany's oldest home loan and savings bank, offered its customers the lowest interest rates in its history for home loan products.
- The merger of Aachener Bausparkasse AG into Wüstenrot Bausparkasse AG, retroactive to 1 January 2020, enabled the company to stay on track for continued growth and expand partnership business. As a result, we are reaching an even broader customer group.
- Wüstenrot also offers customers many services online. In this area, an online consumer survey about customer satisfaction with services was conducted by ServiceValue GmbH on behalf of the IT magazine Chip. Wüstenrot was awarded "Best Online Contract Conclusion" in the category "Applying for a home loan savings contract".
- Through Wüstenrot Immobilien GmbH, property showings can now be conducted contactlessly and virtually. In 2020 virtual tours were offered for more than 550 properties.

Despite the challenging year, the **Insurance** division continued to post growth in its segments.

- Württembergische Versicherung AG doubled market growth in all profitable segments. The focus on SME partners – and associated with this, the expansion of underwriting capacities in corporate customer business – paid off.
- The tandem model – a special form of collaboration between our two tied-agents organisations – was expanded further. This sales format pools our home loan savings and insurance expertise under one roof at a customer advisory centre. The tandem model thus makes it possible to provide our customers with very good, comprehensive support. In 2020 active tandem partners were able to post sales figures that were 5% to 30% higher compared with the tied-agents organisation.
- In order to provide advice about occupational pension schemes in a more customer-oriented manner, Württembergische Lebensversicherung AG introduced "xbAV-Berater", a leading, cross-provider software tool. In addition, the xbAV manager portal relieves the administrative burden on corporate customers in terms of personnel accounting.
- Württembergische Versicherung AG works with modern communication means, provided by flexperto GmbH. Particularly in times of the coronavirus, this software solution for digital advice and digital sales is bolstering the mobile sales force.

As we chart our course into the digital future, our digital business models in the **brandpool** division are tapping into new customer groups and market segments.

- More than 164,000 customers have placed their trust in the digital brand Adam Riese. In October 2020 the digital brand launched its fifth product for retail customers, a personal accident insurance policy. Adam Riese's liability insurance policy for dog owners was awarded the Insurance Innovation Prize by Versicherungsmagazin and Morgen & Morgen. The jurors were particularly impressed by the AI-supported risk assessment.
- Adam Riese expanded its sales basis by creating products for collaboration partners, such as for kawaloo, a Berlin-based PropTech (property technology) company. The digital insurance solutions are integrated in the offerings on the kawaloo platform.
- A series of awards demonstrate that customers are highly satisfied with our digital brand. For instance, Adam Riese was recognised with the 2020 eKomi Award as best direct insurer. In addition, in the "Insurer of the Year 2020" study, which was produced by the German Institute for Service Quality (DISQ), Adam Riese placed third overall in terms of customer satisfaction and thus first among direct insurers. The satisfaction among our employees is just as high: According to the magazine Focus and the online workplace rating platform Kununu, Adam Riese was selected in November 2020 as the most popular employer in the SME insurance industry.

- FinanzGuide now offers customers a digital overview of all contracts concluded with the W&W Group, i.e. Württembergische Versicherung AG, Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG, along with Wüstenrot home loans savings contracts and loans. Users of the W&W financial assistant can thus receive and manage their electronic notifications conveniently and securely with their smartphone or tablet – from offers to contract documents to annual account statements.

- In 2020 W&W brandpool GmbH launched the app Rente.de, its own digital offering in the area of personal retirement planning.

We will continue the “W&W Besser!” initiative in 2021 in order to rigorously ensure that products, services and processes remain aligned with customer benefits throughout the entire W&W Group.

Product mix

Roughly 6.5 million W&W customers value the service quality, skills, expertise and close personal service provided by our employees, both on the in-house staff and in the mobile sales force. Our range of products is directed towards retail and well as commercial customers. Customers receive financial planning for all phases of life from a single source.

Wüstenrot Bausparkasse AG continued to rigorously fine-tune its range of products to match market developments and trends in the 2020 financial year, such as the persistently low level of interest rates and increasing digitalisation. It provides a broad spectrum of financing and home loan savings products for every need: from short-term construction, acquisition and renovation projects to long-range plans.

In 2020 home loan savings and new construction financing business benefited from various state aid instruments. For instance, the subsidy available to families for buying or building a home (known as Baukindergeld) was extended until 31 March 2021. Also, the home-building bonus, which will be enhanced starting in 2021, was already being used with greater frequency at the end of 2020 in home loan savings marketing. Construction financing business in the area of renovations was stimulated as a result of state support measures, which were considerably expanded in early 2020 as part of the Federal Government’s climate package. In 2020 energy-related upgrades were a special focus. State aid measures in connection with the climate package were augmented in terms of products by an especially low-cost offer by Wüstenrot (the “Klima” home loan).

The target-group portal “Wüstenrot Wohnwelt”, which can be found on www.wuestenrot.de, offers tailored solutions for users with a wide range of housing needs. The benefits for visitors – getting access to information about topics relating to the home, conducting property searches in collaboration with ImmobilienScout24, looking for an advisor and browsing partner offers – create an added value for the Wüstenrot products Wohnsparen and Wohndarlehen.

In 2020 Wüstenrot received numerous awards, serving once again to confirm the outstanding quality of its products and services. For instance, in the online survey conducted by Focus Money with Service Value GmbH, which measured companies’ level of expertise with respect to products and services, Wüstenrot was awarded “Highest Expertise”, thus placing first among construction financing brokers. In addition, in the national representative survey KUBUS Bausparen 2020 conducted by the corporate consulting firm MSR Consulting, Wüstenrot was rated “very good” in the categories “value for money” and “service quality”.

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.

In 2020 the portfolio share of premium car policies remained at a very high level in the motor business segment. The flex policies were optimised and their complexity was reduced. The flex policies include those that expand the number of drivers under the vehicle policy or that can be concluded for a specific person and are not linked to a vehicle insured by Württembergische Versicherung AG, such as policies covering driver injury or vehicle breakdown. In addition, in the financial year just ended, Württembergische Versicherung AG introduced new products for the passenger vehicle (retail/commercial), motor home, caravan, taxi and rental car segments. In the fleet area, the passenger vehicle and commercial vehicle segments were restructured.

Growth in the corporate customers business segment continued despite a challenging year with the coronavirus pandemic and was above the market average. The core commercial product, “Firmen-Police”, grew further.

In the 2020 financial year, private liability insurance was restructured, and insurance policies for animal owners and builders were revised, as were those covering water damage and home and land owner liability. Insurance customers can now benefit from a market guarantee. The private liability insurance policy PremiumSchutz was rated as "outstanding" (FFF) by Franke & Bornberg.

For the fifth year in a row, FOCUS-MONEY awarded Württembergische Versicherung AG the title of "fairest insurer" for its residential housing insurance. As part of the KUBUS study conducted by MSR Consulting, Württembergische Versicherung AG was rated "outstanding" in 2020 as a full-service insurance provider in the category "service" and "very good" in the categories "customer satisfaction" and "value for money".

Württembergische Lebensversicherung AG has a wide range of products for risk coverage and private and occupational pension schemes.

Since the start of 2020, we have been offering our optimised term insurance policies PremiumSchutz, KompaktSchutz and KombiSchutz. The improvements include lower insurance premiums, simpler approval guidelines and better insurance terms. The rating agency Morgen & Morgen confirmed the very good quality of PremiumSchutz and KompaktSchutz, awarding both of them five stars, the highest mark.

In addition, in direct insurance, mixed financing in a contract has been possible since the start of 2020, taking into consideration the statutory vesting periods.

In July 2020, the range of products was strengthened in the area of employee insurance. For instance, the basic abilities insurance cover was redeveloped, and occupational disability insurance cover was revised. Basic abilities insurance cover offers protection against the financial consequences of a loss of a physical ability. Occupational disability insurance cover offers a number of additional ways to tailor the product to meet the customer's specific needs.

Various rating agencies attest to the quality of our products. For instance, the rating agency Franke & Bornberg gave our private annuity insurance policies KlassikClever, IndexClever and Genius 2020 the highest mark of "out-standing" (FFF+). In addition, the Institut für Vorsorge und Finanzplanung (IVFP) rated our expertise in occupational pension insurance as "excellent", its highest mark. As a result, Württembergische Lebensversicherung AG for the first time achieved the highest mark in all individual areas.

In addition to comprehensive health insurance, **Württembergische Krankenversicherung AG** offers a broad portfolio of products in supplemental health insurance and supplemental long-term care insurance.

In addition, through collaborations, we further expanded the services for our customers in the area of healthcare. For instance, we expanded the features of our W&W app FinanzGuide to include the ability to submit medical billings, and with Kalmeda, we added a health app for the treatment of tinnitus to the range of benefits for holders of comprehensive insurance policies.

The quality of our products is evident from numerous awards, particularly by rating agencies and trade magazines. These include, for example, the awards by Wirtschaftswoche and Handelsblatt, both of which rated our in-patient supplemental policy as "very good", the highest mark. Finanztest confirmed the positioning of our premium policy in supplemental dental insurance and once again awarded it the mark of "very good". In addition, the Institut für Vorsorge und Finanzplanung (IVFP) again rated the range of products of Württembergische Krankenversicherung AG in occupational health insurance as "very good". Our supplemental care insurance policy, which we introduced in September, was awarded five stars by Morgen & Morgen, named "Insurance Product of the Month" by FOCUS Money Versicherungsprofi and placed first in the category "Biometrics" at the 2020 Cash. Financial Advisors Awards.

In 2021 Württembergische Krankenversicherung AG will continue to align and enhance its range of products and services to meet current customer needs and the challenges of demographic change, with the aim of successfully staying on track for continued growth.

Sales channel mix

Our wide distribution network, comprising partners, brokers and our own mobile sales force, gives us access to a market of millions of people throughout Germany. In this regard, we attach great importance to personal advice that is competent and reliable. Our mobile sales force, the main pillar in our sales organisation, consists of the two tied-agents sales forces at Wüstenrot and Württembergische. On the broker market, we collaborate with independent brokers.

In addition, we collaborate closely with numerous partners from the banking and insurance sector, and they have made a significant contribution to our business success. Wüstenrot partners for home loan savings products include three large private banking groups – Commerzbank, HypoVereinsbank (Member of UniCredit) and Santander. In addition, exclusive sales agreements are in place with Allianz, Oldenburgische Landesbank and the ERGO Group, as well as, through the purchase of ABAG in 2019, with HUK COBURG, LVM and Gothaer, among others. We supplement our sales concept with collaborations with other banks and brokers, various mobile sales forces, ver.di-Service GmbH and dbb vorsorgewerk GmbH. Collaboration with banks is also an important element of the sales strategy of Württembergische. It collaborates with numerous partners, such as BW-Bank, BBBank, Frankfurter Volksbank and Heidelberger Volksbank.

We augment traditional sales channels by exploiting the various opportunities afforded by digitalisation. They include the digital residential platform "Wüstenrot-Wohnwelt" and the online brand Adam Riese.

Commitment to sustainability

Responsible action and social commitment have a long tradition in the W&W Group and are an integral part of our corporate culture. Sustainability means acting in such a way that present and future generations will find suitable conditions in which to live. While the focus is primarily on economic and social aspects, the ecological factor is also becoming more important.

In order to also take sustainability aspects into greater consideration in our core business, the W&W Group has further honed its alignment in the area of investments. In addition to the Group-wide exclusion of investments in makers of cluster bombs and anti-personnel landmines, we also do not permit investments in companies that generate five percent or more of their turnover from the manufacture or trade of weapons or ten percent or more of their turnover from activities related to coal. Moreover, we do not invest in companies that have been proven to use forced labour or child labour (relates to the majority of investments). In addition, the W&W Group is investing increasingly in renewable energies, mainly wind and solar. Furthermore, the W&W Group does not make investments in food or farm land that is used for speculative purposes. For most indirect investments (funds), the foregoing investments are excluded systematically. Since the strategic asset allocation does not provide for investments in agricultural products, the W&W Group has not installed a systematic process in the sense of an ESG screening for the direct portfolio.

In addition, for retirement planning, the W&W Group recently began offering the annuity insurance product Genius with a stronger ecological focus. We also introduced the new fund "W&W Nachhaltige Strategie" for selection in Genius and for direct investment.

For the purpose of further strengthening its sustainability-focused orientation, the W&W Group signed on to the Principles for Responsible Investment and the Principles for Sustainable Insurance, both United Nations initiatives, in 2020. By signing on to the principles, the W&W Group is putting even greater emphasis on economic, ecological and social responsibility in the company. It commits to take environmental, social and corporate governance aspects into greater consideration in its investment and insurance business.

There are currently a variety of regulatory initiatives on the European level with respect to the transparency and disclosure of sustainability-related information. The requirements resulting from them are currently being implemented in the W&W Group.

As a result of the German Act Transposing the CSR Directive (CSR-Richtlinie-Umsetzungsgesetz), the W&W Group is obligated to publish a non-financial statement or a non-financial report.

Pursuant to Section 315b (3) of the German Commercial Code (HGB), the combined non-financial report of the W&W Group is prepared separately and made available to the public on the website of the W&W Group at www.ww-ag.com/nachhaltigkeitsberichte (available in German only).

Regulatory requirements

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

Until the middle of the year, Wüstenrot & Württembergische AG, as a financial holding company, was the parent undertaking of the financial holding group. With the revision and entry into force of the Capital Requirements Regulation (CRR II), and in combination with structural changes within the Group, such as the sale of credit institutions, Wüstenrot & Württembergische AG applied with the German Federal Financial Supervisory Authority (BaF-in) in June 2020 for elimination of the financial holding group. This application was approved by letter of 22 July 2020. The final supervisory notifications for the financial holding group were submitted as at the reporting date of 30 June 2020.

In connection with the review of the reporting requirements under Solvency II ("2020 Solvency II Review"), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Commission conducted a number of consultations and impact assessments in 2020. The changes being discussed are associated with far-reaching modifications with respect to both the qualitative and the quantitative requirements for insurance companies. In December 2020, EIOPA sent the European Commission a proposal for the revision of Solvency II. The legislative proceedings are not expected to be concluded before the end of 2022.

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

As at the reporting date, the coverage ratios in the financial conglomerate and in the Solvency II group were likely well above 100%. For detailed remarks, please see the chapter "Regulatory solvency" in the notes.

Reporting segments

Segment information was prepared in compliance with IFRS 8 on the basis of the internal reporting system. We report on the Housing, Life and Health Insurance and Property/Casualty Insurance segments. All other activities – asset management, real estate activities and W&W brandpool GmbH – are grouped under "All other segments". The third division, brandpool, does not yet constitute an independent reportable segment at this time. The products and services offered by the individual segments are broken down in detail in the segment reporting chapter in the notes.

Business management system

The W&W Group's integrated business management system is designed to retain value. A three-year plan is drawn up on the basis of the business strategy and presented to the Supervisory Board for approval. The plan approved by the Supervisory Board for the following financial year is 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. Countermeasures are taken where necessary if actual performance deviates from the target.

The following key performance indicators have been defined to properly guide the W&W Group:

For the 2020 and 2021 financial years, consolidated net profit (IFRS) and general administrative expenses in the Group are used as the key performance indicators. For segments, the management parameters are segment net income after taxes and general administrative expenses. General administrative expenses include internal eliminations with other segments within the Group. These key figures appear in the W&W Group's consolidated financial statements.
Moreover, the management parameter "Group customers" i.e. the number of customers in the W&W Group, is used as the key cross-segment performance indicator. We define customers as natural persons or legal entities that interact with us as contract holders, insurance companies, insured persons or users of our digital products.

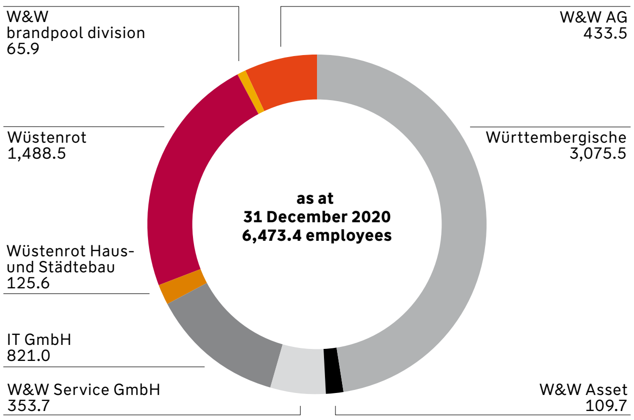
In addition, we report net new business by home loan savings volume and new construction financing business (approvals) in the Housing segment, total premium in the Life and Health Insurance segment as well as new business (according to annual portfolio contributions) in the Property/Casualty Insurance segment under business development and in the outlook.

W&W AG manages the W&W Group in its capacity as strategic management holding company. The key performance indicator that is used as the basis for calculating dividend payments to our shareholders is annual net profit (as defined by the German Commercial Code [HGB]). A portion of net profit is allocated to retained earnings, which serves to strengthen the equity of the W&W Group.

Employees

As at 31 December 2020, the W&W Group had 6,473 employees (previous year: 6,754) in Germany and abroad, calculated based on full-time equivalents, excluding trainees and working students at the Cooperative State University (Duale Hochschule, DH). As at the end of the year, a total of 313 trainees and DH students were employed.

Employees in W&W Group including abroad



In 2020 personnel work was substantially influenced by the coronavirus pandemic. Of special importance in this regard was maintaining business operations with the support of the employees. The focus was on ensuring the health and satisfaction of employees and their ability to work. Therefore, the W&W Group offered a variety of measures for meeting the challenges of the coronavirus pandemic:

For instance, the arrangements for mobile working were expanded. At peak times, approximately 80% of employees were able to work remotely in full or in part. To supplement this, the W&W Group further expanded the working time structure to make it possible to work even more flexibly in view of the coronavirus pandemic. Moreover, executives and employee representatives regularly spoke by phone in order to pass on information and answer questions – always with the close involvement of the occupational safety office and the company's medical staff. W&W introduced a hygiene plan to ensure that employees are at no time exposed to a risk of infection at work, whether in the cafeteria or at on-site events or training sessions where physical presence is necessary. These measures certainly contributed to the rise in the degree of employee satisfaction once again in the 2020 employee survey.

The platform "Living and working in the coronavirus pandemic" was set up for the specific purpose of providing employees and executives with helpful information, documents and contact partners in various areas in a clear and concise manner. This includes formats for acquiring qualifications and exchanging information, such as on the topics of "virtual collaboration", "managing a virtual team" and "basic legal framework". Also available on the platform are many offers for virtual child care, care for family members and support in all life circumstances. In addition, the W&W health management office developed a number of well-designed offers, such as a virtual live-action break, a video on the topic "health and flexible working" and a virtual health coach in collaboration with the health insurer Techniker Krankenkasse.

Employee recruitment also shifted predominantly to a digital mode. For instance, job interviews take place mostly by phone or video using Skype for Business. In order to stay in contact with qualified students and present ourselves as an attractive employer, activities at universities were also conducted virtually: For instance, the W&W Group took part in three digital recruiting fairs at the Karlsruhe Institute of Technology, the University of Ulm and the University of Hohenheim. The fair visits were augmented by two virtual company visits for students.

In order to make it easier for new employees to get acclimated in the W&W Group, the onboarding process was updated to include a "buddy programme". This ensures that new employees receive professional and personal support when starting work at the W&W Group. In this spirit, the introductory meeting for new W&W employees was modified and made digital – both the welcoming remarks by the Executive Board as well as specialist presentations and getting to know one another took place using Skype for Business. The W&W Group conducted the start of training in a hybrid manner: New trainees had the ability to get to know one another, the company and the trainers personally in small groups. Teaching videos, a virtual tour of the campus and the use of digital methods rounded out the opening programme.

We would like to extend our special thanks to our in-house employees and our mobile sales force staff for their dedication, expertise, extraordinary commitment and loyalty in the 2020 financial year. We would also like to thank the employee representatives and their committees, the representatives of the mobile sales force organisations and the executive representative committees for their close cooperation.

Ratings

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

The short-term rating of Wüstenrot Bausparkasse AG is unchanged at A-1.

Standard & Poor's Ratings

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

The German mortgage covered bonds issued by Wüstenrot Bausparkasse AG maintain their top rating of AAA with a stable outlook.

The subordinated bonds issued by Wüstenrot Bausparkasse AG and Württembergische Lebensversicherung AG continue to be rated BBB.

Stock

Stock price performance

Starting from a price of €19.36 at the end of 2019, W&W stock moved sideways at the start of 2020, just below the price of €20. It reached €19.84, its high for the year, in the second half of February. With the slump on the European equity markets triggered by the coronavirus pandemic and its economic impact, W&W stock also fell sharply until mid-March, hitting its low for the year of €11.52. The sub-sequent recovery on the international stock markets also benefited W&W stock. By early June, it was again trading at around €17. Following a moderate price correction, W&W stock fluctuated between €14 and €15 for an extended period at the start of the second half of the year before beginning to rise notably starting in November. At the end of the year, it stood at €16.52, representing a price decline of 14.7% compared with the previous year. Taking into account the dividend distribution in the amount of €0.65, performance was –11.3% for the reporting period.

Whereas the DAX rose slightly by 3.6%, the Euro STOXX Banks index posted a price decline of 23.7% and the Euro STOXX Insurance index, 13.6%.

The first weeks of the 2021 financial year continued to be marked by the coronavirus pandemic and the high degree of uncertainty associated with it. However, as a result of the approval of various vaccines in Europe and the start of vaccinations in the population, the German equities markets responded to the second wave of infections more robustly. W&W stock rose since the start of the year by 3.15%, closing at €17.4 on 26 February 2021. Over the same period, the DAX posted a rise of 0.49%. The Euro STOXX Banks index rose by 13.7% and the Euro STOXX Insurance index by 4.0%.

Since 21 December 2020, the stock of Wüstenrot & Württembergische AG has no longer been listed on the SDAX index of the Frankfurt stock exchange. Compared with more volatile securities, W&W stock has a low trading volume in free float, which is a key criterion for membership on the SDAX.

Key data of W&W shares

		2020	2019	2018
Number of shares	in pieces	93,749.720	93,749.720	93,749.720
of which are treasury shares	in pieces	15,252	53,886	126,726
Market cap as at 31.12.	in mn €	1,548.7	1,814.0	1,498.0
Dividend per share	in €	0.65[1]	0.65	0.65
Dividend yield	in %	3.93	3.36	4.06
High/Low	in €	19.84/ 11.52	19.78/ 15.74	25.05/ 15.42
Yearend share price	in €	16.52	19.36	16.00
Average daily XETRA-trading volume	in pieces	36,920	33,433	58,953

1 Dividend proposal.

Further information and all basic data about W&W stock can be found on the company's website at ww-ag.com under "Investor Relations".

The W&W AG shareholder structure remained stable over the course of the reporting year. Our key shareholder is the non-profit Wüstenrot Foundation. It maintains an indirect participation of 66.31% through two of its holding companies. Of this, 26.40% is held by WS Holding AG, Stuttgart and 39.91% by Wüstenrot Holding AG, Ludwigsburg.

The other major shareholder of W&W AG is FS W&W Holding GmbH, Munich (renamed in 2020; previously: Horus Finanzholding GmbH), with more than 10% of the shares. Approximately 9.2% (previous year: 11.0%) of all shares issued by W&W AG are held by foreign shareholders.

Dividend policy

W&W AG strives for a stable and reliable dividend for its shareholders. Accordingly, the Executive Board will propose to the Annual General Meeting an unchanged dividend of €0.65 per share for the financial year just ended. Based on the final closing price for 2020, this corresponds to a dividend yield of 3.93%. Thus, W&W stock once again outperformed the expected average dividend yields of the MDAX (1.55%) and the SDAX (2.04%) for 2020.

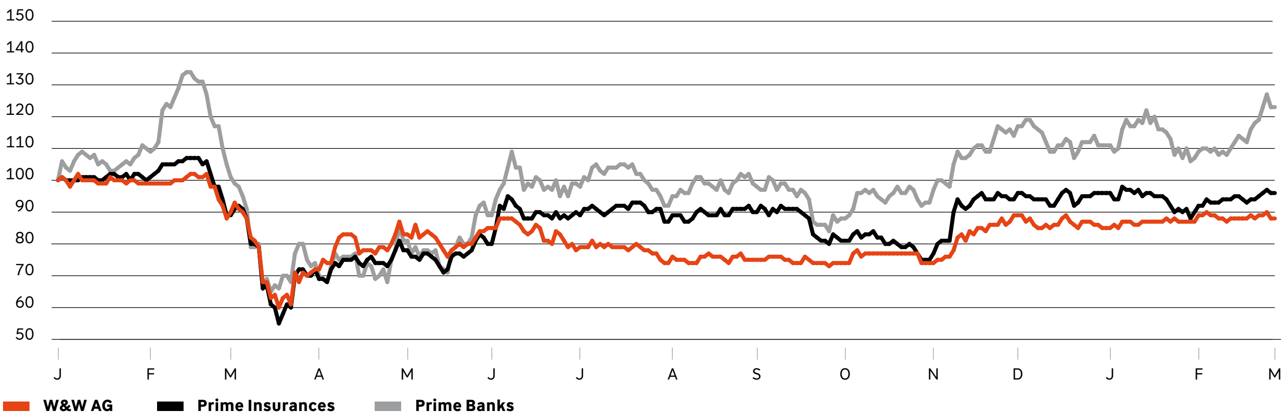
The Annual General Meeting will take place virtually on Thursday, 20 May 2021, at 10:00 a.m. Shareholders will be notified in advance about the options for participating.

Employee shares

In April 2020 W&W AG once again issued employee shares across the whole Group. Eligible employees received a €5.00 discount on the XETRA closing price on 1 April 2020 for a maximum of 40 shares. By continuing this solid tradition, our company is seeking to further expand the shareholder value orientation among staff and

W&W share price compared to Prime Insurance and Prime Banks

2020 indexed



boost employer attractiveness and employee loyalty. In total, one-quarter of eligible employees took advantage of the offer. For more information we refer to the Notes of this report. Employees are to be offered shares again in 2021.

Analyst recommendations

W&W AG is regularly tracked and valued by numerous financial analysts. The current analyst recommendations for W&W stock, as well as the target prices that analysts assign to the stock, can be retrieved on the website at ww-ag.com. The current average price potential from the latest target prices for W&W stock set by banks and securities firms is +24.41%, based on the XETRA closing price of 26 February 2021.

Analyst recommendations

Institution	Date	Recommendation / target price
Bankhaus Metzler	23.11.2020	BUY / €22.00
Bankhaus Lampe	18.11.2020	BUY / €23.00
LBBW	13.11.2020	BUY / €20.00
Montega	27.11.2020	BUY / €21.00
Commerzbank	31.07.2020	BUY / €20.00

Investor Relations

In 2020 W&W AG continued its intensive dialogue with institutional investors, private investors and financial analysts despite the coronavirus pandemic. Because of the increased degree of digitalisation in IR work, we were able to intensify the communication with international investors, in particular, through roadshows and capital market conferences, e.g. by participating in the virtual Deutsches Eigenkapitalforum, which is normally held in Frankfurt am Main, and in the virtual Berenberg and Goldman Sachs German Corporate Conference in Munich. IR activities were augmented with virtual roadshows with investors from London, Malta and Zurich, for example. In addition, the IR team issues a regular newsletter with information about current topics.

W&W AG presented current business figures in the form of teleconferences and an online press conference presenting financial statements. Similarly, the Annual General Meeting in June 2020 was held virtually for the first time.

Business report

Business environment

Macroeconomic environment

In 2020 the German economy recorded one of the worst economic collapses of the post-war era. According to preliminary calculations, gross domestic product (GDP) fell by 5%. The reason was the coronavirus pandemic, and to overcome it, extensive restrictions were repeatedly imposed on social and economic life. In particular, sectors such as tourism, hospitality, aviation and trade fair construction were severely affected by the coronavirus crisis. Central banks and governments responded quickly with extremely comprehensive monetary and fiscal policy measures. In the short term, the main objective was to prevent corporate and personal insolvencies in order to forestall the emergence of a financial crisis. In addition, stimulus packages were enacted to directly support supply and, in particular, demand, such as a temporary lowering of value-added tax rates, and these were able to prevent an even sharper collapse of economic activity.

Capital markets

Bond markets

On the bond markets, yields on long-term German government bonds began to fall again at the start of 2020. For instance, after the yield on 10-year German government bonds reached a temporary high of –0.15% in the initial trading days, the situation on the bond markets began to change in mid-January. This was triggered by the emergence of the coronavirus. The rapid spread of the pandemic led to expectations of a very weak development of the world economy. Interest rates fell. For instance, on 9 March, the yield on 10-year German government bonds reached a new record low of –0.91% during the course of the day, and the yield on 2-year bonds hit –1.03%.

Starting on 10 March, yields began to move in the opposite direction. Sweeping liquidity measures enacted by leading central banks, the prospect of substantial fiscal support packages by governments and comprehensive decisions taken to stem the pandemic all raised hopes that the medical crisis could soon be overcome, followed by a recovery of the world economy. In addition, the flood of government bonds issued to finance the announced stimulus packages caused interest rates to rise. Thereafter, interest rates began to move in the opposite direction, nearly in the form of a V. For instance, on 19 March, the yield on 10-year German government bonds climbed to –0.14% during the course of the day, putting it back at the precrisis level again.

As the year progressed, interest rate changes became noticeably less volatile. At the same time, yields once again began to trend moderately downward. This was due, in particular, to statements by the leading central banks in the EMU and the USA that even if the economy continues to recover in the coming years, there was very little prospect of a hike in benchmark rates. In this regard, the conduct by central banks and the bond markets was buttressed by a distinct downward movement in inflation rates. By the end of the year, the yield on 10-year German government bonds stood at –0.57%. It thus posted a year-on-year decline of 38 basis points. The yield on 2-year German government bonds was 10 basis points lower at –0.70%.

Equity markets

At the start of 2020, European equity markets initially continued their impressive upward trend of the previous year. On 19 February, the DAX posted a new all-time high of 13,789.

The escalating coronavirus pandemic then led to a drop in economic and profit expectations by companies and caused investors to flee to the asset class “liquidity”, which occasioned a crash on the equity markets. As a result, the DAX fell in mid-March at times to below 8,300, amounting to a price drop of approximately 40% from the all-time high.

However, the comprehensive monetary and fiscal policy measures by central banks and governments, as well as rising hopes that the pandemic might have already peaked in Europe, led to an increase in prices starting in mid-March, which pushed the DAX back above 13,000 in July. As the year progressed, changes on the European equity markets were less volatile, moving within a broad sideways range. For instance, the DAX fluctuated between roughly 12,200 and 13,400, and the Euro STOXX 50 between 3,050 and 3,400. The two indexes only fell below these ranges in the second half of October. This was attributable to sharply rising infection rates in the course of the second wave of the coronavirus, imminent new lockdown measures with corresponding adverse effects on the economic outlook and uncertainties associated with the up-coming elections in the USA. However, the outcome of the elections in the USA, which was ultimately viewed as positive, the avoidance of a disorderly Brexit and surprisingly positive reports on the development of vaccines then caused prices to rise quickly, with the DAX hitting 13,900 shortly before the end of the year, a new record high. Ultimately, the DAX rose by 3.6% in the 2020 calendar year, while the Euro STOXX 50 fell by 5.1%.

Looking at the SDAX, it essentially trended in the same way as its big brother “DAX”. After the price collapse in February and early March that was occasioned by the coronavirus, prices recovered dynamically, followed in the summer months by sideways movement with large price fluctuations. However, in contrast to the DAX, the SDAX was able to leave its sideways range in mid-November and head upward to post a new record high. Ultimately, the SDAX rose by 18.0% in 2020, which was somewhat stronger than the performance by the DAX.

Industry trends

Low interest rates and regulatory requirements were once again the driving factors in the financial services industry in 2020. The implementation of changes made by the Basel Committee on Banking Supervision, as well as legal acts by the EU, continues to pose a challenge for the European banking sector. The European Insurance and Occupational Pensions Authority (EIOPA) was tasked by the European Commission with reviewing the Solvency II regulations. In December 2020, EIOPA sent the European Commission a proposal for the revision of Solvency II. The legislative proceedings are not expected to be concluded before the end of 2022. Studying and implementing these regulatory requirements constituted a key challenge in both the banking and insurance areas in 2020. This trend will continue in 2021 as well.

According to industry estimates, home loan savings volume in terms of net new business fell by about 13.5% to approximately €78 billion in the sector. Wüstenrot’s net new business outpaced the market, allowing us to assume that we gained market share. Wüstenrot Bausparkasse AG ranks second among home loan and savings banks, as measured by new business.

New business in private residential financing improved in 2020. According to the Deutsche Bundesbank, providers disbursed approximately €273 billion (previous year: approximately €263 billion) in residential construction loans to households. This equates to growth of 4%. Market volume was thus at a high level. Wüstenrot Bausparkasse AG participated in this and was able to boost its market share. The positive trends on the market were aided by mortgage interest rates, which remained low on a long-term comparative basis. Experts estimate that fewer homes are being completed and that the demand for owner-occupied housing, primarily in large cities and conurbations, far exceeds supply. Residential construction is limited, in particular, by a shortage of building land and, in many places, a lack of capacity among builders and tradesmen. Property prices continued to rise, contributing to the high volume of construction financing. The good financing conditions are also resulting in existing properties changing hands more frequently, and thus in a high transaction value, as well as in upgrade and renovation work. The latter was additionally stimulated by improved governmental support measures, particularly for energy renovations.

In 2020 the life insurance industry posted a decline in new regular premiums by 2.1% to €5.7 billion, while single-premium business increased slightly by 0.8% to €37.0 billion. New premiums collected by life insurers rose in 2020 by 0.4% to €42.7 billion (previous year: €42.5 billion). Total premiums for new life insurance business fell by 0.8% to €171.1 billion (previous year: €172.4 billion).

At €99.4 billion, gross premiums written by life insurers in the reporting period were on the level of the previous year.

Württembergische Lebensversicherung AG recently came in 12th among its peer group of German life insurers based on gross premiums written. In terms of premiums written, the market share of Württembergische Lebensversicherung AG rose to 2.1% (previous year: 2.0%).

Württembergische Versicherung AG is currently ranked ninth among property and casualty insurers based on gross premiums written in domestic direct business, as reported by the German Insurance Association (GDV).

According to provisional calculations by the GDV, premium income rose moderately by approximately 2.3% as at the end of the year despite the coronavirus crisis, but the rate of increase was considerably weaker than in the previous year, with income coming in at €74.9 billion (previous year: €73.2 billion). Claims expenses for the 2020 financial year declined by a projected –4.3%, following a rise of +1.6% in the previous year. This decline was driven, in particular, by the strong impact of the coronavirus crisis on motor insurance, where a drop about 12% is expected. There-fore, net underwriting income rose overall to €7.8 billion (previous year: €5.2 billion). At approximately 69%, the loss ratio for the 2020 financial year was lower than the previous year's level. The industry's combined ratio (combined ratio of claims and expenses) improved to approximately 89%.

Development of business and position of the W&W Group (IFRS)

Development of business

The year 2020 was marked in both economic and social terms by the development of the coronavirus pandemic. Despite these challenging circumstances, the W&W Group posted consolidated net profit of €210.8 million (previous year: €249.1 million), which was only slightly below our medium- to long-term target corridor of €220 to 250 million.

Upheavals on the capital markets had a significant impact on results, particularly in the first quarter. However, the markets stabilised over the remainder of the year and trended upward again, and this nearly offset the negative effects on our net financial income. Results were also impacted by a considerably expanded risk provision for construction loans, as well as by expenses under business closure insurance policies.

By contrast, lower vehicle traffic as a result of the restrictions imposed by the authorities had a positive effect on our claims expenses. In addition, our efforts with respect to cost discipline contributed to the sharp drop in general administrative expenses. Against the backdrop of this extraordinary year, consolidated net profit thus shows that the W&W Group is solid.

Composition of consolidated net profit

in € million	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Housing segment	44.9	38.3
Life and Health Insurance segment	22.6	26.4
Property/Casualty Insurance segment	142.0	143.6
Other segments/consolidation	1.3	40.8
Consolidated net profit	**210.8**	**249.1**

The trend in gross premiums written in Property/Casualty Insurance was again very gratifying, growing by nearly 5%. Also in Life and Health Insurance, the previous year's value was exceeded by a solid 3%. Domestic construction financing business grew by more than 6%, also proving itself to be resilient to crisis despite new business having fallen off for a time in the course of the lockdowns that began in mid-March. By contrast, domestic gross new home loan savings business declined.

Group Key figures

	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	Change
	in € million	in € million	in %
Gross premiums written (Property/Casualty Insurance)	2,055	1,954	5.1
Gross premiums written (Life and Health Insurance)	2,466	2,373	3.1
Domestic construction financing business (including brokering for third parties)	6,749	6,348	6.3
Domestic home loan savings business (gross)	12,561	13,546	-7.3

Effective 1 January 2020, control of Aachener Bausparkasse AG (ABAG) was transferred to Wüstenrot Bausparkasse AG (BSW). In the first quarter of 2020, ABAG was included for the first time in the consolidated financial statements of W&W AG. This resulted in badwill of €25.0 million. On 26 June 2020, ABAG was merged into Wüstenrot Bausparkasse AG retroactive to 1 January 2020.

Effective 1 April 2020, the two Czech subsidiaries, Wüstenrot stavební spořitelna a.s. and Wüstenrot hypoteční banka a.s., were transferred to the new owner, Moneta Money Bank a.s. The two subsidiaries were also deconsolidated at that time. The deconsolidation effect amounted to –€9.9 million. During the first quarter, we also collected dividends from the Czech subsidiaries totalling €7.9 million.

None of the changes to the scope of consolidation had any material effect on the comparability of the current year's figures with those for the previous year.

Financial performance

Total comprehensive income

Consolidated income statement

As at 31 December 2020, consolidated net profit after taxes amounted to €210.8 million (previous year: €249.1 million). Earnings per share stood at €2.24 (previous year: €2.65).

Net financial income fell to €1,812.5 million (previous year: €2,353.5 million). This was attributable to market upheavals as a result of the coronavirus pandemic during the 2020 financial year, as well as to the relatively high net measurement gain in the previous year.

- Current net income stood at €1,096.6 million (previous year: €1,153.3 million). The coronavirus precipitated a fall in the dividend income and current net income of companies measured using the equity method. By contrast, the interest surplus came in at roughly the previous year's value. Although the persistently low level of interest rates had an adverse impact on interest income, interest expenses – particularly for deposits – declined considerably.

- The net expense from risk provision rose to –€54.7 million (previous year: –€4.0 million). This included, in particular, a considerably strengthened risk provision for construction loans in order to account for future risks of insolvencies and rising unemployment. However, due to state aid programmes, no noteworthy counterparty defaults have been recorded so far.

- The measurement result, which is where the market upheavals in the first half of the year had the strongest impact, dropped by €667.7 million, resulting in a net measurement loss of –€55.2 million (previous year: net measurement gain of €612.5 million). Equities, fixed-interest financial instruments, and investments for unit-linked life insurance policies did not achieve the high results of the previous year. However, the losses recorded in the initial months were able to be largely recouped over the course of the year.

- Net income from disposals increased to €825.9 million (previous year: €591.7 million). Registered securities, in particular, posted a significant rise in net income.

Net premiums earned rose by €165.9 million to €4,415.1 million (previous year: €4,249.2 million). Both Property/Casualty Insurance and Life and Health Insurance saw significant increases.

Net insurance benefits fell to €4,455.4 million (previous year: €4,650.5 million). This decline was the result of Life and Health Insurance, where net financial income adversely affected, in particular, the provision for unit-linked life insurance policies. Owing to our profitable insurance port-folio, Property/Casualty Insurance once again posted very good claims development. Although benefits rose there as a consequence of the welcome portfolio increase, they were lower than premiums.

The net commission expense amounted to –€497.2 million (previous year: –€490.2 million). Because of higher new business, commission expenses for insurance business increased. In addition, the previous year included the net commission income of Wüstenrot Bank AG Pfandbriefbank, which has since been sold.

General administrative expenses declined by €66.5 million to €1,014.0 million (previous year: €1,080.5 million). Despite collectively bargained salary increases, personnel expenses fell by nearly 2% due to, among other things, the immediate measures that we introduced as a result of the coronavirus. Materials costs fell even more substantially, by nearly 11%, as a result of lower advertising, travel and consulting costs, for example. On the one hand, this was attributable to costcutting occasioned by the coronavirus. On the other, we successfully continued our rigorous cost management in 2020 as well.

Net other operating income rose to €45.8 million (previous year: net expense of €28.5 million). This was mainly attributable to a one-off effect in the previous year. The deconsolidation of Wüstenrot Bank AG Pfandbriefbank at that time resulted in a shifting of individual results. This led to income of €48.4 million being added to net income from disposals (net financial income), whereas a charge of €38.6 was made to the net other operating expense for 2019. In addition, the figure for the current year includes badwill of €25 million from the sale of Aachener Bausparkasse AG, as well as, working in the opposite direction in this context, created restructuring provisions of –€11.2 million.

Consolidated statement of comprehensive income

Total comprehensive income for the 2020 financial year stood at €322.8 million (previous year: €658.4 million). It consists of consolidated net profit and other comprehensive income (OCI).

As at 31 December 2020, OCI stood at €112.0 million (previous year: €409.4 million). The extent of this result was predominantly an expression of the sensitivity of our investments to changes in interest rates. As in the previous year, interest rates fell again in the 2020 financial year. This again resulted in unrealised measurement gains, but to a lower extent than in the previous year. Therefore, after additions to the provision for deferred premium refunds and to deferred taxes, unrealised net income from these capital investments amounted to €235.9 million (previous year: €580.6 million). At the same time, lower interest rates had the opposite effect, including in the form of actuarial losses from defined benefit plans for pension schemes. The interest rate used for measuring pension commitments fell from 0.8% to 0.4% in the 2020 financial year. As a result, –€104.9 million (previous year: –€174.2 million) was recognised in other comprehensive income.

Because comprehensive income is highly dependent on changes in interest rates, it has only very limited suitability as a performance indicator for our Group. In an environment of rising interest rates, this currently positive unrealised effect would turn negative.

Housing segment

New business

New construction financing business rose substantially by 9.5 % to €4,144 million (previous year: €3,786 million). Taking into account brokering for third parties, new business also rose substantially to €6,694 million (previous year: €6,301 million). The home loan and savings bank rigorously continued its growth course and considerably outperformed the market.

New business key figures

	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	Change
	in € million	in € million	in %
New construction financing	4,144	3,786	9.5%
Construction financing business (including broke-ring for third parties)	6,694	6,301	6.2%
Gross new business	12,561	13,546	–7.3%
Net new business (paid-in new business)	10,362	11,179	–7.3%

In terms of contract volume, gross new home loan savings business came in at €12,561 million (previous year: €13,546), falling short of the previous year's value because of the restrictions imposed as a result of the coronavirus pandemic. Nevertheless, market share was able to be increased again. In this regard, the performance by our mobile sales force improved, whereas in partnership business, the branch closures occasioned by the coronavirus had an adverse impact on partners. Net new business (paid-in new business) by contract volume amounted to €10,362 million, which was also below the figure for the previous year (€11,179 million).

Financial performance

Net income in the Housing segment increased to €44.9 million (previous year: €38.3 million) as at 31 December 2020.

Net financial income stood at €353.0 million (previous year: €365.3 million). This was mainly due to the following aspects:

- Current net income rose to €273.9 million (previous year: €208.2 million). This was mainly attributable to lower expenses for deposits under home loan savings contracts due to continued portfolio management and a lower addition to provisions for home loan savings business. By contrast, interest income from construction loans was lower as a consequence of the persistently low level of interest rates.

- The net expense from risk provision increased to –€44.2 million (previous year: –€6.6 million). This was caused by the knock-on effects of the coronavirus pandemic, which cannot yet be precisely estimated at this time. The special risk provision that was created in the amount of €34.0 million fully took into account, in particular, counterparty credit risks, which are showing signs of increasing but do not yet appear to have actually done so, due inter alia to governmental support measures.

- The net measurement gain declined to €21.0 million (previous year: €79.3 million). The drop was primarily attributable to the measurement of derivatives concluded to reduce interest rate risks and the lower net gains from the measurement of fixed-income securities. By contrast, net income from hedges rose.

- Net income from disposals amounted to €102.4 million (previous year: €84.4 million), with the rise mainly coming from registered instruments.

The net commission expense amounted to –€11.2 million (previous year: –€11.3 million). The net commission income of the now-sold Wüstenrot Bank AG, which was included in the previous year, was essentially able to be offset by higher income from account maintenance fees at Aachener Bausparkasse AG.

General administrative expenses were able to be reduced to €316.3 million (previous year: €322.2 million) due to lower charges for Group offsetting and the general objective of improving all cost positions.

Net other operating income rose to €33.7 million (previous year: €23.5 million). This includes badwill of €25 million from the sale of Aachener Bausparkasse AG, as well as, working in the opposite direction in this context, created restructuring provisions of €11.2 million.

The decline in the segment's tax expenses to €14.4 million (previous year: €17.0 million) resulted, in particular, from the initial consolidation of Aachener Bausparkasse AG.

Life and Health Insurance segment

New business

New premiums in the Life and Health Insurance segment rose by 11.5% in the year to €815.3 million (previous year: €731.5 million) despite the coronavirus crisis. Single-premium income rose to €708.6 million (previous year: €616.9 million). Regular premiums in life insurance amounted to €97.3 million (previous year: €104.1 million). Annual new premiums in health insurance fell from €10.5 million to €9.4 million (previous year: 10.5 million). In the case of supplemental policies, new business came in below the value of the previous year, whereas it was able to be increased in the case of full-cost policies.

New business key figures

	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	Change
	in € million	in € million	in %
New premiums (segment)	**815.3**	**731.5**	**11.5%**
Single premiums, life	708.6	616.9	14.9%
Regular premiums, life	97.3	104.1	-6.5%
Annual new premiums, health	9.4	10.5	-10.5%

Total premiums for new life insurance business stood at €3,543.2 million (previous year: €3,711.1 million).

Gross premiums written increased to €2,445.7 million (previous year: €2,372.7 million) as a result of higher single-premium income. Health insurance posted an increase of 5.0% in gross premiums written.

Financial performance

Segment net income came in at €22.6 million (previous year: €26.4 million).

Net financial income in the Life and Health Insurance segment stood at €1,367.1 million (previous year: €1,754.2 million). The following income components were responsible for this:

- Current net income fell to €724.7 million (previous year: €801.5 million). This was attributable to lower interest income as a result of lower capital market interest rates for new investments and reinvestments. Also, dividend income from alternative investments and equities declined as a consequence of the coronavirus pandemic.

- The net expense from risk provision stood at –€11.1 million (previous year: net income of €2.8 million). The coronavirus pandemic led to a slightly higher risk provision in the property area. In addition, bearer bonds, in particular, experienced widening spreads and ratings downgrades, but because of the high share of solvent debtors with investment-grade instruments, the increase in the risk provision was less severe.

- The net measurement loss stood at –€46.8 million (previous year: net gain of €500.8 million). In the previous year, falling interest rates and favourable trends on the equity markets led to high measurement gains. In the 2020 financial year, the coronavirus pandemic caused upheavals on the capital markets, which led to widening spreads and rating downgrades for interest-bearing securities. Equities and investment fund units also performed worse compared with the previous year. The measurement result from investments for unit-linked life insurance policies fell by €402.0 compared with the previous year.

- Net income from disposals increased to €700.4 million (previous year: €449.2 million). Market opportunities were able to be exploited for both registered and bearer instruments.

Net premiums earned rose to €2,491.8 million (previous year: €2,415.1 million), owing to the higher volume of single-premium insurance policies.

Net insurance benefits fell to €3,410.3 million (previous year: €3,665.0 million). In the previous year, the sharp rise on the equity markets in 2019 led to an increase in the provision for unit-linked insurance policies. By contrast, the provision for unit-linked insurance policies declined in the 2020 financial year due to weaker and more volatile trends on the equity markets compared with the previous year. Through the regular increase of the additional interest reserve (including interest rate reinforcement), we are already ensuring the fulfilment of future interest obligations and safeguarding benefits to our customers. The addition totalled €352.3 million (previous year: €364.8 million). The additional interest reserve as a whole thus now totals €2,918.2 million (previous year: €2,565.9 million).

The net commission expense stood at –€147.6 million (previous year: –€151.2 million). Sales commissions fell because new business included fewer commission-intensive products than in the previous year.

General administrative expenses fell considerably to €245.5 million (previous year: €270.9 million). Both personnel expenses and material costs were able to be lowered.

Tax expenses decreased to €4.9 million (previous year: €26.4 million), which was caused, in particular, by the decline in net income after taxes, the discontinuation of detrimental one-off effects and the settlement of prior-year taxes.

Property/Casualty Insurance segment

New business/premium development

New business developed positively despite the coronavirus pandemic, coming in at €275.7 million (previous year: €266.6 million). The corporate customers area grew significantly. Our digital brand Adam Riese was also successful in terms of sales and continued to outperform our expectations. In the retail customers area, our own sales force succeeded in posting growth despite the challenging conditions, which however was outweighed by a major transaction that influenced the broker channel in the previous year.

New business key figures

	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	Change
	in € million	in € million	in %
Annual contributions to the portfolio (segment)	**275.7**	**266.6**	**3.4%**
Motor	188.0	181.1	3.8%
Corporate customers	49.9	42.5	17.4%
Retail customers	37.8	43.0	–12.1%

The portfolio in all business segments increased due to very strong net sales in the current financial year, which takes into account replacement business and cancellations in addition to new business. Despite the still challenging market environment, gross premiums written nevertheless once again increased by €100.3 million to €2,054.7 million (previous year: €1,954.4 million).

Gross premiums written

	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	Change
	in € million	in € million	in %
Segment total	**2,054.7**	**1,954.4**	**5.1%**
Motor	868.3	838.6	3.5%
Corporate customers	479.6	444.1	8.0%
Private customers	706.8	671.7	5.2%

Financial performance

Segment net income declined slightly to €142.0 million (previous year: €143.6 million). Net financial income fell significantly as a result of the coronavirus pandemic. Claims development was again encouraging.

Net financial income stood at €65.4 million (previous year: €105.9 million). It consists of the following components:

- Current net income came in at €66.6 million (previous year: €72.5 million), which was slightly lower than the value for the previous year. Because of the impact of the coronavirus pandemic, dividend income fell, as did net income from financial assets accounted for under the equity method. By contrast, the interest surplus increased as a result of a voluntary subsidy to Württembergische Pensionskasse that was made in the previous year.
- The net measurement loss stood at –€21.2 million (previous year: net gain of €27.0 million). The reason for the sharp decline were the upheavals on the capital markets in the wake of the coronavirus pandemic.
- Net income from disposals increased to €19.6 million (previous year: €6.8 million) as a consequence of exploiting market opportunities for registered securities.

Net premiums earned continued to perform very well. They rose by €76.5 million to €1,641.8 million (previous year: €1,565.3 million). All business segments made a contribution to this.

Net insurance benefits increased by €57.4 million to €880.7 million (previous year: €823.2 million) due to the significantly larger insurance portfolio. The coronavirus pandemic had an impact on claims development in two respects. On the one hand, claims expenses in the motor line fell as a consequence of the lockdown. In addition, because of the persistently low level of interest rates, we lowered the discount rates for some business lines in order to further strengthen our reserves by a mid-double-digit million range. Therefore, owing to our very good portfolio, the loss ratio (gross) stood at 64.2% (previous year: 62.2%). The expense ratio fell to 26.4% (previous year: 27.2%). The combined ratio (gross) came in at 90.6% (previous year: 89.4%). The combined ratio (net) amounted to 89.0% (previous year: 89.5%).

The net commission expense stood at –€260.7 million (previous year: –€262.9 million). Higher commission income from reinsurance within the Group with W&W AG, which was due to good claims development, contributed to this development. By contrast, the larger insurance portfolio led to higher commission expenses.

General administrative expenses fell to €371.0 million (previous year: €378.5 million). Personnel expenses came in at the level of the previous year. By contrast, material costs declined.

Net other operating income amounted to €15.7 million (previous year: net expense of –€11.2 million). This increase was mainly attributable to additions made in the previous year to restructuring provisions for planned measures to increase the sales efficiency, as well as portfolio and claims processing.

All other segments

"All other segments" covers the divisions that cannot be allocated to any other segment. This includes, inter alia, W&W AG, W&W Asset Management GmbH, Wüstenrot Haus- und Städtebau GmbH, W&W brandpool GmbH and the Group's internal service providers.

All other segments posted net income after taxes of €10.8 million (previous year: €36.9 million).

Net financial income fell to €34.8 million (previous year: €100.6 million). The following income components contributed to the development:

- Current net income fell to €31.5 million (previous year: €74.4 million). This was mainly attributable to lower interest income as a result of the sale of the Czech subsidiaries, as well as the interest on tax refunds in-cluded in the previous years.

- The net measurement loss stood at –€0.5 million (previous year: net gain of €23.1 million). Because of upheavals on the capital markets, equities and fund units did not post the high gains of the previous year. As a whole, however, a steady recovery was observed over the course of the year.

Net premiums earned rose by €14.1 million to €296.3 million (previous year: €282.2 million). The volume ceded to W&W AG for reinsurance within the Group increased as a result of the positive business performance of Württembergische Versicherung AG. As this relates to quota share reinsurance, the insurance benefits increased as well. Working in the opposite direction, however, were received insurance premiums, which slowed the increase in benefits, meaning that they rose by only €2.0 million to €181.7 million (previous year: €179.7 million).

General administrative expenses fell significantly to €78.3 million (previous year: €115.1 million). Having an impact here were both our costcutting measures and the disposal of the Czech subsidiaries at the start of the year.

Net assets

Asset structure

The W&W Group's total assets amounted to €76.5 billion (previous year: €75.2 billion). Assets mainly consist of construction loans of €22.8 billion (previous year: €21.5 billion) and capital investments of €51.3 billion (previous year: €49.0 billion). The construction loans item rose primarily as a result of the acquisition of Aachener Bausparkasse AG. Interest rates continued to fall, and this had a positive effect on the measurement of fixed-income investments in the portfolio, which likewise rose overall. Our investments are defined in the glossary.

Valuation reserves

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

The W&W Group maintained valuation reserves primarily for financial assets at amortised cost in the amount of €623.8 million (previous year: €507.2 million), mainly for construction loans. In addition, it maintained appreciable reserves for investment property in the amount of €585.9 million (previous year: €533.2 million).

Financial position

Capital structure

The business model of the W&W Group as a financial services group means that the liabilities side is dominated by technical provisions and liabilities to customers.

Technical provisions amounted to €39.4 billion (previous year: €37.4 billion). This includes €30.6 billion (previous year: €30.0 billion) for the provision for future policy benefits, €5.9 billion (previous year: €4.6 billion) for the provision for premium refunds, and €2.7 billion (previous year: €2.6 billion) for the provision for outstanding insurance claims. The increase was mainly due to the higher market values of securities in the portfolio that were occasioned by interest rates, with their change in value being credited to policy holders on a prorata basis through the provisions.

Liabilities primarily related to liabilities to customers in the amount of €22.5 billion (previous year: €21.6 billion). They largely consist of deposits from home loan savings business amounting to €19.4 billion (previous year: €18.3 billion) and savings and other deposits totalling €3.1 million (previous year: €3.3 million). The increase in home loan savings deposits was mainly attributable to the acquisition of Aachener Bausparkasse AG. The home loan savings deposits of the Czech subsidiaries, which were sold in the 2020 financial year, were reclassified in 2019 from the liabilities in the balance sheet item "Liabilities under non-current assets classified as held for sale and discontinued operations" and are therefore no longer included in the values for the previous year.

The item "Liabilities evidenced by certificates" also increased by about €1.4 billion (previous year: €0.9 billion). The reason for this were the bearer covered bonds issued by Wüstenrot Bausparkasse AG, including a "benchmark issue" with a nominal value of €500 million.

Consolidated equity

As at 31 December 2020, the W&W Group's equity rose to €5,085.2 million, compared with €4,835.1 million as at 31 December 2019. This includes consolidated net profit, as well as net income totalling €322.8 million. The dividend distribution reduced equity by €60.9 million. In addition, other effects decreased equity by €11.8 million.

Liquidity

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

The cash flow statement shows cash inflows amounting to €435.0 million (previous year: cash outflows of €1,060.5 million) from operating activities and cash outflows amounting to €266.6 million (previous year: cash inflows of €1,317.5 million) for investing activities, including capital investments. Financing activities resulted in cash outflows of €21.0 million (previous year: €109.9 million). This resulted in a net change in cash of €147.4 million in the year under review. Further information is provided in the cash flow statement in the notes.

Capital expenditures

We made capital expenditures for non-current assets primarily in the Life and Health Insurance segment. They related mainly to investment property. The property subsidiary Wüstenrot Haus- und Städtebau GmbH is also investing heavily in this area. In "All other segments", most of the capital expenditures related to hardware and software purchased by our IT subsidiary. In addition, we are making capital expenditures to advance the construction of the new office buildings in Kornwestheim (W&W campus), for which nearly €106 million was capitalised in 2020 alone.

Another focus for capital expenditures was the digital transformation of our Group. The W&W Group's new digital business models have been grouped together in the brandpool division. This division continues to drive the development of new products and services in order to tap into new target groups for W&W and facilitate profitable growth with digital business models. It is already home to Adam Riese, our digital brand for the German insurance market, and FinanzGuide, an app that enables customers to view their personal portfolio of insurance, home loan savings and banking products on a smartphone, as well minority participations in other companies.

Research and development was performed above all in connection with software development for our own purposes.

Customer development in the Group

New customers increased to 449.3 thousand (previous year: 424.4 thousand). The total number of customers stood at approximately 6.8 million, the same as in the previous year. We optimised our methodology for calculating the number of customers by enhancing the customer databases and modifying the counting method for individual contracts. The number for the previous year was updated accordingly. Under the old methodology, we had 389.7 thousand new customers and approximately 6.3 million existing customers.

A planned scaling back in the Housing division as a result of portfolio measures was offset by customer growth in our digital subsidiaries Treefin and Adam Riese. The latter have now succeeded in gaining approximately 250,000 customers for the W&W Group, having expanded their portfolios by nearly 100,000 customers compared with the previous year.

Exercise of discretion

Because of the ongoing coronavirus crisis, general uncertainty has increased in various areas. These include areas relevant for the financial statements, such as discretionary judgments made by management and assumptions and estimates made with respect to the net assets, financial position and financial performance of the W&W Group. The estimates, assumptions and discretionary judgments that are relevant to the financial statements were made on the basis of management's best knowledge and currently available information. Despite increased uncertainties, the W&W Group believes that the assumptions and estimates utilised appropriately reflect the current situation. Nevertheless, in light of the coronavirus pandemic, deviations from these estimates cannot be ruled out. More extensive information can be found in the notes.

Overall view

The W&W Group's net assets, financial position and financial performance are stable and orderly. Given the coronavirus pandemic and an environment marked by persistently low interest rates and increasing regulatory requirements, we are pleased with the net income we have achieved.

Comparison of business performance with forecast

The following comparison of business performance in the year under review with the forecasts made in last year's annual report shows that the W&W Group has achieved sustainably positive performance despite the impact of the coronavirus pandemic. In addition to the recovery on the capital market at the end of the year, this was also attributable to the immediate measures we introduced, our rigorous management of costs and the costcutting steps occasioned by the coronavirus pandemic. This is also reflected in lower general administrative expenses compared with the forecast.

Housing segment

In the Housing segment, general administrative expenses for the 2020 financial year were at the level of the previous year, in line with the forecast. Overall, general administrative expenses were approximately €6 million lower than in 2019.

Segment net income after taxes stood at €45 million in 2020. We met the forecast of a significant year-on-year increase, despite the creation of a larger risk provision.

Life and Health Insurance segment

General administrative expenses in the Life and Health Insurance segment for the 2020 financial year came in approximately €16 million below the previous year as a result, inter alia, of the above-mentioned measures and effects relating to the coronavirus pandemic. The forecast had expected general administrative expenses to come in at the level of 2019.

With segment net income after taxes of approximately €23 million, we met the forecasted expectations corridor.

Property/Casualty Insurance segment

In the Property/Casualty Insurance segment, general administrative expenses were at the level of the previous year, which was better than forecasted.

Net segment income of approximately €142 million was at the level of the previous year and was thus slightly better than forecasted.

Group

In light of the continued commitment in the new business of the individual segments, as well as the increasing success of our digital business models, particularly Adam Riese, we had more than 6.5 million customers at the end of 2020, in line with our strategic targets. Owing to the described optimisations of the customer data base, we raised our target in last year's outlook from >6 million customers to >6.5 million customers. The forecast from the previous year was met.

Contrary to our forecast, general administrative expenses in 2020 were moderately lower than in the 2019 financial year. This was attributable, in particular, to the cost-cutting associated with the immediate measures that we took in response to the coronavirus pandemic, as well as to our rigorous cost management.

The year under review was marked by the adverse economic impact of the coronavirus pandemic and the associated developments on the capital market. Therefore, the W&W Group adjusted its expectations for the 2020 financial year in the first half of 2020. Owing to the introduced immediate measures and the recovery on the capital market, and despite charges for the risk provision and business closure insurance policies, we posted net income that was only slightly below the strategic target corridor of €220 to 250 million.

Development of business and position of W&W AG

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

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

Development of business

W&W AG closed the financial year successfully with net income pursuant to the German Commercial Code (HGB) of €100.3 million (previous year: €90.0 million). Net income was characterised by dividends and profit transfers from subsidiaries.

Financial performance

Net income

W&W AG's net income (HGB) for the 2020 financial year stood at €100.3 million (previous year: €90.0 million). The Executive Board and Supervisory Board have decided to allocate €25.0 million (previous year: €15.0) to retained earnings for the purpose of strengthening equity. After carrying forward €5.5 million in retained earnings from 2019, the unappropriated surplus amounted to €80.8 million (previous year: €75.4 million). Based on this result, we will propose to the Annual General Meeting that a dividend of €0.65 (previous year: €0.65) per share be paid for the 2020 financial year and that €19.0 million (previous year: €4.0 million) be allocated to retained earnings and €0.9 million of retained earnings be carried forward.2020

Net investment income

In 2020 W&W AG's net investment income increased to €237.7 million (previous year: €228.0 million). In the year under review, we separated ourselves for strategic reasons from our Czech participations Wüstenrot stavební spořitelna a.s. and Wüstenrot hypoteční banka a.s. As a result, we realised a disposal gain. The profit transfers of our subsidiaries declined.

Reinsurance/net underwriting income

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

Underwriting income before the claims equalisation provision amounted to €6.7 million, which was €0.2 million more than the previous year's value.

Gross premiums written increased by 4.4% to €407.0 million (previous year: €390.0 million) in the year under review, due to an increase in the premium income of Württembergische Versicherung AG and thus in the volume of reinsurance business ceded. Net premiums earned increased by 5.0% to €296.3 million (previous year: €282.2 million).

Net expenses for insurance benefits stood at €187.1 million (previous year: €181.1 million). The net loss ratio fell to 63.2% (previous year: 64.2%). Expenses for insurance business for own account increased from €96.2 million in the previous year to €107.4 million. Per the requirements, €4.3 million had to be added to the claims equalisation provision (previous year: €7.5 million). The claims equalisation provision stood at a comfortable €106.3 million (previous year: €102.1 million). This corresponds to 35.9% (previous year: 36.2%) of net premiums earned. After additions to the claims equalisation provision, the net underwriting gain stood at €2.5 million (previous year: net loss of €1.0 million).

Lines

Gross premiums increased from €166.3 million to €175.4 million in the fire and other property insurance lines. After additions of €3.5 million (previous year: €3.9 million) to the claims equalisation provision, a net underwriting loss of €3.6 million (previous year: net gain of €0.3 million) was recorded.

Gross premiums from the motor lines increased to €133.9 million (previous year: €129.8 million). After an allocation to the claims equalisation provision of €5.7 million (previous year: €3.3 million), the loss stood at €4.1 million (previous year: €10.2 million).

Gross premiums from the liability line increased to €36.9 million (previous year: €35.8 million). After releases of €4.2 million (previous year: additions of €0.8 million) from the claims equalisation provision, a gain of €10.8 million (previous year: €5.2 million) was recorded.

Gross premiums from the accident line grew slightly to €22.3 million (previous year: €21.7 million). After additions of the claims equalisation provision, a gain of €0.9 million (previous year: €2.8 million) was recorded.

Transport and aviation hull insurance premiums rose slightly to €3.9 million (previous year: €3.8 million). After additions to the claims equalisation provision, net under-writing income of €0.3 million was slightly worse than in the previous year (€0.7 million).

Gross premiums from other insurance lines (mainly legal expenses insurance) increased to €30.0 million (previous year: €27.3 million). After additions to the claims equalisation provision, a net underwriting expense of €2.4 million (previous year: €0.4 million) was posted.

Gross premiums from life insurance fell to €4.5 million (previous year: €5.3 million). Net income was again positive and amounted to €0.6 million (previous year: €0.7 million).

Taxes

Taxes on income showed expenses of €66.9 million (previous year: €56.2 million) as at 31 December 2020. Tax expenses rose by €10.7 million. The increase resulted both from higher net income as calculated in accordance with the German Commercial Code and from current-account tax effects. The increase was tempered by effects from the tax-free sale of interests in limited companies and income from prior-year taxes.

Net assets and capital structure

Asset structure

W&W AG's total assets increased by €121.1 million in the 2020 financial year to €3,899.4 million (previous year: €3,778.3 million). Investments make up most of the assets. Receivables are another large item.

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

Equity

As the holding company, W&W AG manages the equity of the W&W Group. As a rule, the equity of the subsidiaries meets or exceeds regulatory requirements.

As at 31 December 2020, W&W AG's equity amounted to €2,025.3 million (previous year: €1,986.2 million). On the one hand, equity increased by €0.5 million as a result of net income of €100.3 million and the sale of treasury shares in connection with the employee share ownership programme in 2020. On the other, the dividend distribution of €60.9 million that was distributed for the 2019 financial year and the repurchase of our shares in the amount of €0.8 million had the opposite effect and decreased equity.2019 In total, equity thus increased by €39.1 million.

The retained earnings included in equity also increased. In accordance with the resolution adopted by the Annual General Meeting, €9.0 million from the unappropriated surplus and €25.0 million from net income were allocated to retained earnings.

Investments

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

The carrying amount of capital investments increased by €184.0 million to €3,585.4 million (previous year: €3,401.4 million). This figure mainly includes interests in affiliated companies and participations in the amount of €1,418.4 million (previous year: €1,501.7 million) and fixed-income securities in the amount of €551.1 million (previous year: €559.8 million).

Valuation reserves

Valuation reserves are formed if the fair value of an asset is higher than the value at which it is carried in the balance sheet (carrying amount). W&W AG's valuation reserves for investments amounted to €2,205.7 million (previous year: €1,394.7 million). This includes €1,836.9 million (previous year: €1,245.0 million) for interests in affiliated companies, €79.7 million (previous year: €61.6 million) for funds and €23.3 million (previous year: €22.4 million) for registered bonds and promissory notes. As in previous years, W&W AG elected not to exercise the option provided by Section 341b (2) of the German Commercial Code (HGB) to use the rules applicable to fixed assets when measuring securities classified as current assets.

Pension provisions

Pension provisions in the amount of €1,098.0 million (previous year: €1,026.7 million), together with technical provisions in the amount of €513.8 million (previous year: €513.1 million), constituted a large share of W&W AG's liabilities. In addition to W&W AG's own pension provisions, this item includes the pension provisions for eight (previous year: eight) subsidiaries. W&W AG assumed joint liability for the pension commitments of these subsidiaries, and it made an internal agreement with them to meet these pension obligations.

Financial position

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

Overall view

W&W AG's net assets, financial position and financial performance are stable and orderly. Given the coronavirus pandemic and an environment marked by persistently low interest rates and increasing regulatory requirements, we are pleased with the net income we have achieved.

Comparison of business performance with forecast (HGB)

Due to the holding company structure, net income after taxes is determined primarily by dividends and profit transfers from subsidiaries. In the 2020 financial year, net income after taxes stood at €100.3 million. We exceeded the forecast that net income after taxes would come in at the level of 2019.

Opportunity and risk report

Opportunity report

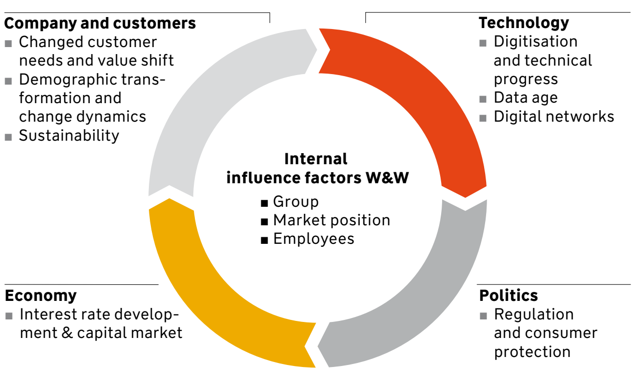
Recognising and exploiting opportunities is a fundamental requirement for the successful development of our Group. Consequently, we pursue the goal of systematically identifying, analysing and evaluating opportunities and initiating suitable measures to utilise them.

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

We also have suitable 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, and distinguish between opportunities arising from developments outside the company's control and opportunities resulting from our specific strengths as the W&W Group.

External and internal influence factors for W&W



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

External influencing factors

Company and customers

Opportunities through changed customer needs

As the W&W Group, our aim is to provide people with financial planning from a single source. For us, this also includes offering our customers simple, transparent, individualised and flexible products, as well as networking across all interaction channels.

The need for financial security offers tremendous business opportunities. We adapt strategically to the changed financial planning market with our sustainable, comprehensive advisory approach – which includes the four pillars of financial security, residential property ownership, risk protection and savings and investment – as well as with our target group concepts and solutions.

Digital advances have materially changed the expectations of many existing and potential customers. The communication between customers, sales and companies is increasingly taking place on the basis of digital technology. In 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 the opportunity for 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 the prevalent use of smartphones, speed is vital to achieving 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. Self-service offers opportunities to improve efficiency through automation.

The coronavirus pandemic has changed customer behaviour and led to increased awareness of the quality of one's home. The desire to have one's own home has become more fervent as a result of, among other things, the increasing need to work from home in times of the pandemic. In addition, the trend toward sustainable living is intensifying. This offers opportunities for us to serve not only as a reliable partner for all types of financing needs but also, and in particular, as a provider of digital advice in the online world and expertise in the physical world. For example, the Housing division offers financing for energyrelated renovations and upgrades – and in connection with this, customers can also be informed about government subsidies.

Opportunities through dynamic transformation and demographic change

Demographic change and a changed society offer new growth opportunities.

People are living longer and are remaining active later in life. In the long run, the government pension alone will not be sufficient to finance this self-determined, independent lifestyle. Independence, mobility and remaining active in old age are increasingly financed with a private source of capital. In our view, society is demanding more flexibility with regard to products, advice and communication due to a change in lifestyle habits.

For us as the W&W Group, with our expertise in the field of financial planning and investments, this offers substantial market potential for our services, advisory approaches and target group concepts. By developing new and sustainable products with alternative guarantees or additional flexibility and using all manner of communication media, we are adapting to these changes.

Opportunities through sustainability

We seek to operate our business in a way that is environmentally sound, socially responsible and economically successful. In this regard, we view sustainability not only as the consequence of stricter regulations (EU Taxonomy Regulation) but also as a way to accelerate the transformation of our business model. In this spirit, the W&W Group has signed on to the sustainability initiatives Principles for Sustainable Insurance (PSI) and Principles for Responsible Investment (PRI). By doing so, we are placing greater emphasis on environmental, social and governance aspects in our business.

The stronger focus on sustainability creates economic, social and ecological benefits for the W&W Group as well as the entire insurance industry. Among other things, our unit linked pension insurance Genius has a strong sustainability orientation, and this is enabling us to reach additional target groups. We also believe we owe a duty here to the current generation and those to follow.

Economy

Opportunities through interest rate trends and capital markets
The low interest rate policy in Europe continues to pose challenges for financial services providers, but also offers opportunities.

On the one hand, the importance of effective capital investment is rising. As a large investor with more than €51 billion in available capital, we have long-standing capital market expertise and a comprehensive risk management system. Our capital investment is based on a strategic asset allocation that we align with opportunities and risks in the course of a consistent value- and riskoriented investment strategy, while maintaining flexibility in order to make use of opportunities at short notice. We can also acquire new customers through products that are adapted to the current market environment (and in which sustainability aspects are being taken into account to a growing extent).

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

Politics

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

Government initiatives designed to promote residential property ownership and residential housing stock can boost the demand for property financing, residential construction and broker services dynamics. In particular, the residential construction premium, which was increased on 1 January 2021, is now available to a considerably greater number of citizens as a result of the adjusted income threshold. This will bolster home ownership in Germany.

Technology

Opportunities through digitalisation and technical progress
Digital advances are enabling us to develop completely new, faster and more intensive customer interactions, meaning that we can approach customers' needs more directly and expand our ability to provide digital advice. 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 costcutting potentials – can be used to boost income but also to free up capital for investments in topics of relevance for the future.

The consequences of the coronavirus pandemic are giving even greater impetus to this trend. In 2020 mobile working, including working from home, accelerated the digital transformation of how people work. It is expected that this new form of digital working will be relied on to an increasing degree even after the crisis ends.

Opportunities in the data age
The responsible, targeted use of customer data enables us to create ever more personalised products. With additional information, we can better assess risks and avoid claims. Moreover, additional sales potential arises through the use of data.

Opportunities through digital networking
By creating collaboration networks, e.g. in all matters involving the home, we can better serve customer needs.

Digital networking can also dramatically reduce response times, which in the event of a claim, for instance, makes it possible to limit consequential damages or even to avoid them altogether.

Internal influencing factors

Opportunities through the Group

Because of its diversification, our business model – with its Housing, Insurance and brandpool divisions – provides us with good opportunities to operate successfully on the market on a long-term basis.

The brandpool division focuses both on digital financial services and on additional digital business models in the areas of housing, finances, health, family, education and mobility for the purpose of broadly diversifying the product portfolio. In particular, by tapping into new target groups, it is contributing to the Group's customer growth.

In light of demographic trends, the comprehensive range of products that we offer as a financial planning group promises brisk customer demand in the future.

Through the combination of the two venerable brands Wüstenrot and Württembergische, we have substantial customer potential within our Group. This offers us income opportunities through further expansion of cross-selling.

With its broad range of products across a variety of business segments, our business model has a natural diversification: For instance, our property and casualty insurance companies are far less dependent on trends in interest rates than the home loan and savings bank, and they also require less capital. All stakeholder groups benefit from the diversification effect. The aim is to price our products so that we can offer customers lower risk premiums for the same level of security. For our shareholders, diversification reduces the part of the equity that is tied up through the assumption of risk and stabilises the income and risk profile.

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

Opportunities through market position

Through our various sales channels with their different strengths, and owing to our good brand awareness, we are able to address a large, broad customer pool of millions of people in our core market of 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 ratings.

We also have opportunities through further optimisation of our sales channels. These consist, in particular, of the rigorous digitalisation of customer contact points and relieving employees of routine administrative tasks.

Opportunities through our employees

For the W&W Group as a service company, recruiting and retaining employees is a key component for ensuring future viability and competitiveness.
For that reason, the W&W Group has established the benefits package “Beruf+”, which offers a variety of programmes and services relating to health management, mobility, family, qualification and agile, networked and flexible working, particularly digitally and at the new W&W campus. Similarly, the W&W Group offers various opportunities for retention and networking specifically for its trainees and working students from the Cooperative State University (Duale Hochschule).

Risk report

Risk management system in the W&W Group

- As at the end of 2020, the W&W Group currently is well capitalised in accordance with both economic risk-bearing capacity calculations and regulatory standards.
- The liquidity needs of the W&W Group were secured as at the reporting date.
- Risk management is an important element of the corporate governance of the W&W Group.
- Contributing to the assurance of financial strength and to the creation of value are important objectives of risk management.

Pursuant to the provisions of the German Banking Act (KWG), the German Act on the Supervision of Insurance Undertakings (VAG) and the German Act on the Supervision of Financial Conglomerates (FKAG), as well as the EU Financial Conglomerates Directive (FICOD), the W&W Group constitutes a financial conglomerate. Additionally, the Solvency II group (insurance group) and the insurance companies are subject to the regulations in Solvency II. All the specified legal provisions result in special requirements for risk management and controlling. Wüstenrot & Württembergische AG (W&W AG) is the superordinate under-taking of the financial conglomerate and the Solvency II group. As the superordinate undertaking, W&W AG is responsible for defining and further developing uniform risk management standards throughout the Group and monitoring compliance with those standards. By letter of 22 July 2020, the German Federal Financial Supervisory Authority (BaFin) approved the application for elimination of the financial holding group. For further information, please see the chapter "Business model – regulatory requirements".

The principles of the risk management approach and the elements of its design, as well as the general handling of material risks within the W&W Group, are described below. Further analyses and descriptions of the risk situation that arise from international accounting standards are provided in "Disclosures concerning risks under financial instruments and insurance contracts" in the notes to the consolidated financial statements.

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

The risk management and controlling system comprises the totality of all organisational regulations and measures that have been established to identify risks at an early stage and to handle the risks associated with business activity. Risk controlling is a part of risk management and includes the assessment, evaluation, monitoring and reporting of the risks encountered by the entities assuming them. It also monitors risk governance measures.

The principles of the risk management system as well as the organisation of our risk management as described in the 2019 Annual Report were also applicable in 2020, and with the exception of the changes and enhancements described below, they continue to be applied.

As required by BaFin, we submitted a general, non-event-driven restructuring plan for the Solvency II group (insurance group) pursuant to Section 26 of the German Act on the Supervision of Insurance Undertakings (VAG), and it was integrated into the current organisational and operational structure of the risk management system.

For information on the enhancements planned for 2021, please see the chapter "Enhancements and planned measures".

Core functions and objectives

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

- **Legal:** Compliance with the relevant risk-related internal and external requirements for risk management and creation of the legal preconditions for continuation of business operations.
- **Protection of the going concern:** Avoidance of risks that endanger the company as a going concern, preservation of financial security and development of strategies to protect the company as a going concern and the capital basis necessary for this.
- **Quality assurance:** Establishment of a common understanding of risks, a pronounced awareness of risks and transparent communication of risks in the W&W Group, as well as active notification of flaws and potentials for improvement in risk management.
- **Value creation:** Governance measures for risk hedging and preservation of value, promotion and assurance of sustainable value creation for shareholders through risk capital allocation that enables opportunities to be seized.

Based on the key functions of risk management, the following **overarching objectives** are pursued:

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

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

Risk management framework

The integrated risk strategy establishes the strategic framework of the risk management system of the W&W Group, the Solvency II group and W&W AG. The risk management system is an integral component of a proper and effective business organisation.

Risk management framework

Overview

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

As part of this framework, definitions are established for risk appetite, which are derived from the business strategy and the risk profile, for the overall risk objectives and for the application of consistent standards, methods, procedures and tools. The risk strategy is in line with the W&W business strategy and the principles for long-term protection of the company as a going concern. It takes into account the nature, scope, complexity and risk content of the business operated by the individual companies that belong to the W&W Group.

The requirements specified in the integrated risk strategy contribute to securing the long-term entrepreneurial capacity to act and to promoting the Group-wide risk culture. The aim is to maintain an appropriate balance between taking advantage of business opportunities and incurring risks, while ensuring the effectiveness of the Group-wide risk management system.

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

Our **Group Risk Policy** defines the organisational framework for risk management and is a prerequisite for an effective risk management system within the W&W Group. This framework ensures that the standard of quality is comparable across all business areas and that risk management is highly consistent on all levels of the W&W Group. As a key component of the common risk culture, the Group Risk Policy and the processes and systems defined in it promote the requisite risk awareness. The central elements of the Group-wide risk culture are:

- Leadership culture with a role model function (“tone from the top”),
- Open communication and critical dialogue,
- Responsibility of employees, and
- Appropriate incentive structures.

Through their management style and the way they handle risks, the Executive Board of W&W AG, the executive boards and managements of the individual W&W companies and the managers in the W&W Group shape the W&W Group’s risk culture to a decisive extent.

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

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

Risk class 1:

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

Risk class 2:

- Württembergische Krankenversicherung AG
- Allgemeine Rentenanstalt Pensionskasse AG
- W&W Asset Management GmbH
- W&W Informatik GmbH
- W&W Service GmbH
- Wüstenrot Haus- und Städtebau GmbH

The inclusion of companies in risk classes 3 to 5 in the management system of the W&W Group is undertaken pursuant to the proportionality principle and is ensured directly by the risk controlling of the respective parent company.

Effective 1 April 2020, control of Wüstenrot stavební spořitelna a.s. and Wüstenrot hypoteční banka a.s. was transferred to MONETA Money Bank a.s. as the new owner of the companies after the supervisory authorities in the Czech Republic had granted their approval.

In June 2020, the takeover of Aachener Bausparkasse AG was finalised with its merger into Wüstenrot Bausparkasse AG. Aachener Bausparkasse AG has been included in the Group-wide risk management system since the transfer of control to Wüstenrot Bausparkasse AG. For further information, please see the chapter “Business model – over-view of the Group and W&W AG”.

Risk governance/risk bodies

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

For further information on our Corporate Governance, please see the section “Corporate governance statement”.

The duties and responsibilities of all persons and committees involved in risk management issues are defined. With-in the organisational and operational structure, the individual areas of responsibility for all of the following bodies, committees and functions are defined, as well as their interfaces and reporting lines among one another, thus ensuring the regular and timely flow of information across all levels of the W&W Group.

The **Executive Board of W&W AG** bears overall responsibility for the proper business organisation of the W&W Group. It is the ultimate decision-making body on risk issues. This includes ensuring that the risk management system established Group-wide is effectively and appropriately implemented, maintained and enhanced. This also includes developing, promoting and integrating an appro-priate risk culture. The Chief Risk Officer (CRO) is responsible for risk management on the Executive Board of W&W AG.

In its role as the control body overseeing the Executive Board, the **Supervisory Board of W&W AG** also monitors the appropriateness and effectiveness of the risk management system, as well as implementation of the risk strategy, including risk appetite. In addition, it is regularly informed about the current risk situation. Certain types of transactions require approval by the Supervisory Board or its Risk and Audit Committee.

The **Risk and Audit Committee of W&W AG** and the corresponding committees of Wüstenrot Bausparkasse AG, Württembergische Versicherung AG and Württembergische Lebensversicherung AG are regularly presented with information required pursuant to the bylaws, including risk reports with a description of the current risk situation and the measures that have been initiated to manage it.

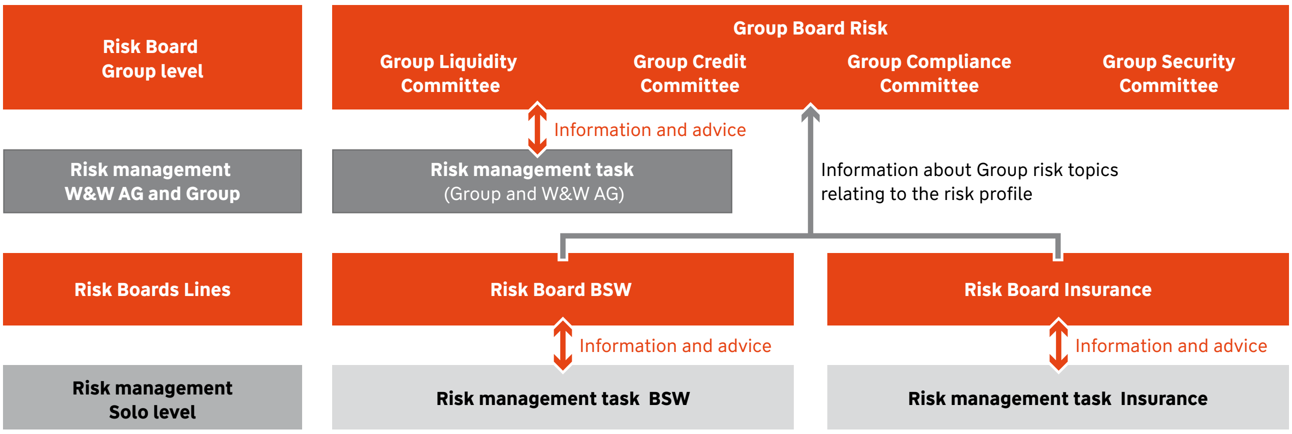
As the central body for the coordination of risk management, the **Group Board Risk** supports the Executive Board of W&W AG and the Management Board in risk issues. The permanent members of the Group Board Risk are the CRO of W&W AG and the CROs of the Housing and Insurance divisions. The risks in the brandpool division are covered by the Group-wide risk management in accordance with the processes specified in the Group risk policy. Other members of this body are the (independent) risk controlling function of W&W AG, which also handles the responsibilities on behalf of the Solvency II group, the two (independent) risk controlling functions of the Housing (Wüstenrot) and Insurance (Württembergische) divisions and select observers. The body meets once a month and, where necessary, on an ad hoc basis. The Group Board Risk monitors the risk profile of the W&W Group, its appropriate capitalisation and its liquidity. Moreover, it advises on Group-wide risk organisation standards and on the deployment of uniform risk management methods and tools, and it proposes these to the Group's executive boards for approval.

The **Insurance Risk Board** manages and monitors risks in the Insurance division (Württembergische). The **BSW Risk Board** handles this duty in the Housing division (Wüstenrot). The participation of the responsible Executive Board members and the departments concerned guarantees the integration of circumstances pertaining to individual companies as well as the speedy exchange of information and quick decision-making. We integrate risk-related aspects of the brandpool division via an established reporting line to the Group Board Risk.

The chart "Risk Board Structure" shows how the responsible bodies collaborate in risk-related decisions.

Risk Board Structure

Overview



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

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

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

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

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

The (independent) **risk controlling function** or risk management function handles, in particular, the operational implementation of risk management and reports to management on the overall risk profile, among other matters. The Risk and Compliance department at W&W AG (”Risk” section) is responsible for risk management at the level of the W&W Group and W&W AG. The head of the “Risk” section holds the key function of “risk management” in accordance with Section 26 German Act on the Supervision of Insurance Undertakings (VAG) at the level of the W&W Group and W&W AG. In addition, the Insurance (Württembergische) and Housing (Wüstenrot) divisions each have their own risk management units. In each case, they perform the duties of the risk controlling function at the level of the respective subsidiaries. They also remain in close contact with the risk controlling function at the Group level.

The compliance function is responsible for adequate legal monitoring and the effectiveness of the compliance with internal and external regulations. The compliance function is supported in the operational performance of its duties by the Risk and Compliance department (“Compliance” section) at W&W AG.

The **actuarial function** is responsible, inter alia, for the correct calculation of the technical provisions, and it assists the relevant (independent) risk controlling function or risk management function in risk assessment. The actuarial function at W&W AG is exercised by the head of the Actuary and Casualty Reinsurance department of Württembergische Versicherung AG. For the Solvency II group, it is carried out at the level of W&W AG in a dual-functional role by the head of the section Risk Management Life and Health Insurance, Actuarial Management of Württembergische Versicherung AG.

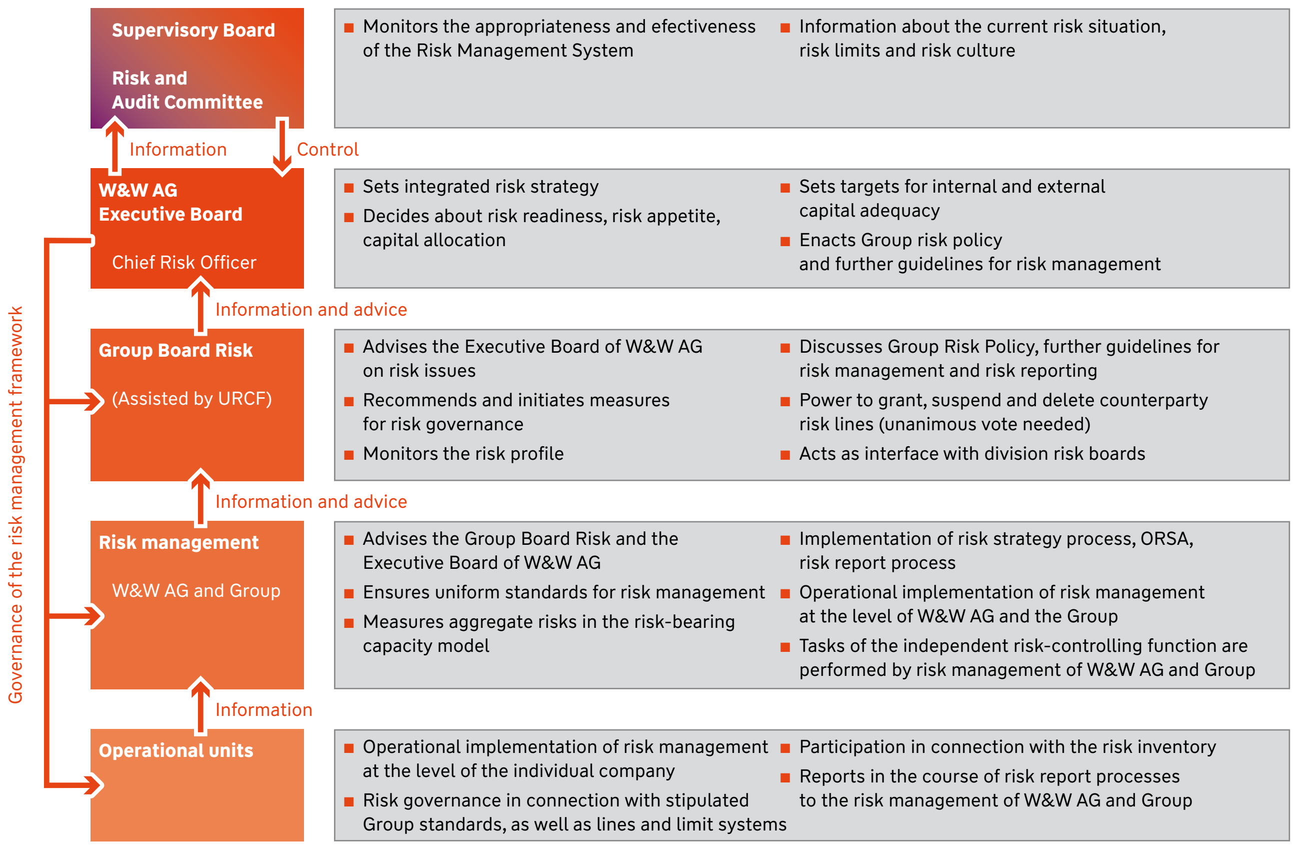
- The Internal Audit department represents the **third line of defence.** It independently audits the appropriateness and effectiveness of the internal control system as well as the effectiveness of corporate processes, including the first two lines of defence. The internal audit duties at the Group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

Persons or divisions charged with exercising these functions 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.

The chart “Risk Management: Responsibilities and Function Holders” shows the responsibilities in risk management.

Risk management responsibilities and Executives

Overview



Limitations of the risk management system

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

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

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

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

We reduce such risks, especially operational risks and business risks, as part of risk management. Although our risk management system is inherently suitable, it is nev-er-theless possible that risks may not be duly identified or responded to under certain circumstances.

Risk management process

The risk management process W&W-Group is based on the closed control loop described in the integrated risk strategy as well as in the following.

Risk identification

In connection with the risk inventory process, the corporate and working environment is constantly monitored for potential risks, and identified risks must be reported without delay. This high penetration throughout the organisation makes a decisive contribution to promoting an appropriate risk culture.

Moreover, we have implemented a uniform, Group-wide new-product process for the purposes of identifying risks associated with the introduction of new products and sales channels and with the cultivation of new markets. This process incorporates the risk controlling units at the level of the Group and the individual companies.

Risks are systematically identified in the course of the annual risk inventory and during reviews of the risk situation throughout the year, as warranted by events. Here, assumed or potential risks are continually recorded, updated and documented. On the basis of an initial assessment for the respective individual company, defined threshold values are used to differentiate risks into material and immaterial risks.

Also evaluated is the extent to which individual risks can take on a material character through interaction or accumulation (risk concentrations).

Risks that are classified as material are managed in the four steps of the risk management process described in more detail in the following. For risks that are classified as immaterial, the responsible business units monitor them during the year, using (early-warning) risk indicators in order to determine whether they have changed, and evaluate them in full at least once a year.

Risk assessment

This process step includes all methods, processes and systems that serve to adequately assess identified risks. Risks are largely assessed by means of a stochastic procedure using the value-at-risk standard. If this procedure cannot be used for certain risk areas, analytical computational procedures or regulatory standard procedures are applied, as well as expert estimates.

At both the Group level as well as the level of the individual W&W companies, the relevant statutory and regulatory confidence levels are applied for measuring risks from an economic perspective:

- For individual W&W companies, including W&W AG, that are subject to insurance supervision law, this corresponds to a confidence level of 99.5%, based on a risk horizon of one year.
- For individual W&W companies, including W&W AG, that are subject to banking supervision law, this corresponds to a confidence level of 99.9%, based on a risk horizon of one year.

For the W&W Group, risks are depicted with a confidence level of 99.5%. The target and minimum ratios for economic risk-bearing capacity at the Group level are derived from the capital requirements that result from compliance with the aforementioned confidence levels at the associated individual companies. Accordingly, an overall confidence level in excess of 99.5% is achieved.

In addition, risks are assessed from a supervisory (normative) perspective using regulatory risk parameters. If risk models are employed that are oriented toward the balance sheet or income statement specific to the individual company, a confidence level of at least 95.0% is applied to them.

We include the results of these assessments in the evaluation of risk-bearing capacity or in additional risk controlling tools, taking into consideration potential risk concentrations. We regularly conduct sensitivity analyses in connection with stress scenarios for specific risk areas and across risk areas. Indicator analyses, such as (early-warning) risk indicators, augment the range of tools used to evaluate risk.

Risk taking and risk governance

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

As a rule, the entity that assumed the risks is responsible for managing and controlling them. In performing this task, it decides about products and transactions. It must continuously check whether the assumed risks are in conformity with the risk profile specified by the risk strategy of the W&W Group or one of its companies and whether risk-bearing capacity as well as the risk limits and risk lines are observed. Risk-taking and risk-monitoring tasks are strictly separated in terms of function.

Key management parameters at the Group level are the IFRS result and division-specific indicators. In order to link earnings management with risk governance, we conduct supplementary analyses for the purpose of value-oriented management. For us, this includes, inter alia, a present-value earnings perspective, optimisation and allocation of capital and internal risk governance.

The sufficiency of risk capitalisation is evaluated on several dimensions, which as a rule are equally weighted but highlight different objectives and aspects:

- The economic perspective assesses risk coverage capacity, i.e. permanent assurance of the company's substance in order to protect first-rate creditors against losses from an economic standpoint.
- The normative perspective looks at compliance with the regulatory minimum requirements for risk capitalisation in order to be able to continue business operations as planned.

In addition, in accordance with the requirements for managing the balance sheet and the income statement, specific risk models oriented toward them are applied at the level of the individual companies.

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

Risk monitoring

In order to identify risks early on, risk indicators are employed to monitor changes in the risk situation. Such indicators include financial and risk indicators (e.g. risk-bearing capacity ratios, limit utilisations), supervisory indicators (e.g. capital ratios, liquidity coverage ratio) and market indicators (e.g. stock prices, credit spreads).

Material, quantifiable risks are controlled by means of limits and lines. Limits are set at most in the amount that permits compliance with the respective minimum ratios for economic risk-bearing capacity even where the limits are maxed out. Business is transacted solely within the scope of these limits and lines. By creating a corresponding limit and line system, risk concentrations in particular are limited both at the level of the individual company and at the level of the financial conglomerate.

The monitoring of risks, which is independent of the assumption of risks, primarily takes place at the level of the individual company. Where material risks exist that affect more than just the individual company, they are also monitored at the Group level. Monitoring activities are used to develop recommendations for action, which lead to corrective intervention being taken early on with respect to the objectives set forth in the business and risk strategy, and are subject to corresponding measures controlling.

Risk reporting

By means of the established reporting processes, regular and timely reports are generated about the risk position of various groups or individual companies.

In this regard, the flow of information concerning the risk situation of the individual companies in the W&W Group is accomplished through internal risk reporting, risk inventory and calculation of risk-bearing capacity. The results of the companies affiliated with the Group are transmitted to the risk controlling function responsible for the W&W Group, which then aggregates them and analyses them for their impact on the W&W Group.

The key element of the risk reporting system is the quarterly overall risk report, which is sent to the Group Board Risk, the Executive Board and the Supervisory Board. Presented in this report are, in particular, the amount of available capital, regulatory and economic capital adequacy, compliance with limits and lines, the results of stress testing and the risk governance measures that have already been taken and that still need to be taken. Also reported on in this connection are significant trends in early-warning risk indicators. The overall risk report is presented to the Group Board Risk and discussed with respect to risk assessment. On this basis, action recommendations and measures are established where necessary for the W&W Group, which are then implemented and tracked by the responsible risk management units.

Depending on how critical it is, information that is considered material from the standpoint of risk is forwarded immediately to the Group Board Risk, the Executive Board and the Supervisory Board. Processes and reporting procedures are in place for internal ad-hoc risk reporting at the Group and individual company level. Quantitative criteria are used as thresholds, which as a rule are in line with internal and supervisory parameters. In addition, pertinent ad-hoc risk reporting is performed when qualitatively material events occur.

The operability, appropriateness and effectiveness of our risk management system is audited by the Internal Audit department. As part of the audits of financial statements, an audit firm audits the establishment of early risk detection systems at the individual company level and the appropriateness and effectiveness of the risk management at the level of the credit institutions, as well as that of the W&W Group.

Capital management in the W&W Group

The individual companies and W&W AG maintain risk capital in order to cover losses if assumed risks should occur. Risk management is responsible for managing and monitoring the ratio of risk capital to risk capital requirements (capital adequacy, risk-bearing capacity). Risk is managed from two perspectives:

With respect to **regulatory capital adequacy,** the ratio of regulatory capital to regulatory solvency requirements is monitored. Statutory and supervisory requirements relating to capital resources, risk-bearing capacity and other regulatory indicators apply for the financial conglomerate, the Solvency II group and W&W AG as an individual company. For this purpose the provisions of the German Banking Act (KWG), the German Act on the Supervision of Insurance Undertakings (VAG), the German Act on the Supervision of Financial Conglomerates (FKAG) and the EU Capital Requirements Regulation (CRR) are applied.

Moreover, avoidance of the risk of overindebtedness is an integral aspect of managing the balance sheet of the individual companies that are subject to banking supervision law. Compliance with this target ratio is monitored operationally at the level of Wüstenrot Bausparkasse AG.

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

In order to ensure appropriate risk-bearing capacity, internal target ratios and minimum ratios are specified for both supervisory and economic capital adequacy

Objectives

An overarching framework has been implemented for capital management in the W&W Group, the Solvency II group and W&W AG, which specifies the goals and principles for capital management and defines the capital management process. In particular, our capital management aims at:

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

Regulatory capital adequacy

Regulatory provisions establish requirements for regulatory capitalisation at the level of the individual companies and at the consolidated level.

- As at the reporting date, Wüstenrot Bausparkasse AG fulfilled the regulatory capital requirements. As at 31 December 2020, the total capital ratio of Wüstenrot Bausparkasse AG was 17.7% (previous year: 19.1%).
- As at the reporting date, the regulatory Solvency II coverage ratios of the insurance companies were likely well above 100%. The final results will be published in the second quarter. The ratios calculated as at 31 December 2019 were reported to BaFin in the second quarter of 2020. They amounted to 395.3% for W&W AG, to 521.8% for Württembergische Lebensversicherung AG and to 181.1 % for Württembergische Versicherung AG. Württembergische Lebensversicherung AG received approval from BaFin to apply transitional measures for technical provisions and a volatility adjustment, both of which are also currently being applied by it.
- As at the reporting date, the regulatory coverage ratio for the Solvency II group was likely well above 100%. The final results will be published in the second quarter. The ratio for the previous year, which stood at 238.4%, was reported to BaFin in the second quarter of 2020.
- As at the reporting date, the coverage ratio for the financial conglomerate of the W&W Group was likely well above 100%. In the previous year, the coverage ratio stood at 234.1% as at 31 December 2019.

In its risk strategy, the W&W Group has set internal target solvency ratios for the large subsidiaries and W&W AG, as well as at the level of the Solvency II group and the financial conglomerate, that exceed the current statutory requirements. The minimum target ratio for the Solvency II group and for the financial conglomerate is 130% (in application of the transitional measures for technical provisions and the volatility adjustment).

Internal calculations on the basis of the data for 2020 and on the basis of the planning horizon show that the regulatory requirements concerning capital resources will be satisfied by the financial conglomerate and by the Solvency II group in the future as well, under the assumptions on which the planning is based.

Economic capital adequacy

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

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

The risk position presented below is based on the data used by company management for economic risk governance and internal risk reporting. Material risks, which are determined by means of a standardised approach, are aggregated to form the risk capital requirements and compared with the financial funds available for risk coverage. As at 31 December 2020, the W&W Group's total risk capital requirements amounted to €3,456.7 million (previous year: €3,022.5 million).

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

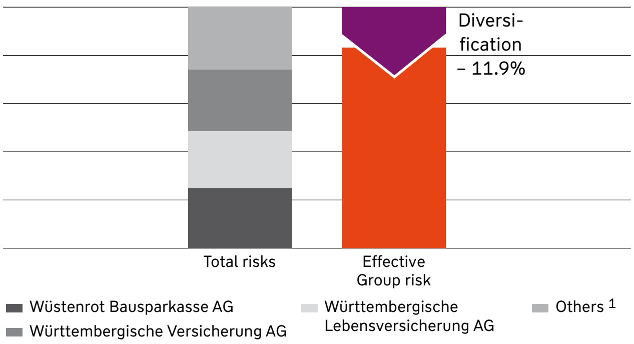
As part of the risk strategy, the W&W Group strives for an economic risk-bearing capacity ratio (ratio of risk coverage capital to risk capital requirements) of greater than 145%. For W&W AG, the target ratio is greater than 125%. Our calculations show that risk-bearing capacity was above this target ratio as at 31 December 2020.

Diversification

The assumption and management of risks is a key aspect of the W&W Group's business model. The risk profiles for the home loan and savings bank, for the property and casualty insurance companies and for the life and health insurance companies differ considerably. Since the risks assumed by these companies usually do not occur at the same time, the risk capital requirements of the Group are lower than the sum of the risk capital requirements of the individual companies. For example, a drop in interest rates, which may constitute a risk for life insurance companies or, depending on positioning, the home loan and savings bank, is largely independent of the occurrence of a natural disaster, which mainly affects only property and casualty insurance companies. The extent of this risk diversification effect depends, on the one hand, on the intercorrelation of the risks and, on the other, on their size in the individual companies. In terms of confidence-based modelling, the economic risk-bearing capacity model at the Group level takes into account only diversification effects that arise between the individual companies within the individual risk areas. Diversification had the following impact on economic risk capital requirements at the Group level as at 31 December 2020:

Diversification

schematic



1 W&W AG, Württembergische Krankenversicherung AG, Consolidation

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

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

Risk landscape and risk profile of the W&W Group

In order to depict our risks transparently, we uniformly consolidate similar risks into risk areas on a Group-wide basis (see also the chart "Risk landscape of the W&W Group").

Risk landscape of W&W Group

Overview of risk areas

Overall risk profile

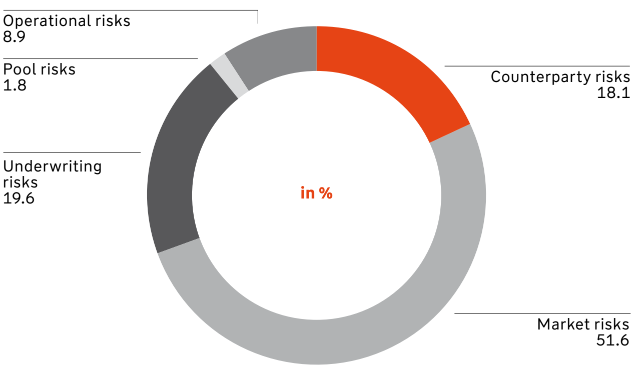
Market risks	Counterparty risks	Underwriting risks	Operational risks	Business risks	Liquidity risks
Interest rate risk	Counterparty credit risk – customer credit business	UR personnel/ employee life insurance	Legal risk	Strategic risk	Insolvency risk
Credit spread risk	Counterparty credit risk – capital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

All reportable segments are exposed to the above-described risk areas. The sole exception is our home loan and savings bank, which does not show any underwriting risks specific to its business model. We separately draw attention to any segment-specific risks and risk management methods within the risk areas.

In describing the risks depicted below, we follow the methodology established by our internal risk reporting regulations. Where figures are provided in millions of euros or thousands of euros, and in the case of percentage figures with a decimal point, totalled amounts may having rounding differences due to commercial rounding rules.

The risk profile of the quantified risk areas was determined in accordance with our methods for economic risk-bearing capacity measurement (see the section "Economic capital adequacy"). As at 31 December 2020, the risk profile was distributed as follows:

Risk profile of the W&W Group [1]



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

Market price risks currently account for the largest share of risk capital requirements at 51.6% (previous year: 45.6%). These include, as the key types of risk, credit spread risks, stock price risks, and interest rate risks. **Underwriting risks** account for 19.6% (previous year: 21.8%). Due to the exposures in our capital investment portfolios and our customer lending activities, **counterparty credit risks** also constituted a significant risk area, accounting for 18.1% (previous year: 20.7%).

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

Market price risks

- Owing to its business model, the W&W Group is highly sensitive to trends in market price risk factors, especially in regard to trends in interest rates and credit spreads and on equity markets.
- Coronavirus pandemic: market price risk factors are marked by a considerably higher degree of volatility.
- The W&W Group continued to take risk-minimising measures in order to manage its interest rate risks (interest rate change risks and interest guarantee risks) in light of current interest rates coupled with uncertainty about future interest rate trends.
- It rigorously managed credit spread risks in conjunction with controlling for counterparty credit risks.
- It retained a high level of security in the equity portfolios in 2020 through hedging instruments.

Risk definition

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, stock prices, currency exchange rates, commodities prices, real estate prices and corporate assets, as well as risk premiums (credit spreads) for a given credit risk. In the W&W Group, all risk types (except for commodity risk) forming part of market price risk are considered to be material and are detailed below.

Market environment

Interest rate trends. The decline in long-term interest rates on the German bond market continued in 2020. For instance, the yield on the benchmark 10-year German government bond fell from −0.19% at the end of 2019 to a record low of −0.91% on 9 March 2020.
At the end of 2020, the yield on 10-year German government bonds stood at −0.57%. It thus declined by 38 basis points.

By contrast, yields for bonds with short-term maturities showed little change in 2020. In 2020 the yield on two-year German government bonds reached a new record low of −1.03%. At the end of 2020, the yield stood at −0.70%, or ten basis points lower than at the end of 2019.

Trends in equities. Following initial upward movement, prices collapsed in mid-March as a result of the coronavirus pandemic. The stock exchanges recovered over the further course of the year. Overall, the DAX rose by 3.6% in 2020, while the Euro Stoxx 50 fell by 5.1%. The U.S. S&P 500 posted a gain of 16.3%.

Credit spread trends. Credit spreads narrowed from their highs in the first quarter, although they still continued to fluctuate on an elevated level compared with the time prior to the coronavirus pandemic.

We present additional details concerning trends in interest rates and equities in the section “Business environment”.

Risk situation

Interest rate risk. In the W&W Group, Wüstenrot Bausparkasse AG and Württembergische Lebensversicherung AG, in particular, are exposed to interest rate risks in the form of interest rate change risks and interest guarantee risks. In addition, W&W AG and Württembergische Versicherung AG, among others, are also exposed to interest rate risks.

Current interest rates pose a risk to earnings, as new investments and reinvestments can be made only at lower interest rates, while previously assured interest rates and interest obligations (interest guarantee risk) still need to be fulfilled for customers. They are also having an increasingly negative impact on valuation reserves. When interest rates drop, long-term obligations experience more severe changes in value than do interest-bearing investments due to the mismatch of maturities on the assets side and the liabilities side. The result is an interest rate change risk, which manifests itself in falling economic capital.

Quickly rising interest rates can also pose risks for the balance sheet and precipitate a decline in income components. In such a scenario, valuation reserves may evaporate, hidden liabilities may arise and write-downs may become necessary. This limits the leeway for satisfying the corresponding yield requirements on the liabilities side. In addition, customers might make increased use of their option rights.

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

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

Current interest rates place greater demands on our risk-minimising measures.

In the Life and Health Insurance segment (primarily, Württembergische Lebensversicherung AG), the following measures continue to be taken in order to manage interest rate risks:

- Duration extension for bond investments,
- Use of derivatives, forward purchases and forward sales in order to hedge interest rate risks,
- Examination and use of alternative investment strategies and instruments,
- Creation of reserves: additional interest reserve for the new portfolio and interest rate reinforcement for the old portfolio,
- Development of products with alternative guarantee forms.

With Section 5 of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV), the legislators expanded the framework, which is also recognised for tax purposes, for strengthening the provision for future policy benefits in the form of an additional interest reserve in the new portfolio. The amount of the additional interest reserve is determined by the reference interest rate, which is based on the average of Euro interest swap rates over 10 years. In 2020 the reference interest rate dropped to 1.73% (previous year: 1.92%).

Based on the regulations for the additional interest reserve, an interest rate reinforcement established in the business plan was provided in the old portfolio. The amount of interest rate reinforcement is determined by the measurement interest rate, which amounted to 1.73% (previous year: 1.92%) for Württembergische Lebensversicherung AG and to 2.17% (previous year: 2.30%) for ARA Pensionskasse AG. In the Group, the additional interest reserve and interest rate reinforcement were strengthened by €352.3 million (previous year: €364.8 million) on this basis. In order to depict the build-up of the additional interest rate reserve and interest rate reinforcement as realistically as possible, capital disbursement probabilities were applied in this regard that are specific to each company. For 2021 we expect a further decline in the interest rates relevant to valuation and thus a further increase in the additional interest reserve and in interest rate reinforcement. Since 2010, we have gradually increased the security level of the computation basis "interest rate" for annuity insurance policies in the old portfolio by means of reserve reinforcements.

Persistently low interest rates also pose great challenges for pension funds, including Allgemeine Rentenanstalt Pensionskasse AG, in terms of financing the build-up of the additional interest reserve/interest rate reinforcement under the ancillary condition of regulatory solvency. In the current environment of low interest rates, the financing of this build-up by this company is considered challenging. If the current phase of low interest rates becomes exacerbated or more prolonged, this will aggravate the situation. The interest rate calculation basis is appropriate only in the short to medium term. Allgemeine Rentenanstalt Pensionskasse AG, working together with its sole shareholder Württembergische Lebensversicherung AG and in coordination with the German Federal Financial Supervisory Authority (BaFin), develops far-reaching proposed solutions, some of which have already been implemented. Pursuant to section 140 (1) of the German Act on the Supervision of Insurance Undertakings (VAG), Allgemeine Rentenanstalt Pensionskasse AG withdrew EUR 7.0 million from the provision for premium refunds in 2020, which was recognised as income. The funds are being used to build up the additional interest rate reserve and for interest rate reinforcement. Because of the willingness of Württembergische Lebensversicherung AG to support Allgemeine Rentenanstalt Pensionskasse AG, the capital reserve was increased by EUR 30.0 million in the 2020 financial year. Other measures are being reviewed and implemented.

The interest rate risk was lowered in the technical provisions for Property/Casualty. This was achieved by lowering both the interest rate factor associated with reserving for long-term losses in the motor liability segment and the actuarial interest rate used to calculate the provisions for future annuity benefits in the segments motor liability insurance, accident insurance and general liability insurance.

In the Housing segment (mainly Wüstenrot Bausparkasse AG), we continued to take the following risk-minimising measures:

- Structural reallocations in the securities portfolio,
- Use of interest-rate-based hedging instruments (e.g. swaps),
- Active duration management of investments,
- Diversification in proprietary business in order to improve the yield profile,
- (Re-)investment prohibitions and
- Interest rate management.

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

Owing to the structure of our investment portfolio – investment predominantly in fixed-income securities – credit spread risk is the most important of the market price risks. In interaction with risk controlling methods, counterparty credit risk is subject to stringent management of credit spread risks (e.g. risk lines). Among other things, coordination was intensified in the areas of emerging markets, convertible bonds and high yields.

Participation risk. Within the W&W Group, significant participations are held by W&W AG, Württembergische Lebensversicherung AG and Württembergische Versicherung AG as individual companies. As part of strategic asset allocation, the focus is increasingly on alternative investments, including private equity participations and participations in private debt funds. Alternative investments are accounted for in the economic risk-bearing capacity model mainly together with stock price risks.

As a result of the high proportion of participations in the capital investment portfolio, W&W AG is subject to very material participation risks due to its business model. When participation risks materialise, valuation losses can result in the writing down of participations, the non-payment of dividends or the need to make contributions to earnings.

We influence the business and risk policy of our participations, inter alia, through our representation in supervisory bodies, depending on the size and significance of the participations.

Stock price risk. Of the companies of the W&W Group, significant equity portfolios are held by Württembergische Versicherung AG, Württembergische Lebensversicherung AG and W&W AG. For Wüstenrot Bausparkasse AG, the conditions were created in the reporting year for investing in equities pursuant to the German Home Loan and Savings Bank Act (BausparkG).

Sudden and severe price slumps on the equity markets could impair the risk-bearing capacity of the Group companies that invest in equities by forcing write-downs.

Stock price risks are reduced with suitable hedging strategies using derivatives (e.g. put options, short futures).

For the holdings of our companies with significant stock portfolios, whose market value totalled €627.3 million, the market value changes in the case of an index fluctuation of the EURO STOXX 50 were as follows as at 31 December 2020:

Market value changes of material share portfolios

in € million	Market value	Change in market value Increase by 10%	Increase by 20%	Decrease by 10%	Decrease by 20%
WL[1]	402.0	30.9	61.0	-31.0	-61.3
WV[1]	154.4	13.0	25.9	-12.9	-25.4
W&W AG[1]	70.9	5.8	11.5	-5.8	-11.4
Total	**627.3**	**49.7**	**98.4**	**-49.7**	**-98.1**

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

Foreign currency risk. Foreign currency risks can result from open net FX positions in globally aligned investment funds, as well as from foreign currency bonds and equity instruments held by our insurance companies (mainly Württembergische Lebensversicherung AG and Württembergische Versicherung AG).

In accordance with our strategic orientation, our foreign currency exposure is concentrated in Danish krones and U.S. dollars. Within the scope of individual fund mandates, we also have minor exposure in other currencies.

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

Real estate risk. Within the W&W Group, Württembergische Lebensversicherung AG, W&W AG and Württembergische Versicherung AG hold property portfolios in the form of direct investments and via fund mandates and participations. Our diversified property portfolios are an integral part of our investment portfolio.

Our property investments focus on direct investments in Germany with stable value development and high fungibility. In keeping with strategic asset allocation, Württembergische Lebensversicherung AG has made investments for the purpose of further diversification, in line with the internationalisation of the property portfolio.

Real estate risks are to be minimised by means of an appropriate selection of properties. Real estate risk plays a minor role compared with the other types of market price risk. In view of recently rising property prices in various regions and segments, however, future price corrections cannot be ruled out, particularly in the event of a sharp downturn in the economy.

Commodity risk. As part of a comprehensive risk hierarchy, commodity risks, if any, are monitored and analysed. As at the reporting date, there were no material exposures in commodities.

Coronavirus pandemic. In 2020 the development of the coronavirus pandemic caused increased volatility on the capital markets.

Current interest rates are being shaped by continued expansive monetary policies, which are also being driven by the coronavirus, and the risk aversion of investors. Credit spreads reflect the current uncertainties concerning imminent counterparty credit risks created by the economic downturn (defaults, downgrades).

In the area of equity investments, the losses suffered at the start of the coronavirus pandemic were able to be recouped in part. Nevertheless, there is also a risk here of new price corrections. With regard to participations in alternative investments, the measurement declines occasioned by the coronavirus were able to be largely offset. Nevertheless, it is not possible to rule out delayed effects in the form of measurement declines or smaller distributions.

In the property area, there was a significant rise in rent arrears, particularly with key commercial lessees in the retail, hotel and office sectors. However, the vast majority of rent payments were made on time. It cannot be ruled out that rent losses will increase if the coronavirus pandemic does not abate.

For more information about the impact of the coronavirus pandemic, please see the section “Coronavirus pandemic”.

Despite the fact that the capital markets have partially recovered from the previous extreme distortions during the coronavirus pandemic, we expect that the W&W Group will be exposed to increased risks in the area of market price risk in 2021, as well.

Strategy and organisation

Strategic asset allocation. Strategic asset allocation forms the basis of our investment policy and thus is one of the most significant factors that influence our risk situation in the market price risk area. In this context, the companies 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 capital investments, we pursue an investment policy that is in line with the principles of sufficient profitability, liquidity and security. The two main objectives are to maintain adequate liquidity and to ensure the required minimum return.

Organisation. The respective executive boards specify the strategic asset allocation at the level of the individual company. Operational management of the various asset classes (equities, bonds, alternative investments, real estate and currencies) is handled by the front-office units.

The property portfolio management unit develops investment concepts for the “real estate” asset class. The Alternative Investments section is responsible for investments in the area of private equity, private debt, renewable energies and infrastructure.

Our strategic participation activities are supervised by Group Controlling. The decentralised and centralised risk controlling units operate as independent monitoring units for capital investment risks, include by means of operational limit monitoring.

Risk management methods and risk controlling

For the market price risk area and the described risk types, we mainly apply the following risk controlling methods and procedures (see the chart “Risk Management”).

Risk management

Method depiction

Market risks area

Risk controlling (Group-wide)

■ Asset Allocation ■ Economic risk-bearing capacity model ■ Limit system ■ Deployment of financial instruments ■ Sensitivity and scenario analyses ■ Diversification ■ Monitoring ■ New-product process ■ Reporting ■ Risk indicators

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

Economic risk-bearing capacity model. We quantify the risks from interest rate changes both on the assets side and on the liabilities side using economic models. The companies included in our economic risk-bearing capacity model at the Group level measure market price risk economically, i.e. they take future discounted cash flows and market values into consideration on the basis of a value-at-risk model. For this purpose, the assets and liabilities are measured in the risk-bearing capacity model of the respective individual companies on the basis of simulated capital market scenarios. Each individual company can draw on economic values in 10,000 capital market scenarios, both for the relevant overall portfolio and for the subportfolios that are exposed to risks associated with interest rates, spreads, stock prices, real estate and participations. These scenarios are used to calculate the value at risk for each individual company with respect to market price risks, as well as risks associated with interest rates, spreads, stock prices, real estate and participations. Correlations between the risk types are implicitly taken into consideration in simulated scenarios. Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG are included in this regard on the basis of scenarios derived from the standard formula scenarios under Solvency II.

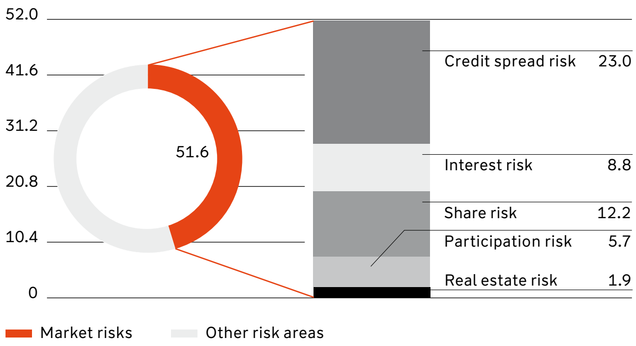
Foreign currency risks are taken into consideration in the asset classes in which they are incurred. In the case of bonds/cash flows, exchange rate fluctuations that are closely tied to trends in foreign currency interest rates are monitored simultaneously along with interest rate fluctuations and are fully allocated to interest rate risk. Currency fluctuations of equities listed in foreign currency are duly taken into consideration in evaluating stock price risks.

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

As at 31 December 2020, the **risk profile** for the market price risk area was determined according to our methods for risk-bearing capacity measurement (see the section “Economic capital adequacy”). It was distributed as follows:

Risk profile for market risks

in %



Risk capital requirements. Credit spread risks, which accounted for 23.0% (previous year: 16.9%), are the most significant of the market price risks, followed by stock price risks at 12.2% (previous year: 12.5%) and interest rate risks at 8.8% (previous year: 9.9%).

In 2020 the market price risks that we accepted were in conformity with the risk strategy and the strategic asset allocation. The risk limit was consistently complied with at the Group level.

Company-specific procedures. In addition to our Group-wide perspective, the individual companies closely monitor their market price risks with comparable procedures.

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

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

Sensitivity and scenario analyses. From the Group perspective, we regularly run economic stress scenarios in order to identify credit spread and interest rate sensitivities and simulate trends on the equity and property markets under changed assumptions. The effects of possible market price scenarios on the Group's earnings and equity are presented and explained in Note 45 in the notes to the consolidated financial statements.

Asset liability management. As part of asset liability management, asset and liability positions are managed and monitored in such a way that they correspond to the company's risk profile. We counter interest guarantee risks by managing durations and applying a dynamic product and pricing policy.

Financial instruments. In terms of strategic and tactical asset allocation, the companies of the W&W Group made use of derivative financial instruments in 2020. Stock price risks are reduced with suitable hedging strategies using derivatives (e.g. put options, short futures).

Participation controlling. Participations are subject to stringent controlling. Among other things, this comprises the annual planning of dividends, medium-term economic planning, projections during the year and monthly target/actual comparisons for material participations. Additionally, separate processes for risk governance and risk controlling are in place for private equities and alternative investments. In this way, impending participation risks can be responded to at an early stage.

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

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

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

Counterparty credit risks

- Bond portfolio: Focus on high rating and good collateral structure.
- Coronavirus pandemic: Credit quality declined in some sectors; no payment defaults to date in the case of interest-bearing investments.
- Capital investment environment will continue to require stringent credit management.
- Risk profile with respect to customer loan exposure constant at a very good level.

Risk definition

We define counterparty credit risk as potential losses that may result if borrowers or debtors default or experience a deterioration in creditworthiness.

Counterparty credit risks can arise from the default or changed rating of securities (counterparty credit risk as-sociated with capital investments), from the default of business partners in customer lending business (coun-ter-party credit risk associated with customer lending business) and from the default on receivables due from our counterparties in reinsurance (other counterparty credit risk).

Market environment

Credit spreads for financial securities and corporate bonds widened considerably as a consequence of the coronavirus pandemic, particularly in the first half of 2020. Thereafter, they narrowed again, although they still continued to fluctuate on an elevated level compared with the time prior to the coronavirus pandemic.

In the area of interest-bearing securities, a deterioration in creditworthiness was observed in several sectors, particularly in the first half of 2020. This was mainly attributable to the effects of the coronavirus pandemic. There were no major changes in rating classifications in the second half of 2020.

Risk situation

Counterparty credit risk from investments. Primarily Württembergische Lebensversicherung AG, Württembergische Versicherung AG, W&W AG and Wüstenrot Bausparkasse AG are exposed to counterparty credit risks from investments. In line with our strategic orientation, the credit rating structure of our interest-bearing investments is conservative, with 94.5% (prior year: 96.9%) of investments in the investment grade range.

Interest-bearing investments
Rating (Moody's scale)

	2020		2019	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
Aaa	15,146.7	35.8	16,469.0	41.0
Aa1	7,370.9	17.4	6,399.0	15.9
Aa2	4,809.9	11.4	4,250.6	10.6
Aa3	2,500.8	5.9	2,152.7	5.4
A1	1,491.7	3.5	1,532.6	3.8
A2	1,583.2	3.7	934.5	2.3
A3	2,045.6	4.8	1,790.0	4.5
Baa1	2,094.2	5.0	2,337.1	5.8
Baa2	1,362.8	3.2	1,423.9	3.5
Baa3	1,591.0	3.8	1,683.2	4.2
Non-investment grade / Not rated	2,306.8	5.5	1,230.3	3.1
Total	**42,303.6**	**100.0**	**40,202.9**	**100.0**

The presentation of our counterparty credit exposures is based on the scope of consolidation for accounting purposes.

Our risk exposure by rating class at the segment level is shown in the following table:

Interest-bearing investments
Rating (Moody's scale)

				Portfolio carrying amount	Share in total exposure in %
	Aaa - Aa	A - Baa	NIG/NR	Total	
in € million	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
Housing	5,607.9	2,764.6	34.2	8,406.7	19.9
Life and Health Insurance	22,112.9	5,934.0	2,082.7	30,129.6	71.2
Property and Casualty Insurance	1,281.3	622.7	125.5	2,029.5	4.8
All other segments	826.2	847.1	64.5	1,737.8	4.1
Total	**29,828.3**	**10,168.4**	**2,306.9**	**42,303.6**	**100.0**
Share of rating cluster, in %	70.5	24.0	5.5	100.0	

Note 46 in the notes to the consolidated financial statements presents all of our assets by rating class and maturity structure in accordance with international accounting requirements.

Our interest-bearing investments generally have a good collateralisation structure. Most of the capital investments with financial institutions are secured by government liability or liens.

Interest-bearing investments
Seniority

	2020		2019	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
Public	18,020.3	42.6	16,148.0	40.2
German covered bond	9,947.9	23.5	10,712.4	26.6
Deposit guarantee or government liability	5,876.6	13.9	6,125.7	15.2
Uncovered	8,458.8	20.0	7,216.8	18.0
Total	**42,303.6**	**100.0**	**40,202.9**	**100.0**

The presentation of our counterparty credit exposures is based on the scope of consolidation for accounting purposes.

The collateralisation structure of the W&W Group's interest-bearing investments at the segment level is shown in the following table:

Interest-bearing investments
Collateralisation structure

Portfolio carrying amount

in € million	Public	German covered bond	Deposit guarantee or government liability	Uncovered	Total
	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
Housing	2,709.2	2,235.1	1,122.8	2,339.7	8,406.8
Life and Health Insurance	14,336.1	6,488.7	4,440.0	4,864.9	30,129.7
Property/Casualty Insurance	586.4	773.2	176.6	493.2	2,029.4
All other segments	388.5	450.8	137.3	761.1	1,737.7
Total	**18,020.2**	**9,947.8**	**5,876.7**	**8,458.9**	**42,303.6**
Share of collateralisation structure, in %	42.6	23.5	13.9	20.0	100.0

Country risk. The structure of our entire government bond exposure by segment is as follows:

Government bonds by regions 2020

in € million	Germany	Europe	Central/ South America	North America	Asia	Africa	Other	Portfolio carrying amount Total	Share in total exposure in %
Housing	660.1	2,049.0	–	–	–	–	–	2,709.1	15.0
Life and Health Insurance	5,461.6	7,130.7	224.6	543.5	68.4	253.4	653.9	14,336.1	79.6
Property and Casualty Insurance	174.0	221.0	24.8	21.3	5.2	29.9	110.3	586.5	3.3
All other segments	118.3	187.8	12.7	3.7	3.0	15.0	48.0	388.5	2.2
Total	**6,414.0**	**9,588.5**	**262.1**	**568.5**	**76.6**	**298.3**	**812.2**	**18,020.2**	**100.0**
Share in %	35.6	53.2	1.5	3.2	0.4	1.7	4.5	100.0	

This presentation of our counterparty credit exposures is based on the scope of consolidation for accounting purposes.
In addition to classic government bonds, it also takes into consideration bonds of states/regional governments, municipalities/municipal associations and other public authorities.
The presentation is broken down by economic zone (EEA, MERCOSUR, NAFTA, ASEAN, AU, Other).

As at 31 December 2020, we held bonds issued by peripheral EMU countries (Portugal, Italy, Ireland and Spain) totalling €1,457.0 million (previous year: €1,790.8 million). Of this amount, Spain accounted for €590.6 million (previous year: €810.9 million) and Italy for €178.5 million (previous year: €440.7 million).

In 2020 the global coronavirus pandemic, as well as individual country-specific developments, caused high volatility, particular in the emerging markets segment. The portfolios that invest predominantly in funds of insurance companies are subject to intensive monitoring.

Subordinate exposure. Although our subordinate exposures (profit participation rights, silent participations and other subordinate receivables) increased to €1,783.7 million (previous year: €1,679.9.0 million), they still account for only a small proportion of the total volume of our investment portfolio.

On the financial markets, increased credit-rating-induced default risks persist for uncovered and subordinate exposures, especially for investments in the financial sector. Losses of interest and reductions in nominal value (haircuts) still cannot be ruled out.

Counterparty credit risk in customer lending business. The W&W Group's most significant counterparty credit risks from customer loans exist at Wüstenrot Bausparkasse AG. Less important are the mortgage portfolios of Württembergische Lebensversicherung AG, which at the end of the year had a carrying amount pursuant to the German Commercial Code (HGB) of €1,385.0 million (previous year: €1,571.4 million).

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

	Portfolio	Share	Portfolio	Share
		2020		2019
	in € million	in %	in € million	in %
Not in default	18,838.3	98.7	17,558.6	99.1
thereof dunned	293.2	1.5	349.1	2.0
In default	247.9	1.3	167.6	0.9
Total	**19,086.2**	**100.0**	**17,726.2**	**100.0**

At the end of the year, the credit risk provision rate of Wüstenrot Bausparkasse AG pursuant to the German Commercial Code (HGB) (net credit risk provision in relation to the credit portfolio) amounted to an expense of 0.14% (prior year: expense of 0.04%), and the credit default rate pursuant to the HGB (credit default in relation to the credit portfolio) amounted to - 0.02% (prior year: 0.02%). As at the closing date, the expected probability of default of the credit portfolio was 1.50% (previous year: 1.82%). The average loss given default (LGD) amounted to 9.06% (previous year: 9.08%).

Our receivables portfolio mainly consists of loans, most of which are secured by land charges (Grundpfandrechte), which are similar to mortgages, and are intrinsically diversified. Because of the high granularity, there are no appreciable risk concentrations in our customer loan portfolio. Due to our strategic orientation, our loan portfolios are mainly subject to pool and structural risks.

For an additional examination of counterparty credit risks from customer business under IFRS accounting, please see Note 46.

Other counterparty credit risk. W&W AG and Württembergische Versicherung AG may be exposed to bad-debt risks vis-à-vis other contracting partners, particularly in connection with reinsurance. Bad-debt risks in reinsurance business (risk type "other counterparty credit risk") were determined on the basis of the economic risk-bearing capacity model, and they remain constant at a low level.

As at the reporting date, 98.9% (previous year: 96.1%) of the recognised receivables of W&W AG, Württembergische Lebensversicherung AG and Württembergische Versicherung AG from reinsurance business in the amount of €250.3 million (previous year: €258.4 million) were due from companies with a rating of A or better.

Receivables from reinsurance business
Standard & Poor's rating

	2020		2019	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
AAA	–	–	–	–
AA	207.5	82.9	201.7	78.1
A	40.0	16.0	46.7	18.1
BBB	–	–	–	–
BB	–	–	–	–
B	–	–	–	–
CCC and lower	–	–	–	–
No rating	2.8	1.1	10.0	3.9
Total	**250.3**	**100.0**	**258.4**	**100.0**

1 Amounts receivable + funds withheld by ceding companies + shares of technical provisions, less collateral

Coronavirus pandemic. Deteriorated creditworthiness was observed in 2020 due to the impact that the coronavirus pandemic had in the area of interest-bearing investments in some sectors.
To date, there have been no payment defaults.
In customer lending business, approximately 3,800 customers of the W&W Group made use of the statutory moratorium in 2020 in order to defer principal and interest payments. Most customers resumed making the agreed payments when the statutory moratorium expired. The risk provision was adjusted to conform to the higher uncertainty, as well as to the increased likelihood of payment defaults in connection with the coronavirus pandemic.

Because of the coronavirus pandemic and the associated uncertainties about further developments, we expect that the W&W Group will be exposed to increased risks in the area of counterparty credit risk in 2021 as well.

Strategy and organisation

Diversification and core business. 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 take into consideration the investment rules applicable to the respective business area. Contracting partners and securities are mainly limited to those with good credit ratings in the investment grade range. In customer lending business, we largely focus on construction financing loans for retail customers, which are secured with in-rem collateral. Our strategic focus on residential construction loans excludes individual loans that endanger the portfolio. Counterparty credit risks are strategically and structurally managed by the risk committees of the divisions on the basis of the requirements specified in the risk strategy.

Organisational structure. In customer lending business, operational risk governance is handled by the lending units and the back offices of our subsidiaries. We control and manage counterparty credit risks from customer lending business through careful credit review and scoring procedures, clear approval guidelines, loans secured with in-rem collateral, various monitored and limited (early-warning) risk indicators and a system that automatically determines any impairments.

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

The **Group Credit Committee** has been set up for over-arching credit management. It develops proposals for loan decisions in the institutional area and submits them to the Group Board Risk for adoption

Risk management methods and risk controlling

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

Risk management

Method depiction

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

Economic risk-bearing capacity model. With regard to our home loan savings bank and our insurance companies, we not only monitor counterparty credit risk from investment activities at an individual level but also evaluate them at the portfolio level with our credit portfolio model. This a based on a credit-value-at-risk approach that is standard in the industry. Risk capital requirements are calculated as value at risk applying one-year default and migration probabilities.

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.

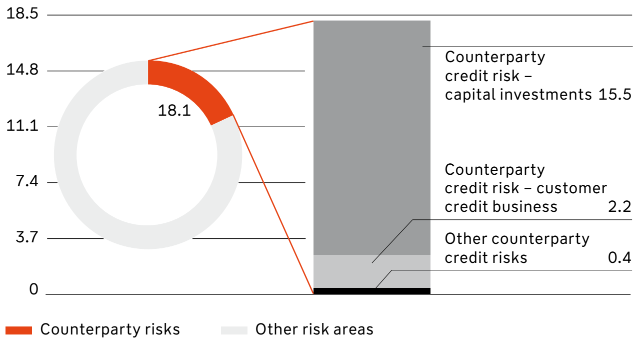
As a governance toolkit, our continually enhanced loan portfolio model enables us to dynamically adapt credit lines to rating changes.

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

The **risk profile** of the counterparty credit risk area was determined according to our methods for risk-bearing capacity measurement (see section “Economic capital adequacy”), and as at 31 December 2020 it was distributed as follows:

Risk profile for counterparty risks

in %



Risks from our investments constitute the greatest proportion of risk capital requirements for counterparty credit risks. Measured against total economic risk capital, the proportion amounted to 15.5% (previous year: 14.7%). In 2020 counterparty credit risks were in line with the risk strategy. The risk limit was consistently complied with at the Group level.

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

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

Limit and line system. Risk limitation serves to limit risks to a maximum permissible level that corresponds to the risk appetite. It is carried out by allocating risk coverage capital to risk areas. In order to prevent risk concentrations from forming with respect to individual investment counterparties, a limit is set at the level of issuer groups (bor-rower units). A Group-wide risk line system is used for this purpose.

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

The utilisation of the limits and lines is monitored by the decentralised risk controlling units and comprehensively by the Risk and Compliance department (“Risk” section).

Owing to its business model, the W&W Group’s investment portfolio is strongly focused on government bonds, financials (especially bank stocks) and corporate bonds. Counterparty credit risks that result from portfolio concentrations are reduced through a targeted selection of counterparties and by the risk line system, but they cannot of course be completely ruled out.

Collateral management. Collateral management is an integral element of the loan management process for the individual companies in the W&W Group that make loans. Our loan risk controlling units apply strict standards for the quality of accepted collateral. Property collateral is mainly furnished in the form of land charges (Grundpfandrechte), which are similar to mortgages. In addition, we use guaranties and financial collateral. In order to minimise counterparty credit risks from trading transactions, cash collateral is normally required. The foundation consists of master agreements with the respective counterparties, which are based on such market standards as the German Master Agreement for Financial Futures.

Risk provisions. Impending defaults relating to customer transactions, investments or reinsurance business are taken into account by means of appropriate impairments. The methodology for the creation of risk provisions and the taking of impairments, as well as how they changed in 2020, are presented in Note 46 “Counterparty credit risk” in the notes to the consolidated financial statements.

In customer lending business at Wüstenrot Bausparkasse AG, risk provisions are calculated at the individual contract level with the aid of the parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD), and they are based on the expected loan default. All changes in the customer loan portfolio with respect to credit rating or collateral structure thus directly result in a change to the risk provisions.

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

Underwriting risk

- Focus on domestic business and low industrial risks.
- Coronavirus pandemic: expenses were incurred in connection with business closure insurance policies and premium refunds due to lower mileages in motor insurance.

Risk definition

Underwriting risk means potential losses that arise in connection with previously calculated premiums from the uncertainty concerning future trends in claims and costs from concluded insurance contracts. Thus, it covers all specific risks of the insurance business, including premium and reserve risks, cancellation risks and disaster risks in property and casualty insurance, as well as biometric risks, cancellation risks, cost risks, revision risks and disaster risks in life and health insurance. Due to external events (e.g. natural disasters), risks associated with individual contracts may add up to accumulation risks. These risks occur only at insurance companies (primary insurance and reinsurance).

Market environment

According to provisional calculations by the German In-surance Association (GDV), premium income earned by property/casualty insurers rose moderately by approximately 2.3% to €74.9 billion. As at the end of 2020, gross premiums written by life insurers stood amounted to €99.4 billion, which was at the level of the previous year. For further information, please see the Business Report in the section “Industry trends”.

Risk situation

The loss ratio (net) for the 2020 financial year increased compared with the previous year. Year on year, 2020 saw slightly lower expenses of €52.1 million (previous year: €65.3 million) for natural disaster claims. The underwriting risk in life insurance is closely related to the interest guarantee risk, which is described in the chapter “Market price risk”. Concerning the presentation of the risks from our insurance portfolio, please also see the information in Note 47 “Underwriting risk” in the notes to the consolidated financial statements. Concerning net loss ratios and net settlement ratios, please see Note 19 in the notes to the consolidated financial statements.

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

Cancellation risk. Cancellation risk means the detrimental change in the value of insurance liabilities as a result of changes in the amount or volatility of the cancellation, termination, renewal and redemption rates of insurance contracts. Scenarios are run to analyse a direct permanent increase of the cancellation rates, a permanent decline in cancellation rates and mass cancellation.

In property and casualty insurance, underwriting risks consist primarily of premium and reserve risks.

Premiums risk. If costs and claims remain stable or increase, premiums may be inadequate if they fall or are not calculated in line with needs. Premiums risks mainly result from natural disasters, accumulation risks and catastrophes. The principle source of accumulation risks are natural disasters, like storms, hail, flooding and, in rare cases, also earthquakes.

The premiums risk of the W&W Group is significantly shaped by Württembergische Versicherung AG. The long-term trends in net loss ratios (ratio of net expenses for insured events to net premiums earned) and net settlement ratios (ratio of net settlement results from provisions for outstanding insurance claims to initial loss provisions) for Württembergische Versicherung AG were as follows:

Claims and settlement ratios for own account

	Loss ratios	Settlement ratios
in %		
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	63.6	6.6
2018	61.8	7.1
2019	63.3	6.3
2020	64.1	2.8

Concerning net claims ratios and net settlement ratios, please see Note 19 in the notes to the consolidated financial statements.

W&W AG essentially acts as the reinsurer within the Group. We present the claims and settlement ratios in the section “Risk landscape and risk profile of W&W AG”.

Reserve risk. Reserve risk means the risk of inadequate loss reserves. The settlement of claims can fluctuate with respect to time and amount, meaning that the reserves set up for claims benefits may not be sufficient. The change in loss reserves can be seen from the run-off triangles presented in Note 47 to the consolidated financial statements. This overview shows that adequate loss reserves have always been created thus far. The settlement ratios can be found in the table presented above.

Coronavirus pandemic. At the time that the authorities ordered the closure of businesses due to the coronavirus pandemic, Württembergische Versicherung AG had business closure insurance policies in its portfolio. Since the coronavirus pathogen was not defined in the policies, the company believes that they do not cover a closure of entire types of businesses that is ordered by the authorities in order to disrupt chains of infection. Württembergische Versicherung AG has joined in the industry-wide ex gratia arrangement and is examining any ex gratia claims on a case-by-case basis. Provisions were created for this. For further details about the impact of the coronavirus pandemic, please see the notes.

Because of the coronavirus pandemic and the associated uncertainties about further developments and the ultimate loss/benefits volume, we expect that the W&W Group will be exposed in some cases to increased risks in the area of underwriting risk in 2021 as well.

Strategy and organisation

Focus on domestic business. The W&W Group conducts primary insurance business in life and health insurance and in property and casualty insurance for private and commercial customers in its business-strategic core market of Germany. In doing so, it also relies on digital distribution channels (e.g. the digital brand Adam Riese). The discontinuation of new underwriting by the UK subsidiary of Württembergische Versicherung AG at end of 2007 and the sale of the Czech insurance companies in January 2016 have greatly reduced the international risk exposure of our Group. Despite the discontinuation of new under-writing by its UK subsidiary, Württembergische Versicherung AG is liable in this respect for business underwritten up to and including 2007.

In accordance with internal provisions, the companies of the W&W Group enter into insurance transactions only where the risks associated with them do not endanger 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).

Low industrial risks. Industrial risks are underwritten only to a limited and clearly defined extent and are fur-thermore extensively reinsured, meaning that our portfolio is not jeopardised by large individual risks.

Limited assumed reinsurance business. Owing to the planned expansion of corporate customer business through integrated insurance programmes for German policyholders with primary domicile or primary risk in Germany, Württembergische Versicherung AG has begun underwriting facultative indirect business and foreign insurance pools. Württembergische Versicherung AG no longer conducts other active reinsurance business. With the exception of German market pools, W&W AG still does not underwrite any reinsurance outside the Group.

Organisational structure. The risk management of life and health insurance companies and property and casualty insurance companies, which is responsible for measuring underwriting risks, is closely interwoven with risk management at the Group level and integrated in the risk management system of the W&W Group through cross-company bodies. Within the segments, risk-relevant facts and analysis results are presented in the quarterly risk report and discussed by the Executive Board and by other bodies that meet regularly.

Risk management methods and risk controlling

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

At Württembergische Versicherung AG, underwriting risk is quantified on the basis of a stochastic approach. The risk is presented as value at risk, with a confidence level of 99.5%. W&W AG's underwriting risk is largely calculated on the basis of business that is assumed by Württembergische Versicherung AG and retained by W&W AG. It is therefore derived from the model of Württembergische Versicherung AG, taking into account the calculation of the underwriting risk of W&W AG in accordance with Solvency II. At Württembergische Lebensversicherung AG, under-writing risk is quantified based on the stress scenarios provided for under Solvency II.

Risk capital requirements. The chart in the chapter “Economic capital adequacy” (section “Economic risk capital”) shows the weighting of the risk capital required for underwriting risk. In all, underwriting risks accounted for 19.6% (previous year: 21.8%) of total risk capital requirements of the W&W Group. The main risk bearer is Württembergische Versicherung AG, followed by Württembergische Lebensversicherung AG and W&W AG.

In 2020 underwriting risks were in line with the risk strategy. The risk limit was consistently complied with at the Group level.

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

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

Claims management. In addition to risk balancing through our sector and product mix, gross underwriting risk is limited by efficient claims management and a cautious loss reserve policy.

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

Controlling. As a rule, underwriting trends are continually analysed and monitored by controlling premiums, costs, claims and benefits. The operational run-off risks of the UK subsidiary are handled by QIC Global Services Limited via a service contract under close supervision and management by Württembergische Versicherung AG. We monitor settlement risks through direct management and collaboration on site in London in the case of material business transactions, as well as through external run-off reviews and continual checking of claims reserves.

Reserves. W&W insurers create appropriate provisions for reported claims in the form of both specific and general provisions. Technical provisions, as well as the structure of our provisions for future policy benefits, are explained in Note 19 in the notes to the consolidated financial statements.

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

Risk management

Method depiction

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

For further information on underwriting risk (property and casualty insurance business and life and health insurance business), please see Note 47 in the notes to the consolidated financial statements.

Operational risks

- Coronavirus pandemic: Avoidance of breakdowns of business-critical processes assured through strict business continuity management.
- Legal risks associated with statutory amendments and current case law concerning coronavirus-related and other circumstances.
- Continued targeted management of information risks in light of increased digitalisation.
- Compliance risk, due to the implementation and observance of legal standards.
- Process risk, arising from internal, legal and regulatory projects.

Risk definition

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.

Risk situation

Operational risks are unavoidable when enterprises engage in general business activities. In principle, all companies in the W&W Group are exposed to operational risks.

Legal risk. In terms of legal and supervisory requirements, we are seeing a growing thicket of regulations, including in supervisory law, in terms of creditor and consumer rights and with respect to disclosure obligations. Moreover, legal proceedings that are pending in the financial sector may lead to subsequent financial recovery claims. In particular, where authorities and courts reinterpret laws, this may entail material risks and significantly impair future financial performance. Of particular relevance here are the legal interpretation concerning the permissibility of account maintenance fees in the savings phase of home loan savings contracts, the prorata reimbursement of term-independent costs in the case of premature loan repayment, and a potentially evolving view on the part of the fiscal administration about the continued future existence of taxable entities with home loan and savings banks.

As at the reporting date, a total of 79 legal actions involving Württembergische Versicherung AG were pending regarding the question of coverage under business closure insurance policies. The judgments entered at the trial level as at the reporting date were in favour of Württembergische Versicherung AG. Appeals were lodged in some of the actions.

Compliance risk. Inadequate compliance with or implementation of statutes, legal provisions, regulatory requirements or ethical/moral standards, as well as internal regulations and provisions, can pose a compliance risk.

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

Process risk. Where internal procedures or processes experience a complete or partial failure or are inappropriate, as well as in the case of human error, tangible and intangible losses may result. We counter risks arising from internal projects, particularly specialised, technical and infrastructure projects set up in the W&W Group that have high investment budgets, with appropriate project management. However, project and cost risks cannot be completely ruled out, particularly those incurred in connection with specialised, technical and infrastructure projects with high investment budgets and complex project content.

Information risk. Information risks arise from the threat to the availability, confidentiality and/or integrity of data. They mainly result from processes, IT systems, physical information storage devices, technical equipment or buildings that are relevant to the storage and processing of data. As a financial services provider, the W&W Group greatly depends on IT systems. However, this is associated with information security risks with respect to the goals of protecting the availability of applications, confidentiality and integrity of data, as well as with cyber threats. In addition, the W&W Group has undertaken numerous measures in connection with the further expansion of digitalisation (e.g. through new business models and sales channels, as well as internal process optimisation), and these may give rise to additional information security risks. Analyses are conducted regularly in order to determine data protection needs and take appropriate protective measures. Although some success has already been achieved in terms of system consolidation in the W&W Group, the diversity of the IT landscape has been marked by mergers, and this makes it difficult to collate and analyse data and automate processes.

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

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

Coronavirus pandemic. Critical operational risks were able to be avoided though timely action, particularly through rigorous emergency and IT management. During the coronavirus pandemic, the W&W Group established a crisis team to coordinate the necessary measures, which was headed by the Chief Risk Officer of W&W AG. Business continuity management for business-critical processes was activated in accordance with the organisational guidelines, and they are being strictly continued with respect to possible coronavirus restrictions. However, in the event of a new outbreak of the coronavirus pandemic in Germany, we cannot rule out the emergence of operational risks to business processes as a result of employee absences.

Because of the coronavirus pandemic and the associated uncertainties about further developments, we expect that the W&W Group will be exposed to increased risks in the area of operational risk in 2021, as well.

Strategy and organisation

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

Organisational structure. As a rule, operational risks are managed on a decentralised basis by the responsible organisational units.

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

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

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

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

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

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

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

The chart (section "Risk profile and material risks") depicts the weighting of the risk capital reserved for operational risks. In total, operational risks in the Group accounted for 8.9% (previous year: 9.7%) of total risk capital requirements.

In 2020 operational risks were in line with the risk strategy. The risk limit was consistently complied with at the Group level.

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

Claims database. In the W&W Group, claims databases are used to compile and evaluate operational claim events. They are recorded and documented Group-wide using the software application Risk Assessment+.

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

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

Monitoring and collaboration. Legal risks are countered through constant legal monitoring as well as observation and analysis of case law. In close collaboration with associations, various departments monitor relevant proposed legislation and developments in case law.

Compliance management. Compliance risks are categorised by means of a systematic procedure for identifying risks (differentiated according to existing and changed legal standards according to a risk-based perspective). For identified risks, their potential for damage is estimated and then evaluated based on occurrence probability. Through the definition of specific measures and the assessment of appropriateness and effectiveness, as well as, where necessary, additional monitoring procedures, the foundations are created for a continuous process to avoid and mitigate damage.

Fraud prevention. The W&W Group has put measures in place to prevent the risk of fraud. These are designed, on the one hand, to ensure compliance with statutory and regulatory requirements concerning controls and technical security systems and, on the other, to make employees aware of the issue of fraud prevention. For instance, preventive threat analyses and implemented and documented process controls are used to counteract the risk of fraud.

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

Information security management/IT risk management. Extensive testing and backup procedures for application and computing systems form the basis for the effective management of information security risks with respect to the goals of protecting availability, confidentiality and integrity. In order to ensure continued business operations in the event of process or system outages, critical processes are identified Group-wide in an impact analysis. We obtained cyber insurance to further minimise the risk from cyber threats. The contingency plans associated with the processes are subject to regular functionality checks. Our business continuity management system is designed to ensure that critical business processes will remain intact and continue to function even in the event of a major disruption to business operations. In this regard, the W&W standard for emergency and crisis management governs the organisational and operational structure in a crisis situation, such as requirements for setting up a crisis team for processes and communication channels.

Model governance. We minimise model risk by means of careful model governance that applies to all risk types. Within the scope of the Model Change Policy, model development is subject to standardised, transparent documentation. The policy regulates processes in the event of changes in the economic risk-bearing capacity model at the level of the W&W Group, including the procedures, models and data provided for its calibration in the individual companies. The assumption of material model changes in the economic risk-bearing capacity model is subject to the approval of the Group Board Risk. Validation and back-testing procedures are used to reduce and monitor model risks.

Business risks

- Increasing volatility of business environment risks: (geo-) political, social, technological, and environment-related developments.
- Coronavirus pandemic: effects also cannot be ruled out for new business.
- Increased regulation costs and rising equity requirements.
- Sustained pressure on income from investments due to historically low capital market interest rates.

Risk definition
We define business risks, on the one hand, as potential losses that may be incurred from the strategic orientation and result in the insufficient or delayed achievement of targets. On the other, business risks may arise if the company’s reputation changes for the worse, as well as if the external business environment experiences changes, such as legal, political or social changes and changed customer behaviour in the home loan savings pool.

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

Among business risks, the following types of risks are monitored:

Strategic risk. This risk results from the company’s incorrect or insufficient strategic orientation, from the non-achievement of strategic goals or from the flawed implementation of strategic requirements. These risks particularly take the form of cost and income risks, including a delayed or limited impact on results or cost savings, as well as additional time and effort for achieving strategic measures.

In addition to cost risks due, e.g., to the required regulatory investments, our material earnings risks consist of potential negative deviations from projected economic earnings. Particularly exposed to this risk are, among others, life insurance companies in terms of their investment income as well as the home loan and savings bank in terms of its interest income. Failure to meet self-imposed targets with respect to sales, planned growth or the generation of earnings in the new digital business models also would have a negative effect. In light of this, achieving the established yield targets puts high demands on our strategic asset allocation and on various front-office units.

We believe that significant volatility in business results remains possible due to the accounting rules in effect under IFRS 9, according to which financial instruments are now to be measured to a greater extent at fair value through profit or loss.

External risk. External risk means the risk of loss from potential changes in basic external conditions (e.g. political/legal, economic, technological). This also includes risks from changed customer behaviour in the home loan savings pool, which in home loan savings business may result from the exploitation of existing product options and elective opportunities, irrespective of trends in market interest rates.

Significant potential for risks is emanating, in particular, from the political and social environment (geopolitical, global trends, e.g. from military conflicts, trade disputes, terrorism, social unrest, migration/refugee movements).

Coronavirus pandemic. Because of the ongoing pandemic, there continue to be very high levels of uncertainty with respect to the forecast of further trends on the capital markets. Similarly, we cannot rule out that the coronavirus pandemic will have further effects on existing and new business and on expenses for insurance claims. Counter-measures by governments and central banks may in some cases afford relief. Accordingly, depending on how the coronavirus pandemic develops in future, it may also trigger a decline in results and put pressure on the financial position, net assets and risk position, particularly if the coronavirus pandemic persists for an extended period.

We present the development of new and existing business as well as net assets, financial position and financial performance in the Business Report in “Development of business and Group position”.

Brexit. The future relationship between the EU and the UK has been laid out in a partnership agreement. On 30 December 2020, the agreement was ratified by the UK Parliament. It is being provisionally applied since 1 January 2021 with the approval of all 27 EU Member States. Approval by the European Parliament is still required in order for the agreement to come into force definitively. The W&W Group actively prepared for the implementation of the UK’s exit from the EU, particularly with respect to the settlement of derivatives. The necessary legal conditions for business operations were created for the UK branch of Württembergische Versicherung AG.

Regulatory issues. In the regulatory environment, we are faced with increasing governance, capitalisation and liquidity requirements, as well as comprehensive reporting and control obligations. The W&W Group is addressing the expanded statutory and regulatory requirements for banks and insurance companies. Regulatory and political issues with material or potentially material effects on the risk management of companies of the W&W Group:

- amendments to the Minimum Requirements for Risk Management (MaRisk) for banks promulgated by the German Federal Financial Supervisory Authority (BaFin)
- Solvency II review, including the expected impact on solvency ratios
- the regulations under the EBA’s Supervisory Review and Evaluation Process (SREP)
- the regulations under the EU Capital Requirements Regulation (CRR II) and
- IFRS 17 “Insurance Contracts”.
- Sustainability (see “Sustainability aspects”)

In this regard, changed accounting rules may also have a negative impact on results and create higher volatility in results. We report on the Solvency II review in the section “Regulatory requirements” of the chapter “Group fundamentals”.

Pool risk. Risks from changed customer behaviour in home loan savings business may result from the exploitation of existing product options and elective opportunities, irrespective of trends in market interest rates. For example, such changes in the field of home loan savings include the termination or suspension of savings, the use of the bonus interest or the selection or change of rates.

Reputation risk. 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 permanently monitor the W&W Group’s public image, and we strive to maintain our reputation by means of a transparent communication policy when faced with critical situations.

Strategy and organisation

Strategy process. A rolling strategy process has been implemented in the W&W Group. The Group business strategy forms the brackets for both the division sub-strategies and the cross-division strategies, such as risk and IT strategies. In accordance with internal Group risk governance regulations, each of the individual W&W companies in risk classes 1 and 2 has its own documented risk strategy, which is aligned with the company-specific business model and risk profile.

Focus on core business. The W&W Group operates almost exclusively in Germany. Outside of Germany, W&W AG focused on the Czech Republic, where it offered home loan savings and construction financing products. In addition to retail customers, the insurance companies also service the commercial customers segment.

W&W Better! For further information, please see the section “Group fundamentals/Business model”.

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

Risk management methods and risk controlling

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

Economic risk-bearing capacity model. Collective risks are depicted under the business risks of the home loan and savings banks, whose risk capital requirements accounted for 1.8% (previous year: 2.0%) of the Group’s total risk capital requirements. Other business risks are deducted from the risk coverage capital. Business risks beyond these are assessed by means of event-based scenario calculations and expert estimates and then assigned risk coverage potential.

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

Early risk identification. Risk indicators and early-warning risk indicators are used to optimally manage business risks, and they are analysed on a regular basis.

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

Liquidity risks

- Competitive advantage as a financial conglomerate: diversification of refinancing sources.
- Coronavirus pandemic: market liquidity normalised again following temporary impairment.
- Solid liquidity basis: refinancing assured for W&W companies as at the reporting date.

Risk definition

Liquidity risk means the risk that money can be borrowed only at higher market interest rates at the time it is needed (refinancing risk) or that it can be obtained only with discounts (market liquidity risk) in order to satisfy payment obligations at maturity (avoidance of illiquidity risk).

Market environment

The rate for main refinancing operations, which was lowered in 2016, remained at 0.00%, and the rate for the marginal lending facility stood unchanged at 0.25%. The monetary policy of negative interest rates was maintained. The rate for the deposit facility remained unchanged at −0.50%.

Risk situation

Insolvency risk. In their capacity as financial services companies, several W&W companies are subject to specific statutory and supervisory requirements, which are intended to ensure that they are able to meet current and future payment obligations at all times.

Liquidity planning shows that the threshold for liquidity balances is being met at the level of the W&W Group over the entire period of 12 months, meaning that sufficient liquidity is available to ensure solvency.

Looking forward as well, the W&W Group and the individual companies have sufficient liquidity or can procure it on short notice, even under adverse scenarios, meaning that, as things stand today, we do not expect any acute liquidity shortages.

Refinancing risk. The sudden drying up of institutional refinancing sources constitutes a challenge for banks.

Because of its business model, Wüstenrot Bausparkasse AG, in particular, requires careful liquidity management. Refinancing on a rolling basis is required in order to satisfy the demand for loans and to make loans. Its refinancing volume is assured through a diversified funding potential. The main sources of potential funding are the available offer volume for open-market operations/repos, issuing potential of German covered bonds, available money market and credit lines, issues of promissory notes and uncollateralised securities and funding from new deposit business. Applying a haircut of 20.4% on the funding potential, refinancing costs would be –€58.8 million (previous year: –€79.4 million applying a 25.5% haircut). That value assumes refinancing costs of 5.5% (maximum Euribor interest rate during the financial market crisis) on the arising maximum liquidity gap in the adverse scenario.

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

Market liquidity risk. Market liquidity risks mainly arise due to inadequate market depth or market disruptions in crisis situations. When these risks materialise, capital investments may be able to be sold, if at all, only in small volumes or by agreeing to discounts.

It does not appear from the current situation on the capital markets that there are any acute, material market liquidity risks for the capital investments of the W&W Group. Based on a haircut of 20.4 %, there would be a value loss of –€102.0 million (previous year: –€134.3 million).

For further information about the liquidity and refinancing structure, please see “Development of business” (section “Financial position: refinancing/liquidity”) and the presentation of the measurement hierarchies for our financial instruments (Note 38).

Coronavirus pandemic. Following the decline in March/April occasioned by the coronavirus, market liquidity improved in June, supported by extensive monetary and fiscal policy measures. Only individual market segments were unable to return to the precrisis level. A reemergence of the coronavirus pandemic could lead to a renewed increase in market liquidity risk.

Strategy and organisation

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

Diversification. As a financial conglomerate, we benefit from the diversification of our refinancing sources, especially in difficult markets. In addition to having a lower funding risk, we also benefit from the reduction of our refinancing costs through diversification of funding potential. Through a defined share of good-quality securities that are eligible for central bank and repurchase transactions, our home loan and savings bank retains flexibility in refinancing. We use savings deposits and fixed-term deposits primarily in order to substitute short-term, uncovered funding. Aspects of maturity diversification form part of our investment policy. The maturity structure of our financial instruments is shown in Note 48 in the notes to the consolidated financial statements.

Organisational structure. The individual companies manage cash and cash equivalents balances primarily on their own responsibility. The Risk and Compliance department ("Risk" section) monitors and consolidates the liquidity plans from a Group perspective. The Group Liquidity Committee is responsible for the Group-wide controlling of liquidity risks. The liquidity position is regularly discussed in the meetings of the Group Board Risk. Governance measures are initiated when necessary. Known or foreseeable liquidity risks are immediately reported to management as part of ad-hoc reporting.

Risk management methods and risk controlling

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

Regulatory indicators. The risk situation is monitored in particular by analysing regulatory indicators. In this context, the regulatory indicators liquidity coverage ratio and asset encumbrance are determined for Wüstenrot Bausparkasse AG.

Liquidity classes. In order to monitor the liquidity of our investments, we group them into liquidity classes so as to control concentrations in illiquid asset classes.

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

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

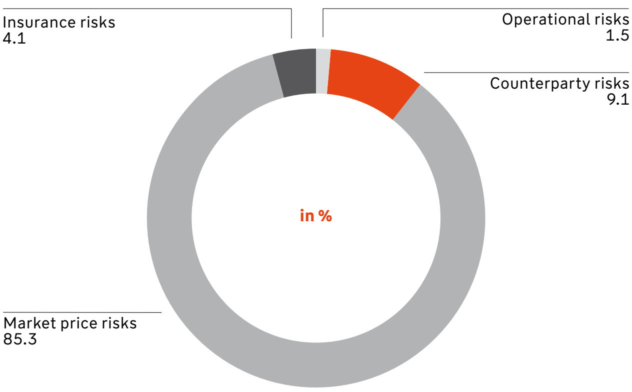
Contingency measures. Contingency plans and the monitoring of liquidity buffers are designed to ensure that we are able to handle even extraordinary situations. If a company is unable to cope with existing liquidity shortages on its own, internal Group refinancing options are available pursuant to contingency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

Risk landscape and risk profile of W&W AG

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

As at 31 December 2020, W&W AG's total risk capital requirements amounted to €1,737.1 million (previous year: €1,415.1 million). The risk profile of the quantified risk areas as at 31 December 2020, which was determined according to our methods for calculating risk-bearing capacity (see the section "Economic capital adequacy"), was distributed in accordance with the following chart.

Risk profile of W&W AG



We take business risks and liquidity risks into consideration in our calculation of risk-bearing capacity by performing a flat-rate discount in determining risk coverage capital. Owing to the volume of our participations, market price risks constituted the predominant risk area, accounting for 85.3% (previous year: 78.8%).

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

Market price risks

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

As at 31 December 2020, under a parallel shift in the swap yield curve, fixed-income securities (direct and fund port-folios, including interest rate derivatives) with a market value of €1,855.7 million (previous year: €1,643.5 million) experienced the following changes in market value:

Interest rate change

	Market value change	
in € million	31.12.2020	31.12.2019
Increase by 100 basis points	-93.4	-84.5
Increase by 200 basis points	-179.4	-161.8
Decrease by 100 basis points	101.9	95.0
Decrease by 200 basis points	217.1	208.0

Credit spread risk. Credit spread risk means the risk that the value of receivables will change because of a change to the applicable credit spread for the respective issuer or counterparty – despite an unchanged credit rating over time. Credit spread risks result from the bond portfolio of W&W AG, which consists of bonds issued both outside and, in particular, within the Group.

Participation risk. Changes in the value of investments (write-downs), non-payment of dividends and the need to make contributions to earnings lead to participation risks. For W&W AG, the strategic participation portfolio constitutes the key risk. As at 31 December 2020, investments in affiliated companies and participations as well as in shares, interests or shares in investment assets and other variable-yield securities totalled €2,498.6 million (previous year: €2,487.8 million). Of this, interests in affiliated companies accounted for €1,344.2 million (previous year: €1,444.3 million). When participation risks materialise, valuation losses can result in the writing down of participations, the non-payment of dividends or the need to make contributions to earnings.

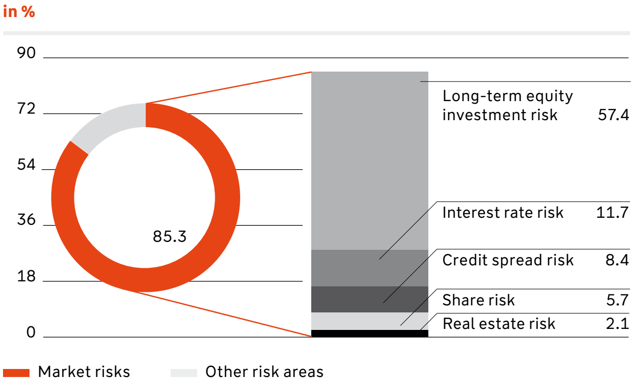
Stock price risk. Sudden and severe price slumps on the equity markets could impair the value of the stock port-fo-lio held by W&W AG by forcing write-downs which would be recognized as a loss. For our portfolios with a market value of €70.9 million (previous year: €96.0 million), the market value changes in the case of an index fluctuation in the EURO STOXX 50 were as follows as at 31 December 2020:

Index change

	Market value change	
in € million	31.12.2020	31.12.2019
Increase by 20%	11.5	16.2
Increase by 10%	5.8	8.1
Decrease by 10%	-5.8	-7.9
Decrease by 20%	-11.4	-15.5

Risk capital requirements. Since W&W AG's investments mainly consist of participations, participation risks within market price risks were the most significant in terms of risk capital weighting. Measured against total economic risk capital, the proportion amounted to 57.4% (previous year: 50.9%).

Risk profile for market risks



The market price risks that we accepted were in conformity with the risk strategy and the strategic asset allocation throughout.2020 The risk limit of W&W AG was consistently complied with.

Because of the coronavirus pandemic and the associated uncertainties about further developments, we expect that W&W AG will be exposed to increased risks in the area of market price risk in 2021, as well (see the remarks in the section "Market price risks" for the W&W Group).

Counterparty credit risks

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

Investments. In line with our strategic orientation, the credit rating structure of our interest-bearing investments is conservative, with over 94.5% (prior year: 97.2%) of investments in the investment grade range.

Interest-bearing investments Rating (Moody's scale)

	2020		2019	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
AAA	535.0	30.7	562.1	36.2
Aa1	76.3	4.4	88.9	5.7
Aa2	96.1	5.5	47.4	3.1
Aa3	107.4	6.2	63.1	4.1
A1	25.5	1.5	11.5	0.7
A2	64.9	3.7	46.8	3.0
A3	180.6	10.4	131.7	8.5
Baa1	450.5	25.8	462.5	29.8
Baa2	48.3	2.8	28.2	1.8
Baa3	63.1	3.6	66.3	4.3
Non-investment-grade/non-rated	95.5	5.5	43.5	2.8
Total	**1,743.2**	**100.0**	**1,552.0**	**100.0**

Our interest-bearing investments generally have a good collateralisation structure. Most of the investments with financial institutions are secured by government liability or liens.

Seniority

	2020		2019	
	Portfolio carrying amount	Share	Portfolio carrying amount	Share
	in € million	in %	in € million	in %
Public	403.9	23.2	366.7	23.6
German covered bond	420.7	24.1	468.1	30.2
Deposit guarantee or government liability	128.6	7.4	87.6	5.6
Uncovered	790.0	45.3	629.6	40.6
Total	**1,743.2**	**100.0**	**1,552.0**	**100.0**

Subordinate exposure. Our subordinate exposures (profit participation rights, silent participations and other subordinate receivables) amounted to €248.0 million (previous year: €255.0 million).

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

Credit ratings. As at the end of the reporting period, 98.3% (previous year: 94.2%) of the recognised receivables from reinsurance business in the amount of €167.5 million (previous year: €178.4 million) were due from companies with a rating of A or better.

Receivables from reinsurance business Standard & Poor's rating

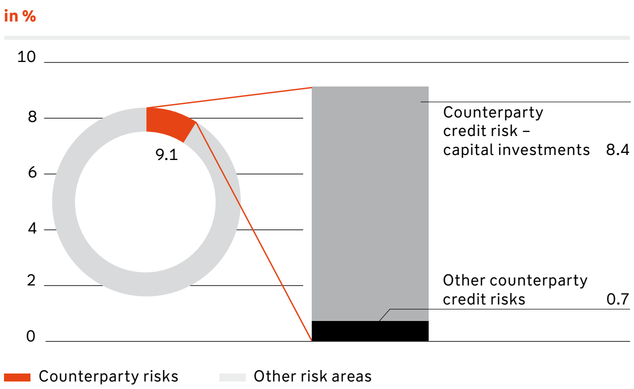
	2020		2019	
	Portfolio carrying amount[1]	Share	Portfolio carrying amount[1]	Share
	in € million	in %	in € million	in %
AAA	–	–	–	–
AA	124.7	74.4	121.4	68.0
A	40.0	23.9	46.7	26.2
BBB	–	–	–	–
BB	–	–	–	–
B	–	–	–	–
CCC and lower	–	–	–	–
No rating	2.8	1.7	10.3	5.8
Total	**167.5**	**100.0**	**178.4**	**100.0**

1 Amounts receivable + funds withheld by ceding companies + shares of technical provisions, less collateral

As at the reporting date, €1.1 million (previous year: €4.8 million) of the recognised receivables due from reinsurers had been outstanding for more than 90 days. How-ever, it is expected that they will be settled in 2021.

Risk capital requirements. At 9.1% (previous year: 12.9%), counterparty credit risk accounted for the second-largest share of the total risk capital requirements of W&W AG. Among counterparty credit risks, the risks from our investments accounted for a significant share, at 8.4% (previous year: 12.0%).

Risk profile for counterparty risks



In 2020 counterparty credit risks were consistently in line with the risk strategy. The risk limit of W&W AG was consistently complied with.
Because of the coronavirus pandemic and the associated uncertainties about further developments, we expect that W&W AG will be exposed to increased risks in the area of counterparty credit risk in 2021, as well (see the remarks in the section "Counterparty credit risks" for the W&W Group).

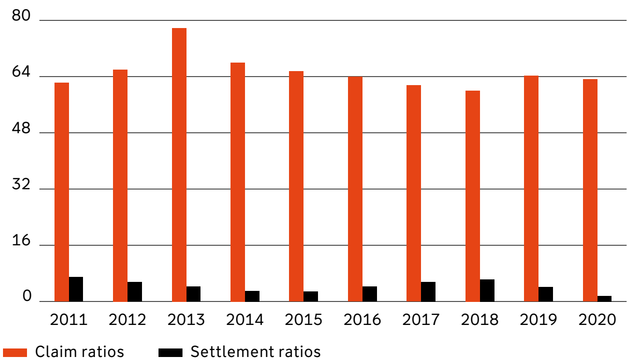
Insurance risks

W&W AG is subject to the same risk types as the W&W Group. Insurance risk is a particularly important type of risk in property and casualty insurance, and in this regard, W&W AG is exposed especially to premiums risk.

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

Claim and settlement ratios

in %



Risk capital requirements. The chart "W&W AG risk profile" (see section "Risk profile and material risks of W&W AG") depicts the weighting of the risk capital reserved for underwriting risks. Underwriting risks accounted for a share of 4.1% (previous year: 5.7%) of the total risk capital requirements of W&W AG.

In 2020 underwriting risks were consistently in line with the risk strategy. The risk limit of W&W AG was consistently complied with.

Operational risks

Risk capital requirements. Risk capital requirements for operational risks are ascertained through simulations on the basis of the operational risks included in the risk inventory and their loss potential and probability of occurrence. The chart "W&W AG risk profile" (see the section "Risk profile and material risks of W&W AG") depicts the weighting of the risk capital reserved for operational risks. In all, operational risks at W&W AG accounted for 1.5% (previous year: 2.5%) of total risk capital requirements.

In 2019 the assumed operational risks were consistently in line with the risk strategy.2020 The risk limit of W&W AG was consistently complied with.

Because of the coronavirus pandemic and the associated uncertainties about further developments, we expect that W&W AG will be exposed to increased risks in the area of operational risk in 2021, as well (see the remarks in the section "Operational risks" for the W&W Group).

Business risks

As the superordinate undertaking of the financial conglomerate and the Solvency II group, W&W AG is subject to the same risks as presented for the W&W Group in the section "Business risks".

Liquidity risks

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

Selected risk issues

Emerging risks

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

For our company, the main challenges are posed by technological trends (digitalisation, cybertechnologies), social trends (demographics, changed customer behaviour, pandemic) and economic trends (current interest rates, systemic risks).

In the risk management process, emerging risks are observed with the aim of identifying the strategic risks that result from them in a timely manner (early risk warning) and of taking them into consideration in setting the company's business strategy.

Risk concentrations

Risk concentration means potential losses that may result either from the accumulation of similar risks or from the accumulation of different risks, such as at a single counterparty, and that are large enough to jeopardise the solvency or financial position of the individual company or the Group.

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

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

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

Other concentrations exist through positions that we intentionally take in certain asset classes (equities, participations, bonds) through strategic asset allocation.

As a financial conglomerate, the W&W Group is influenced to an extensive degree by a variety of external factors (e.g. current interest rates, changed customer behaviour, digitalisation, regulatory pressure, industry reputation). The risks concentrations here intentionally form a part of the business strategy.

Operational risk concentrations may arise in connection with outsourcing (a single comprehensive mandate or several equivalent mandates) and through an accumulation of projects, particularly large projects.

Adequate instruments and methods are in place to manage concentrations.

We counter concentrations in the area of investments, inter alia, through diversification, the use of limit and line systems and the monitoring of exposure concentrations. In lending and insurance business, we apply clearly defined acceptance and underwriting policies and purchase appropriate reinsurance coverage from various providers with good credit ratings.

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

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

Sustainability aspects

Sustainability risks may materialise from internal and external risk drivers or triggering events in the areas of the climate, the environment, social affairs, politics, corporate governance and compliance, which, in the individual risk areas, may have a negative impact on the net assets, financial position or financial performance of the W&W Group. Accordingly, sustainability risks are to be addressed in the organisation and actions of the W&W Group and the associated individual companies in such a way as to avoid manifestations that pose a threat to existence and to enable a forward-looking treatment of sustainability risks. In this regard, the risk strategy of the W&W Group also specifies the framework with which sustainability risks are integrated into risk management.

Of special importance in this regard are reputation risks, sustainability risks in investments and physical risks in the area of underwriting risks. In order to limit, in particular, reputation risks from sustainability aspects, the sustainability policy of the W&W Group specifies the principles for sustainable and responsible actions. Sustainability risks in the area of investments are limited by defining corresponding exclusion criteria. Physical risks in the area of underwriting risks are limited, inter alia, through under-writing policies and reinsurance agreements.

Further information about W&W's commitment to sustainability is contained in the chapter "Business model – commitment to sustainability" and in its annual sustainability report, which is published on the website of the W&W Group at www.ww-ag.com/nachhaltigkeitsberichte (available in German only).

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

In 2020 the W&W Group and W&W AG at all times had sufficient economic and supervisory risk-bearing capacity. Pursuant to our economic risk-bearing capacity model, we had sufficient financial resources in order to be able to cover the assumed risks with high certainty. The indicators are described in the section "Capital management in the W&W Group".

As a result of increasing economic uncertainties associated with geopolitical crises and economic developments (including the further course of the coronavirus pandemic, uncertainty with respect to the sustainability of an economic recovery, global trade disputes, the threat of a further economic downturn or an economic slump, the risk of a resurgence of the sovereign debt crisis, current interest rates and uncertainty about how interest rates and credit spreads will develop), the entire financial industry and thus also the W&W Group are exposed to risks that could lead to significant economic risks of loss in our scenario calculations and, in extreme scenarios, threaten us as a going concern.

Linkages within the financial sector give rise to a systemic risk of contagion that the W&W companies are, of course, not completely immune to.

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

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

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

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

For instance, owing in part to our business model, we had a secure, diversified liquidity basis as at the reporting date.

Despite current interest rates and heightened regulatory requirements, the W&W Group has worked hard to achieve fundamental economic robustness, which has proved its worth during the coronavirus pandemic. This is manifested in our current risk-bearing capacity, particularly on the basis of our economic risk-bearing capacity model. Expanding the robustness of the W&W Group remains the subject of our ongoing risk management activities.

With respect to the defined risk horizon and the chosen confidence level, no risks were discernible as at the reporting date that could threaten the continued existence of the W&W Group or W&W AG.

It is difficult to estimate the duration and extent of the further course of the coronavirus pandemic. Accordingly, depending on the future development, a decline in results and pressure on the financial position, net assets and risk position cannot be ruled out, particularly if the coronavirus pandemic persists for an extended period.

Enhancements and planned measures

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

In July 2020, the rating agency Standard & Poor's (S&P) confirmed the ratings for the core W&W companies, not-withstanding the current environment marked by the coronavirus. The confirmation also reflects, inter alia, the positive assessment of the risk management system of the W&W Group, particularly with respect to the implemented risk controls and strategic risk management. Accordingly, ERM made a positive contribution to the rating "strong" for the business risk profile and to the rating "A-/stable" for financial strength.

Systematic advancement of the existing Group-wide risk management system is intended to ensure the stable, sustained development of the W&W Group also in future. In the 2021 financial year, we intend to continually and rigorously expand the standards achieved in our risk management system. For this purpose, we have defined a number of measures and projects in connection with our risk management process. In this regard, we are focussing on the following issues in particular:

- Regulatory issues: adjustment to conform to new and changing regulatory requirements
- Risk-bearing capacity: continuation of measures to ensure risk-bearing capacity, enhancement of risk-bearing-capacity concepts and models
- Risk governance: continued promotion of a Group-wide risk culture
- Process and data optimisation: ongoing optimisation of processes and data processing in risk management

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

Features of the internal control and risk management system in relation to the (Group) accounting process (report pur-suant to Sections 289 (4) and 315 (4) of the German Commercial Code (HGB))

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

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

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

In particular, the Executive Board has delegated responsibility for the internal control and risk management system in the W&W Group to the Risk and Compliance department, as well as to the Customer Data Protection and Operational Security departments. They are responsible, in particular, for designing the processes and for reporting deviations to the Group Board Risk and the Internal Audit department of W&W AG.

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

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

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

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

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

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

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

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

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

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

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

Outlook

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 Deutsche Bundesbank, Bloomberg consensus and industry and business associations.

Macroeconomic outlook

The outlook for 2021 is highly dependent on the further course of the coronavirus pandemic. For instance, we expect persistent or recurring restrictions on social and economic life, particularly in the first half of the year. That will put downward pressure on economic growth. With increasing vaccination coverage in the population, we expect the lockdown measures to be gradually eased, meaning that a dynamic economic recovery may set in starting at mid-year. This view is bolstered by the pent-up consumer demand, which should lead to very lively demand among households. Thus, consumer spending is likely to be the most important driver of growth in the German economy in 2021. Export business is also likely to experience a sharp upturn in 2021 in a global environment that is once again considerably more favourable. In terms of corporate investments, interest rates are expected to remain extremely low, and the business outlook will brighten noticeably again. However, many companies will prioritise the need to clean up their balance sheets, e.g. by paying down emergency loans that they took out during the time of the pandemic. The construction sector, whose positive growth rates were a laudable exception in 2020, should develop solidly again. Here, capacity bottlenecks may dampen growth, but not lack of demand. In summary, we expect that Germany will post economic growth in the range of three to four percent.

Leading central banks have pledged to keep benchmark rates at their crisis level for the foreseeable future, even in the event of an economic recovery, and this will anchor short-term interest rates at a low level in 2021, as well. In addition, it appears that the large central banks will continue their extensive bond purchases without reduction.

This also limits the potential for interest rate rises in the case of longer maturities. Nevertheless, an at least temporary increase in capital market interest rates cannot be ruled out entirely, particularly in the first half of 2021. This is because the inflation rate is expected to rise significantly due to basis effects in the case of energy prices and the increase back to former levels in the value-added tax rate in Germany. As a result, the inflation rate could temporarily reach as high as 2%, although it is expected to fall again quickly in the second half of the year. With respect to the end of 2021, we ultimately expect that interest rates in Germany will not change to any significant extent, i.e. they will remain at their current level.

Following a year of intense fluctuations on the exchanges in 2020, positive reports at the end of the year concerning vaccine developments boosted the hopes of investors for a normalisation of social life and a significant recovery of economic activity in 2021. As a consequence, the international equity markets have already anticipated a significant part of the improvement in company profits, meaning that equity market valuations are already very high from a historical perspective. In 2021 this will increase the risk of profit-taking and renewed price setbacks in the event of negative news and developments. On the other hand, the monetary environment will remain expansive, and a great amount of liquidity will continue to look for investments. In this regard, bond markets are rather unattractive, given that yields are currently very low, and equity markets will benefit from this trend. In sum, we consider the most likely scenario to be further, albeit moderate price gains in the coming months, although with persistently high fluctuations in prices.

Industry outlook

As a general rule, the fundamental conditions for residential construction activity and construction financing business remain favourable, since there continues to be excess demand in the growth regions and the desire for residential property ownership tended to increase even more during the coronavirus crisis. At the same time, the employment and income situation and perspectives have worsened for some households. The market is being buttressed to a significant degree by the persistently low interest rates, as a result of which property prices will rise again to some extent, and by high governmental subsidies for energy renovations, which will be increased again at mid-year for complete overhauls. On whole, we expect that in 2021 the housing and construction financing market will continue to move on the high level reached in the previous year, whereby, depending on the course of the pandemic and economic developments, setbacks cannot be ruled out.

In 2021 persistently low interest rates will also continue to present a great challenge for the life insurance industry. The German Insurance Association (GDV) expects a slight increase in 2021 in new regular premium business, as well as in new single-premium business. In this regard, it expects a relaxation of the restrictions imposed in the crisis year of 2020 and catch-up effects with regard to long-term financial planning. Overall, it anticipates a slight rise in premium income.

In terms of property and casualty insurance, the GDV expects a further fall in premium dynamic due to the gradual, emerging economic recovery and the after-effects in some sectors. For 2021 as a whole, it anticipates a rise in premium income of 1.6%. However, the trend forecast is associated with significant uncertainties.

Company forecasts

The 2020 financial year was marked, in particular, by the development of the coronavirus pandemic and the accompanying measures of the W&W Group. Significant economic and political uncertainties also continue to exist in early 2021 with regard to the persistence of the pandemic situation.

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

In deriving our planned results and general administrative expenses for 2021, we assumed a recovery in basic macro-economic conditions, accompanied by low volatility on the capital markets with essentially moderately rising interest rates and equity prices through the end of the year, as well as no significant counterparty defaults. If the basic conditions should darken, this will also have an effect on the following forecasts.

Assuming that the macroeconomic recovery takes hold and the described developments occur on the capital markets, we are optimistic that we will post consolidated net profit within the medium- to long-term target corridor of €220 to 250 million. However, because significant economic and political uncertainties persist, it is possible that consolidated net profit will come in outside of this target corridor.

In light of this framework, it is not currently possible to make a well-founded forecast of **consolidated net profit.** In any event, we are adhering to our medium- to long-term target corridor.

In 2020 general administrative expenses were able to be reduced through the immediate measures which were introduced, the savings occasioned by the coronavirus and our continued rigorous cost management. The relief afforded by the one-off effects is expected to lapse in part in 2021. The further trend in general administrative expenses will be influenced by the aforementioned uncertainties.

We will also continue the digital transformation in 2021. Because of the associated investments, we expect **general administrative expenses** in the Group to come in moderately above the level of the reporting year.

The W&W Besser! initiative will be continued in 2021. We will continue to rigorously ensure that products, services and processes are aligned with customer benefits throughout the entire W&W Group, which should result in increased efficiencies. In accordance with our strategic objective, we will service at least 6.5 million **customers** in 2021.

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 2021 we will have sufficient liquidity available at all times. For further information about the liquidity position, please see the opportunity and risk report in the section “Liquidity risks”.

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

Housing segment

Subject to the further development of the coronavirus pandemic, we are planning for the Housing segment to post **net income after taxes** that is once again considerably higher than the level of the reporting year.

General administrative expense for the 2021 financial year are expected to come in slightly higher than the level of the reporting year. In this regard, the 2020 financial year was influenced by the immediate measures which were introduced and the cost savings occasioned by the coronavirus.

We are planning for **net new home loan savings business** in 2021 that will be considerably higher than in 2020. In terms of **new construction financing business** (approvals), we expect in 2021 to reach the successful level of the previous year. In this regard, we are continuing to pay attention to profitability and risk.

Life and Health Insurance segment

Subject to the planned macroeconomic recovery, we expect that Life and Health Insurance segment will post **net income after taxes** of between €10 million and €40 million. As is the case with the other segments, the coronavirus pandemic poses considerable challenges, as do the persistent phase of low interest rates and the high volatility in results associated with IFRS accounting that is caused through capital market fluctuations. In light of the considerable uncertainties, it is not currently possible to make a well-founded forecast.

In 2021 we are planning for **general administrative expenses** that are moderately higher than the level of the reporting year.

In terms of new business, we are striving for the sale of products that are less dependent on interest rates, such as our Genius products as well as term life insurance and occupational disability insurance. In addition, we particularly want to push occupational pensions more strongly again, the sale of which could be accomplished in the 2020 financial year only under difficult conditions as a result of the physical access restrictions imposed by corporate customers due to the coronavirus. For this reason, we are planning to considerably increase **total premiums** for new business in 2021.

Property/Casualty Insurance segment

Depending on the macroeconomic development as a result of the coronavirus pandemic, we are planning for **net in-come after taxes** at the level of the reporting year. In this regard, we are assuming moderate trends on the capital markets and a normalisation of claims development.

We also anticipate that on account of the growth course that we are continuing to plan, as well as strategic projects, **general administrative expenses** will be moderately higher than the level of the reporting year.

We will continue to strive for sales of profitable insurance policies to retail and corporate customers. Therefore, we expect that new business (annual portfolio contributions) will come in slightly higher than the level of the reporting year.

Future business performance of W&W AG (HGB)

Due to its structure as a holding company, the net income of W&W AG after taxes is determined by the dividends and profit transfers from subsidiaries and participations.

For 2021 we are planning net income after taxes at the level of the previous year, provided that the fundamental macroeconomic conditions recover as planned. Should there be upheavals in this respect, net income may come in below the level of the previous year.

Under these general conditions, it is not currently possible to make a well-founded forecast of the **net income after taxes** of W&W AG. In the medium to long term, we expect net income of more than €100 million.

Opportunities and risks for W&W AG will result, in particular, from the earnings performance of subsidiaries and participations, as well as their valuations in the annual financial statements of W&W AG. In addition, directly held investments and trends in claims and costs will have an impact on W&W AG. In addition, risks may arise from the further development of the coronavirus pandemic.

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

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

Pursuant to Sections 289a and 315a HGB, we are required to make the following statements as at 31 December 2020, provided they are relevant to Wüstenrot & Württembergische AG:

Composition of subscribed capital

The share capital of W&W AG amounts to €490,311,035.60 and is divided into 93,749,720 registered no-par-value shares that are fully paid in.
A total of 460 shares are covered by the exclusion of vot ing rights within the meaning of Section 136 (1) of the German Stock Corporation Act (AktG), since they are owned by members of the Supervisory Board or the Executive Board. W&W AG holds a total of 15,252 treasury shares. Pursuant to Section 71b AktG, W&W AG is not entitled to any rights in connection with treasury shares. A total of 223,513 employee shares are subject to a restriction on sale. Of these, 72,039 employee shares may not be sold until April/May 2021, 72,840 employee shares until April/May 2022 and 78,634 employee shares until April/May 2023. The restriction on sale starts on the day that the purchased employee shares are credited to the employee's custodial account. There are no further re strictions affecting voting rights or the transfer of the registered shares. Each share entitles the holder thereof to one vote at the Annual General Meeting. The amount of the company's profit to which shareholders are entitled is determined in accordance with the proportion of the share capital that they hold (Section 60 AktG). If the share capital is increased, the participation of new shares in profit may be determined in deviation from Section 60 (2) AktG.

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

Wüstenrot Holding AG with registered office in Ludwigsburg holds 39.91% and WS Holding AG with registered office in Stuttgart holds 26.40% of the shares in W&W AG. The other major shareholder with more than 10% of the shares is FS W&W Holding GmbH, which has its registered office in Munich. Treasury shares account for 0.02% of the company's stock.

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

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

Members of the Executive Board are appointed and removed in accordance with Article 6 (1) of the Articles of Association, Sections 84 and 85 of the German Stock Corporation Act (AktG) in conjunction with Section 31 of the German Codetermination Act (MitbestG) and Sections 24 and 47 of the German Act on the Supervision of Insurance Undertakings (VAG). Amendments to the Articles of Association take place in accordance with Sections 124 (2) sentence 3, 133 (1) and 179 et seq. AktG. However, pursuant to Article 18 (2) of the Articles of Association in conjunction with Section 179 (2) sentence 2 AktG, resolutions of the Annual General Meeting to amend the Articles of Association are adopted by a simple majority of the share capital represented at the time of adoption, unless required otherwise by law, for example with regard to a change of the company's purpose. Pursuant to Section 179 (1) sentence 2 AktG in conjunction with Article 10 (10) of the Articles of Association, the Supervisory Board may make amendments to the Articles of Association that relate solely to their wording. The Executive Board has no powers over and above the general statutory rights and duties of a management board under German law of stock corporations.

Powers of the Executive Board to issue shares

Authorised capital 2018

Pursuant to Article 5 (5) of the Articles of Association, the Executive Board is authorised to increase the company's share capital, on one or more occasions on or before 12 June 2023, by up to €100,000,000.00 via issuance of new registered no-par-value shares in exchange for cash or contributions in kind, subject to approval by the Supervisory Board (Authorised Capital 2018). Shareholders are entitled to a statutory subscription right. Shareholders may also be accorded the statutory subscription right by having one or more credit institutions or companies equivalent thereto pursuant to Section 186 (5) of the German Stock Corporation Act (AktG) subscribe to the new shares under an obligation to offer them to shareholders for subscription (indirect subscription right). Subject to approval by the Supervisory Board, the Executive Board is however authorised to preclude shareholders from exercising the statutory subscription right in the following cases:

- for fractional amounts; or
- in the case of capital increases in exchange for contributions in kind, in order to be able to offer the new shares in connection with company mergers or in the case of the direct or indirect acquisition of companies, parts of companies or participations in companies or for the direct or indirect acquisition of other assets (including claims, also to the extent that they are directed against the company or subordinate group companies); or
- if, pursuant to Section 186 (3) sentence 4 AktG, new shares are issued in exchange for cash at a price that is not significantly below the stock exchange price of the shares that are already listed and the pro rata amount of the new shares does not exceed 10% of the share capital at the time this authorisation is recorded in the commercial register or, if less, at the relevant time the authorisation was exercised. Counting towards the 10% limit are other shares that may have been newly issued or, following buyback, resold by the company during the term of this authorisation under preclusion of the subscription right or, in accordance with Section 186 (3) sentence 4 AktG, in connection with a cash capital in-crease. Also counting towards the 10% limit are shares with respect to which a warrant or conversion right, a warrant or conversion obligation or a right in favour of the company to delivery of shares exists on account of warrant bonds, convertible bonds or profit participation certificates with warrant or conversion rights or obligations, or rights in favour of the company to delivery of shares that had been issued by the company or its subordinate Group companies during the term of this authorisation under preclusion of the subscription right pursuant to Section 221 (4) sentence 2 in conjunction with Section 186 (3) sentence 4 AktG; or
- insofar as it is necessary in order to grant holders or creditors of warrant rights or convertible bonds or profit participation rights with conversion rights that have been or will be issued by the company or its subordinate Group companies a right to subscribe to new shares to the extent to which they would be entitled after exercising warrant rights, conversion rights or rights to delivery of shares or after satisfying warrant or conversion obligations.

Subject to approval by the Supervisory Board, the Executive Board is authorised to specify the profit participation of the new shares in derogation from Section 60 (2) AktG and to stipulate the further details of capital increases out of Authorised Capital 2018 and their implementation, including the issue price and the contribution to be paid for the new no-par-value shares. The Supervisory Board is authorised to modify the wording of the Articles of Association after implementation of an increase of the share capital out of Authorised Capital 2018 to conform to the respective increase of the share capital, as well as after expiry of the term of the authorisation.

Contingent Capital 2018/Authorisation to issue warrant bonds, convertible bonds, profit participation certificates, profit participation bonds or a combination of these instruments

By resolution adopted at the Annual General Meeting on 13 June 2018, the Executive Board was authorised to issue warrant bonds, convertible bonds, participation rights, profit participation bonds or a combination of these instruments on or before 12 June 2023. Article 5 (6) of the Articles of Association accordingly provides that the share capital is contingently increased by at most €240,000,003.46, divided into at most 45,889,102 no-par-value registered shares (Contingent Capital 2018). The contingent capital increase is to be implemented only if

- holders or creditors of warrant rights or conversion rights or those obligated to exercise the warrant or to convert under warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the company on or before 12 June 2023 make use of their warrant rights or conversion rights, or
- holders or creditors of warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the company on or before 12 June 2023 are obligated to exercise the warrant or to convert and satisfy such obligation, or
- the company exercises a right to deliver to holders or creditors of warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual

General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the company on or before 12 June 2023 shares of the company in lieu of cash payment, either in whole or in part,

and provided that neither cash settlement is granted nor shares from authorised capital, treasury shares or shares of some other publicly traded company are used to service it. The new shares are to be issued at the warrant or conversion price to be stipulated in accordance with the aforementioned authorisation resolution of 13 June 2018. The new shares participate in profit from the start of the financial year in which they come about. To the extent permitted by law, and subject to approval by the Supervisory Board, the Executive Board is authorised to stipulate that in the event that, at the time of issue, a resolution on appropriation of profit has not been adopted for the financial year immediately preceding the year of issue, the new shares are to participate in profit from the start of the financial year immediately preceding the year of issue. Subject to approval by the Supervisory Board, the Executive Board is further authorised to stipulate the further details of the implementation of the contingent capital increase. Use may be made of the authorisation granted by resolution of the Annual General Meeting on 13 June 2018 to issue warrant bonds, convertible bonds and profit participation rights only if the warrant bonds, convertible bonds or profit participation rights are structured in such a way that the capital that is paid in for them satisfies the supervisory requirements in effect at the time the authorisation is used for eligibility as own funds at the level of the company and/or the Group and/or the financial conglomerate and does not exceed any intake limits. Furthermore, use may be made of the authorisation granted by resolution of the Annual General Meeting on 13 June 2018 to permit subordinate Group companies to issue warrant bonds, convertible bonds and profit participation rights and have them guaranteed by the company if this is permissible under the supervisory provisions applying in each case.

Authorisation to purchase and use own shares

By resolution of the Annual General Meeting of 25 June 2020, the Executive Board was authorised pursuant to Section 71 (1), no. 8 of the German Stock Corporation Act (AktG) until 24 June 2025 to purchase own shares with the approval of the Supervisory Board in an amount of up to 10% of the share capital in existence at the time of adoption of the resolution or – if this value is lower – of the share capital in existence at the time of exercise of the authorisation and to use such shares for other purposes. Taken together with other treasury shares in the possession of the company or that are attributable to them in accordance with Section 71a et seq. AktG, these shares must not at any point make up more than 10% of the share capital. The shares purchased pursuant to this authorisation may be used under exclusion of the subscription right of other shareholders for all legally permissible purposes, including those specified in the authorisation.

Change-of-control agreements

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

Change-of-control remuneration agreements

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

Relationships with affiliated companies

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

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.

Remuneration report

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

Main features of the Executive Board remuneration system

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

The Executive Board remuneration system consists of a non-performance-related component and a performance-related component at a 4:1 ratio. The non-performance-related component consists of a fixed salary (with pension entitlement) and an allowance. The performance-related component consists of a targets bonus.

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

The targets for the 2020 target agreements consisted of short-, medium- and long-term targets geared toward indicators like consolidated net income, general administrative expenses, Group customers, employee satisfaction and individual targets. The target weighting for performance-related remuneration is aligned towards stronger consideration being given to components with a multiple-year incentivising effect on sustainability.

Part of performance-related remuneration is paid out over time: Forty percent is paid out in the following year imme-diately after the degree of target achievement is determined, and the other 60% is deferred for a period of three years and is subject to forfeiture clauses. The deferred amount is paid out only if W&W Group has average IFRS net income of at least €100 million a year over the relevant three years and does not record a loss in any of the three years. If average consolidated net income falls below the threshold of €100 million a year, or if the Group records a loss in one or more years, the deferred amount is definitively and completely forfeited for the relevant financial year. The performance-related remuneration paid by Wüstenrot Bausparkasse AG to Dr Michael Gutjahr is like-wise distributed over time: Twenty percent of variable remuneration is paid out in the following year immediately after the degree of target achievement is determined, and an additional 20% after a further year following expiry of a socalled “disposition vesting period”. The remaining 60% is paid out over a period of five years in five equal instalments in a pro rata temporis manner. Similarly, one half of each instalment is subject to a disposition vesting period of one year, following which this portion is available for disposition, at the earliest. The amounts subject to a disposition vesting period are tied to the development of the company’s value. After expiry of the disposition vesting period, the withheld portion of the bonus is paid out accordingly. Achievement of targets for the target year concerned is once again checked for the existence of negative contributions to results prior to each disbursement of the deferred amounts. Negative contributions to results reduce the amount of variable remuneration or lead to its complete loss. Conduct that resulted in considerable losses or regulatory sanctions, infringement of internal or external rules with respect to suitability or conduct and conduct that is contra bonos mores or grossly in breach of duty likewise result in the complete or partial loss of the bonus. In addition, variable remuneration that has already been paid out may be claimed back.

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

Each employment agreement is concluded for the period of the appointment.

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

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

Severance caps have been agreed on with all Executive Board members in the event that the agreement is terminated other than for cause. In such case, payments to Executive Board members, including ancillary benefits, in each case correspond to at most the value of two years' remuneration (severance cap) and do not exceed the remuneration for the remaining term of the employment agreement. Decisive for the calculation of the severance cap is the entire amount of remuneration paid for the calendar year (fixed salary, allowance and bonus) preceding the calendar year in which service on the Executive Board ends.

The pension for Dr Michael Gutjahr consists of a formerly customary defined-benefit pension commitment in the form of a fixed amount. The pension for the other members of the Executive Board takes the form of a defined-contribution pension plan. The defined-contribution pension commitment is linked to a reinsurance policy. The annual premium amounts to 23% of the fixed salary entitled to a pension.

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

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

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

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

Claims to pensions and survivor pensions are vested. This applies under the condition that a member of the Executive Board does not leave the company at his or her own request prior to reaching the statutory vesting period.

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

At its meeting on 23 March 2021, the Supervisory Board will decide on the remuneration system for the Executive Board in accordance with the German Corporate Corporate Governance Code and Section 87a of the German Stock Corporation Act (AktG) and present this remuneration system to the 2021 Annual General Meeting for approval. Thereafter, the resolution adopted by the Annual General Meeting and the remuneration system will be published on the W&W AG website.

Main features of the Supervisory Board remuneration system

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

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

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

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

Declaration on Corporate Management/Corporate Governance Statement

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

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

Moreover, W&W AG, Wüstenrot Bausparkasse AG and other relevant companies were subject to consolidated supervision as a financial holding group. W&W AG had been defined by BaFin as the superordinate enterprise of the financial holding group. Effective 1 July 2020, supervision was discontinued on the basis of the consolidated situation of W&W AG as a financial holding company pursuant to Article 4(1) No. 20of the CRR. Through the elimination of the financial holding group, numerous provisions of the German Banking Act (KWG) and the EBA Guidelines on Internal Governance (EBA/GL/2017/11) are no longer required to be applied to W&W AG. In light of this, the Supervisory Board resolved on 29 September 2020 to make corresponding modifications to the bylaws for the Supervisory Board and the Executive Board.

The insurance group of W&W AG is covered by the scope of Solvency II and thus is likewise subject to supervision by BaFin. W&W AG is the ultimate parent undertaking of the Solvency II group of W&W AG.

Working methods and composition of the Executive Board

The Executive Board manages W&W AG on its own responsibility with the aim of sustainable valuation creation for the benefit of the W&W Group. It represents the company in transactions with third parties.

The Executive Board of W&W AG has four members.

Members of the Executive Board
Jürgen Albert Junker (Chair)
Dr Michael Gutjahr (until 31 August 2020)
Alexander Mayer (from 1 September 2020)
Jürgen Steffan
Jens Wieland

In view of the special features of the Housing, Insurance and brandpool divisions, as well as the common Group perspective, it is necessary for members of the Executive Board of W&W AG to have demonstrated experience, professional knowledge and expertise in the areas of insurance, banking and home loan and savings banking, as well as extensive management experience. All Executive Board members satisfy these criteria. This ensures that Executive Board members will meet the comprehensive fit-and-proper requirements under supervisory law.

As part of the diversity concept established by the Supervisory Board for the Executive Board, W&W AG is to strive to achieve sufficient diversity on the Executive Board in terms of gender, age and professional background, expertise and experience. In this regard, the Supervisory Board has resolved to have women make up at least 15% of the Executive Board and set a target deadline of 30 June 2022 for doing so. As a result, the Supervisory Board is seeking to place at least one woman on the Executive Board. In addition, attention must be paid to compliance with the age limit of 65 provided for as a target requirement in Section 1 (4) of the Executive Board bylaws. No current Executive Board member is older than age 65. The members of the Executive Board should complement one another in terms of their background and professional experience and expertise, such that proper company guidance is assured. This is reviewed and documented once a year by the Nomination Committee and the Supervisory Board.

Working together with the Executive Board, the Supervisory Board provides for long-term succession planning. When, as part of senior management development, the Executive Board identifies potential candidates for a manager position, it forwards their names to the Chair of the Supervisory Board. The Personnel Committee also includes these candidates in its regular discussion of long-term succession planning for the Executive Board. In doing do, it takes into account the company's senior management planning.

The Executive Board of W&W AG has stipulated that women are to make up 25% of the first senior management level below the Executive Board and 30% of the second senior management level and has set a target deadline of 30 June 2022 for doing so.

The main tasks of the Executive Board have to do with strategic alignment and control of the W&W Group, including maintaining and monitoring an efficient risk management system. The Executive Board is responsible for ensuring a suitable and effective internal auditing and control system. The Executive Board determines the strategies, ensures that the company has an organisational and operational structure that is suitable and transparent and sets company policy. Bylaws address in detail how the activities of the Executive Board are structured.

The central governance bodies in the W&W Group are: the Management Board, the division boards and the Group boards. The Management Board of W&W AG is composed of the members of the Executive Board, along with the heads of the Housing, Insurance and brandpool divisions. The Management Board is the central steering body of the W&W Group. The Management Board concerns itself with, among other things, Group control and the definition and development of the business strategy for the W&W Group. In addition, it facilitates the exchange of information between the Executive Board and the division heads with regard to the integration of the divisions into the Group strategy. The Management Board holds regular meetings, which are to take place at least twice per month. Those meetings are simultaneously considered to be meetings of the W&W AG Executive Board.

The division boards – i.e. the Housing division board and the Insurance division board – coordinate and decide on division-specific issues. They meet at least once per month, and those meetings are simultaneously considered to be meetings of the Executive Boards of the individual companies. The Group boards coordinate cross-division initiatives in the areas of sales, risk and capital investments.

The Chair of the Executive Board is in charge of the collaboration between the Executive Board and the Supervisory Board. He is in regular contact with the Chair of the Supervisory Board and discusses the company's strategy, business performance and risk management with him. He promptly notifies the Chair of the Supervisory Board about important events that are of major significance for the assessment of the company's position and performance, as well as for its management. The Executive Board coordinates with the Supervisory Board on the strategic alignment of W&W AG and the W&W Group. In addition, the Executive Board regularly reports to the Supervisory Board in a timely and comprehensive manner about all issues of relevance to W&W AG and the W&W Group concerning strategy, planning, business performance, risk position, risk management and compliance. Details are addressed in bylaws for the Executive Board.

Working methods and composition of the Supervisory Board

In accordance with the Articles of Association, the Supervisory Board of W&W AG is composed of 16 members, of whom eight are shareholder representatives and eight are employee representatives.

Members of the Supervisory Board

Shareholder representatives	Length of service
Hans Dietmar Sauer (Chair)	16 years
Peter Buschbeck	6 years
Prof. Dr Nadine Gatzert	2 years
Dr Reiner Hagemann (financial expert)	14 years
Corinna Linner	5 years
Marika Lulay	4 years
Hans-Ulrich Schulz	4 years
Jutta Stöcker	4 years
Employee representatives	
Frank Weber (Deputy Chair)	14 years
Petra Aichholz	1 year
Ute Hobinka	9 years
Jochen Höpken	9 years
Bernd Mader	4 years
Andreas Rothbauer	9 years
Christoph Seeger	9 years
Susanne Ulshöfer	1 year

Bylaws likewise address in detail how the activities of the Supervisory Board are structured. The Supervisory Board holds at least two meetings in each calendar half-year. It also meets when necessary. In the 2020 financial year, the Supervisory Board held four ordinary meetings.

The Supervisory Board strives for a composition that ensures that the Executive Board of W&W AG will receive qualified supervision and advice. Therefore, special requirements are placed on Supervisory Board members with respect to their qualification, aptitude and independence. These aims take into account the statutory requirements concerning the composition of the Supervisory Board and the corresponding recommendations of the German Corporate Governance Code. In addition to these personal requirements for each individual Supervisory Board member, an expertise profile and a diversity concept are in place for the body as a whole.

In view of the Housing, Insurance and brandpool divisions and the common Group perspective, the candidates nominated by the Supervisory Board for election to the body are evaluated in terms of their expertise, experience and professional knowledge, particularly in the sectors of insurance, banking and home loan and savings banking, as well as their individual abilities. Other criteria for Supervisory Board nominees who are proposed to the Annual General Meeting include whether the candidates are independent and have sufficient time to carry out their duties.

In the estimation of the shareholder representatives on the Supervisory Board, all shareholder representatives on the Supervisory Board are independent.

Independent shareholder representatives

Hans Dietmar Sauer (Chair)
Peter Buschbeck
Prof. Dr Nadine Gatzert
Dr Reiner Hagemann (financial expert)
Corinna Linner
Marika Lulay
Hans-Ulrich Schulz
Jutta Stöcker

Hans Dietmar Sauer and Dr Reiner Hagemann have been members of the Supervisory Board of W&W AG for more than 12 years. This means that they exhibit one of the indicators that pursuant to Recommendation C.7 of the German Corporate Governance Code is to be given particular consideration in evaluating independence. However, the shareholder representatives on the Supervisory Board nevertheless consider Mr Sauer and Dr Hagemann to be independent. Essentially, the independence of the Supervisory Board may be called into question due to long length of service because and when the required distance to the Executive Board and the company is no longer maintained. That is not the case here. Because of their long length of service on the Supervisory Board, both of the Supervisory Board members are thoroughly familiar with the company's circumstances and its executives. As is shown by the collaborative work on the Supervisory Board, however, this familiarity does not compromise their independence. On the contrary, they employ this familiarity acquired over many years, as well as their expertise, in the work of the Supervisory Board in a way that promotes the proper fulfilment of duties by the Supervisory Board. Therefore, in the assessment of the shareholder representatives, Mr Sauer and Dr Hagemann are to be considered independent, notwithstanding that they have served on the Supervisory Board for many years.

Going forward as well, an appropriate number of independent members will belong to the Supervisory Board. In terms of shareholder representatives, the shareholder representatives on the Supervisory Board consider at least four independent members to be appropriate.

On account of the company-specific situation, the Supervisory Board does not consider it necessary to strive for a certain minimum number of members who represent, in particular, the quality of "internationality", since the main focus of the W&W Group's business operations are the national insurance and home loan savings sectors. Beyond the aspect of "internationality", however, the inclusion of and collaboration between Supervisory Board members with different backgrounds and ways of thinking fundamentally enriches the body and promotes the discussion culture. This ultimately leads to control and advisory activities that are more efficient and more effective.

The Supervisory Board does not consider it necessary to specify a regular limit to the length of service on the Supervisory Board. It is difficult to recruit qualified Supervisory Board members who meet the requirements of supervisory law, including with respect to whether candidates are fit and proper and do not exceed the maximum number of mandates.

In accordance with the expertise profile for the Supervisory Board, it is necessary for the body as a whole to have an appropriate representation of knowledge and experience in the following sectors: insurance industry, banking/home loan savings industry, supervisory law/regulatory requirements relating to banks and insurance companies, strategy, corporate planning/control, accounting, risk management, risk-bearing capacity, controlling and performance indicators, capital investment, IT/digitalisation and corporate governance/management.

Once a year, as well as at the time of each new appointment, the members of the Supervisory Board evaluate their strengths in the fields of investment, actuarial practice and accounting by means of a self-assessment. This forms the basis for a development plan that the Supervisory Board prepares each year. The plan identifies areas where the Supervisory Board as a whole or its individual members wish to acquire more indepth knowledge. The self-assessment and the development plan are forwarded to the supervisory authority.

As part of the diversity concept, the Supervisory Board strives to achieve sufficient diversity in terms of gender, age and professional background, expertise and experience in the interest of achieving collaboration that is complementary. The company is required by law to have women make up at least 30% of the Supervisory Board. It currently is composed of nine men and seven women. Accordingly, women make up 44% of the Supervisory Board. The shareholder representatives consist of four women and four men, meaning that full gender parity is achieved in this case. Pursuant to Section 2 (2) of the bylaws for the Supervisory Board, members of the Supervisory should not be older than age 70 at the time of their election. The Annual General Meeting reelected Dr Reiner Hagemann, Hans Dietmar Sauer and Hans-Ulrich Schulz for a new term of office on the Supervisory Board, although they had already reached the age of 70. They were elected because of their demonstrated expertise and extensive knowledge of the company. The members of the Supervisory Board should complement one another in terms of their background and professional experience and expertise, such that the body can draw on a well of experience that is as deep as possible and on a wide variety of specialised expertise. This is reviewed and documented once a year by the Nomination Committee and the Supervisory Board.

The Supervisory Board regularly reviews the efficiency of its work. The next efficiency review will take place in the 2021 financial year. Supervisory Board work is reviewed on the basis of an internally prepared questionnaire. The focus is on the issues of Supervisory Board and committee information, conduct of Supervisory Board and committee meetings, structure and composition of the Supervisory Board and the committees and conflicts of interest/miscellaneous.

Conflicts of interest, particularly those that may arise because of giving advice to or serving on governing bodies of customers, suppliers, lenders or other third parties, are disclosed to the (Chair of the) Supervisory Board and noted in the report of the Supervisory Board.

In the 2020 financial year, the Supervisory Board of W&W AG had established four standing committees, i.e. the Risk and Audit, Nomination, Personnel (until 29 September 2020, Remuneration Control and Personnel) and Conciliation Committees.

Risk and Audit Committee

The Risk and Audit Committee meets twice a year to prepare for Supervisory Board meetings dealing with the balance sheet and planning. In addition, it discusses half-year financial reports with the Executive Board at a further meeting. It also meets when necessary. The Risk and Audit Committee met three times during the 2020 financial year. The committee also adopted by way of written circulation two resolutions concerning the approval of socalled "permissible non-audit services" by the auditor.

The Risk and Audit Committee concerns itself with accounting issues and the monitoring of the accounting process. It prepares the decisions of the Supervisory Board regarding the approval of the annual financial statements and the consolidated financial statements, the result of the auditing of the Management Report and the Group Management Report or, as the case may be, a combined Management Report, and the proposal for the appropriation of profit, as well as regarding submission of the corporate governance statement with the corporate governance report, including the remuneration report, and regarding the audit of the separate non-financial Group report. For this purpose, it is responsible for the advance review and, if necessary, preparation of the corresponding documentation.

The responsibilities of the Risk and Audit Committee also include monitoring the effectiveness of the internal control system, the risk management system and the internal auditing system, as well as dealing with issues involving the auditing of financial statements and compliance. In addition, it advises the Supervisory Board on current and future overall risk tolerance and business and risk strategies at the company and Group level and supports it in monitoring the implementation of these strategies. The Executive Board reports to the committee on business and risk strategies, as well as on the risk situation of the company and the W&W Group. In addition, reports are made to it about the work of the Internal Audit and Compliance departments, including the audit plan, as well as about especially serious findings and their handling. In consultation with the Executive Board, the chair of the committee may make direct enquiries to the head of Internal Audit, the Group Compliance Officer and the head of Risk Control.

Up until the enactment of the updated bylaws for the Supervisory Board on 29 September 2020, the Risk and Audit Committee monitored whether conditions in customer business are in line with the business model and risk structure of the company and the W&W Group. Where this was not the case, the committee requested proposals from the Executive Board on how to bring the conditions in customer business into line with the business model and risk structure and monitored their implementation. Similarly, the Risk and Audit Committee examined whether incentives provided by the remuneration system took into consideration the risk, capital and liquidity structure of the company and the W&W Group and the likelihood and timing of earnings. This was without prejudice to the tasks of the Remuneration Control and Personnel Committee.

The auditor is selected by the Supervisory Board at the recommendation of the Risk and Audit Committee.

The Risk and Audit Committee decides on the agreement with the auditor (in particular, the audit mandate, the specification of the main audit areas and the fee agreement), as well as on termination or continuation of the audit mandate. It adopts suitable measures in order to ascertain and monitor the independence of the auditor and the additional services provided by the auditor for the company. The Risk and Audit Committee can submit recommendations and proposals for ensuring the integrity of the accounting process. The Supervisory Board supports the Executive Board in monitoring the implementation of statutory audits of accounts.

The Risk and Audit Committee supports the Supervisory Board in monitoring the swift rectification by the Executive Board of the deficiencies identified by the auditor.

The Risk and Audit Committee consists of eight members, of whom four are shareholder representatives and four are employee representatives. The members satisfy the requirement of sector familiarity within the meaning of Section 100 (5) of the German Stock Corporation Act (AktG); one member has been appointed as a financial expert.

The chair of the Risk and Audit Committee should not be the Chair of the Supervisory Board or a former member of the company's Executive Board whose appointment ended less than two years ago. He or she should have special knowledge and experience in the fields of accounting, annual audits and internal controlling procedures and be independent of the company, the Executive Board and the controlling shareholder. The chair of the Risk and Audit Committee, Corinna Linner, meets these requirements.

Members of the Risk and Audit Committee
Corinna Linner (Chair)
Prof. Dr Nadine Gatzert
Dr Reiner Hagemann (financial expert)
Ute Hobinka
Bernd Mader
Andreas Rothbauer
Jutta Stöcker
Susanne Ulshöfer

Nomination Committee

The Nomination Committee meets at least once per calendar year, as well as when necessary. It held two ordinary meetings during the 2020 financial year.

The Nomination Committee advises the Supervisory Board on a regular basis about long-term succession planning for the Executive Board. In doing so, it takes into consideration the company's senior-management planning. It supports the Supervisory Board

- in identifying candidates to fill Executive Board vacancies (until 29 September 2020) and preparing proposals to the Annual General Meeting for the election of the members of the Supervisory Board, whereby only the shareholder representatives provide assistance in preparing such proposals;
- in deciding on and establishing targets to encourage the representation of women on the Executive Board and the Supervisory Board and setting deadlines and defining a policy for meeting those targets;
- in conducting the annual review in accordance with the Supervisory Board's policy on "Fit and proper requirements for managers and members of the Supervisory Board", as amended;
- in periodically assessing the structure, size, composition and performance of the Executive Board and the Supervisory Board and making recommendations to the Supervisory Board in this regard (until 29 September 2020);
- in periodically assessing the knowledge, skills and experience of the individual members of the Executive Board and the Supervisory Board, as well as each of the bodies as a whole (until 29 September 2020); and
- in reviewing the policy of the Executive Board for the selection and appointment of senior management and making recommendations on this matter to the Executive Board (until 29 September 2020).

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

Members of the Nomination Committee
Hans Dietmar Sauer (Chair)
Peter Buschbeck
Dr Reiner Hagemann
Jochen Höpken
Christoph Seeger
Frank Weber

Personnel Committee

The Personnel Committee (until 29 September 2020, the Remuneration Control and Personnel Committee) meets at least once per calendar year, as well as when necessary. In the 2020 financial year, the Personnel Committee met twice.

The Personnel Committee prepares the personnel decisions of the Supervisory Board, in particular the appointment and dismissal of members of the Executive Board and the appointment of the Chair of the Executive Board. Attention is to be paid to diversity in the composition of the Executive Board. The Personnel Committee regularly deliberates on the long-term succession planning for the Executive Board. In doing do, it takes into account the company's senior management planning.

The Personnel Committee decides in place of the Supervisory Board, in particular, on the conclusion, amendment and termination of the employment and pension agreements of Executive Board members. This does not apply to the setting of remuneration or to decisions pursuant to Section 87 (2) sentences 1 and 2 of the German Stock Corporation Act (AktG). The Supervisory Board makes these decisions following preparation by the Personnel Committee, whereby, in the resolution it proposes to the Supervisory Board, the committee takes into account, in particular, the impact of the resolution on the company's risks and risk management as well as the long-term interests of shareholders, investors and other involved parties and the public interest (until 29 September 2020).

The Personnel Committee (until 29 September 2020, the Remuneration Control and Personnel Committee)

- monitored the adequate structure of the remuneration systems for the Executive Board and employees and, in particular, the adequate structure of remuneration for the heads of the risk control function and the compliance function and for those employees who have a material impact on the company's overall risk profile and that of the W&W Group, assisted the Supervisory Board in monitoring the adequate structure of remuneration systems for the employees of the company, and assessed the impact of the remuneration systems on the management of risk, capital and liquidity (until 29 September 2020);
- assisted the Supervisory Board in monitoring the proper inclusion of the internal control function and all other material functions in the structure of the remuneration systems (until 29 September 2020).

The Personnel Committee consists of the Chair of the Supervisory Board, his deputy by virtue of his or her office, one additional shareholder representative and one additional employee representative. The Chair of the Supervisory Board is the committee chair.

At least one member the Personnel Committee was required to have at least one member with sufficient expertise and professional experience in the area of risk management and risk control, in particular with respect to mechanisms for aligning the remuneration systems with the company's overall risk tolerance and strategy and with its capital resources (until 29 September 2020).

Members of the Personnel Committee
Hans Dietmar Sauer (Chair)
Christoph Seeger
Hans-Ulrich Schulz
Frank Weber

Conciliation Committee

In addition, the Supervisory Board has at its disposal the Conciliation Committee, which is required to be formed by the German Codetermination Act (MitbestG). The Conciliation Committee makes personnel proposals to the Supervisory Board where the required majority is lacking for the appointment and dismissal of Executive Board members. The Conciliation Committee did not meet during the 2020 financial year.

The Conciliation Committee consists of the Chair of the Supervisory Board, his deputy by virtue of his or her office, one member elected by the shareholder representatives on the Supervisory Board and one member elected by the employee representatives on the Supervisory Board. The Chair of the Supervisory Board is the committee chair.

Members of the Conciliation Committee
Hans Dietmar Sauer (Chair)
Ute Hobinka
Marika Lulay
Frank Weber

Statement of compliance by Wüstenrot & Württembergische AG with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) dated December 2020

Since the submission of the last statement of compliance on 6 December 2019 until 19 March 2020, Wüstenrot & Württembergische AG has complied with the recommendations of the Government Commission for the German Corporate Governance Code, in the version of 7 February 2017 (the "2017 Code"), which were made public by the German Federal Ministry of Justice and Consumer Protection in the official part of the German Federal Gazette, other than as follows:

- According to No. 3.8 para. 3 of the 2017 Code, in the event that the company takes out a D&O insurance policy for the Supervisory Board, a deductible of at least 10% of the loss up to at least the amount of one-and-a-half times the fixed annual remuneration is to be agreed upon. Wüstenrot & Württembergische AG departs from this recommendation, because a high deductible, which must be uniform in light of the principle of equality that has to be observed, would affect the members of the Supervisory Board to very different extents, depending on their personal income and assets. In a serious case, less wealthy members of the Supervisory Board could find themselves in existential difficulties, which would not be fair in view of the fact that their duties are the same.

- According to No. 5.3.3 of the 2017 Code, the Supervisory Board is to form a Nomination Committee, composed exclusively of shareholder representatives, which proposes suitable candidates to the Supervisory Board for its recommendations to the Annual General Meeting. Section 25d (11) of the German Banking Act (KWG) assigns further responsibilities to the company's Nomination Committee. These are to be handled not solely by shareholder representatives on the Supervisory Board. Therefore, in departure from the recommendation in No. 5.3.3 of the 2017 Code, the Nomination Committee also includes employee representatives. However, it is assured that the candidates that the Nomination Committee proposes to the Supervisory Board for its nominations to the Annual General Meeting are determined on-ly by the shareholder representatives on the committee.

- According to No. 5.4.1 para. 2 of the 2017 Code, the Supervisory Board is to specify a regular limit to the length of service of Supervisory Board members with regard to its composition. Wüstenrot & Württembergische AG departs from this. It is difficult to recruit qualified Supervisory Board members who meet the requirements of supervisory law, including with respect to whether candidates are fit and proper and do not exceed the maximum number of mandates. The increased requirements of supervisory law have to do with, inter alia, the fact that because of its position in the W&W financial conglomerate, Wüstenrot & Württembergische AG is subject to both banking supervision (as least during the period of validity of the 2017 Code) and insurance supervision. Therefore, the Supervisory Board has not specified a regular limit to the length of service of its members.

- According to No. 7.1.2 sentence 2 of the 2017 Code, the Executive Board is to discuss interim financial information with the Supervisory Board or the Risk and Audit Committee before being published. Discussion of the consolidated financial statements and the Group Management Report (including the CSR report), as well as the annual financial statements and the half-year financial statements, are a fixed part of the agenda for meetings of the Supervisory Board or the Risk and Audit Committee. In addition, the Supervisory Board, particularly its Chair, regularly exchanges information with the Executive Board about all issues of importance to the W&W Group, as well as about strategy, planning, business performance, risk position, risk management and compliance. The Executive Board promptly notifies the Chair of the Supervisory Board about important events that are of major significance for the assessment of the company's position and performance, as well as for its management. As a result, Wüstenrot & Württembergische AG does not consider it necessary to have the Executive Board and the Supervisory Board or Audit Committee separately discuss additional financial information, particularly quarterly reports.

In the period from 20 March 2020, Wüstenrot & Württembergische AG has complied with, and in future will continue to comply with, the recommendations of the Government Commission for the German Corporate Governance Code, in the version of 16 December 2019 (the "2020 Code"), which were made public by the German Federal Ministry of Justice and Consumer Protection in the official part of the German Federal Gazette, other than as follows:

- According to Recommendation B.3 of the 2020 Code, the first-time appointment of Executive Board members should be for a period of not more than three years. In departure from that, the appointment of Alexander Mayer as the new member of the Executive Board of Wüstenrot & Württembergische AG from 1 September 2020 was made for a period of five years. The recommendation is based on the consideration that there is typically greater uncertainty about whether a candidate is suitable in the case of a first-time appointment. This consideration does not apply here. Alexander Mayer has worked for many years in a leading position in the W&W Group (including managing director of W&W Asset Management GmbH since 2009 and as a member of the Executive Board of Württembergische Lebensversicherung AG and Württembergische Versicherung AG since the start of 2019). In light of this, it was elected to dispense with an abbreviated initial mandate period as member of the Executive Board of Wüstenrot & Württembergische AG.

- According to Recommendation D.3 sentence 1 of the 2020 Code, the Supervisory Board is to establish an Audit Committee that – provided no other committee or the plenary meeting of the Supervisory Board has been entrusted with this work – addresses, inter alia, the review of the accounting and the monitoring of the accounting process. The accounting comprises, in particular, interim financial information (Recommendation D.3 sentence 2 of the 2020 Code). For the reasons described above with respect to No. 7.1.2 sentence 2 of the 2017 Code, the company departs from Recommendation D.3 sentence 1 of the 2020 Code to the extent that the established Audit Committee does not address the review of interim financial information.

- According to Recommendation D.5 of the 2020 Code, the Supervisory Board is to form a Nomination Committee, composed exclusively of shareholder representatives, which names suitable candidates to the Supervisory Board for its proposals to the Annual General Meeting. Section 25d (11) of the German Banking Act (KWG) assigns further responsibilities to the company's Nomination Committee. These are to be handled not solely by shareholder representatives on the Supervisory Board. By letter of 22 July 2020, the German Federal Financial Supervisory Authority (BaFin) determined that supervision was to be discontinued on the basis of the consolidated situation of Wüstenrot & Württembergische AG as a financial holding company pursuant to Article 4(1) No. 20 of the CRR. Since then, Wüstenrot & Württembergische AG is no longer obligated by law to comply with the requirements of section 25d (11) of the German Banking Act (KWG). Nevertheless, the Supervisory Board of Wüstenrot & Württembergische AG has decided to continue to maintain the previous, sound assignment of other tasks to the Nomination Committee. Therefore, in departure from the recommendation in D.5 of the 2020 Code, the Nomination Committee also continues to include employee representatives. However, it is assured that the candidates that the Nomination Committee proposes to the Supervisory Board for its nominations to the Annual General Meeting are determined only by the shareholder representatives on the committee.

Section G.I. of the 2020 Code contains new recommendations concerning the remuneration of the Executive Board. The company does not comply with all of the new recommendations. The departures concern the following recommendations:

- Recommendation G.10 sentence 1 of the 2020 Code: Variable remuneration may not be predominantly invested by Executive Board members in company shares or be granted predominantly as share-based remuneration. Because of the way the remuneration system is structured in other respects, this has so far been considered unnecessary so that incentives can be created for Executive Board members that are aimed at sustainable, long-term company development.

- Recommendation G.11 sentence 1 of the 2020 Code: The Supervisory Board accounts for extraordinary developments through caps for individual elements of remuneration. The caps ensure that variable remuneration is adjusted "downward" in the event of extraordinary developments. On the other hand, in departure from Recommendation G.11, the Supervisory Board does not have the ability to adjust remuneration "upward" if it is unreasonably low due to extraordinary developments. To date, the regulatory framework for the ability to make such an adjustment "upward" has appeared unclear, and pressing attention has not been deemed warranted.

- Recommendation G.11 sentence 2 of the 2020 Code: At this time, the Supervisory Board does not have the ability to retain or reclaim variable remuneration, if justified. We have thus far elected not to introduce such an ability in light of the legal uncertainties that have existed in the past.

- Recommendation G.15 of the 2020 Code: If Executive Board members also serve on Supervisory Boards with-in the Group, any remuneration they receive for this is not counted against their remuneration as Executive Board members. This is mainly based on two considerations. First, by serving on Supervisory Boards within the Group, Executive Board members are exposed to additional liability risks. Second, the remuneration of Executive Board members appears reasonable on whole, including taking into consideration additional remuneration for serving on Supervisory Boards within the Group.

The Supervisory Board will adopt a new system for the remuneration of Executive Board members and present it to the 2021 Annual General Meeting for approval. In connection with the design and development of the new system, the Supervisory Board will decide about future compliance with the foregoing recommendations.

Information about corporate governance practices

W&W AG works to ensure compliance with national and European statutory requirements and internal company guidelines by means of a Group-wide compliance organisation. The compliance function is an essential component of the W&W compliance management system, and it is embedded in the W&W governance system and forms part of the internal control system of the W&W Group.

The Group Compliance Officer coordinates the operational implementation of the compliance control loop, i.e. particularly the handling of rules violations and the compliance with regulations.

In order to further enhance integrity in the sales-related tied-agents organisations of the W&W Group, the Group Compliance Officer is supported by Sales Compliance Officers, who take into account each of their sales-specific features and are available as separate points of contact and coordinators specifically for sales issues. In addition, the Compliance Officer is supported by various compliance points of contact in each of the subsidiaries.

In order to enhance efficiency, as well as provide a basis for the regular exchange of information, a Group Compliance Committee has been set up, which is convened by the Compliance Officer on a regular basis. It is composed of representatives from all compliance-relevant areas (e.g. Group Legal, Group Risk Management, Group Audit, Group Accounting and Taxes, Sales Compliance, Money Laundering, Securities Compliance, Data Protection, Fraud Prevention, etc.).

A Code of Conduct is in place to provide employees in the W&W Group with binding orientation for their daily work, and it is regularly updated. It applies to all members of governing bodies, managers, in-house employees and the mobile sales force. The Code of Conduct specifies the minimum standard for dealings between company employees, as well as in relation to customers, competitors, business partners, government authorities and shareholders. There are also specific codes of conduct for the sales organisations.

Together with its subsidiaries that conduct primary insurance business, W&W AG has acceded to the "Code of Conduct for the Sale of Insurance Products" enacted by the German Insurance Association (GDV). Following the amendment of the Code on 25 September 2018, audits are conducted every three years for whether a company has adopted the arrangements contained in the Code in its (internal) rules and is practising them. In April 2020, the independent bodies successfully completed the audit prescribed in the Code of Conduct. The Code and the audit reports can be viewed at www.gdv.de.

In addition to the Compliance Officer, an external ombudsman is available to all W&W Group employees should they wish to bring to light events that are harmful to it or are criminally significant. This is intended to ensure that notifications can be made anonymously if desired.

Managers and all employees are provided with extensive documentation to keep them abreast of insider-trading legislation, antitrust legislation, money laundering and the issues of corruption and compliance. The legal areas are explained in understandable terms using examples and self-monitoring options.

The W&W Group conducts its business in a sustainable manner. As a financial planning specialist in the areas of financial coverage, residential property, risk protection and savings and investment, we generate sustainable growth that retains value. This understanding is not only part of the W&W business strategy, but it also has expressly been made binding in the sustainability policy of W&W AG. This policy covers such areas as resource use and procurement, employees, products and services and compliance with legal requirements as elements of the concept of sustainability.

Since the start of 2020, the task of comprehensive sustainability management has been assigned to the Group Development department in order to further intensify the sustainability activities of the W&W Group and meet the increasing requirements. In the course of this, a Sustainability Board was established, which is composed of the head of the W&W Group Development department (chair of the Sustainability Board), members of the Executive Board of W&W AG and persons in charge of various areas of the Group. Every three months, the Board analyses social developments and trends with respect to sustainability, evaluates current and anticipated standards and rules, and initiates and monitors the sustainability activities that result from this.

In addition, the company signed on to the Principles for Sustainable Insurance and the Principles for Responsible Investment in 2020. By doing so, the W&W Group is, on the one hand, placing greater emphasis on environmental, social and governance (ESG) aspects in its insurance business and, on the other, underscoring the sustainable orientation of its investment business.

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

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

In accordance with the five-year rule in Section 22 (1) EntgTransG, we did not prepare a new report for 2020.

Consolidated Financial Statements of W&W Group (IFRS) Contents

Wüstenrot & Württembergische AG Consolidated financial statements

Consolidated balance sheet as at 31 December 2020

Assets

in € thousands	cf. Note no.[1]	31.12.2020	31.12.2019	1.1.2019
Cash reserves	1	**75,120**	**35,758**	**83,898**
Non-current assets classified as held for sale and discontinued operations	2	**—**	**2,636,760**	**1,236,580**
Financial assets at fair value through profit or loss	3	**8,800,316**	**8,299,631**	**6,778,739**
thereof sold under repurchase agreements or lent under securities lending transactions		–	–	29,606
Financial assets at fair value through other comprehensive income	4	**38,862,768**	**36,808,770**	**32,044,702**
thereof sold under repurchase agreements or lent under securities lending transactions		796,850	1,029,181	–
Financial assets at amortised cost	5	**25,173,973**	**23,984,047**	**28,102,415**
Subordinated securities and receivables		165,834	163,978	133,380
Senior debenture bonds and registered bonds		34,808	30,898	1,084,841
Senior fixed-income securities		–	–	1,054,900
Construction loans		22,830,677	21,493,189	23,002,519
Other loans and receivables		2,074,187	2,220,544	2,727,380
Portfolio hedge adjustment		68,467	75,438	99,395
Positive market values from hedges	6	**16,071**	**88,994**	**61,686**
Financial assets accounted for using the equity method	7	**88,710**	**100,100**	**93,016**
Investment property[3]	8	**1,873,561**	**1,855,224**	**1,827,055**
Reinsurers' portion of technical provisions	9	**278,047**	**276,064**	**297,212**
Other assets		**1,319,076**	**1,065,819[2]**	**980,288[2]**
Intangible assets	10	104,764	99,939	99,701
Property, plant and equipment[3]	11	488,440	397,777	287,461
Inventories	12	178,204	152,828	190,254
Current tax assets	13	41,202	34,398	37,372
Deferred tax assets	14	454,673	339,249[2]	291,969[2]
Other assets	15	51,793	41,628	73,531
Total assets		**76,487,642**	**75,151,167[2]**	**71,505,591[2]**

1 See numbered notes to the consolidated financial statements starting on page 163.
2 Prior-year figures adjusted. See the chapter "Changes according to IAS 8".

Liabilities

in € thousands	cf. Note no.	31.12.2020	31.12.2019	1.1.2019
Liabilities under non-current assets classified as held for sale and discontinued operations	2	**–**	**2,427,916**	**952,652**
Financial liabilities at fair value through profit or loss	16	**44,188**	**80,287**	**455,318**
Liabilities	17	**27,825,524**	**26,320,204**	**27,585,077**
Liabilities evidenced by certificates		1,412,976	947,565	1,286,568
Liabilities to credit institutions		2,193,839	2,232,992	1,454,518
Liabilities to customers		22,481,152	21,641,444	23,580,660
Lease liabilities		83,215	77,268	20,133
Miscellaneous liabilities		1,322,509	1,373,138	1,243,198
Portfolio hedge adjustment		331,833	47,797	–
Negative market values from hedges	18	**15,688**	**216,195**	**126,449**
Technical provisions	19	**39,402,291**	**37,429,141**	**34,728,212**
Other provisions	20	**3,134,620**	**2,955,370**	**2,653,801**
Other liabilities		**637,018**	**462,122**[1]	**332,275**[1]
Current tax liabilities	21	178,776	144,347	262,460
Deferred tax liabilities	22	447,567	311,981[1]	36,663[1]
Other liabilities	23	10,675	5,794	33,152
Subordinated capital	24	**343,162**	**424,850**	**435,476**
Equity	25	**5,085,151**	**4,835,082**	**4,236,331**
Interests of W&W shareholders in paid-in capital		1,486,463	1,486,514	1,485,595
Interests of W&W shareholders in earned capital		3,556,194	3,313,465	2,725,867
Retained earnings		3,158,949	3,026,543	2,855,048
Other reserves (other comprehensive income)		397,245	286,922	–129,181
Non-controlling interests in equity		42,494	35,103	24,869
Total liabilities		**76,487,642**	**75,151,167**[1]	**71,505,591**[1]

1 Prior-year figures adjusted. See the chapter "Changes according to IAS 8".

Further information that concerns several balance sheet items has been summarised under

- "Notes concerning financial instruments and fair value" (Notes 38 to 43),
- "Disclosures concerning risks under financial instruments and insurance contracts" (Notes 44 to 48) and
- "Other disclosures" (Notes 52 et seq.).

Consolidated income statement

in € thousands	cf. Note no.	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Current net income	26	**1,096,550**	**1,153,281**
Net interest income		862,441	868,638
Interest income		1,334,441	1,484,011
thereof calculated using the effective interest method		1,181,102	1,350,688
Interest expenses		−472,000	−615,373
Dividend income		185,570	215,134
Other current net income		48,539	69,509
Net income/expense from risk provision	27	**−54,678**	**−4,035**
Income from risk provision		98,393	86,310
Expenses from risk provision		−153,071	−90,345
Net measurement gain/loss	28	**−55,246**	**612,530**
Measurement gains		2,272,656	2,337,276
Measurement losses		−2,327,902	−1,724,746
Net income from disposals	29	**825,912**	**591,708**
Income from disposals		899,935	630,945
Expenses from disposals		−74,023	−39,237
thereof gains/losses from the disposal of financial assets at amortised cost	43	−18	200
Net financial result		**1,812,538**	**2,353,484**
thereof net income/expense from financial assets accounted for using the equity method		−6,082	11,335
Earned premiums (net)	30	**4,415,144**	**4,249,169**
Earned premiums (gross)		4,561,357	4,385,203
Premiums ceded to reinsurers		−146,213	−136,034
Insurance benefits (net)	31	**−4,455,443**	**−4,650,478**
Insurance benefits (gross)		−4,544 719	−4,716 476
Received reinsurance premiums		89,276	65,998
Net commission expense	32	**−497,205**	**−490,195**
Commission income		257,689	256,769
Commission expenses		−754,894	−746,964
Carryover		**1,275,034**	**1,461,980**

in € thousands	cf. Note no.	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Carryover		**1,275,034**	**1,461,980**
General administrative expenses	33	**–1,013,997**	**–1,080,451**
Personnel expenses		–598,919	–613,552
Materials costs		–337,659	–381,550
Depreciation/amortisation		–77,419	–85,349
Net other operating income/expense	34	**45,836**	**–28,520**
Other operating income		243,688	204,471
Other operating expenses		–197,852	–232,991
Consolidated net income before income taxes from continued operations		**306,873**	**353,009**
thereof from revenue[1]		6,412,721	6,481,478
Income taxes	35	–96,122	–103,950
Consolidated net profit		**210,751**	**249,059**
Result attributable to shareholders of W&W AG		209,907	248,076
Result attributable to non-controlling interests		844	983
Basic (= diluted) earnings per share, in €	36	**2.24**	**2.65**
Thereof from continued operations, in €		2.24	2.65

1 Interest, dividend, commission, and rental income, as well as income from property development business and gross premiums written.

Consolidated statement of comprehensive income

in € thousands	cf. Note no.	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Consolidated net profit		**210,751**	**249,059**
Other comprehensive income			
Components not reclassified to the consolidated income statement:			
Actuarial gains/losses (–) from pension commitments (gross)	20	–162,009	-265,918
Provision for deferred premium refunds		12,744	15,045
Deferred taxes		44,371	76,711
Actuarial gains/losses (–) from pension commitments (gross)		**–104,894**	**–174,162**
Components subsequently reclassified to the consolidated income statement:			
Unrealised gains/losses (–) from financial assets at fair value through other comprehensive income (gross)	42	1,516,550	2,502,025
thereof from the reclassification of financial assets (gross)	37	–	304,918
Provision for deferred premium refunds		–1,180,267	–1,665,736
Deferred taxes		–100,415	–255,709
Unrealised gains/losses (–) from financial assets at fair value through other comprehensive income (net)		**235,868**	**580,580**
Unrealised gains/losses (–) from financial assets accounted for using the equity method (gross)	7, 37	24	42
Provision for deferred premium refunds		–	–
Deferred taxes		–	–1
Unrealised gains/losses (–) from financial assets accounted for using the equity method (net)		**24**	**41**

in € thousands	cf. Note no.	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Unrealised gains/losses (–) from cash flow hedges (gross)	37	68	153
Provision for deferred premium refunds		–	–
Deferred taxes		–21	–47
Unrealised gains/losses (–) from cash flow hedges (net)		**47**	**106**
Currency translation differences of economically independent foreign units		**–19,003**	**2,819**
Total other comprehensive income, gross		1,335,630	2,239,121
Total provision for deferred premium refunds		–1,167,523	–1,650,691
Total deferred taxes		–56,065	–179,046
Total other comprehensive income, net		**112,042**	**409,384**
Total comprehensive income for the period		**322,793**	**658,443**
Attributable to shareholders of W&W AG		315,414	648,209
Attributable to non-controlling interests		7,379	10,234

Consolidated statement of changes in equity

	cf. Note no.	Interests of W&W shareholders in paid-in capital	
		Share capital	Capital reserve
in € thousands			
Equity as at 1 January 2019		**489 648**	**995 947**
Changes to the scope of consolidation		–	–
Total comprehensive income for the period			
Consolidated net profit		–	–
Other comprehensive income		–	–
Total comprehensive income for the period		**–**	**–**
Dividends to shareholders	25	–	–
Treasury shares		381	538
Other		–	–
Equity as at 31 December 2019		**490,029**	**996,485**
Equity as at 1 January 2020		**490,029**	**996,485**
Changes to the scope of consolidation		–	–
Total comprehensive income for the period			
Consolidated net profit		–	–
Other comprehensive income		–	–
Total comprehensive income for the period		**–**	**–**
Dividends to shareholders	25	–	–
Treasury shares		202	-253
Other		–	–
Equity as at 31 December 2020		**490,231**	**996,232**

						Interests of W&W shareholders in earned capital	Equity attributable to W&W shareholders	Non-controlling interests in equity	Total equity
	Retained earnings					Other reserves			
			Reserve for financial assets at fair value through other comprehensive income						
		Reserve for pension commitments	Previous year: Reserve for financial assets available for sale	Reserve for financial assets accounted for using the equity method	Reserve for cash flow hedges	Reserve for currency translation			
	2,855,048	**-558,568**	**413,314**	**41**	**-153**	**16,185**	**4,211,462**	**24,869**	**4,236,331**
	-15,970	15,970	—	—	—	—	—	—	—
	248,076	—	—	—	—	—	248,076	983	249,059
	—	-174,077	571,245	41	106	2,818	400,133	9,251	409,384
	248,076	**-174,077**	**571,245**	**41**	**106**	**2,818**	**648,209**	**10,234**	**658,443**
	-60,902	—	—	—	—	—	-60,902	—	-60,902
	364	—	—	—	—	—	1,283	—	1,283
	-73	—	—	—	—	—	-73	—	-73
	3,026,543	**-716,675**	**984,559**	**82**	**-47**	**19,003**	**4,799,979**	**35,103**	**4,835,082**
	3,026,543	**-716,675**	**984,559**	**82**	**-47**	**19,003**	**4,799,979**	**35,103**	**4,835,082**
	-4,816	—	4,816	—	—	—	—	—	—
	209,907	—	—	—	—	—	209,907	844	210,751
	—	-104,823	229,262	24	47	-19,003	105,507	6,535	112,042
	209,907	**-104,823**	**229,262**	**24**	**47**	**-19,003**	**315,414**	**7,379**	**322,793**
	-60,927	—	—	—	—	—	-60,927	—	-60,927
	193	—	—	—	—	—	142	—	142
	-11,951	—	—	—	—	—	-11,951	12	-11,939
	3,158,949	**-821,498**	**1,218,637**	**106**	**—**	**—**	**5,042,657**	**42,494**	**5,085,151**

Consolidated cash flow statement

in € thousands	cf. Note no.	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Consolidated net profit		**210,751**	**249,059**
Non-cash items contained in consolidated net profit and reconciliation of cash flow from operating activities			
Net income from financial assets accounted for using the equity method	7, 26	6,082	−11,361
Amortisation, depreciation, impairment losses (+)/reversals of impairment losses (−) on intangible assets and property, plant and equipment	33	77,466	85,349
Amortisation, depreciation, impairment losses (+)/reversals of impairment losses (−) on financial assets	27, 28	57,836	63,054
Increase (+)/decrease (−) in technical provisions	19	805,628	1,047,394
Increase (+)/decrease (−) in other provisions	20	84,232	153,490
Changes in deferred tax assets and liabilities	35	−1,057	27,163
Net gain (−)/loss (+) from the sale of intangible assets and property, plant and equipment	34	−7	−281
Net gain (−)/loss (+) from the sale of financial investments (not including participations)	29	−635,986	−610,138
Other non-cash expenses (+)/income (−)	26-29	−216,141	−134,209
Other adjustments		5,259	−11,527
Subtotal		**394,063**	**857,993**
Change in assets and liabilities from operating activities			
Increase (−)/decrease (+) in building loans	5	−702,392	−815,636
Increase (−)/decrease (+) in other assets	5, 6, 9, 12, 13, 15	931,279	1,053,556
Increase (−)/decrease (+) in financial assets with positive or negative market values	3, 16	491,306	−95,752
Increase (−)/decrease (+) in liabilities evidenced by certificates	17	465,411	−339,003
Increase (−)/decrease (+) in liabilities to credit institutions	17	−47,351	867,573
Increase (−)/decrease (+) in liabilities from reinsurance business	17	−4,241	4,748
Increase (−)/decrease (+) in liabilities to customers	17	−560,916	−1,036,100
Increase (−)/decrease (+) in other liabilities	17, 18, 20, 21, 23	−532,205	563,150
Subtotal		**40,891**	**202,536**
I. Cash flow from operating activities		**434,954**	**1,060,529**

Consolidated cash flow statement (continued)

in € thousands	cf. Note no.	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Cash receipts from the disposal of intangible assets and property, plant and equipment	10, 11	1,652	1,191
Cash payments for investments in intangible assets and property, plant and equipment	10, 11	−159,823	−135,500
Cash receipts from the disposal of financial assets	3, 4, 5, 8	11,874,127	11,504,614
Cash payments for investments in financial assets	3, 4, 5, 8	−12,365,223	−12,696,462
Cash receipts from the loss of control over subsidiaries and other business units		175,000	9,812
Cash and cash equivalents in subsidiaries or other business entities over which control was lost		−35,108	–
Cash and cash equivalents in subsidiaries or other business entities over which control was obtained		242,836	–
Cash payments for investments in financial assets accounted for using the equity method	7	−93	−1,133
II. Cash flow from investing activities		**−266,632**	**−1,317,478**
Dividend payments to shareholders	25	−60,927	−60,902
Transactions between shareholders		−252	919
Change in funds resulting from subordinated capital	24	79,895	−10,000
Interest payments on subordinated capital	26	−18,545	−21,106
Cash payments towards finance lease liabilities	17	−21,127	−18,784
III. Cash flow from financing activities		**−20,956**	**−109,873**
Cash and cash equivalents as at 1 January		**1,053,947**	**1,437,128**
Net change in cash and cash equivalents (I.+II.+III.)		147,366	−366,822
Change in cash and cash equivalents attributable to the effects of exchange rates and the scope of consolidation		950	−16,359
Cash and cash equivalents as at 31 December		**1,202,263**	**1,053,947**
Components of cash and cash equivalents			
Cash reserves	1	75,120	35,758
Cash available for sale	2	–	26,203
Balances with credit institutions payable on demand	5	1,127,143	991,986
Cash and cash equivalents at the end of the financial year		**1,202,263**	**1,053,947**

In the 2020 financial year, cash flow from interest received amounted to €906.0 million (previous year: €1,010.6 million), cash flow from interest paid amounted to −€192.9 million (previous year: −€240.9 million), cash flow from dividends received amounted to €176.9 million (previous year: €228.6 million) and cash flow from income taxes paid/received amounted to −€79.6 million (previous year: −€179.1 million). These amounts are included in cash flow from operating activities.

The W&W Group can freely dispose of its cash and cash equivalents.

Reconciliation of changes in liabilities with cash flow from financing activities

	Subordinated capital		Leasing liabilities	
in € thousands	2020	2019	2020	2019
As at 1 January.	**424,850**	**435,476**	**77,268**	**20,133**
Additional lease liabilities from the initial application of IFRS 16 as at 1 January 2019	–	–	–	73,366
As at 1 January, after adjustment	**424,850**	**435,476**	**77,268**	**93,499**
Coupons	−18,545	−21,106	–	–
Issue/redemption	−79,895	−10,000	−21,127	−18,784
Net change with an effect on cash	**−98,440**	**−31,106**	**−21,127**	**−18,784**
Addition of lease liabilities	–	–	22,513	4,233
Changes in scope of consolidation	–	–	3,384	–
Classified as held for sale	–	–	–	−3,233
Change in accrued interest	16,781	20,447	–	–
Amortisation	−29	33	1,177	1,553
Net change with no effect on cash	**16,752**	**20,480**	**27,074**	**2,553**
As at 31 December	**343,162**	**424,850**	**83,215**	**77,268**

Notes to the consolidated financial statements

General accounting principles and application of IFRS

General information

Wüstenrot & Württembergische AG is a publicly traded company with registered office in Stuttgart, Germany (Gutenbergstraße 30, 70176 Stuttgart, Germany) and is the parent company of the W&W Group. The company is listed in the Commercial Register of the Local Court of Stuttgart under HRB 20203. The business of Wüstenrot & Württembergische AG as an individual company consists of reinsurance business for the insurance companies of the W&W Group, as well as management of the W&W Group. The W&W Group operates almost exclusively in Germany and is represented there by two key offices in Stuttgart and Ludwigsburg/Kornwestheim.

The W&W Group is "The financial planning specialist" for modern financial planning, offering customised, innovative and attractive products in the following areas:

- Financial coverage
- Residential property
- Risk protection
- Savings and investment

The Executive Board of Wüstenrot & Württembergische AG authorised publication of the consolidated financial statements on 2 March 2021. They were presented to the Supervisory Board for approval on 23 March 2021.

The consolidated financial statements will be presented to the shareholders (virtually) at the Annual General Meeting on 20 May 2021.

The consolidated financial statements of Wüstenrot & Württembergische AG – consisting of the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements – were prepared on the basis of Section 315a (1) of the German Commercial Code (HGB) in conjunction with Article 4 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of IFRS international accounting standards, as they are to be applied in the European Union. In addition, a combined management report was prepared in accordance with the rules of commercial law.

In conformity with IFRS 4 "Insurance Contracts", insurance-specific business transactions for which IFRSs do not include any specific rules are recognised for domestic Group companies in accordance with the relevant rules of commercial law pursuant to Sections 341 et seq. HGB and the regulations based on them.

The consolidated financial statements of the W&W Group were drawn up in euros (€) on the basis of the going concern principle. Where figures are provided in millions of euros or thousands of euros, totalled amounts may have rounding differences due to commercial rounding rules, since the calculations for the individual items are based on whole numbers.

From the standpoint of supervisory law, there was one material change in 2020. Until the middle of the year, Wüstenrot & Württembergische AG, as a financial holding company, was the superordinate undertaking of the financial holding group. With the revision and entry into force of the Capital Requirements Regulation (CRR II), and in combination with structural changes within the Group, such as the sale of credit institutions, Wüstenrot & Württembergische AG applied with the German Federal Financial Supervisory Authority (BaFin) in June 2020 for elimination of the financial holding group. This application was approved by letter of 22 July 2020. The final supervisory notifications for the financial holding group were submitted as at the reporting date of 30 June 2020.

Comparative information

Unless indicated otherwise, comparative information about items in the consolidated income statement relates to the period 1 January 2019 to 31 December 2019, whereas comparative information about items in the consolidated balance sheet relates to 31 December 2019.

Coronavirus pandemic

The business model of the W&W Group proved to be stable, including during the coronavirus pandemic. Its impact on the W&W Group will be depicted in the following.

In the 2020 reporting year, the basic business and economic conditions of the W&W Group were adversely influenced by the pandemic dissemination of the coronavirus. The crisis team of the W&W Group initiated a variety of measures early on in order to stem the spread in the W&W Group and curb the impact of the pandemic on business operations. In the process, our availability to our customers, as well as the ability of our employees to work, was assured at all times.

The financial statements of the W&W Group are affected by the impact of the coronavirus pandemic to varying degrees of intensity, particularly in customer lending business, in the area of capital investments and real estate and in insurance business. A variety of supportive measures by central banks and countries mitigated the effects on national economies. Particularly noteworthy is the German Act to Mitigate the Consequences of the COVID-19 Pandemic (Gesetz zur Abmilderung der Folgen der Covid-19-Pandemie), which was enacted by the Bundestag on 25 March 2020. Among other things, the act provided for the ability to defer payments for three months (statutory moratorium), as well as a suspension until 30 September 2020 of the obligation to apply for commencement of insolvency proceedings on account of the risk of liability, and in some cases also criminal proceedings, that is associated with failure to comply with the obligation. In addition, due to the dynamic pace of infections during the second half of the year under review, the Federal government and the states enacted targeted temporary measures (November/December assistance and bridging assistance). As part of these extraordinary business aid packages, subsidies equal to 75% of turnover in the relevant prior-year month were in principle granted based on the number of days the business was closed, as were additional subsidies to cover fixed costs in the event of lower turnover occasioned by the coronavirus. Furthermore, suspension of the obligation to apply for commencement of insolvency proceedings was extended until 31 December 2020, but only for companies that were overindebted but not also illiquid, and with the German Act to Protect Employment as a Consequence of the Covid-19 Pandemic (Gesetz zur Beschäftigungssicherung infolge der Covid-19-Pandemie) of 3 December 2020, the legislators decided to extend the special arrangements concerning short-time working benefits essentially until the end of 2021. These measures make it possible for companies and their workers to share in the anticipated upturn following the lockdown and thus have a stabilising effect. On the other hand, it can be anticipated that insolvency figures will rise significantly when these statutory measures expire.

Because of the duration and extent of the coronavirus pandemic, it is difficult to estimate the spread of the virus and the associated financial effects, as well as its impact on the net assets, financial position and financial performance of the W&W Group. The estimates, assumptions and discretionary judgments that are relevant to the financial statements were made on the basis of management's best knowledge and currently available information. Despite increased uncertainties, the W&W Group believes that the assumptions and estimates utilised appropriately reflect the current situation. Nevertheless, particularly in light of the further development of the coronavirus pandemic, there may be deviations from these estimates.

Customer lending business primarily relates to customer lending by Wüstenrot Bausparkasse AG and, to a lesser extent, to the mortgage portfolios of Württembergische Lebensversicherung AG and Württembergische Versicherung AG. Despite the restrictions occasioned by the pandemic, the previous year's values were significantly exceeded in new construction financing business. By contrast, the pandemic triggered a decline in new home loan savings business. The main impact of the coronavirus pandemic in this area was that approximately 3,800 customers of the W&W Group made use of the statutory moratorium in order to defer principal and interest payments. The loans concerned were accounted for at amortised cost (taking into account risk provision) in the amount of €506.8 million. In the W&W Group, principal and interest payments that were deferred by up to three months reached €5.5 million, and they do not constitute a substantial modification within the meaning of IFRS 9. In line with the pronouncements by the European Securities and Markets Authority (ESMA), the process for changing levels was modified. It did not appear to be appropriate to conclude that customers who made use of the statutory moratorium were all experiencing payment difficulties. Rather, some customers also used this tool as a precautionary measure in order ensure their liquidity during the pandemic and the associated period of uncertainty.

Most customers resumed making the agreed payments when the statutory moratorium expired. Since early July, customers suffering financial difficulties as a result of the coronavirus pandemic have been offered a private moratorium, which enables them to defer principal and interest payments for up to six months. This moratorium was recognised by the banking supervisory authorities as a moratorium within the meaning of EBA/GL/2020/02. All told, the voluntary moratorium was granted to customers with a total loan volume in the mid eight figures. When the voluntary moratorium expires, the W&W Group will grant its customers the customary deferral options in order to enable borrowers to attenuate their financial difficulties.

The W&W Group decided on the basis of past experience and, in addition, external data whether an increased default risk should be assumed. On whole, we expect a higher default risk in future, although this is not yet visible in the current risk models. Therefore, we increased the probabilities of default and, in addition, used a higher probability of complete default by borrowers with lower creditworthiness. In this regard, the risk provision for customer lending was increased by €34.0 million. The adjustment of the risk provision to conform to the probability of default was primarily attributable to increased uncertainty, as well as to the greater risk of payment defaults in connection with the coronavirus pandemic.

In the area of **investments,** the coronavirus pandemic brought about considerably greater volatility in the markets. In the area of equity investments, equity prices initially fell sharply during the first half of the year, but then recovered over the course of the rest of the year. As a result, measurement and disposal losses incurred at the start of the coronavirus pandemic were able to be recouped in part through recoveries in value.

As is customarily the case, participations in alternative investments tend to show delayed volatility compared with the equities market due to data availability and market transparency (Level 3 measurement). Therefore, measurement was not impacted as quickly by the effects of the coronavirus pandemic, as well as by the recovery effects, which move in the opposite direction. The value changes that have occurred overall so far can be seen in the disclosures concerning the measurement of fair value.

In the area of interest-bearing securities, a deterioration in creditworthiness was observed in several sectors, particularly in the first half of 2020. The risk provision created for this rose by a total of €6.2 million, which was primarily attributable to the effects of the coronavirus pandemic. In this regard, the high proportion of solvent debtors with investment-grade securities helped to cushion the increase in the risk provision. There were no major changes in rating classifications in the second half of 2020. In addition, the balanced diversification of the portfolio and the general recovery on the market had a positive effect. To date, there have been no defaults in interest payments or repayments. nterest rates remained low as a consequence of the very expansive monetary policy, which has been continued in reaction to the coronavirus pandemic. In the case of new investments and reinvestments, this led to correspondingly lower interest income.

The coronavirus pandemic also had an impact on the **property area** of the W&W Group in the form of a rise in lease arrears, although the vast majority of lease payments were made on time. The statutory moratorium enabled lessees to defer their lease payments for up to three months, starting in April. Most of the lease payment arrears occasioned by the coronavirus involved only a few key commercial lessees in the retail, hotel and office sectors. They totalled €6.3 million as at the reporting date. The lease arrears occasioned by the coronavirus did not result in any modifications in the area of lease accounting under IFRS 16 (as lessor). In addition, the legislators amended Section 313 of the German Civil Code (BGB) to give commercial lessees more latitude for lease payment reductions, which triggered expenses in the very low seven figures in the W&W Group.

The selective choice of commercial lessees with appropriate business models had a positive impact. At the same time, the existing properties, which are mostly in very good locations, are normally used by lessees in a variety of ways.

As a result of the coronavirus pandemic, we recorded expenses of approximately €7.1 million in the property area in 2020. In connection with risk provision, these consist specifically of impairment provisions of approximately €5.3 million and provisions for the reclaiming of lease payments of approximately €1.8 million. In 2020 the pandemic led to a reduction of market values in the case of properties in the principally affected sectors. This did not result in any impairments recognised as an expense.

In **insurance business,** the W&W Group incurred expenses of €42.0 million, before accounting for reinsurance, in connection with business closure insurance policies. As at 31 December 2020, after making payments to policyholders totalling €15.3 million, provisions still amounted to €26.7 million. In the area of life and health insurance, there were no material effects. Our customers have an increased need for advice on legal issues as a result of the coronavirus pandemic. This caused expenses in the low seven figures in connection with claims under legal expenses insurance policies.

For further explanations about effects occasioned by the coronavirus, please see the management report.

Accounting policies

Changes in accounting policies

International Financial Reporting Standards (IFRSs) to be applied for the first time in the reporting period

With the exception of the standards described below, which were required to be applied for the first time, the same accounting policies were applied as in the consolidated financial statements as at 31 December 2019:

- Amendments to IAS 1 and IAS 8 with initial application for financial years beginning on or after 1 January 2020,
- Amendments to the IFRS Conceptual Framework with initial application for financial years beginning on or after 1 January 2020,
- Amendments to IFRS 3 with initial application for financial years beginning on or after 1 January 2020,
- Changes to IFRS 16 for financial years beginning on or after 1 January 2020 that were occasioned by Covid-19,
- Amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform) with initial application for financial years beginning on or after 1 January 2020.

The foregoing amendments had no material impact on the presentation of the net assets, financial position and financial performance of the W&W Group.

Changes in the presentation of the financial statements

Division into classes in connection with the business model "Other/trading"
In connection with a regular review of the risk-appropriate depiction of the W&W consolidated financial statements, we determined that in the case of comparable financial instruments, the classification of financial instruments in accordance with IFRS 9 may result in a different class allocation under IFRS 7/IFRS 13. In the case of financial assets that are allocated to the business model "Other/trading" under IFRS 9, the SPPI criterion was left out of consideration for the IFRS 7/IFRS 13 classification. Irrespective of the features of the individual cash flows, the financial instruments were allocated to "Senior fixed-income securities". Taking into account the SPPI criterion, however, allocation to the class "Fixed-income financial instruments that do not pass the SPPI test" would have been more appropriate for some financial instruments.

The new allocation merely involves a shifting of the recognition of the IFRS 7/IFRS 13 class from the item "Senior fixed-income securities" to the item "Financial instruments that do not pass the SPPI test" in the amount of €557.4 million, without any effect on consolidated net profit. The IFRS 9 category of financial instruments ("Financial assets at fair value through profit or loss") remains unaffected by the change as a whole. The effects are shown in the following tables. In order to achieve a uniform depiction of all financial instruments in future, the SPPI criterion will be applied in the W&W Group even after allocation to the business model "Other/trading". The prior-year figures were adjusted accordingly.

Adjustments to the consolidated balance sheet – assets as at 31 December 2019

in € thousands	Carrying amount before adjustment 31.12.2019	Reclassifications	Carrying amount after adjustment 31.12.2019
Participations other than in alternative investments	219,034	–	219,034
Participations in alternative investments, including private equity	1,594,796	–	1,594,796
Equities	745,518	–	745,518
Fund units	1,148,701	–	1,148,701
Fixed-income financial instruments that do not pass the SPPI test	1,482,665	557,363	2,040,028
Derivative financial instruments	147,084	–	147,084
Senior fixed-income securities	723,814	-557,363	166,451
Capital investments for the account and risk of holders of life insurance policies	2,238,019	–	2,238,019
Financial assets at fair value through profit or loss	**8,299,631**	**–**	**8,299,631**

Adjustments to the consolidated income statement 1 January 2019 to 31 December 2019

in € thousands	Before adjustment 1.1.2019 to 31.12.2019	Reclassifications	After adjustment 1.1.2019 to 31.12.2019
Current net income	**1,153,281**	**–**	**1,153,281**
thereof interest income	1,484,011	–	1,484,011
thereof fixed-income financial instruments that do not pass the SPPI test	46,222	1,991	48,213
thereof senior fixed-income securities	406,471	-1,991	404,480
Net measurement gain/loss	**612,530**	**–**	**612,530**
thereof net income from financial assets/liabilities at fair value through profit or loss	728,084	–	728,084
thereof senior fixed-income securities	35,296	-30,078	5,218
thereof fixed-income financial instruments that do not pass the SPPI test	40,981	30,078	71,059
thereof currency expense	-94,008	–	-94,008
thereof fixed-income financial instruments that do not pass the SPPI test	252	6,800	7,052
thereof senior fixed-income securities	62,135	-6,800	55,335
Total	**1,765,811**	**–**	**1,765,811**

Classification for equity instruments

For investments in equity instruments, the original IFRS 7/IFRS 13 class “Participations, shares, fund units” was broken down for the first time in the 2020 financial year. Equity instruments are now recognised in the new IFRS 7/IFRS 13 classes “Participations other than in alternative investments”, “Participations in alternative investments”, “Equities” and “Investment fund units”. The prior-year figures were likewise broken down into the new classes.

Changes according to IAS 8

Netting of tax deferrals

In accordance with the requirements of IAS 8.41 et seq., deferred tax assets and liabilities are netted from the reporting year onwards. The adjusted amounts in the comparative figures are indicated by the footnote "Prior-year figures adjusted".

Adjustments to the balance sheet assets

in € thousands	Carrying amount before adjustment 1.1.2020	Reclassifications	Carrying amount after adjustments 1.1.2020	Carrying amount before adjustments 31.12.2020	Reclassifications	Carrying amount after adjustments 31.12.2020
Other assets	**1 513 938**	**-533,650**	**980,288**	**1,658,161**	**-592,342**	**1,065,819**
Intangible assets	99 701	–	99,701	99,939	–	99,939
Property, plant and equipment	287 461	–	287,461	397,777	–	397,777
Inventories	190 254	–	190,254	152,828	–	152,828
Current tax assets	37 372	–	37,372	34,398	–	34,398
Deferred tax assets	825 619	-533,650	291,969	931,591	-592,342	339,249
Other assets	73 531	–	73,531	41,628	–	41,628
Total assets	**72 039 241**	**-533,650**	**71,505,591**	**75,743,509**	**-592,342**	**75,151,167**

Adjustments to the balance sheet assets

in € thousands	Carrying amo-nunt before adjustment 1.1.2019	Reclassifica-tions	Carrying amount after adjustments 1.1.2019	Carrying amount before adjustments 31.12.2019	Reclassifica-tions	Carrying amount after adjustments 31.12.2019
Other liabilities	**865,925**	**-533,650**	**332,275**	**1,054,644**	**-592,342**	**462,302**
Tax liabilities	262,460	–	262,460	144,347	–	144,347
Deferred tax liabilities	570,313	-533,650	36,663	904,323	-592,342	311,981
Other liabilities	33,152	–	33,152	5,974	–	5,974
Total assets	**72,039,241**	**-533,650**	**71,505,591**	**75,743,509**	**-592,342**	**75,151,167**

Technical margin

In the area of the measurement of provisions for home loan savings business, an estimate was changed so that in future the technical margin will be left out of consideration with respect to the customer behaviour forecast. The application of the technical margin is no longer necessary because of the now very extensive data history covering many years, as well as experience with customer behaviour in the phase of low interest rates. Because of this change of estimate, the positive effect on results was €24.6 million in the year under review.

Lowering of the discount rate

Due to the persistently low interest rates, the actuarial interest rates were lowered in individual property/casualty insurance lines in order to further strengthen the reserves by €60.0 million (gross) (increase in the provision for outstanding insurance claims).

Issued accounting rules whose application is not yet mandatory

IFRS 17 "Insurance Contracts"

IFRS 17 "Insurance Contracts" was published in May 2017. Following publication, criticism was expressed with respect to certain requirements in IFRS 17. As a result, on 25 June 2020, the IASB published "Amendments to IFRS 17", which, inter alia, postponed the date of initial application of IFRS 17 to financial years beginning on or after 1 January 2023, as well as possible earlier initial application.

IFRS 17 replaces IFRS 4 "Insurance Contracts", which had been in effect since 1 January 2005. With regard to the recognition of insurance contracts, it for the first time introduces uniform requirements for the recognition, measurement and presentation of, as well as disclosures concerning, insurance contracts and reinsurance contracts. For adoption into EU law, IFRS 17 must still successfully pass the endorsement procedure.

Under the measurement model in IFRS 17, groups of insurance contracts are measured on the basis of probability-weighted discounted cash flows with an explicit risk adjustment for non-financial risk, as well as a contractual service margin, representing the unearned profit that the company will recognise as it provides services under the insurance contracts in the Group.

Instead of premium income for each period, the company will now be required to present the "insurance service result", i.e. insurance revenue, which depicts the changes in the obligation for the provision of coverage for which the insurance company receives compensation and the share of the premiums that covers the acquisition costs. Cash inflows and outflows from investment components are not to be presented in the result, i.e. as income or expenses in the income statement. Insurance financial income and expenses result from discounting effects and financial risks. Depending on the portfolio, they are recognised either in the income statement or in other comprehensive income. Changes in assumptions that are unrelated to interest rates or financial risk are not taken into account directly in the income statement but instead are booked against the contractual service margin and thus allocated over the duration of the services still to be provided. The changes in estimates are directly recognised only for those groups of insurance contracts for which losses are expected.

For short-term contracts, IFRS 17 provides for an approximation method, which, as in the past, depicts the obligation to provide insurance coverage through excess premium. Under IFRS 17, liabilities resulting from insured events that have occurred, but for which claims have not been settled, are to be discounted using current interest rates. For large parts of life insurance business with participation contracts, IFRS 17 modifies the general measurement model by also including in the contractual service margin the changes in the shareholder portion of the development of income sources underlying the participation contract and allocating them over the remaining duration of the provision of service.

In the W&W Group, the effects on the consolidated financial statements are currently being studied. At this time, we intend to apply IFRS 17 for the first time as at 1 January 2023. Initial application will have a material impact on the financial statements.

Interest Rate Benchmark Reform – Phase 2

On 27 August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, which amends IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, with initial application for financial years beginning on or after 1 January 2021. The amendments were adopted into EU law on 13 January 2021. The Phase 2 amendments complement those issued in Phase 1 and are designed to assist companies in providing useful information with regard to the upcoming conversions in connection with the IBOR (Interbank Offered Rate) reform. The Phase 2 amendments address the effects of the reform on a company's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with a nearly risk-free alternative benchmark rate. The amendments provide for temporary relief if a benchmark interest rate is replaced with a nearly risk-free alternative benchmark rate and this has an impact on the financial statements.

The W&W Group has studied the effects on the consolidated financial statements. An analysis revealed that EURIBOR constitutes an important variable interest rate in the W&W Group. As early as 2019, EURIBOR was able to be improved through more robust calculation and data collection. This improved EURIBOR, known as the "hybrid EURIBOR", thus became in conformity with the benchmark and was able to satisfy regulatory requirements. As a result of the adjustment made to EURIBOR, we expect only a minor conversion expense in connection with Phase 2 of the IBOR reform. Based on current information, other variable interest rates are of merely minor significance for the W&W Group. Therefore, as a whole, we do not expect the IBOR reform to have a material impact on the consolidated financial statements. We intend to apply the IBOR reform amendments for the first time on 1 January 2021.

Other changes

In addition, the following changes have been published:

- Amendments to IAS 1 with initial application for financial years beginning on or after 1 January 2023,
- Amendments to IAS 1 and IFRS Practice Statement 2 with initial application for financial years beginning on or after 1 January 2023,
- Amendments to IAS 8 with initial application for financial years beginning on or after 1 January 2023,
- Amendments to IFRS 3, IAS 16, IAS 37 and the Annual Improvements to IFRS Standards 2018-2020 Cycle, with initial application on 1 January 2022,
- Amendments to IFRS 4 with initial application for financial years beginning on or after 1 January 2021.

We are currently studying the effects that the amendments to IAS 1 and IFRS Practice Statement 2, as well as the amendments to IAS 8, will have on the W&W Group. With regard to the remaining amendments, we expect that adoption of these changes will not have any material impact on the net assets, financial position and financial performance of the W&W Group. Although earlier application is generally permitted, the W&W Group does not plan to do so. EU endorsement has not yet been given for the amendments to IAS 1, the amendments to IAS 8, the amendments to IAS 1 and IFRS Practice Statement 2, the amendments to IFRS 3, IAS 16, IAS 37 and the Annual Improvements to IFRS Standards 2018-2020 Cycle.

Consolidation principles

The annual financial statements of Wüstenrot & Württembergische AG and the consolidated subsidiaries, including structured entities (public and special funds and certain investments in alternative investment funds) and consolidated associates, all of which are prepared according to accounting policies that are uniform throughout the Group, form the basis for the consolidated financial statements of the W&W Group.

Reporting date

The annual financial statements of the parent company, the consolidated subsidiaries and the consolidated associates were prepared as at 31 December 2020.

Subsidiaries

All subsidiaries are entities that are directly or indirectly controlled by W&W AG. Control exists where W&W AG has the power to direct the relevant activities of the entity, has a right to significant variable returns from the entity and has the ability to use its power of direction to influence the amount of the significant variable returns. W&W AG controls its subsidiaries based on the direct or indirect majority of voting rights.

The subsidiaries also include consolidated structured entities within the meaning of IFRS 12. These are entities that have been designed in such a way that voting or similar rights are not the dominant factor in determining whether control exists. With regard to W&W AG, these include public and special funds that are characterised, in particular, by narrowly circumscribed business activities, such as a specific capital investment strategy or limited investor rights (lack of voting rights).

Public and special funds are consolidated if, despite insufficient voting rights, they are directly or indirectly controlled by W&W AG on the basis of contractual agreements concerning management of the relevant activities.

Subsidiaries, including public and special funds, are included in the scope of consolidation unless they are of minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group. Consolidation begins when control is attained and ends when it is lost.

Interests in the acquired pro rata net assets of subsidiaries that are attributable to non-Group third parties are recognised under the item "Non-controlling interests in equity" in the consolidated balance sheet and the consolidated statement of changes in equity. The interests of non-Group third parties in the profits, losses and total income of companies included in the consolidated financial statements are recognised in the consolidated income statement and the consolidated statement of comprehensive income under the item "Non-controlling interests in equity".

Interests in public and special funds that are attributable to non-Group third parties are recognised in the consolidated balance sheet under "Miscellaneous liabilities" (Note 17). Interests in the profits and losses of non-Group third parties can be found in the consolidated income statement under "Net other operating income/expense" (Note 34).

Subsidiaries, including public and special funds, of minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group are not consolidated but rather recognised under the item "Financial assets at fair value through profit or loss" (Note 3) in the classes "Participations other than in alternative investments", "Participations in alternative investments", "Equities" and "Investment fund units". They are measured using the same principles as for financial assets at fair value through profit or loss (see the section "Financial instruments" in the chapter "Accounting policies: Notes concerning the consolidated balance sheet").

Associated companies

Associates are entities that are neither subsidiaries nor joint ventures and where the Group is in a position to exert significant influence over the entity's financial and operating policy decisions but does not exercise control. Significant influence generally means directly or indirectly holding 20-50% of the entity's voting rights. Where less than 20% of the voting rights are held, it is assumed that a significant influence does not exist, unless such influence can be unambiguously demonstrated.

Associates that are of more than minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group are included in the consolidated financial statements when significant influence is attained, and they are accounted for using the equity method. Inclusion ceases when significant influence ends. Under the equity method, the income effects and the carrying amount of financial investments generally correspond to the share of the entity's net income and net assets attributable to the Group. When acquired, holdings in associates are recognised in the consolidated financial statements at cost. In subsequent periods, the carrying amount of the holdings increases or decreases according to the W&W Group's share of the entity's net income for the period. Unrealised gains and losses, which are elements of the consolidated statement of comprehensive income, are recognised under "Other reserves" under the reserve for financial assets accounted for using the equity method in the consolidated statement of changes in equity.

Associates that are of minor significance for the presentation of the net assets, financial position and financial performance of the W&W Group are accounted for using the same principles as for financial assets at fair value through profit or loss (see the section “Financial instruments” in the chapter “Accounting policies: Notes concerning the consolidated balance sheet”) and allocated to the item “Financial assets at fair value through profit or loss” (Note 3) in the classes “Participations other than in alternative investments”, “Participations in alternative investments”, “Equities” and “Investment fund units”.

Currency translation

The euro is the functional currency and the reporting currency of W&W AG.

Transactions in foreign currencies are posted at the exchange rate prevailing at the time of the transaction. Monetary assets and liabilities that deviate from the functional currency of the respective Group company are translated into the functional currency using the reference rate of the European Central Bank (ECB) as at the reporting date. Non-monetary items that are recognised at fair value are likewise translated into the functional currency at the ECB's reference rate as at the reporting date. Other non-monetary assets and liabilities are measured at the rate prevailing on the date of the transaction (historical rate).

The translation differences for debt instruments in the category “Financial assets at fair value through other comprehensive income” that are held in foreign currency are recognised as in the consolidated income statement as income or expense.

Pursuant to IAS 21, assets and liabilities of subsidiaries included in the consolidated financial statements whose functional currency is not the euro are translated into euros at the ECB's prevailing reference rate on the reporting date using the modified closing rate method. Income and expenses from the statements of comprehensive income of foreign subsidiaries whose functional currency is not the euro are translated at the average rate for the year. Translation differences are recognised directly in equity in the reserve for currency translation under "Other comprehensive income" and are first included in the income statement as income or expense upon disposal of the relevant subsidiary.

Accounting policies

Financial instruments

Classes

If disclosures are required for individual classes of financial instruments, these are based on the classification depicted in the following.

Each IFRS 7 class in the following table is derived from the combination of balance sheet item (columns) and risk category (rows):

Classes of financial instruments

Risk category	Cash reserves	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income
Financial assets			
Cash reserves	Amortised cost		
Participations other than in alternative investments[3]		Fair value	
Participations in alternative investments[3]		Fair value	
Equities[3]		Fair value	
Investment funds units[3]		Fair value	
Senior fixed-income securities		Fair value	Fair value
Subordinated securities and receivables			Fair value
Derivative financial instruments		Fair value	
Fixed-income financial instruments that do not pass the SPPI test		Fair value	
Positive market values from hedges			
Capital investments for the account and risk of holders of life insurance policies		Fair value	
Construction loans			
Senior debenture bonds and registered bonds			Fair value
Other loans and advances			
Miscellaneous receivables[1]			
Reinsurers' portion of technical provisions			
Financial liabilities			
Liabilities evidenced by certificates			
Liabilities to credit institutions			
Liabilities to customers			
Lease liabilities			
Other liabilities			
Sundry liabilities[1]			
Negative market values from hedges			
Subordinated capital			
Off-balance-sheet business			
Financial guarantees[2]			
Irrevocable loan commitments[2]			

1 Financial instruments that constitute a class pursuant to IFRS 7 but are not covered by the scope of IFRS 7 and essentially contain receivables/liabilities from insurance business with disclosure requirements pursuant to IFRS 4.
2 Off-balance-sheet business figures are generally provided at nominal value. Provisions are created where necessary
3 The class allocation was adjusted in comparison to the previous year.

							Balance sheet items and measurement basis
	Financial assets at amortised cost	Positive market values from hedges	Reinsurers' portion of technical provisions	Financial liabilities at fair value through profit or loss	Liabilities	Negative market values from hedges	Subordinated capital
	Amortised cost						
	Amortised cost						
				Fair value			
		Fair value					
	Amortised cost						
	Amortised cost						
	Amortised cost						
					Amortised cost		
					Amortised cost		
					Amortised cost		
					Amortised cost		
					Amortised cost		
						Fair value	
							Amortised cost

Principles for the recognition, measurement and presentation of financial instruments

Pursuant to IFRS 9, financial assets and financial liabilities, including all derivative financial instruments, are recognised at the time that a company in the W&W Group becomes a party to the financial instrument. Exceptions to this concern, in particular, receivables and liabilities under insurance contracts, which are recognised in accordance with IFRS 4. Associates are measured in accordance with IAS 28.

In the W&W Group, financial instruments are recognised at the fair value on the settlement date. This does not include derivative financial instruments that are recognised at fair value at the time of contract conclusion. Interest income and expenses are recognised on an accrual basis. Accrued interest is recognised together with the corresponding balance sheet item. A financial instrument is derecognised once the contractual rights and obligations under it expire, or when it is transferred and the criteria for disposal are met.

The categorisation of financial assets (debt instruments) is based on both the company's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The subsequent measurement of financial assets is derived from these criteria. In this regard, a distinction is made between measurement at fair value through profit or loss, at fair value through other comprehensive income, and at amortised cost. The categorisation approach is presented in the following.

The exercise of discretionary judgment in the initial application of IFRS 9 is discussed in the section "Utilisation of discretionary judgments and estimates".

Business model

In connection with the classification of financial assets (debt instruments), a distinction is made in the W&W Group between the following business models:

- "Hold to collect": Business model with the objective of generating contractual cash flows
- "Hold to collect and sell": Business model with the objective both of generating contractual cash flows and selling financial assets
- "Other/trading": Business model under which financial assets were acquired with the intention of selling them in the short term or financial assets were unable to be assigned to the models "Hold to collect" or "Hold to collect and sell".

Assignment to one of the business models takes place when the financial asset is acquired, and it is dependent on how the Group's companies manage a group of financial assets in order to achieve a specific business objective. Discretionary judgment needs to be exercised when assessing which business model is to be applied and how the assigned portfolios are specified, and in doing so, both quantitative and qualitative factors are taken into account. The quantitative factors primarily relate to the expected frequency and the expected value of sales. With regard to qualitative factors, it is assessed how reports about the financial assets are made to the executive board of the Group company concerned and how the risks are managed.

Characteristics of the cash flows

If a financial asset (debt instrument) is assigned to the business model "Hold to collect" or "Hold to collect and sell", the categorisation is to be assessed on the basis of contractual agreements. This assessment is also called the SPPI test (Solely Payments of Principal and Interest). In this regard, it is examined whether the cash flows contain only principal and interest payments (known as basic loan features) toward the outstanding capital. In this regard, interest payments may consist only of consideration for the time value of money and the assumed credit risk. In addition, other elements consist of consideration for the assumed liquidity risk and premiums for adminis-trative costs if these can be allocated to the holding of the financial asset. A profit margin is likewise an element of interest payments. It is also assessed whether criteria are present that are detrimental to the SPPI and have a material impact on cash flows during the reporting periods and the residual term to maturity.

In the case of minor changes in cash flows that the financial instrument would have had absent this contractual component, we have specified that these are to be deemed de minimis. In addition, we exercise discretionary judgment in assessing whether the impact on the contractual cash flows is to be classified extremely rare, highly abnormal and very unlikely to occur ("not genuine"). Consequently, these contracts meet the SPPI criterion. Contracts with termination options under which, at the time of repayment, payments of an amount are made that is equal to the outstanding contractual cash flows meet the SPPI criterion in the W&W Group.

Cash reserves

Recognised in this item are cash on hand, deposits with central banks, deposits with foreign postal giro offices and debt instruments issued by public authorities with a term to maturity of less than three months. Cash reserves are recognised at cost.

Financial assets at fair value through profit or loss

Recognised here are financial assets that are assigned to the business model “Other/trading” or are assigned to the business models “Hold to collect” or “Hold to collect and sell” and do not pass the SPPI test. In addition, equity instruments, fund units, capital investments for the account and risk of holders of life insurance policies and derivatives are recognised in this category. Financial instruments are assigned to individual risk categories based on their characteristics.

Changes in fair value and currency translations are recognised in the income statement under “Net measurement gain/loss”. Interest components are shown under “Current net income/expense” and commissions under “Net commission income/expense”. Initial recognition and subsequent measurement take place at fair value.

Financial assets at fair value through other comprehensive income

Financial assets (debt instruments) that are assigned to the business model “Hold to collect and sell” and pass the SPPI test are initially recognised at fair value, plus or minus transaction costs that are directly attributable to the financial asset. Fees that are not a part of effective interest are recognised under "Net commission income/expense" at the time they are collected. In the case of subsequent measurement, changes in fair value are recognised through other comprehensive income, currency effects under “Net measurement gain/loss” and interest components under “Current net in-come/expense”. Premiums and discounts are depreciated using the constant effective interest method, and amortisation is recognised in the income statement. The risk provision is created/released through profit or loss and, for the purposes of accounting, shown in other comprehensive income. In the case of a disposal of the debt instrument, the changes in fair value that had previously been recognised in equity are recycled through profit or loss under “Net disposal in-come/expense”.

In the W&W Group, this item mainly consists of bearer bonds, registered bonds, subordinated bonds and debenture bonds.

Financial assets at amortised cost

Financial assets that are assigned to the business model “Hold to collect” and pass the SPPI test are recognised at amortised cost. Costs at the time of acquisition correspond to fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue. Fees that are not a part of effective interest are recognised under "Net commission income/expense" at the time they are collected. In subsequent measurement, the carrying amount is amortised through profit or loss by depreciating transaction costs, premiums and discounts at a constant effective interest rate. Income and expenses for foreign currency, as well as changes in the risk provision, are likewise accounted for in the income statement under this item. Interest components are shown under “Current net income/expense".

In the W&W Group, this category primarily includes construction loans, registered bonds, bearer bonds and debenture bonds. Receivables from direct insurance business, funds withheld by ceding companies and amounts receivable on reinsurance business are generally recognised at amortised cost. Receivables from direct insurance business from policy-holders include acquisition costs recognised as claims against policyholders that are not yet due, which were determined using Zillmerisation.

Financial assets at amortised cost are tested for impairment as described in the section "Risk provision – financial assets".

Positive market values from hedges

This item includes the positive market values of derivatives that are accounted for as a hedging instrument in accordance with hedge accounting rules. Initial recognition and subsequent measurement take place at fair value.

Financial liabilities at fair value through profit or loss

Recognised under the item "Financial liabilities at fair value through profit or loss" are the negative market values of derivative financial instruments that are not accounted for as a hedging instrument in connection with hedge accounting.

Changes in fair value and currency translations are recognised in the income statement under “Net measurement gain/loss”. Interest components are shown under “Current net income/expense”.

Liabilities

This item mainly includes liabilities to customers. Also recognised here are liabilities evidenced by certificates, liabilities to credit institutions, lease liabilities and miscellaneous liabilities.

Liabilities to customers and credit institutions, as well as liabilities evidenced by certificates, are recognised at amortised cost. Costs at the time of acquisition correspond to fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue. Fees that are not a part of effective interest are recognised under "Net commission in-come/expense" at the time they are collected. In subsequent measurement, the carrying amount is amortised through profit or loss by depreciating transaction costs, premiums and discounts at a constant effective interest rate. Interest components are shown under “Current net income/expense".

Lease liabilities are measured at the time of initial recognition at the present value of the lease payments not yet made at such time. Thereafter, they are measured at amortised cost, as increased by interest expenses and reduced by the repayment portion of the lease payments that are made.

Miscellaneous liabilities predominantly include liabilities from direct insurance business. Liabilities from direct insurance business consist of liabilities to policyholders, where premiums are received in advance but are not due until after the reporting date, as well as insurance benefits that have not yet been disbursed, profit participation accrued with interest and unclaimed premium refunds. Also recognised under “Miscellaneous liabilities” are liabilities to insurance agents and liabilities from reinsurance business. These liabilities are recognised in their repayment amount.

Negative market values from hedges

This item includes the negative market values of derivative financial instruments that are accounted for as a hedging instrument in accordance with hedge accounting rules. Initial recognition and subsequent measurement take place at fair value.

Subordinated capital

Subordinated capital consists of subordinated liabilities and profit participation certificates. The initial recognition of subordinated capital takes place at fair value. Costs at the time of acquisition correspond to fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue. Fees that are not a part of effective interest are recognised under "Net commission income/expense" at the time they are collected. In subsequent measurement, the carrying amount is amortised through profit or loss by depreciating transaction costs, premiums and discounts at a constant effective interest rate. Interest components are shown under “Current net income/expense".

Off-balance-sheet business

Financial guarantees
Financial guarantees are measured in accordance with the rules in IFRS 9. Accordingly, financial guarantees are recognised at the time of issuance at fair value under "Other provisions". This normally corresponds to the present value of

the counter-performance received for assuming the financial guarantee. Thereafter, the liability is measured in the amount of the provision to be created pursuant to IAS 37 or at the original amount less subsequently recognised amortisation, whichever is higher.

Irrevocable loan commitments
Irrevocable loan commitments are fixed obligations under which the W&W Group is required to provide loans at predetermined terms. They are carried at their nominal value. If a pending liability under a contractual obligation to a third party is likely on the reporting date, a provision is created under the item "Other provisions". The risk provision for loan commitments is determined in accordance with the rules in IFRS 9.

Fair value measurement

The procedure described in the following is used to determine the fair value of financial instruments, irrespective of the category or class to which the financial instrument is assigned and regardless of whether the fair value so determined is used for measurement purposes or for information in the notes. As a rule, classification for the measurement of fair value pursuant to IFRS 13 corresponds to the classification that is made for the purpose of the extended disclosures for financial instruments pursuant to IFRS 7. The extension arises through the inclusion of noncurrent assets classified as held for sale and discontinued operations, as well as, in analogous fashion, liabilities under non-current assets classified as held for sale and discontinued operations, investment property and provisions for future policy benefits for unit-linked insurance contracts, in order to cover the relevant assets and liabilities.

The fair value of a financial instrument means the price that the W&W Group would receive if it were to sell an asset or pay if it were to transfer a liability in an orderly transaction between market participants on the measurement date. Fair value is thus a market-based measurement, not an entity-specific measurement.

The further procedure and the policies for measuring fair value are described in the chapter “Notes concerning financial instruments and fair value” in Note 38.

Hedge accounting

In connection with the accounting of economic hedging relationships, changes in the fair value of financial assets and financial liabilities in the Group's Housing division are depicted in dependence on the hedged risk (fair value hedge). In addition, the arrangements in IAS 39 are applied for hedge accounting.

The procedures applied and approaches established in connection with portfolio fair value hedges are consistent with the processes and objectives of the company's risk management, specifically internal interest rate risk management. The application of portfolio fair - value - hedge accounting is designed to depict the economic management of interest rate risks in accordance with the economic substance of the hedging relationships in IFRS accounting. The management of these risks is reflected, inter alia, in the way portfolios are created in connection with portfolio fair value hedges, which includes the definition of the hedged risk of the portfolio being created, the definition of the selection criteria for the financial instruments to be included in the respective portfolio, the generation of the associated cash flows per portfolio and allocation in maturity bands to be specified, as well as the identification of those derivatives that, with respect to their market fluctuations caused by changes in interest rates, generate a particularly good offsetting effect.

Fair value hedges are generally used to hedge the change in the fair value of a recognised asset, a recognised liability or a fixed, off-balance-sheet obligation or a precisely described part thereof that is attributable to a precisely defined risk and may have an effect on net income for the reporting period. Each change in the fair value of the derivative used as the hedging instrument is recognised in the consolidated income statement. The carrying amount of the hedged item is adjusted in the income statement by the profit or loss attributable to the hedged risk. When the hedge is terminated, the adjustment made to the carrying amount of the hedged item is amortised over the residual term to maturity, if applicable. Hedges are concluded for a term in line with their respective hedging purpose. Whereas hedging instruments at the individual transaction level are as a rule agreed upon for a longer designation period, those at the portfolio level are usually tied to a calendar month. One-month hedge periods for hedging at the portfolio level may mean that when the designation period expires at the end of month, fewer hedged items are designated than during the hedge period.

The cumulative changes in the fair value of the portfolio of financial assets that are attributable to the hedged risk are recognised as a separate subitem “Portfolio hedge adjustment” under the balance sheet item “Financial assets at amortised cost” on the assets side and under the balance sheet item “Liabilities” on the liabilities side. The respective subitem involves a measurement item from the interestrate-based measurement of hedged items designated in connection with the portfolio fair value hedge. Recognised in this regard is the change in the hedged item as relates to the hedged risk. In addition, the market-fluctuation component allotted to the hedged risk is recognised in “Net measurement gain/loss” in the income statement.

When entering into a hedge in accordance with the hedge accounting rules under IAS 39, the hedged item and the hedging instrument are unambiguously stipulated in formal documentation. This documentation also contains statements about the hedged risk, the objective of the hedge and the rhythm and form of initial and subsequent measurement of effectiveness.

For portfolio fair value hedges, the prospective measurement of a hedge's effectiveness, which is performed at the time the contracts are drawn up for the hedged item and the hedging instrument, is undertaken in accordance with the dollar offset method on the basis of interest rate scenarios for each portfolio (market data shifts). In the process, the relevant interest rate curves are adjusted by +/- 100 basis points, and effectiveness is then measured. In doing so, it is assessed whether the ratio created for the hedge adjustments to the hedged item and the hedging instrument, which are calculated from simulated changes in value, satisfies the effectiveness criterion. In accordance with IAS 39 AG 105, a hedge is regarded as prospectively effective if can be expected that it will offset changes in the fair value of the hedged item and the hedging instrument that are attributable to the hedged risk during the period for which the hedge is designated and if the actual fluctuation in value, i.e. the created ratio, is within a range of 80-125%.

The retrospective effectiveness test is performed on the basis of the change in the market interest rate per portfolio that actually occurred during the period for which the hedge was designated. Here as well, the dollar offset method is applied. In doing so, it is tested whether the ratio created for the hedge adjustments to the hedged item and the hedging instrument, which are calculated from changes in value during the period, satisfies the effectiveness criterion explained above. If the ratio is within a range of 80-125%, the hedge is also regarded as retrospectively effective.

Effectiveness is determined at the end of each month. The corresponds to the length of one-month hedge periods and applies to both the prospective and the retrospective view. As a rule, a hedge is ineffective if the changes in the value of the hedged item and the hedging instrument fall outside of the tolerance range. This would be the case, for example, if a hedged item is eliminated because of an impairment or if actual remeasurements deviate from expected remeasurements within a maturity band.

Existing portfolio fair value hedges serve to reduce the risk of changes in interest rates. The socalled “remaining-term-to-maturity effect” is not a component of the hedged risk. Interest rate swaps are the only hedging instruments used to hedge the risk of changes in interest rates in the form of value losses due to a changed interest rate level. The main hedged items were construction loans, registered bonds, debenture bonds and term deposits.

Hedge accounting ceases when the conditions for doing so are no longer met.

Risk provision – Financial assets

The risk provision is calculated under IFRS 9 using the expected credit loss model. This model requires estimates to be made with respect to the question of the degree to which trends in economic and macroeconomic factors may have an impact on expected credit losses. This assessment is made on the basis of weighted probabilities.

The arrangements in IFRS 9 concerning risk provision are applied to financial assets at amortised cost and to debt instruments at fair value through other comprehensive income, as well as to loan commitments and issued finance guarantees. In the case of assets at amortised cost, the risk provision is recognised directly in the risk provision position associated with the respective balance sheet item. In the case of assets at fair value through other comprehensive income, the risk provision is recognised in the income statement by adjusting the reserve for financial assets at fair value through other comprehensive income, which is recognised in equity. The risk provision for off-balance-sheet business is recognised as an expense under “Other provisions”. This risk provision is essentially calculated the same way as that for financial assets. In general, the risk provision model under IFRS 9 does not apply to financial assets at fair value through profit or loss or to debt instruments that are not subject to any credit risk.

Under IFRS 9, the risk provision is calculated using a three-level approach. In Level 1, impairments are determined upon initial recognition on the basis of 12-month credit losses. Expected credit losses are those that result from potential default events within the 12 months following the reporting date. If the credit risk (excluding collateral) has increased significantly as at the measurement date, the financial asset is transferred from Level 1 to Level 2, to the extent that a default event has not yet occurred. Owing to the possibility of default, the financial asset is measured in Level 2 over the residual term to maturity (lifetime view). If, as time progresses, disruptions in performance occur, meaning that there is objective evidence of impaired creditworthiness, the financial asset is assigned to Level 3. In Level 3, impairment is generally measured on the basis of the lifetime view, analogous to Level 2, taking into account the certain occurrence of a default event. In Levels 1 and 2, interest income is calculated on the basis of the gross carrying amount of the financial asset, whereas in Level 3, it is calculated on the basis of the gross carrying amount less the risk provision. The adjustments as a consequence of the coronavirus pandemic and the impact on the risk provision due to agreed deferral measures (statutory and voluntary moratorium) are explained in more detail in the section on the coronavirus pandemic.

As a rule, contracts in customer lending business for which payments have been in default for 30 days or longer are considered to have a significantly increased credit risk and are assigned to Level 2. This assumption was refuted for only a small part of the overall portfolio, and despite being past due for more than 30 days, the contracts continued to be assigned to Level 1.

Significant credit deterioration

In lending business, a quantitative assessment is made as to whether a material credit deterioration has occurred since initial recognition using the change in the probability of default. Serving as the quantitative criterion for evaluating a credit deterioration is an actual or anticipated reduction of the borrower's internal credit rating, which is used for the internal evaluation of the default risk. Quantitative criteria also include past experience and credit ratings, as well as forward-looking macroeconomic factors. In general, the macroeconomic factors are used on the basis of qualitative considerations in risk management and professional considerations in order to ascertain point-in-time components. There is a demonstrated interdependence between the relevant forward-looking information and the relevant risk parameters in the sense of a true and fair view, which is considered within the calculation of the risk provision under IFRS 9. For further remarks, please see the section "Modelling of point-in-time components".

In the area of construction loans, the portfolios are assigned to an internal rating class using a scoring procedure, with each rating class being associated with a probability of default. At the time of acquisition, assignment to a rating class is accomplished by means of application scoring. As time progresses, credit quality is reviewed for changes by means of behavioural scoring, and the portfolio is assigned to the relevant rating class. The assessment of whether a significant credit deterioration has occurred is made on the basis of the relative change in the probability of default. In addition, in the case of the determination of a significant credit deterioration, a qualitative criterion is also used, namely, the carrying out of forbearance measures. For further remarks, please see the section "Concessions and renegotiations (forbearance measures)".

In the area of securities, we look at the external issuer rating and other criteria, such as price changes (average price over the past six months is consistently 20% below the book price, average price over the past 12 months is at least 10% below the book price). Securities with an investment grade rating are assigned to Level 1. If the rating changes from investment grade to non-investment grade, they are always shifted to Level 2. If in addition to significantly increased credit risk, there is objective evidence that a security is impaired, or if the occurrence of a default event with the issuer is 100% certain, the security is assigned to Level 3.

An assignment to Level 3 takes place if the impairment trigger and the supervisory definition in Article 178 CRR are met. As a rule, the following criteria are used for this purpose:

- the Group considers the obligor unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising the security, and/or
- the receivable is past due by more than 90 days.

If a financial asset is impaired, its gross carrying amount is written down by the amount that is expected to be uncollectable. The asset will be written off (in part). Normally, an asset is first written off when, following successful realisation of the collateral, the remaining claim is classified as uncollectable. As a rule, a release is made from the previously created risk provision to cover this loss.

The Group's portfolio currently does not contain any financial assets that were already at risk of default at the time of initial recognition.

Measurement of expected credit risk (expected credit loss)

In connection with the calculation of the expected credit loss or the expected credit risk, the Group uses a model based on parameters for the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). In calculating the expected credit risk, we essentially draw on existing (one-year) parameters that are used for calculating the minimum capital requirements for credit institutions in connection with the internal ratings-based approach, as adjusted to meet the concerns in IFRS 9 (e.g. horizon of several years in the sense of a consideration of residual term to maturity, including macroeconomic factors). In doing so, we use existing one-year models and approximate the maturity-dependent probability of default with the aid of a series of one-year PDs. The key attribute used to determine multi-year, conditional PD profiles is the 12-month or one-year default indicator.

In lending business, the probability of default is determined on the basis of an internal rating system. In this regard, each loan in the W&W Group is assigned a probability of default on the basis of a master scale. The assignment of the rating is based on the customer's specific behaviour, taking into account such factors as general customer behaviour (e.g. income from employment, marital status), external data (e.g. credit rating by Schufa) and payment behaviour.

In connection with establishing the parameters for determining the exposure at default, we model contractually agreed interest and principal payments and optional unscheduled principal payments for all products.

In determining the loss given default, we model multiyear parameters on the basis of features that vary over time. In addition to the aforementioned exposure at default, these features that vary over time consist of, for instance, collateral or loan-to-value ratios. Here as well, we model a point-in-time component in order to capture the macroeconomic effects on the loss ratio. In the case of in rem collateral, the price index for existing residential properties is relevant, whereas in the case of non-in rem collateral, the long-term 10-year yield for German government bonds is referenced. For further remarks, please see the section "Modelling of point-in-time components".

In the course of calculating a risk provision under IFRS 9, it is also necessary to discount cash flows. In this regard, IFRS 9 requires that the effective interest rate be used for discounting purposes.

Modelling of point-in-time components (forward-looking information)

The modelling of point-in-time components is intended to cover not only past and current information but also forecasts about future changes in the economy. Because these components are viewed over a horizon of several years, information about economic trends that are expected in the future has to be taken into consideration when measuring the risk of default associated with a credit agreement. By means of the considered macroeconomic factors, the forecasts extend into the future for at most three years.

Implementation of such a forward-looking correction corresponds to a modification of the multiyear probabilities of default. A forward-looking perspective requires the inclusion of forecasts about economic factors that are relevant for the default rate. In this regard, a determination is first made as to the impact that the relevant macroeconomic factors have on the portfolio default rate. The point-in-time correction of the multiyear probabilities of default is then based on the forecast of this portfolio default rate.

Accordingly, a contract-specific settlement LGD with a point-in-time correction is also modelled.

In terms of macroeconomic factors, the change in the probability of default in customer lending business depends, in particular, on changes in the unemployment rate and nominal GDP growth. The probability of default tends to increase when the unemployment rate rises or nominal GDP growth falls. In terms of macroeconomic factors, the amount of the expected percentage loss in the event of default in customer lending business depends on trends in the price index for existing residential properties, as well as trends in the long-term 10-year yield for German government bonds.

The expected percentage loss at the time of default tends to rise when the price index for residential properties falls or the long-term 10-year yield for German government bonds rises.

With respect to the coronavirus pandemic, the current approach for calculating a risk provision under IFRS has essentially remained the same, but small modifications were necessary due to the new situation. This mainly related to the use of macroeconomic factors. Adjustments made beyond this are presented in the section on the coronavirus pandemic.

The model for calculating the risk provision requires estimates to be made with respect to the question of the degree to which trends in macroeconomic factors may have an impact on expected credit losses. In this regard, the derivation of the relevant macroeconomic factors under each scenario for the forecast for the IFRS 9 risk provision calculation was as a rule in line with internal company planning, as well as with the availability of the data bases for the forecasts. However, the coronavirus pandemic caused particular uncertainty here with respect to the further trends in these utilised forecasts for the respective factors. In particular, the duration of the second lockdown until 28 March 2021 is not yet being taken into consideration in the utilised forecasts. In addition, suspension of the obligation to apply for commencement of insolvency proceedings, which has been extended since the start of the coronavirus pandemic until 30 April 2021, as it currently stands, means that it is especially difficult to make a statement this year about the continued existence of many companies, about their employment situation and thus about unemployment rates.

In order to determine the sensitivity of the risk provision in accordance with IFRS 9, the following scenarios were considered in customer lending business. In addition, in light of the coronavirus pandemic, macroeconomic factors were used that are more stable in the medium to long term. This discretionary judgment is in line with the requirements of ESMA.

Forecast of the relevant macroeconomic factors in ..

	Base scenario	Alternative scenario – optimistic	Alternative scenario – pessimistic
Price index for existing residential properties[1]	168.5	178.5	153.5
Unemployment rate, in %[2]	4.6	3.6	5.7
Nominal GDP growth, in %[3]	2.7	4.2	1.0
Long-term 10-year interest rate for German government bonds, in %[4]	−0.5	−0.2	−0.8

1 Base year = 2010, data base of the German Federal Statistical Office at the quarterly level, forecast over three years
2 Data base of the OECD at the quarterly level, forecast over one year
3 Data base of the OECD at the quarterly level, forecast over one year
4 Data base of the OECD at the quarterly level, forecast over two years
The foregoing macroeconomic factors relate to Germany.

In the course of calculating an IFRS 9 risk provision for accounting purposes in customer lending business, the base scenario is exclusively applied, since the modelled risk parameters are themselves already based on various model scenarios (default, no default, recovery, settlement) and this base scenario remains well suited for making forecasts. The alternative scenarios are shown here merely for informational purposes. The employed characteristics of the various macro factors were estimated in light of the coronavirus pandemic, and a purely mechanistic adoption of the current macroeconomic situation was avoided. The forecast for the relevant factors was based on the objective of giving greater weight to assumptions that are more stable in the long term.

In connection with the derivation of risk parameters in the area of investments, we make use of information provided by rating agencies and by the capital market, particularly in the case of the derivation of multiyear default parameters, taking into account internal valuation interest rate curves and empirically observed (multiyear) default rates for bonds that are published on a regular basis by the rating agencies. We also use information provided by rating agencies when modelling multiyear parameters relating to the loss given default (LGD). The probabilities of default take into account forward-looking macroeconomic information in the form of a correction factor on the basis of market-implicit probabilities of default. This is because the macroeconomic factors listed above are implicitly included in the risk provision calculation through the expectations of market participants. This correction factor describes the relationship between the current and long-term credit spread-based expectations of investors on the capital market concerning credit ratings. If this relationship is greater than 1 (less than 1) in the pessimistic (optimistic) scenario, the capital market assumes a higher (lower) probability of default for an issuer, which, in accordance with the correction factor, then has an effect on the calculation of the risk provision.

In the W&W Group as a whole, the risk provision in accordance with IFRS 9 would, in the pessimistic scenario, increase by €90.7 million for customer lending business and in the area of investments and, in the optimistic scenario, fall by €18.7 million for both areas.

The models used under IFRS 9 for calculating the expected credit loss are validated on a regular basis.

Concessions and renegotiations (forbearance measures)

In justified exceptional cases, we enter into reorganisation/restructuring agreements with contract partners, irrespective of the coronavirus pandemic. These agreements generally call for a temporary or permanent reduction in the amount of loan repayment instalments in exchange for an extension of the total term of the loan, which ultimately is intended to lead to complete repayment. However, the changed basic conditions as a result of the coronavirus pandemic made it necessary to make adjustments to the current approach. The changes are described in more detail in the section on the coronavirus pandemic.

Such concessions may be granted to the borrower on account of existing or expected financial difficulties, and they normally contain terms that are more advantageous to the borrower as compared with the original contract. In order to be able to identify these commitments early on, all loan commitments in the W&W Group are regularly reviewed for whether there is evidence that the borrower is experiencing financial difficulties. In particular, arrears that trigger collection warnings constitute objective evidence that the borrower is experiencing financial difficulties.

In advance of such restructuring, reorganisation and deferment measures, the customer's creditworthiness is once again verified on the basis of current economic circumstances. Measures taken in the past always form part of the decision-making process.

Forbearance measures essentially also have an impact on the level assignment in accordance with IFRS 9. In the spirit of a forward-looking concept for risk provision under IFRS 9, we augment the quantitative criteria for a change of level with a qualitative transfer criterion with respect to the forbearance measures that have been taken. This ensures that, as a rule, all forbearance measures trigger a change of level under IFRS 9 from Level 1 to Level 2. For further remarks, please see the section “Exercise of discretionary judgment in the application of IFRS 9 ‘Financial instruments’”.

Loan commitments for which the evaluation of creditworthiness, taking into account an annuity reduction, is positive and that were not previously in default are converted directly to the new repayment terms. The effects from the undertaken modifications were not material in the W&W Group in the current financial year (unsubstantial modifications).

However, despite careful review of creditworthiness and the targeted measures taken, it cannot be ruled out that repayment problems will arise in the future. Should that occur, the customer's creditworthiness is once again critically reviewed on the basis of its current economic circumstances.

If the assessment of creditworthiness is negative, or if the loan is in default, it is first decided whether it appears reasonable under the given circumstances to restructure the existing loan or refinance the debt through a new loan. In all other cases, the settlement process is initiated for loans in default.

The loan claim is derecognised if no further payments are expected from liquidation of existing collateral or from the debtor.

Other items

Non-current assets held for sale and discontinued operations

A non-current asset is classified as held for sale if the associated carrying amount is to be realised primarily through a sale and not through continued use.

Such assets are recognised in the balance sheet under the item "Non-current assets classified as held for sale and discontinued operations". Income and expenses from individual assets held for sale or disposal groups are not recognised separately in the income statement but instead are included under the normal items.

Non-current assets that are classified as held for sale are recognised at the carrying amount or at fair value less costs of disposal, whichever is lower. If the carrying amount is higher than fair value less costs of disposal, the amount of the difference is recognised as a loss for the relevant period. Assets held for sale are not subject to scheduled depreciation.

Costs of disposal mean the additionally incurred costs that are directly attributable to the sale of an asset (or a disposal group), with the exception of financing costs and the income tax expense.

The criteria for classifying an asset as held for sale are considered met only if the sale is very likely and the asset or the disposal group can be immediately sold in its current condition. In principle, it may be expected that the planned sale will take place within one year of the time of classification.

Investment property

The item "Investment property" consists of land and buildings, as well as right-of-use assets under leases, that are held for the purposes of generating rental income and/or appreciation in value.

Investment property is measured at acquisition or production cost, as reduced by scheduled use-related depreciation and, where applicable, impairment losses (cost model).

Each part of a property with an acquisition value that is significant in relation to the value of the entire property is subjected to separate scheduled depreciation. In so doing, a distinction is made, at a minimum, between shell construction and interior outfitting/technical systems.

The individual useful lives of shell construction and interior outfitting/technical systems are estimated by architects and engineers in the property division of the W&W Group. For shell construction, the maximum useful life is estimated to be 80 years (previous year: 80 years) for residential properties and 50 years (previous year: 50 years) for commercial properties, whereas for interior outfitting/technical systems, the maximum useful life is estimated to be 25 years (previous year: 25 years).

Shell construction and interior outfitting/technical systems are subjected to scheduled depreciation on a straight-line basis over the expected remaining useful life. Right-of-use assets from investment property are depreciated on a straight-line basis over the expected useful life of up to 99 years. In this regard, the expected useful life corresponds to the contract term.

Investment property is tested for impairment in two steps. First, it is examined whether there is evidence of impairment on the reporting date. If this is the case, the anticipated recoverable amount is determined as the net realisable value (fair value less costs of disposal). If this value is less than amortised cost, an impairment loss is taken in the corresponding amount. In addition, it is examined on the reporting date whether there is evidence that an impairment loss taken for investment property in earlier periods no longer exists or might have declined. If this is the case, the recoverable amount is likewise determined and, if appropriate, the carrying amount is modified to reflect the recoverable amount, paying regard to amortised cost.

The fair value of investment property is essentially determined using the discounted cash flow method, with deposits and withdrawals planned in detail. In this regard, significant non-observable inputs are used, for which reason this method for investment property is allocated to Level 3 in the measurement hierarchy for determining fair value.

In connection with determining fair value, expected future cash inflows (rents, other revenues) and cash outflows (maintenance, non-apportionable operating expenses, vacancy costs, costs for releasing) are discounted to present value for a 10-year forecast period and planned in detail.

Cash inflows and outflows are considered on an individual basis, i.e. each lease and each construction measure is planned separately. Likewise, vacancy periods, real estate agent costs, etc. in the commercial area are viewed separately for each rental unit. With regard to residential properties, market-based assumptions about the change in the average rents of all residential units over the forecast period are taken as a basis. Because residential units are similar, we dispense with individual planning.

In particular, the following significant non-observable inputs are used:

- The adjusted capitalisation interest rate of a risk-free financial investment, plus a risk premium, is used as the internal interest rate. The risk premium for properties ranged from 285 basis points (previous year: 271 basis points) for, for example, residential properties in top locations to 705 basis points (previous year: 691 basis points) for, for example, retail locations and sites without any discernible advantages/strengths. This resulted in an adjusted capitalisation interest rate of between 2.30% and 6.50%, although the range may vary in some cases due to special aspects of the property or location.
- An inflation rate of 1.50% p.a. was used as the basis for determining rent increases and changes in average rents in the forecast period. For commercial properties, this was the basis used to make a property-specific, contractually conforming forecast of rent trends independent of location, site, building age and type of use. For residential properties, the basis used is the anticipated change in comparable local rents. In addition, on the basis of past experience, an assumption was made as to the frequency of tenant turnover p.a. for newly rented residential units. In the area of residential properties, it was assumed that rents could be expected to increase by 1.00% to 2.00% p.a. on average.

Investment property is initially valued using outside appraisers (see Note 8). Thereafter, it is valued on an ongoing basis by commercial and technical employees (portfolio managers, controllers, architects and engineers) from the Group's property division. Management's assumptions are taken into consideration in making valuations. With property investments under outside management, fair value is normally determined by outside appraisers. Property fair values shown in the notes to the consolidated financial statements were likewise determined using the above-described method.

Reinsurers' portion of technical provisions

The reinsurers' portion of technical provisions is recognised in the balance sheet on the assets side.

All reinsurance contracts concluded by W&W Group companies transfer significant insurance risk, i.e. they are insurance contracts within the meaning of IFRS 4. The reinsurers' portion of technical provisions is determined from gross technical provisions in conformity with the contractual terms (see also the notes on the corresponding liability items). The reinsurers' portion of technical provisions is tested for impairment on each reporting date.

Intangible assets

Allocated to the item "Intangible assets" are software, brand names, copyrights and other intangible assets. An intangible asset must satisfy the following requirements: (a) it must be an asset, (b) it must be identifiable, (c) it must be devoid of any physical substance and (d) it must have a non-monetary character.

All intangible assets exhibit a limited useful life, are measured at amortised cost (cost model) and are amortised on a straight-line basis over their estimated useful life.

Internally developed software from which the Group is likely to receive a future economic benefit and that can be reliably measured is capitalised at its production cost and amortised on a straight-line basis over its estimated useful life. Production costs for internally developed software consist of all directly attributable costs that are necessary for developing and producing the respective asset and preparing it in such a way that it is capable of operating in the manner intended.

Research and development costs that are not required to be capitalised are treated as an expense in the period. If the acquisition or production of software takes longer than one year, the directly attributable borrowing costs incurred up to completion are capitalised as a component of the production costs for the qualified asset.

As a general rule, internally developed and acquired software is amortised on a straight-line basis over a period of three to five years. Brand names are amortised on a straight-line basis over a useful life of 20 years, and other acquired intangible assets are amortised on a straight-line basis over a useful life of at most 15 years.

Scheduled amortisation of and impairment losses taken for intangible assets are recognised as general administrative expenses under the item "Depreciation/amortisation".

Property, plant and equipment

Recognised under "Property, plant and equipment" are property for own use, plant and equipment and right-of-use assets. Property for own use means land and buildings used by Group companies. Additional accounting policies concerning right-of-use assets can be found in the section “Leases”.

Property, plant and equipment is measured pursuant to the cost model at acquisition or production cost, as reduced by scheduled use-related depreciation and, where applicable, impairment losses.

Property for own use is measured using the same valuation methods that apply to the recognition of investment property. Reference is therefore made to the corresponding comments. Right-of-use assets from property for own use are depreciated on a straight-line basis over a period of up to 12 years.

Plant and equipment are subject to scheduled depreciation on a straight-line basis over the estimated useful life. Useful life normally amounts to up to 13 years but in some cases may extend to up to 50 years. Right-of-use assets – plant and equipment are depreciated on a straight-line basis over the useful life of up to 15 years. Acquired EDP equipment is depreciated on a straight-line basis over its estimated useful life, normally up to at most seven years.

Economic useful life is regularly reviewed in connection with preparation of the financial statements. Modifications that need to be made are recognised as a correction to scheduled depreciation over the remaining useful life of the respective asset.

In addition, as at each reporting date, it is reviewed whether there is evidence of impairment to the corresponding asset. If this is the case, impairment is determined by comparing the carrying amount with the recoverable amount (fair value less costs of disposal or value in use, whichever is higher). If an item of property, plant and equipment does not generate cash flows that are largely independent of cash flows from other items of property, plant and equipment or groups of property, plant and equipment, impairment is tested not on the level of the specific item of property, plant and equipment but rather on the level of the cash-generating unit to which the item of property, plant and equipment is to be allocated. If it is necessary to take an impairment loss, it corresponds to the amount by which the carrying amount exceeds the recoverable amount for the item of property, plant and equipment or, if applicable, for the cash-generating unit, whichever is lower. If fair value less costs of disposal cannot be determined, the recoverable amount corresponds to the value in use. The value in use is determined as the present value of forecast cash flows from continued use. Once there is evidence that the reasons for taking the impairment loss no longer exist, it is tested for reversal.

Scheduled depreciation of and impairment losses taken for property for own use and plant and equipment are recognised as general administrative expenses under the item "Depreciation/amortisation". Income for property for own use related to the pro rata temporis release of disposal gains in connection with sale-leaseback transactions is recognised as other operating income.

Inventories

Inventories are recognised at acquisition or production cost or at net realisable value, whichever is lower.

Production costs are determined on the basis of individual costs and directly attributable overhead costs. The scope of production costs is determined by the costs expended up to the point of completion and readiness for use (total costs-of-conversion approach). Acquisition and production costs for non-interchangeable and special inventories are determined by specific allocation. Certain acquisition and production costs for interchangeable inventories are determined according to the first-in, first-out (FIFO) method or the weighted average cost method.

Net realisable value corresponds to the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Leases

A lease is a contract or part of a contract that entitles the lessee to control the use of an asset for a period of time in exchange for consideration. At inception of a contract, it must be assessed whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The W&W Group began applying IFRS 16 on 1 January 2019. IFRS 16 is not being applied to intangible assets.

W&W Group as lessee

As a rule, a right-of-use asset and a lease liability are recognised in like amounts in the consolidated balance sheet on the commencement date. Recognised right-of-use assets are depreciated on a straight-line basis until the end of the contract according to the same principles applicable to other comparable assets owned by the W&W Group (cost model). Recognised right-of-use assets are tested for impairment as at each reporting date. If the recoverable amount of the right-of-use asset is less than its carrying amount, an impairment loss is taken. If the reasons for taking the impairment loss no longer exist, it is tested for reversal. Scheduled depreciation and impairment expenses are recognised in the subitem “Depreciation/amortisation” under “General administrative expenses”.

The lease liability is measured at amortised cost using the effective interest method. In addition, the present value is calculated on the basis of the lease payments for the right to use the underlying asset that have not yet been made, which are discounted using the interest rate implicit in the lease. Since that rate cannot be readily determined, we use our incremental borrowing rate, which is determined on the basis of an alternative borrowing in the form of an observable return over a period that corresponds to the term of the relevant lease. In addition, the lessee's credit default risk is taken into account in the interest rate, paying regard to term and creditworthiness.

Lease payments are divided into financing costs and a repayment portion, whereby the financing costs are recognised as an expense under "Current net income/expense" (interest expenses under “Net interest income/expense”). The repayment portion reduces the financial liability.

The W&W Group recognises its right-of-use assets in the same balance sheet item in which its own underlying assets are recognised, i.e. under “Property, plant and equipment” and under “Investment property”.

Lease liabilities are recognised under “Liabilities” as a separate subitem in the consolidated balance sheet.

Short-term leases with a term of up to one year, as well as leases whose underlying asset is of low value, are recognised as a general administrative expense in the income statement on a straight-line basis over the lease term.

W&W Group as lessor

Every lease is classified by the lessor either as an operating lease or a finance lease. The classification is made at the start of the lease and is reevaluated only if the lease is amended.

The lessor classifies a lease as a finance lease if essentially all risks and opportunities associated with ownership are transferred to the lessee. The leased asset held at the time of contract conclusion is derecognised, and a receivable from the lessee in the amount of the net investment in the lease is recognised under “Other receivables”. Payments of lease instalments are to be broken down into receivable amortisation and financial income. The derecognition and impairment rules of IFRS 9 are applied to the receivable.

If the lessor classifies a lease as an operating lease, the assets underlying the lease are capitalised in the corresponding balance sheet item, irrespective of the characteristics of these assets. Income from operating leases is recognised in the item “Other current net income/expense”, generally on a straight-line basis over the lease term. Costs, including depreciation, incurred in connection with operating leases are recognised as an expense in the item “Other current net income/expense” in the consolidated income statement. The depreciation rates for depreciable leased assets are consistent with those for similar assets. Recognised leased assets are tested for impairment as at each reporting date. If the reasons for taking the impairment loss no longer exist, it is tested for reversal.

Current tax assets, deferred tax assets, current tax liabilities and deferred tax liabilities

Current tax assets and liabilities are recognised in the amount that is most likely or corresponds to the expected value. Deferred tax assets and liabilities are created because of temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet drawn up pursuant to IFRS and the tax carrying amounts pursuant to local tax rules of the Group companies. Deferred taxes are calculated at the respective country-specific tax rates that are in effect or that have been announced as at the reporting date. Deferred tax assets are recognised for tax loss carryfor-wards to the extent that, in accordance with planning calculations, it is probable that they can be utilised in the future. Deferred tax assets from temporary differences and loss carryforwards are tested for impairment as at each reporting date. Deferred tax assets and deferred tax liabilities are shown netted.

Technical provisions

In general

Technical provisions are recognised on the liabilities side in gross amounts, i.e. before deduction of the reinsurers' portion of technical provisions. The reinsurance portion is determined in accordance with contractual reinsurance agreements and recognised separately on the assets side.

All insurance contracts concluded by W&W Group companies transfer significant insurance risk, i.e. they are insurance contracts within the meaning of IFRS 4.

Pursuant to IFRS 4.14 (a), liabilities may not be recognised for fluctuation reserves to be created in property and casualty insurance according to national rules or for reserves similar to fluctuation reserves.

Reserves are created for assumed reinsurance business according to the information provided by the prior insurer. If such information was unavailable, the reserves were determined by the data available to us. In the case of coinsurance and pools in which direction has been in the hands of outside companies, the same approach was taken.

The provision for unearned premiums corresponds to that portion of written premiums that constitutes income for a certain period of time after the reporting date. For each insurance contract, the provision for unearned premiums is accrued either to the precise day or to the precise month. The provision for unearned premiums in transport insurance in the area of property/casualty insurance is recognised under the item "Provision for outstanding insurance claims".

Life insurance

The provision for future policy benefits is determined according to actuarial principles for each contract prospectively, taking into account the month of commencement, as the present value of future guaranteed insurance benefits, less the present value of future premiums. Future administrative costs are mainly taken into account implicitly.

For times when no premiums are paid, a provision for administrative costs is created within the provision for future policy benefits. It is currently deemed to be sufficiently high. With unit-linked life and annuity insurance, only contingent guarantee components are recognised in the provision for future policy benefits.

In the case of insurance policies with regular premium payments, acquisition costs are explicitly recognised using Zillmerisation. To the extent permitted, claims that are not yet due are recognised under "Receivables from policyholders".

The applied actuarial interest rate and the biometric actuarial bases correspond to those that also form part of the calculation of premium rates. Interest rates ranged from 0.0% (previous year: 0.0%) to 4.0% (previous year: 4.0%). Exceptions to this are explained in the following sections. The average actuarial interest rate for the provision for future policy benefits was 1.7% (previous year: 1.8%), taking into account the created additional interest reserve/interest rate reinforcement. The standard industry tables recommended by the German Association of Actuaries (DAV) were used for the biometric actuarial bases. In exceptional cases, tables based on our own past experience were used.

As a result of European case-law, only so-called "unisex rates" have been permitted to be offered since 21 December

2012, which are calculated in a gender-neutral manner. For this purpose, the company uses its own, gender-neutral biometric actuarial bases, which are derived from the gender-neutral tables recommended by the DAV.

For insurance policies for which an actuarial interest rate was originally used that is no longer appropriate under Section 341f (2) of the German Commercial Code (HGB), the provision for future policy benefits in the new portfolio was determined for the period of the next 15 years using the reference interest rate of 1.73% (previous year: 1.92%) specified in Section 5 (3) of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) and thereafter using the original actuarial interest rate. In the old portfolio, interest reinforcement was created pursuant to the business plan in a manner analogous to the additional interest reserve. For this purpose, a measurement interest rate of 1.73% (previous year: 1.92%) was used for the insurance policies of Württembergische Lebensversicherung AG, and a measurement interest rate of 2.17 (previous year: 2.3%) was used for ARA Pensionskasse AG. In calculating interest reinforcement and the additional interest reserve, likelihoods of cancellation and capital disbursement were taken into account that are in part specific to each company. This led to a slightly higher addition in the mid seven figures. In the case of endowment insurance policies of Württembergische Lebensversicherung AG, the mortality table DAV 2008T was, in addition, used as the reserve level.

In order to take increased life expectancy into account with regard to annuity insurance, an additional provision for future policy benefits was created. Current mortality studies of annuity insurance have shown that the safety margins built into the original actuarial bases no longer meet the actuarial safety requirements. In order to maintain an appropriate safety level going forward, the safety margin was bolstered in the 2020 financial year in accordance with DAV recommendations as part of the ongoing review of trend assumptions, and the provision for future policy benefits for pensions was increased. This was based on the DAV-developed mortality tables DAV 2004 R-Bestand (at the rate of 4/20) and DAV 2004 R-B20 (at the rate of 16/20), on entity-specific capital disbursement probabilities, which were adjusted in 2020 for a partial portfolio, and on the principles for calculating the provision for future policy benefits that were published by the German Federal Financial Supervisory Authority (BaFin) in January 2005. In this regard, the adjustment of capital disbursement probabilities resulted in a slightly higher addition.

(Supplemental) occupational disability insurance policies were collectively compared against the currently valid DAV actuarial bases. An additional provision for future policy benefits was not created.

For supplemental long-term care annuity insurance policies, actuarial bases are used that are deemed sufficient pursuant to the guideline "Reserving for (supplemental) long-term care annuity insurance policies in the portfolio" enacted by the DAV in the 2008 financial year.

The actuarial bases used for calculating the provision for future policy benefits are reviewed annually for sufficient safety margins, taking into consideration the actuarial bases recommended by the DAV and BaFin and the observable trends in the portfolio. The explanatory report by the responsible actuary pursuant to Section 141 (5) No. 2 and No. 4 sentence 2 of the German Act on the Supervision of Insurance Undertakings (VAG) demonstrates that all actuarial bases were selected with sufficient caution pursuant to regulatory and commercial law provisions.

The provision for outstanding insurance claims was created for future payment obligations that result from insurance claims that occurred on or before the reporting date but have not yet been settled. It also contains anticipated claim adjustment expenses. The amounts and disbursement times of insurance benefits are still uncertain.

The provision for insurance claims that have already been reported by the reporting date is generally determined separately (separate measurement). For insurance claims that had already occurred by the reporting date but were still unknown, a provision for late outstanding claims was created, whose amount was determined on the basis of operational experience in past years.

The provision for premium refunds consists of two parts. Assigned to the first part – the provision for premium refunds (premiums allocated according to commercial law rules) – is the portion of each insurance company's net profit that is attributable to policyholders. The second part of the provision for premium refunds – the provision for deferred premium refunds – contains the portions of the cumulative measurement differences between the annual financial statements of the individual companies under the HGB and the consolidated financial statements pursuant to IFRS that are attributable to policyholders. These temporary measurement differences are included in the provision for deferred premium refunds at the rate of 90% (previous year: 90%) at which policyholders participate at a minimum upon realisation.

Technical provisions in the area of life insurance, insofar as the investment risk is borne by policyholders, are determined for each individual contract using the retrospective method. In this regard, unless they are used for the purposes of financing guarantees, received premiums are invested in fund units. The risk and cost components are withdrawn from the fund balance on a monthly basis, where applicable subject to offsetting against the corresponding surplus components. The carrying amount of this item corresponds to the carrying amount of capital investments for the account and risk of holders of life insurance policies under the item "Financial assets at fair value through profit or loss".

In the case of unit-linked annuity insurance policies for which the guarantees are depicted as part of a dynamic hybrid concept, recognised as the provision for future policy benefits is the total of fund units and investments in other assets, but at least the prospectively calculated provision for the guarantee benefit.

Health insurance

In health insurance, the average actuarial interest rate for the provision for future policy benefits was 2.14% (previous year: 2.21%). The mortality tables published by BaFin were used for the biometric actuarial bases. In calculating the provision for future policy benefits in health insurance, assumptions are made about probabilities of withdrawal and about current health costs and those that increase with age. These assumptions are based on our own experience and on reference values ascertained industry-wide. The actuarial bases are reviewed on a regular basis in connection with premium adjustments and are then adjusted where applicable with the consent of the trustee.

In health insurance, provisions for outstanding insurance claims are extrapolated on the basis of claims made during the reporting year. The extrapolation is based on the average ratio of claims made in the previous year to those made in the three financial years preceding the reporting date.

In health insurance, the provision for premium refunds consists of two parts. Assigned to the first part – the provision for premium refunds (premiums allocated according to commercial law rules – is the portion of net profit that is attributable to policyholders and not directly credited. The minimum statutory requirements were observed in connection with this allocation. The second part of the provision for premium refunds – the provision for deferred premium refunds – contains the portions of the cumulative measurement differences between the annual financial statements of the health insurer under national law and the consolidated financial statements pursuant to IFRS that are attributable to policyholders. These temporary measurement differences are included in the provision for deferred premium refunds at the rate of 80% (previous year: 80%) at which policyholders participate at a minimum upon realisation.

In health insurance, other technical provisions include, in particular, the provision for cancellations. It is calculated on the basis of the negative parts of the ageing provision and the parts of the carryover values exceeding the standard ageing provisions.

One-off acquisition costs for health insurance (by type of life insurance product) are recognised using Zillmerisation, and the net positive provision for future policy benefits is accounted for under the item "Provision for future policy benefits".

Property/Casualty Insurance

The provision for outstanding insurance claims (provision for claims) is created on a policy-by-policy basis for future payment obligations that result from insurance claims that occurred on or before the reporting date but have not yet been settled. The amounts and disbursement times of insurance benefits are still uncertain.

The provision for late outstanding claims was determined from the databases of prior financial years, as well as based on past experience. In this regard, the provision for late outstanding claims is calculated using a method recommended by BaFin. Claims reported during the reporting year are allocated to the respective year of occurrence by number and expense and compared with the claims made during the corresponding years. These ratios are applied to the average unit cost for settled claims, resulting in the anticipated unit cost rates for claims that were reported after the reporting year but that occurred during the reporting year, and these are then multiplied by the anticipated unit figures to calculate the provision for late outstanding claims. The provisions for claims are not discounted, other than the provision for future annuity benefits in property insurance.

The provision for claim adjustment expenses was determined in accordance with the letter of the German Federal Minister of Finance of 2 February 1973.

The provision for future annuity benefits in property/casualty insurance is calculated for each individual contract according to actuarial principles and, as is the case with the provision for future policy benefits, using the prospective method. The mortality tables recommended by the German Association of Actuaries (DAV), DAV HUR 2006, were used, and they contain suitable safety margins. For all annuity commitments, an interest rate of 0.25% was used to calculate the provision for future annuity benefits. Future administrative costs were measured at 2% of the provision for future annuity benefits, a rate that is deemed sufficiently conservative.

Other technical provisions in property/casualty insurance consist primarily of provisions for cancellations and the provision for unused premiums from dormant motor insurance policies. The provision for cancellations is created for the anticipated cessation or reduction of the technical risk associated with premiums to be refunded.

Other provisions

Provisions for pensions

The company pension scheme in the W&W Group consists of both defined-contribution and defined-benefit commitments. Prior to reorganising the company pension scheme in 2002, all employees at Wüstenrot companies (Wüstenrot Bausparkasse AG, Wüstenrot Immobilien GmbH, Wüstenrot Haus- und Städtebau GmbH and Gesellschaft für Markt- und Absatzforschung mbH) were granted defined-benefit pension commitments. At Württembergische Versicherung AG, Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG, defined-contribution commitments were granted (Pensionskasse der Württembergische). In addition, managers, senior executives and directors received pension commitments (defined-benefit commitments). At Wüstenrot & Württembergische AG, W&W Informatik GmbH and W&W Asset Management GmbH, both defined-benefit and defined-contribution commitments were granted. The various defined-benefit commitments in the Group are primarily structured in a manner dependent on salary and length of service and sometimes as fixed-amount commitments. Pension commitments for new hires between 2002 and 2017 have been financed Group-wide by ARA Pensionskasse AG (defined-contribution benefit commitments). For new hires from 2018, pension commitments have been carried out Group-wide through direct insurance policies at Württembergische Lebensversicherung AG (defined-contribution benefit commitments). Managers, senior executives and directors receive pension commitments (defined-contribution benefit commitments) that are reinsured by ARA Pensionskasse AG. In addition, all employees have the option of receiving a pension commitment in the form of a capital commitment through deferral of future remuneration, which is reinsured by Württembergische Lebensversicherung AG. If the pledged reinsurance qualifies as plan assets, its fair value is netted against the corresponding obligation.

Obligations under pension commitments are measured using the projected unit credit method on the basis of expert actuarial opinions. Taken into account in doing so are both the pensions and acquired pension entitlements known on the reporting date and the increases in salary and pensions expected in the future. Pursuant to IAS 19.83, the rate used to measure pension provisions is to be determined on each reporting date on the basis of yields on senior fixed-income corporate bonds. The currency and term of the underlying corporate bonds must be consistent with the currency and estimated term of the commitments to be met.

Actuarial gains and losses from experience-related adjustments and changes to actuarial assumptions are recognised directly in equity for the period in which they are incurred within the reserve for pension commitments and form a component of other comprehensive income.

Income and expenses from pension commitments are recognised in the consolidated income statement under "Personnel expenses" (service cost). Past service cost is recognised immediately in full as an expense under "Personnel expenses".

Assets transferred to an outside pension fund constitute plan assets, which are netted at their fair value against existing defined-benefit commitments.

Provisions for other long-term employee benefits

Other long-term employee benefits include commitments for early retirement, agreements on phased-in early retirement ("Altersteilzeit"), the granting of long-service benefits, long-term occupational disability benefits, death benefits and other social benefits. Actuarial gains and losses arising in connection with the accounting for other long-term employee benefits are recognised in the income statement.

For information about the corresponding actuarial interest rates, please see Note 20.

Miscellaneous provisions

Miscellaneous provisions are measured and recognised in the anticipated settlement amount, provided there are legal or constructive obligations to third parties based on past business events or occurrences and the outflow of resources is likely. The settlement amount is determined on the basis of best estimates. Miscellaneous provisions are recognised if they can be reliably determined. They are not set off against refund claims. The determined obligations are discounted at market interest rates that correspond to the risk and the period until settlement, provided that the resulting effects are material.

Provisions for restructuring are recognised if a detailed formal plan for the restructuring was approved and the main restructuring measures contained in it have been publicly announced, or the restructuring plan has already begun to be implemented.

Provisions are created for the refunding of closing fees in the event of loan waivers where concluded home loan savings contracts contain the obligation to refund closing fees to home loan savings customers when certain contractually agreed criteria are met (e.g. loan waiver). Under the assumption that, in the event of a loan waiver by home loan savings customers, the claim to closing fees was earned by the reporting date at the latest, the present value is calculated on the basis of a probability-based forward projection of past statistical data that constitutes the best estimate of the current obligation. Uncertainties in determining the future amount of the obligation arise, in particular, from the established assumptions concerning the input parameters used, such as statistical data, termination behaviour and loan waiver ratio.

Provisions for interest bonus options are created where the obligation to pay interest bonuses to home loan savings customers is contained in concluded home loan savings contracts. Taking as a basis the bonus claims earned by the reporting date that may potentially need to be disbursed, the present value is calculated on the basis of a probability-based forward projection that constitutes the best estimate of the current obligation. Uncertainties in determining the future amount of the obligation may arise, in particular, from the established assumptions concerning the input parameters used, such as termination behaviour and bonus utilisation behaviour.

Additional provisions include, for example, provisions for contingent losses from pending transactions, which are created if a contingent liability results from a pending transaction.

There are no assets for expected reimbursements in connection with recognised miscellaneous provisions.

Equity

This item consists of paid-in capital, earned capital and non-controlling interests in equity.

Paid-in capital consists of share capital and the capital reserve. Share capital consists of registered no-par-value shares that are fully paid up. Outstanding contributions to share capital are to be openly set off against it. The capital reserve is generated from the premium realised above the mathematical value when shares are issued.

Earned capital is composed of retained earnings and other reserves. Retained earnings consist of statutory reserves and reinvested profits. Other reserves include:

- the reserve for financial assets at fair value through other comprehensive income,
- the reserve for financial assets accounted for using the equity method,
- the reserve for cash flow hedges,
- the reserve for currency translation and
- the reserve for pension commitments.

The reserve for financial assets at fair value through other comprehensive income consists of unrealised gains and losses from the measurement of financial assets at fair value through other comprehensive income. The reserve for financial assets accounted for using the equity method consists of unrealised gains and losses from the measurement of financial assets accounted for using the equity method. The reserve for cash flow hedges consists of unrealised gains and losses from the measurement of derivative financial instruments that are utilised for cash flow hedge accounting and meet the criteria of hedge accounting. The reserve for currency translation includes translation differences from the consolidation of subsidiaries whose functional currency is not the euro. The reserve for pension commitments consists of actuarial gains and losses from defined-benefit plans.

The aforementioned components of other reserves are generally created by taking into consideration deferred taxes and, in the area of life and health insurance, also taking into consideration the provision for deferred premium refunds.

Non-controlling interests in equity consist of the interests of non-Group third parties in the equity of subsidiaries.

Repurchase agreements and securities lending transactions

In the W&W Group, only genuine repurchase agreements (repos) are entered into. Genuine repurchase agreements are contracts under which securities are sold for consideration but where it is at the same time agreed that such securities have to be purchased back at a later point in exchange for payment to the seller of an amount agreed to in advance.

Securities sold in connection with repurchase agreements continue to be recognised in the seller's balance sheet in accordance with the prior categorisation, since it retains the risk and opportunities associated with ownership of the security. At the same time, the seller recognises a financial liability in the amount received. If there is a difference between the amount received upon sale of the security and the amount to be paid when repurchasing it, it is imputed over the term of the agreement using the effective interest method and recognised in the income statement. Current income is recognised in the consolidated income statement according to the rules for the relevant securities category.

Securities lending transactions are accounted for in the same way as repurchase agreements. Lent securities continue to be recognised in the balance sheet in the relevant category. By contrast, borrowed securities are not recognised. If borrowed securities are sold to a third party, the obligation to return them is recognised under "Financial liabilities at fair value through profit or loss". A corresponding liability is recognised for received cash collateral, and a corresponding receivable is recognised for provided cash collateral. If securities are provided as collateral, they continue to be recognised by the collateral provider. Income and expenses from securities lending transactions are recognised in the consolidated income statement corresponding to the relevant term.

Detailed information about the scope of repurchase agreements and securities lending transactions entered into in the W&W Group can be found in Note 40 "Transfers of financial assets and granted and received collateral".

Trust business

Trust business is generally characterised by a trustee acquiring property, assets or claims in its own name on behalf of the trustor and managing same in the interest of and at the instruction of the trustor. The trustee acts in its own name on behalf of others.

Trust assets and liabilities are recognised outside the balance sheet in the notes. Detailed information about the nature and scope of existing trust assets and liabilities in the W&W Group can be found in Note 41 "Trust business".

Contingent liabilities

Contingent liabilities are potential obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the W&W Group.

Contingent liabilities are also current obligations that arise from past events but are not recognised because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the balance sheet.

If the outflow of resources is not probable, disclosures are made about these contingent liabilities in the notes (Note 55 "Contingent liabilities and other liabilities"). If contingent liabilities are assumed in connection with corporate mergers, they are recognised in the balance sheet at fair value at the time of acquisition.

Disclosures about select items in the consolidated income statement

Net financial income/expense

The net financial income/expense of the W&W Group consists of several components, namely:

- Current net income/expense (such as interest surplus, dividends),
- Net income/expense from risk provision,
- Net measurement gain/loss, and
- Net income/expense from disposals.

Recognised under “Current net income/expense” are interest income and expenses, dividend income, the prorata share of the net income/expense for financial assets accounted for using the equity method and the current net income/expense from investment property. Interest income and expenses in the IFRS 9 categories “Financial assets at amortised cost” and “Financial assets at fair value through other comprehensive income” are recognised on an accrual basis using the effective interest method.

Recognised under “Net income/expense from risk provision” are all income and expenses that relate to lending business, securities business, primary insurance and reinsurance business and other business.

Recognised under “Net measurement gain/loss” are the following gains and losses:

- Measurement gains and losses from financial assets at fair value through profit or loss and such liabilities as equity instruments, investment fund units, derivative financial instruments and fixed-income financial instruments that do not pass the SPPI test.
- Gains and losses from the interest rate-based measurement of home loan savings provisions measured at present value.

- Recognised under "Net income/expense from hedges" is the net income/expense from hedged items and hedging instruments involving fair value hedges. Also recognised here is the impact on profit or loss from the ineffective portion of the hedging instrument and from the release of the reserve for cash flow hedges.
- Impairments/reversals of impairment losses taken on financial assets accounted for using the equity method.
- Impairments/reversals of impairment losses taken on investment property.
- Recognised under “Net currency income/expense” are currency gains and losses that result from the measurement or sale of financial instruments as well as all other capital investments.

Recognised under “Net income/expense from disposals” are disposal gains and losses for all financial assets and liabilities not at fair value through profit or loss (financial assets at amortised cost, financial assets at fair value through other comprehensive income, financial assets accounted for using the equity method, investment property, receivables and liabilities, as well as subordinated capital). Pursuant to IFRS 9, financial assets must be remeasured at the time of derecognition. For this reason, all gains and losses from the derecognition of financial assets at fair value through profit or loss are generally recognised under “Net measurement gain/loss”.

The net financial result does not include any costs for the management of the financial instruments contained in them. These costs are recognised under “Commission expenses” and “General administrative expenses”.

Earned premiums (net)

Recognised under "Gross premiums written" from direct insurance business and assumed reinsurance business is generally all income that results from contractual relationships with policyholders and cedants concerning the granting of insurance cover. Gross premiums written are accrued for each insurance contract. Earned premiums (net) result from taking into account the change in the provision for unearned premiums determined from accruals and the deduction of paid reinsurance premiums from gross premiums written and from the change in the provision for unearned premiums.

Insurance benefits (net)

Recognised under "Insurance benefits (gross)" are payments on insurance claims as well as changes in the provision for future policy benefits, the provision for outstanding insurance claims, the provision for future policy benefits for unit-linked insurance contracts and other technical provisions. Also recognised under "Insurance benefits" are additions to the provision for premium refunds required by the German Commercial Code (HGB) and direct credits. Claim adjustment expenses are recognised under "General administrative expenses".

Changes in the provision for deferred premium refunds that are attributable to changes based on remeasurement through profit or loss between national rules and IFRS are likewise recognised under "Insurance benefits". A provision for deferred premium refunds owing to the participation of policyholders in unrealised gains and losses from financial assets at fair value through other comprehensive income and financial assets accounted for using the equity method, as well as in actuarial gains and losses from pension provisions, is created and released in equity in all cases.

Insurance benefits (net) result from the deduction of received reinsurance premiums from insurance benefits (gross).

Net commission income/expense

Recognised under "Net commission income/expense" are commission income and expenses, insofar as they are not recognised in connection with calculating the effective interest rate.

Commission income and expenses result in particular from home loan savings business, banking business, reinsurance business, investment business and brokering activities. Commission expenses also result from primary insurance business. Commission expenses are recognised at the time the service is received.

No commission income is recognised in primary insurance business, since customers are not billed separately for the costs associated with conclusion of insurance contracts.

Commission income from the conclusion of home loan savings contracts is recognised pursuant to IFRS 9, and commission income from reinsurance is recognised pursuant to IFRS 4, at the time the service is provided.

Commission income from home loan savings business, brokering activities and investment business is recognised pursuant to IFRS 15 as revenue from contracts with customers (see Note 52). Such revenue is considered to exist where it relates to the provision of services to customers in connection with normal business activity. Revenue is realised when existing performance obligations are satisfied through transfer of control over the subject of the contract or the service.

General administrative expenses

In the W&W Group, general administrative expenses consist of personnel expenses, materials costs, scheduled depreciation/amortisation, and impairment losses on property, plant and equipment and intangible assets.

W&W Group expenses are allocated to materials costs and personnel expenses according to the principles of the nature-of-expense method.

Net other operating income/expense

The item “Net other operating income/expense” includes income and expenses from property development business. This income is generated, in terms of timing, based on the progress of the construction of the sold residential units, as well as on the contractually specified down payments that are received. Furthermore, pursuant to IAS 2, the associated residential units that are currently under construction or have not yet been turned over to customers are carried under inventories at cost of purchase or manufacture and then recognised upon sale as an expense under “Other operating expenses”. It also includes income and expenses from additions to and the release of provisions, income and expenses from disposals, other technical income and expenses, other income and expenses from currency translation that primarily result from technical provisions and miscellaneous income and expenses.

Income taxes

Actual income taxes are calculated on the basis of the respective national tax results and rules for the financial year. In addition, the taxes actually recognised in the financial year also include adjustment amounts for tax payments or refunds likely due for periods that have not yet been finally assessed. Uncertain tax treatments are taken into consideration by calculating the amount from the most likely value or from the expected value of tax refunds or tax claims.

Income tax earnings and expenses are recognised in the consolidated income statement as income taxes and subdivided in the notes (Note 35) by actual and deferred taxes.

Disclosures about the cash flow statement

For the Group’s cash flow statement, all cash flow is evaluated on the basis of the business models of the various Group entities – these are mainly the business models for the banks and the home loan and savings banks, as well as insurance companies – as to the extent to which it is contingent on operating activities or originates from investing or financing activities.

Cash flow from operating activities essentially consists of all payments from the credit and deposit business of the Group’s banks and home loan and savings banks, the trading portfolio of the banks, the technical provisions and the receivables and liabilities from reinsurance business. It also includes tax payments, as well as cash flow from the receivables and liabilities of the operational business of all Group banks, insurance companies and other entities.

Cash flow from investing activities consists of investments in intangible assets and in property, plant and equipment both for bank and home loan savings business and for insurance business. It also includes deposits and disbursements under mortgage loans made by the insurance companies, real estate investments, equities, participations, assets accounted for using the equity method, various investment funds and fixed-income securities, as well as registered bonds and debenture bonds. Strategic investments in unconsolidated subsidiaries and other business entities also generate cash flow that is allocated to investing activities.

Cash flow from financing activities consists of cash flow that results from transactions with owners of the parent company and non-controlling interests in the equity of subsidiaries. Cash flow from financing activities also includes cash flow from subordinated bonds issued for corporate financing purposes, as well as distributions made for the purpose of settling the lease liabilities of consolidated companies.

On whole, the cash flow statement is only of minor significance for the Group. It is not used for liquidity and financial planning or for control.

The recognised cash and cash equivalents consist of the cash reserves (cash on hand, deposits with central banks) and a portion of other receivables (balances with credit institutions payable on demand).

Utilisation of discretionary judgments and estimates

Exercise of discretionary judgment in applying accounting policies

The application of accounting policies is subject to various discretionary judgments by management that may materially influence amounts in the consolidated financial statements of the W&W Group. For instance, discretion is exercised with respect to the application of the rules on hedge accounting pursuant to IAS 39, to forecasts in the combined management report, to the provision for claims, to the restructuring provision, to the fair values of property and to assets held for sale.

Furthermore, management exercises discretion in the application of accounting policies in such a way that the cost model rather than the fair value model is used as the accounting policy for all investment property and for all property, plant and equipment, including property for own use.

Another far-reaching discretionary decision by management relates to the recognition of insurance-specific business transactions for which IFRSs do not include any specific rules. In conformity with IFRS 4 "Insurance Contracts", these are recognised for domestic Group companies in accordance with the relevant rules of commercial law pursuant to Sections 341 et seq. of the German Commercial Code (HGB) and the regulations based on them.

In connection with the determination of control of certain public funds, discretionary decisions are sometimes necessary in order to define the role of the outside fund manager as principal or agent. In such cases, contractual arrangements are looked at in order to evaluate whether the outside fund manager is to be classified as a principal or an agent. Material indicators used in evaluating the duty to consolidate are the fund manager's decision-making authority, including potential participatory rights of investors, the existing termination rights of investors with respect to the fund manager and their structure, and the amount of participation in the fund's success, particularly through the holding of units.

In lease accounting, the determination of the term of each lease in the case of open-ended contracts in the area of rented properties is subject to discretion. For the determination of the term in the case of open-ended contracts, a period is estimated in which termination is not financially expedient for the lessee.

In connection with the accounting of the W&W Group’s financial instruments under IFRS 9, management also made the following significant discretionary decisions, which had a material impact on the amounts in the consolidated financial statements.

Exercise of discretion in connection with the application of IFRS 9 "Financial Instruments"

“Hold to collect” business model

Financial assets that are acquired with the intention to realise cash flows by collecting contractual payments over the life of the instrument are explicitly characterised as such in the W&W Group in connection with the purchase and are main-tained and reported on in a separate portfolio.

Sales are not inconsistent with the "Hold to collect" business model in the W&W Group in the following cases:

- Sales that are due an increased risk of default:
  In verifying whether the sale of an instrument is necessary in order to minimise potential credit losses due to a material deterioration of creditworthiness, various prerequisites need to be met. If they are, the sale is not inconsistent with the business model due to an increased risk of default.
- Sales that are made close to the maturity:
  In the W&W Group, we assume that sales of financial instruments with a certain residual term to maturity at the time of sale qualify as not inconsistent with the business model. In addition, it must be verified in each individual instance that the proceeds from the sales approximate the collection of the remaining contractual cash flows.
- Sales that are infrequent:
  From the standpoint of the W&W Group, and for the purpose of IFRS 9, sales are not inconsistent with the "Hold to collect" business model if they are infrequent, i.e. they are attributable to events that are unique, non-recurring and outside of the company's power of control and could not have been reasonably foreseen by the company.
- Sales that are insignificant:
  The W&W Group uses both portfolio-based and results-based criteria in evaluating significance.

SPPI

As a rule, contractual cash flows from financial assets are reviewed on the basis of each individual contract. For reasons of materiality, the W&W Group uses a cluster formation in the case of highly standardised portfolios. In connection with this cluster formation at the highest level, we first identify the most material financial assets of the W&W Group that are taken into consideration in the course of SPPI testing. In this regard, clustering takes place on the basis of either specific contract arrangements or portfolio features.

If a financial asset is classified as not SPPI-compliant, a quantitative test is performed in order to determine whether the reasons for the deviation are de minimis. In addition, it is tested whether the event is not genuine, i.e. is extremely rare, highly abnormal and very unlikely to occur. In each of these case, the exercise of discretion is necessary.

Fair value option

In the case of initial recognition, financial assets and liabilities may voluntarily be measured permanently at fair value in order to avoid or significantly reduce inconsistent measurement (accounting mismatch). The W&W Group currently does not have any portfolios for which this fair value option is applied.

Financial assets at fair value through other comprehensive income

Changes in the value of equity instruments are allowed to be shown in equity. In the case of a disposal of the equity instrument, the disposal income/expense remains in equity (recycling does not take place) and is not recognised in the consolidated income statement. The W&W Group currently does not make use of this option.

Calculation of the risk provision

Calculation of the risk provision in the securities area

In connection with IFRS 9 requirements, a risk provision need is calculated for securities in the portfolio that fall within the scope of the risk provision rules. The way this need is calculated depends on the expected probability of default of the individual positions. IFRS 9 distinguishes between three levels in this regard. Categorised in Level 1 are those assets for which there has been no significant credit deterioration since acquisition. New acquisitions which do not evidence any payment problems are also assigned to this level. In this regard, the calculation of the risk provision is based on the 12-month expected credit loss approach.

If the assets show a significant deterioration in credit quality since initial recognition, they are categorised in Level 2. In this level, the risk provision is calculated based on the lifetime expected credit loss approach.

If there is objective evidence that a security is impaired, i.e. there is a specific payment problem, the issuer's probability of default is 100%, and this security or, as the case may be, all securities of the issuer are assigned to Level 3 as a rule.

We make use of the low credit risk exemption under IFRS 9 in the securities area, which allows us to assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Calculation of the risk provision in customer lending business

The determination of a significant increase in credit risk as at the reporting date is based on the rating at the time of initial recognition of the contract (initial rating) and the rating during the term of the customer relationship since that initial recognition (ongoing rating). Depending on the year of the relationship and the initial rating class, the contract is assigned to a different level under IFRS 9 if a relative threshold is exceeded. The determination of this relative threshold is based on a statistical distribution across the expected probability of default depending on the year of the relationship (quantile approach). In customer lending business, it is normally assumed that the credit risk has significantly increased if, for the remaining term of the contract, the probability of default based on current expectations exceeds the probability of default based on the original expectations.

In calculating the mathematically optimal quantile in connection with the quantile approach, two aspects of IFRS 9 are particularly relevant: The first aspect relates to the point prior to a default when a significant increase in credit risk should be identified. IFRS 9 states that there generally needs to be a significant increase in credit risk before default occurs. In this regard, the increase in credit risk should in principle be identified prior to the provision of default or modification information. Accordingly, in the course of calculating the quantile in the customer lending business of the W&W Group, the increase in credit risk is identified, at the latest, starting at the time that default or modification information is provided, unless an increase was identifiable prior to that date. The second aspect is likewise subject to the exercise of discretion and relates to the fact that reductions in credit risk are taken into consideration in the same way as increases. This means that level assignment is symmetrical, and customer loans in the W&W Group whose credit risk improves are included again in Level 1 under IFRS 9. As part of the quantile approach, two target parameters are derived from these two countervailing aspects: 1. maximisation of the share of defaulted loans that x months prior to default are considered as having significantly increased risk, and 2. minimisation of the share of non-defaulted loans that y months after a significant increase are still considered as having increased risk. These two countervailing target parameters are then mathematically optimised with the aid of a loss function. The calculation of an optimal quantile that takes into account both target parameters then constitutes an optimal compromise between the two target parameters, since in order to fulfil the first (second) target parameter, the smallest (largest) possible quantile must be chosen.

IFRS 9 requires that a lifetime expected credit loss be calculated for all financial instruments whose credit risk has increased significantly. Dividing contracts into those with and without a significant increase in credit risk is referred to as level assignment, since in this regard the contracts are assigned to one of three levels under IFRS 9. In customer lending business, this level assignment , as well as the determination of the need for a risk provision, always takes place at the level of the debtor's individual contract. In addition, with respect to this level assignment, and in the sense of the for-ward-looking risk provision concept of IFRS 9, the quantitative transfer criterion is augmented by a qualitative transfer criterion, and discretion is exercised accordingly. Forbearance measures are used as the qualitative criterion. As a rule, customer credit agreements with active forbearance measures remain in Level 2 for at least three years before being transferred back to the better Level 1 under IFRS 9. If the reasons for default (Level 3) no longer pertain, they are also transferred back to a better level under IFRS 9, and as described above, existing forbearance measures are taken into consideration when switching to a better level.

During the coronavirus pandemic, we exercised discretion in calculating the risk provision under IFRS 9 by essentially electing not to mechanically adopt currently available macroeconomic information. Rather, we focused on longer-term, more stable (inter alia, historical) macroeconomic information with an under-weighting of the short-term developments in the coronavirus pandemic. Depending on how the coronavirus pandemic develops further, the discretionary judgments will again be subjected in the coming months to a review of whether they remain valid. For further disclosures concerning the calculation of the risk provision, please see the section on modelling of point-in-time components.

In line with the pronouncements by the European Securities and Markets Authority (ESMA), the process for changing levels under IFRS 9 was modified for customers that made use of the statutory moratorium. Other remarks are contained in the section on the coronavirus pandemic.

Accounting estimates and assumptions

Principles

In drawing up the consolidated financial statements according to IFRS, estimates and assumptions have to be made that affect the carrying amount of assets, liabilities, income and expenses, as well as the disclosure of contingent liabilities. The application of several of the accounting principles described in the chapter "Accounting policies" presupposes material estimates that are based on complex, subjective evaluations and assumptions and may relate to issues that exhibit uncertainties.

The estimating methods used and the decision about the suitability of the assumptions require management to exercise good judgment and decision-making power in order to determine the appropriate values. Estimates and assumptions are moreover based on past experience and expectations with respect to future events that appear reasonable under the given circumstances. In so doing, carrying amounts are determined carefully and, taking into account all relevant information, as reliably as possible. In determining values, existing uncertainties are suitably taken into account in conformity with the relevant standards. However, actual results may vary from estimates, since new findings have to be taken into account when determining values. Estimates and their underlying assumptions are therefore continuously reviewed. The effects of changes in estimates are accounted for in the period in which the estimate changes.

General estimates and assumptions for the purpose of accounting are set forth in the chapter “Accounting policies”. However, special and one-time circumstances are explained in greater detail in the relevant items or in the notes. Accounting principles whose application is based to a considerable extent on estimates and assumptions and that are classified as material for the W&W Group are presented in the following.

Determining the fair value of assets and liabilities

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same: to estimate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining the fair value of assets and liabilities whose prices are quoted on an active market, estimates by management are necessary to only an insignificant extent. In a similar manner, only few subjective measurements or estimates are required for assets and liabilities that are measured with models customary in the industry and whose inputs are quoted on active markets.

When no observable market transactions or market information are available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs.

The required degree of subjective measurement and estimates by management has a higher weight for those assets and liabilities that are measured using special, complex models and for which some or all inputs are not observable. The values determined in this way are significantly influenced by the assumptions that have to be made.

If fair value cannot be reliably determined, the carrying amount is used as an approximate value to measure fair value. This essentially relates to loans under home loan savings contracts from collective business, as well as preliminary and interim financing loans. The same applies also for deposits from home loan savings business due to the special features of home loan savings products and the variety of product configurations. Loans under home loan savings contracts are allocated to the item "Financial assets at amortised cost" and are accordingly measured for accounting purposes at amortised cost. Deposits under home loan savings contracts are allocated to the balance sheet item “Liabilities” and measured at amortised cost. For further quantitative information about this, please see Note 5 “Financial assets at amortised cost” and Note 17 “Liabilities”.

Further information concerning the fair value measurement of financial instruments can be found in Note 38 "Disclosures concerning the measurement of fair value". The fair value measurement of investment property and property, plant and equipment is described in the chapter "Accounting policies".

Impairment and reversal of impairment losses

With the exception of financial assets at fair value through profit or loss, all financial and non-financial assets are tested at regular intervals for objective evidence of impairment. Impairment is also tested where events or changed underlying conditions indicate that the value of an asset might have declined.

For details about the impairment of financial assets, please see the chapter "Accounting policies: Notes concerning the consolidated balance sheet", in the section "Risk provision – Financial assets". The uncertainties that exist in connection with calculating the risk provision for financial assets are also explained there.

Beneficial changes in the amount of the risk provision for financial assets are recognised as reversals of impairment losses in the income statement. An impairment loss is reversed if, as a result of beneficial changes, the estimated amount of the risk provision falls below the originally estimated value that was taken into consideration in the estimated cash flows in connection with the calculation at the time of initial recognition.

In addition to the estimates that need to be made concerning the foregoing aspects, the amount of the impairment loss to be recognised is characterised by further uncertainties in estimation. These result, in particular, from assumptions and estimates concerning the time at which future cash flows will be received, as well as their amount at such time, which in turn are based on past experience with respect to the probabilities of occurrence and the assessment of future developments and long-term prospects for success. In addition, in the course of testing for impairment, estimates are made about incurred sales costs and trends in discount rates that are in line with the market.

In addition, an impairment loss is always required to be taken on intangible assets, property, plant and equipment and investment property when the carrying amount of an asset is higher than its recoverable amount. The recoverable amount means an asset's fair value less costs of disposal or its value in use, whichever is higher. Fair value less costs of disposal corresponds to market value within the meaning of IFRS 13 less costs of disposal. Value in use means the present value of the estimated future cash flows from continued use by Group companies. Estimates need to be made with respect to the amount and timing of cash flows as well as costs of disposal.

The assumptions and estimates that are made may be subject to changes over time, which will lead to impairment losses or reversals of impairment losses in future periods.

In reliance on the method for identifying impaired assets, impairment losses are reversed if there are sufficiently objectifiable criteria indicating permanent value recovery and it is moreover permissible to reverse the impairment loss pursuant to the applicable standard. For instance, impairment losses to goodwill may not be reversed.

Creation of provisions

Technical provisions

Among technical provisions, the following types of provisions, in particular, are materially influenced by estimates and assumptions (their carrying amounts and further information can be found starting at Note 19):

Provision for future policy benefits

The provision for future policy benefits is estimated according to actuarial methods as the present value of future obligations less the present value of future premiums. The amount of the provision for future policy benefits is dependent on assumptions about trends in investment yields achievable on the capital market, life expectancy, policyholder behaviour and other statistical data, as well as, in some cases, the costs incurred in connection with management of the contracts. The assumptions are based on the reference interest rate specified in Section 5 (3) of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) and on the measurement interest rate specified in the business plans for interest rate reinforcement approved by BaFin as yields for the company's expected income. Necessary adjustments to assumptions may have material effects on the amount of the provision for future policy benefits.

Provision for outstanding insurance claims
In determining the amount of the provision, forward-looking assumptions are necessary, such as about claim trends, claim adjustment costs and premium adjustments. Necessary adjustments to forward-looking assumptions may have material effects on the amount of the provision for outstanding insurance claims.

Other provisions
Provisions for pensions and other long-term employee benefits
In calculating provisions for pensions and other long-term employee benefits, assumptions and estimates are necessary concerning the underlying conditions, such as actuarial interest rate, salary increases, future pension increases and mortality.

For further quantitative disclosures, please see Note 20 "Other provisions".

Miscellaneous provisions
The amount recognised as a provision constitutes the best possible estimate of the expenditures needed to settle the current obligation as at the reporting date. The measurement and recognition of provisions are determined by the assumptions made with respect to probability of occurrence, expected payments and the underlying discount rate. Regarding the estimates underlying the provisions for interest bonus options, please see the chapter “Accounting policies”, in the section “Miscellaneous provisions”.

If the aforementioned criteria for creating provisions are not met, then the corresponding obligations are recognised as contingent liabilities (see Note 55).

Further information about all of the above types of provisions can be found in Note 19 "Technical provisions" and Note 20 "Other provisions".

Disclosures about select items in the consolidated income statement

Income taxes are subject to estimates. These are described in the chapter “Accounting policies” and there in the sections “Income taxes” and “Current tax assets, deferred tax assets, current tax liabilities and deferred tax liabilities”.

Consolidation

Scope of consolidation

W&W AG is the parent company of the W&W Group. As at the reporting date, the scope of consolidation was as follows:

	Domestic	Foreign	Total
Subsidiaries			
Included as at 31 December 2020	22	3	25
Included as at 31 December 2019	22	5	27
Structured entities (public and special funds)			
Included as at 31 December 2020	17	5	22
Included as at 31 December 2019	16	5	21
Associated companies accounted for using the equity method			
Included as at 31 December 2020	2	–	2
Included as at 31 December 2019	2	–	2

The individual companies are presented in the “List of ownership interests”.

Changes to the scope of consolidation

Additions to the scope of consolidation

Effective 1 January 2020, Aachener Bausparkasse AG (ABAG), Aachen, was taken over and included for the first time in the scope of consolidation. Further information about the inclusion of ABAG can be found in the following section on company mergers.

In addition, in the first half of 2020, Fonds LBBW AM Emerging Markets Bonds-Fonds 3, Stuttgart, which had previously not been consolidated, was consolidated for the first time. The initial consolidation had no material influence on net assets, financial position and financial performance.

Disposals from the scope of consolidation

In the first half of the year, ABAG was eliminated from the scope of consolidation as a result of the merger into Wüstenrot Bausparkasse AG, Ludwigsburg.

With the transfer to the new owners effective 1 April 2020, Wüstenrot hypoteční banka a.s., Prague, and Wüstenrot stavební spořitelna a.s., Prague, were deconsolidated. Further information about the transaction involving the Czech companies can be found in Note 1 “Non-current assets held for sale and discontinued operations”.

The changes to the scope of consolidation had no material effect on the comparability of the current year with the previous year.

Company mergers

Effective 1 January 2020, W&W AG, through its subsidiary Wüstenrot Bausparkasse AG (BSW), Ludwigsburg, acquired 100% of the voting shares of Aachener Bausparkasse AG (ABAG) from various owners and thereby obtained control over this company. ABAG was a private home loan and savings bank with registered office in Aachen. In addition to home loan savings, its business also focused on the financing of measures relating to home ownership for private use. In the course of the takeover, BSW also acquired the voting interests held by ABAG in Aachener Bausparkasse Immobilien GmbH (100%) – since 1 November 2020 renamed Bausparkasse Wüstenrot Immo GmbH – with registered office in Aachen, and in Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH (8.91%), with registered office in Berlin. These two companies are currently not operational. With the takeover of ABAG, we rigorously continued our path of growth in home loan savings business. The additional new business volume is expected to be in the nine-figure range annually.

Transfer of control over ABAG took place with effect on 1 January 2020 following supervisory approval. ABAG’s results were included in the consolidated financial statements of W&W AG starting with the time of initial consolidation. With the takeover, BSW entered into long-term sales partnerships in the home loan and savings area and the construction financing sector with nearly all of the insurance companies that previously owned the company, becoming their exclusive product partner. Multi-year sales targets have been agreed upon with these collaboration partners. On 26 June 2020, ABAG was merged into BSW retroactive to 1 January 2020.

The fair value of the transferred consideration amounted to –€0.5 million, which included the agreed and paid purchase price in the amount of one euro and any compensatory payments by the former owners. In the coming years, the compensatory payments may amount to as much as €5 million if the established sales targets are not reached. It currently appears unlikely that the compensatory payments will have to be made in the full amount. The fair value of the compensatory payment was remeasured as at the reporting date and now amounts to currently –€0.4 million. This remeasurement was attributable to the expiry of the first relevant calendar year in which the target for new business agreed upon with the sole owner was exceeded. The current measurement is based on an assumed probability of occurrence of 10% for the relevant calendar years still remaining.

The fair value of the acquired assets and the assumed liabilities that was calculated for the purpose of the acquisition can be found in the following tables.

Assets

in € thousands	1.1.2020
Cash reserves	205,476
Financial assets at fair value through other comprehensive income	457,544
Financial assets at amortised cost	824,279
Other assets	83,066
Total assets	**1,570,365**

Liabilities

in € thousands	1.1.2020
Liabilities	1,417,620
Thereof liabilities to customers	1,246,748
Thereof liabilities from negative customer relationships	153,876
Thereof liabilities to credit institutions	8,198
Thereof lease liabilities	3,384
Thereof other miscellaneous liabilities	5,414
Other provisions	103,493
Other liabilities	24,768
Equity	24,484
Total liabilities	**1,570,365**

The acquired receivables consisted of loans and advances to credit institutions and loans and advances to customers. As at 1 January 2020, the acquired receivables were mainly assessed as unimpaired. The receivables are included in the two balance sheet items “Financial assets at fair value through other comprehensive income” and “Financial assets at amortised cost”.

Acquired receivables

	Fair value of the contractual receivables	Gross amount of the contractual receivables
in € thousands	1.1.2020	1.1.2020
Loans and advances to credit institutions	61,680	60,913
Loans and advances to customers	783,796	729,700
Total	**845,476**	**790,613**

The difference between the acquired net assets of ABAG, i.e. the recognised assets less the assumed liabilities, and the fair value of the transferred consideration amounted to –€25.0 million. Following a further review of the provisional purchase price allocation, this negative goodwill was recognised in the 2020 reporting year as other operating income under “Other operating income/expense”.

Compared with the provisional allocation of the purchase price for this corporate merger, which was reported on in the notes to consolidated financial statements for the 2019 reporting year, mainly the following changes occurred, which in some cases also had an impact on negative goodwill:

- With regard to loans and advances to customers in construction financing business, which were measured at amortised cost, impairment provisions of €3.0 million were left out of consideration because the counterparty credit risks were already considered in connection with the calculation of the value for the construction loans as part of purchase price allocation. In addition, right-of-use assets were taken into consideration in the amount of €3.4 million, as were the corresponding lease liabilities. Additionally, deferred tax assets and deferred tax liabilities were increased.
- The silent loss calculated for the customer relationship in the amount of €153.9 million was recognised as a financial liability after having been formerly recognised as a provision in the provisional purchase price allocation.

Ultimately, the final difference between the acquired net assets of ABAG, i.e. the recognised assets less the assumed liabilities, and the fair value of the transferred consideration in the amount of €25.0 million, amounted to €22.7 million on the basis of the provisional purchase price allocation.

There were a number of reasons for this negative goodwill. In addition to the transferred consideration, the main reason was the level of interest rates that currently prevails, which resulted in the realisation of silent reserves in connection with loans and advances to customers. Having an opposite effect were the realisation of silent losses in the area of customer relationships and the increase of provisions, which reduced profit.

In connection with the purchase price allocation, silent reserves were identified. A significant portion of them (€54.7 million) were attributable to financial instruments that were held. The higher fair value of the financial instruments was essentially attributable to the currently low level of interest rates. In addition, with regard to properties owned by ABAG, silent reserves in the amount of €7.1 million were recognised, and with respect to the fair value of the sales partnerships, an intangible asset in the amount of €8.8 million was capitalised.

The recognised silent losses resulted, in particular, from the measurement of existing customer relationships. The main reason had to do with customer deposits, which bear interest at rates higher than current market interest rates. The liabilities recognised for customer relationships in the amount of €153.9 million are largely offset by charges under existing obligations on the basis of the expected run-off of existing business.

Furthermore, the existing legal risks in connection with terminations under Sections 313 and 314 of the German Civil Code (BGB) were reevaluated at the time of acquisition, and the current provisions were increased by €2.8 million. If the provisions actually have to be utilised depending on the run-off of existing business, then in addition, portions of them may be charged on to the former owners if necessary. Based on the assessment at the time of initial consolidation, the fair value of this seller guarantee was measured at €0, since it is not expected that the threshold established in the pur-chase contract will be exceeded for claims for legal risks under sections 313 and 314 BGB.

A contingent liability was created with respect to an obligation to provide additional funding in connection with the acquired interests in Domus Beteiligungsgesellschaft der Privaten Bausparkasse mbH. It had a fair value of €224 thousand at the time of acquisition. This contingent liability was reevaluated on the reporting date. Based on the expected out-flows, this contingent liability was not remeasured.

Following transfer of control on 1 January 2020, ABAG was merged into Wüstenrot Bausparkasse AG in the second quarter of 2020. At the same time, ABAG was integrated extensively in the systems and completely in the management of Wüstenrot Bausparkasse AG. Therefore, since the merger, it is not possible to calculate the proceeds and profit of the former ABAG.

The costs of the merger in the amount of €45 thousand were mostly recognised as an expense in previous years and shown under general administrative expenses.

Interests in subsidiaries, including consolidated structured entities

Disposal restrictions

Statutory, contractual or regulatory restrictions, as well as protected rights of non-controlling interests, may restrict the ability of the Group, the parent company or a subsidiary to obtain access to assets and to make unimpeded transfers to or receive unimpeded transfers from other companies in the Group and to pay Group debts.

Since enactment of the German Life Insurance Reform Act (LVRG) in August 2014, the subsidiaries Württembergische Lebensversicherung AG and Allgemeine Rentenanstalt Pensionskasse AG are subject to a statutory ban on distributions until further notice.

As a credit institution, the subsidiary Wüstenrot Bausparkasse AG must comply with extensive regulatory requirements. For example, the minimum liquidity standard (Liquidity Coverage Ratio, LCR) is intended to promote the short-term resilience of a credit institution's liquidity risk profile over a 30-day horizon in a stress scenario. The LCR is the ratio of the volume of High-Quality Liquid Assets (HQLA) that could be used to raise liquidity over a period of 30 days to the total volume of net stressed outflows in the same period arising from both actual and contingent exposures. As at 31 December 2020, the LCR was 229.03% (previous year: 208.99%) for the subsidiary Wüstenrot Bausparkasse AG. The company has been obligated since the fourth quarter of 2015 to maintain its LCR, pursuant to further specifications.

The Group is subject to the following restrictions with respect to the use to which assets may be put:

- Assets used in collateralised financing, e.g. repurchase agreements, securities lending transactions and other forms of collateralised lending.
- Assets used in collateral or margin agreements, e.g. to hedge derivative transactions.
- Assets used in the cover pool for German covered bonds.
- The assets of consolidated investment funds are subject to a variety of restrictions with respect to transferability between Group companies.
- The assets of consolidated insurance companies mainly serve to settle obligations to policyholders.
- Regulatory requirements and the requirements of central banks can limit the Group's ability to transfer assets to or from other companies in the Group.

With regard to assets and liabilities recognised in the consolidated financial statements that are subject to disposal restrictions, please also see Note 40 "Transfers of financial assets".

Interests in unconsolidated structured entities

As a result of its business activities, the W&W Group holds interests in unconsolidated structured entities that have been formed either as investment funds (public or special funds) or as alternative investment companies in the legal form of a corporation or partnership. These structured entities serve to meet various customer needs with respect to investment in various assets. Group companies mainly assume the role of investor, sometimes also that of fund manager or custodian.

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Moreover, a structured entity is classified as such based on the following features or attributes:

- restricted activities,
- a narrow and well-defined objective,
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support and/or
- financing in the form of multiple contractually linked instruments issued to investors that create concentrations of credit or other risks (tranches).

As at the reporting date, other than interests in investment funds and alternative investment companies, no structured entities were identified, either with an investment interest or as structured entities supported by W&W without an investment interest.

Interests in investment funds

As at 31 December 2020, the carrying amounts, the investment strategy, the maximum loss risk and the scope vis-à-vis unconsolidated investment funds were as follows:

2020

in € thousands	Equity funds 31.12.2020	Bond funds 31.12.2020	Real estate funds 31.12.2020	Other funds 31.12.2020	Funds of unit-linked life insurance policies[3] 31.12.2020	Total 31.12.2020
Recognised assets (fund units held)						
Financial assets at fair value through profit or loss	160,872	882,167	2,043	347,814	2,079,699	3,472,595
Total	**160,872**	**882,167**	**2,043**	**347,814**	**2,079,699**	**3,472,595**
Maximum loss risk[1]	160,872	882,167	2,043	347,814	2,079,699	3,472,595
Total scope of fund assets as at the reporting date[2]	122,487,696	3,879,509	18,549,050	44,707,126	12,727,063	202,350,444

2019

in € thousands	Equity funds 31.12.2019	Bond funds 31.12.2019	Real estate funds 31.12.2019	Other funds 31.12.2019	Funds of unit-linked life insurance policies[3] 31.12.2019	Total 31.12.2019
Recognised assets (fund units held)						
Financial assets at fair value through profit or loss	133,626	837,851	2,149	175,075	2,238,019	3,386,720
Total	**133,626**	**837,851**	**2,149**	**175,075**	**2,238,019**	**3,386,720**
Maximum loss risk[1]	133,626	837,851	2,149	175,075	2,238,019	3,386,720
Total scope of fund assets as at the reporting date[2]	114,348	2,769,546	2,072,873	91,290	183,730,208	188,778,265

1 The maximum loss risk is determined on the basis of fund units held and, where applicable, capital contribution calls not yet made and guarantees.
2 Several funds are included in more than one fund category. In those cases, the total scope of fund assets was assigned to the category with the greatest value.
3 Capital investments are for the account and risk of policyholders.

Unconsolidated investment funds are financed by issuing redeemable unit certificates. The carrying amount of the units corresponds to fair value. The types of income that the W&W Group receives from these held interests are mainly interest income, dividend income, income from the fair value measurement of investment fund units, and in some cases fees for acquisition, management and investment advice. The amount of current income and net measurement income depends, in particular, on general market trends in the respective investment class and on the specific investment decisions made by the respective fund manager.

Interests in alternative investments

Alternative investment companies maintain holdings in the area of alternative energy production from wind, photovoltaic, biomass and water. In addition, there are investments in the area of private equity, such as venture capital financing. Scope and size are primarily determined on the basis of fair value. The carrying amount of interests in alternative investments, including private equity, corresponds to the fair value under the item "Financial assets at fair value – participations in alternative investments" and amounted to €1,750.4 million (previous year: €1,594.8 million). This carrying amount corresponds to the maximum loss risk. Financing is accomplished by issuing redeemable unit certificates.

The W&W Group as interest owner receives variable reflows, mainly in the form of distributions from alternative investments. In addition, the investments are subject to fluctuations in value. Variable reflows are dependent on general market trends in the respective industry and on the specific business decisions made by the respective investment company.

Segment reporting

In conformity with IFRS 8 "Operating Segments", segment information is generated on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance (socalled "management approach"). In the W&W Group, the chief operating decision maker is the Management Board.

The reportable segments are identified on the basis of both products and services and according to regulatory requirements. In this context, some business segments are combined within the Life and Health Insurance segment. The following section lists the products and services through which revenue is generated by the reportable segments. There is no dependence on individual major accounts.

Housing

The reportable segment Housing consists of one business segment and includes home loan savings and banking products primarily for retail customers, e.g. home loan savings contracts, bridging loans and mortgage loans.

Life and Health Insurance

The reportable segment Life and Health Insurance consists of various business segments, all of which have similar economic characteristics and are comparable in terms of the aggregation criteria in IFRS 8.

The reportable segment Life and Health Insurance offers a variety of life and health insurance products for individuals and groups, including classic and unit-linked life and annuity insurance, term insurance, classic and unit-linked "Riester" and basic pensions, and occupational disability insurance, as well as full and supplementary private health insurance and nursing care insurance.

Property/Casualty Insurance

The reportable segment Property/Casualty Insurance offers a comprehensive range of insurance products for private and corporate customers, including general liability, casualty, motor, household, residential building, legal protection, transport and technical insurance.

All other segments

All other business activities of the W&W Group, such as central Group functions, asset management activities, property development and the marketing of home loan savings and banking products outside of Germany, are subsumed under "All other segments", since they are not directly related to the other reportable segments. It also includes interests in subsidiaries of W&W AG that are not consolidated in “All other segments” because they are allocated to another segment.

Consolidation/reconciliation

The column "Consolidation/reconciliation" includes consolidation adjustments required to reconcile segment figures to Group figures.

As in previous years, the performance of each segment was measured based on the segment earnings under IFRS. Transactions between the segments were carried out on an arm's length basis.

Measurement principles

The measurement principles for segment reporting correspond to the accounting and measurement methods applied to the IFRS consolidated financial statements, with the following exceptions. In conformity with internal Group reporting and control, we are continuing to apply IAS 17 to leases within the Group. The interests in the subsidiaries of W&W AG that are not consolidated in “All other segments” are measured there at fair value through other comprehensive income and not reclassified to the consolidated income statement.

Segment income statement

	Housing		Life and Health Insurance	
in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Current net income	273,872	208,169	724,669	801,465
Net income/expense from risk provision	-44,248	-6,617	-11,141	2,832
Net measurement gain/loss	21,007	79,292	-46,830	500,771
Net income from disposals	102,393	84,408	700,388	449,174
Net financial income	**353,024**	**365,252**	**1,367,086**	**1,754,242**
thereof net income/expense from financial assets accounted for using the equity method	–	–	-3,449	5,389
Earned premiums (net)	–	–	2,491,775	2,415,128
Insurance benefits (net)	–	–	-3,410,309	-3,665,042
Net commission expense	-11,185	-11,254	-147,631	-151,178
General administrative expenses2	-316,262	-322,238	-254,462	-270,884
Net other operating income/expense	33,719	23,528	-18,950	-29,511
Segment net income from continued operations before income taxes	**59,296**	**55,288**	**27,509**	**52,755**
Income taxes	-14,350	-16,984	-4,910	-26,361
Segment net income after taxes	**44,946**	**38,304**	**22,599**	**26,394**
Other information				
Total revenue[3]	912,527	934,964	3,299,083	3,300,873
thereof with other segments	25,939	26,412	17,892	22,337
thereof with external customers	886,588	908,552	3,281,191	3,278,536
Interest income	690,164	710,445	566,433	610,251
Interest expenses	-416,296	-502,281	-40,444	-46,544
Scheduled depreciation	-11,661	-8,477	-45,780	-44,773
Impairment losses[4]	–	–	-966	-1,267
Reversals of impairment losses[4]	–	–	1,028	3,616
Material non-cash items	11,354	370	1,083,554	467,662
Segment assets[5]	30,496,057	29,013,288[6]	40,208,202	37,888,814[6]
Segment liabilities[5]	28,511,221	27,116,162[6]	39,197,328	37,029,674[6]
Financial assets accounted for using the equity method[5]	–	–	39,617	45,779

1 The column “Consolidation/reconciliation” includes the effects of consolidation between segments.
2 Includes rental and other service income with other segments.
3 Interest, dividend, commission and rental income, as well as income from property development business and gross premiums written.
4 Impairment losses and reversals of impairment losses relate to intangible assets, property, plant and equipment and investment property.
5 Values as at 31 December 2020 and 31 December 2019, respectively.
6 Prior-year figures adjusted. See the chapter “Changes in the presentation of the financial statements”.

Property/Casualty Insurance		Total for reportable segments		All other segments		Consolidation/ reconciliation[1]		Group	
1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
66,560	72,525	1,065,101	1,082,159	31,479	74,434	–30	–3,312	1,096,550	1,153,281
468	–430	–54,921	–4,215	271	139	–28	41	–54,678	–4,035
–21,224	26,987	–47,047	607,050	–536	23,109	–7,663	–17,629	–55,246	612,530
19,572	6,770	822,353	540,352	3,559	2,926	–	48,430	825,912	591,708
65,376	**105,852**	**1,785,486**	**2,225,346**	**34,773**	**100,608**	**–7,721**	**27,530**	**1,812,538**	**2,353,484**
2,478	3,259	–971	8,648	816	556	–5,927	2,131	–6,082	11,335
1,641,765	1,565,315	4,133,540	3,980,443	296,261	282,232	–14,657	–13,506	4,415,144	4,249,169
–880,661	–823,242	–4,290,970	–4,488,284	–181,715	–179,673	17,242	17,479	–4,455,443	–4,650,478
–260,712	–262,936	–419,528	–425,368	–68,300	–55,312	–9,377	–9,515	–497,205	–490,195
–371,019	–378,472	–941,743	–971,594	–78,345	–115,120	6,091	6,263	–1,013,997	–1,080,451
15,663	–11,188	30,432	–17,171	16,008	13,388	–604	–24,737	45,836	–28,520
210,412	**195,329**	**297,217**	**303,372**	**18,682**	**46,123**	**–9,026**	**3,514**	**306,873**	**353,009**
–68,389	–51,769	–87,649	–95,114	–7,865	–9,231	–608	395	–96,122	–103,950
142,023	**143,560**	**209,568**	**208,258**	**10,817**	**36,892**	**–9,634**	**3,909**	**210,751**	**249,059**
2,290,933	2,197,989	6,502,543	6,433,826	568,602	680,997	–658,424	–633,345	6,412,721	6,481,478
158,978	147,020	202,809	195,769	455,615	437,576	–658,424	–633,345	–	–
2,131,955	2,050,969	6,299,734	6,238,057	112,987	243,421	–	–	6,412,721	6,481,478
49,887	59,135	1,306,484	1,379,831	57,279	130,863	–29,322	–26,683	1,334,441	1,484,011
–9,840	–32,003	–466,580	–580,828	–33,678	–63,150	28,258	28,605	–472,000	–615,373
–9,509	–9,186	–66,950	–62,436	–53,032	–56,946	1,424	1,454	–118,558	–117,928
–	–	–966	–1,267	–	–10,338	–	–	–966	–11,605
–	–	1,028	3,616	–	–	–	–	1,028	3,616
157,240	4,888	1,252,148	472,920	–11,213	–50,490	–11,622	11,834	1,229,313	434,264
4,907,492	4,762,776[6]	75,611,751	71,664,878[6]	5,784,320	7,600,134[6]	–4,908,429	–4,113,845	76,487,642	75,151,167[6]
3,390,641	3,329,986[6]	71,099,190	67,475,822[6]	2,086,415	4,457,990[6]	–1,783,114	–1,617,727	71,402,491	70,316,085[6]
54,716	54,950	94,333	100,729	9,475	8,542	–15,098	–9,171	88,710	100,100

Information by region (Group)

in € thousands	Revenue from external customers[1]		Non-current assets[2]	
	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	31.12.2020	31.12.2019
Germany	6,386,686	6,388,503	2,465,978	2,339,214
Czech Republic	25,125	92,330	–	–
Other countries	910	645	787	861
Total	**6,412,721**	**6,481,478**	**2,466,765**	**2,340,075**

1 Revenue was allocated in accordance with the country in which the operational units are based. This involves interest, dividend, commission and rental income, as well as income from property development business and gross premiums written.
2 Non-current assets include investment property, intangible assets and property, plant and equipment.

Notes concerning the consolidated balance sheet

(1) Cash reserves

in € thousands	31.12.2020	31.12.2019
Cash on hand	64	70
Deposits with central banks	74,779	35,192
Deposits with foreign postal giro offices	277	496
Cash reserves	**75,120**	**35,758**

The fair value of cash reserves corresponds to the carrying amount.

(2) Non-current assets held for sale and discontinued operations

in € thousands	31.12.2020	31.12.2019
Cash reserves	–	26,203
Financial assets at fair value through profit or loss	–	6,491
Financial assets at fair value through other comprehensive income	–	8,389
Financial assets at amortised cost	–	2,572,303
Investment property	–	3,413
Other assets	–	19,961
Non-current assets held for sale and discontinued operations	**–**	**2,636,760**

in € thousands	31.12.2020	31.12.2019
Liabilities	–	2,409,254
Financial liabilities at fair value through profit or loss	–	772
Other provisions	–	6,655
Other liabilities	–	11,235
Liabilities under non-current assets classified as held for sale and discontinued operations	**–**	**2,427,916**

As at 31 December 2019, this item included one investment property and one disposal group.

The property held for sale as at 31 December 2019 has to do with a commercial building in third-party use allocated to the Life and Health Insurance segment. Ownership was transferred in early January 2020. The sale of the property resulted in a gain of €8.6 million, which was recognised in “Net income from disposals”. The sale was made for reasons of diversification.

The disposal group held for sale as at 31 December 2019 included the assets and liabilities of Wüstenrot hypoteční banka a.s. and Wüstenrot stavební spořitelna a.s., both with registered office in Prague. Both subsidiaries, which had been assigned to the segment “All other segments”, were sold effective 1 April 2020. The sale resulted in a deconsolidation loss of €9.9 million. In the consolidated income statement, within “Net financial income”, €1.6 million (reserve from financial assets at fair value through other comprehensive income) was recognised under “Net income from disposals”, €3.9 million (reserve from currency translation) under within “Net measurement gain/loss” and –€15.4 million under “Net other operating income/expense”. The sale was made for strategic reasons.

Financial assets at fair value through other comprehensive income included bearer bonds (€8.4 million). Financial assets at amortised cost mainly included construction loans (€2,147.3 million) and bearer bonds (€141.7 million). Liabilities principally included liabilities to customers (€2,194.3 million) and liabilities evidenced by certificates (€202.9 million). Cumulative unrealised gains and losses recognised under "Other reserves" amounted to €17.6 million. The currency translation reserve amounted to €19.0 million, and the reserve for fair value through other comprehensive income amounted to €1.4 million. The following assets within the disposal group were not measured pursuant to IFRS 5, but instead on the basis of the following standards:

- Financial instruments (IFRS 9 and IFRS 13)
- Deferred tax assets (IAS 12)
- Assets resulting from employee benefits (IAS 19)

The income statement of Wüstenrot hypoteční banka a.s. and Wüstenrot stavební spořitelna a.s. as a disposal group after consolidation was as follows from 1 January 2020 until the time of deconsolidation:

in € thousands	31.03.2020	31.12.2019
Current net income	**12,975**	**48,731**
Net interest income	12,975	48,731
Interest income	22,953	83,999
Interest expenses	−9,978	−35,268
Net income/expense from risk provision	**−180**	**3,534**
Income from risk provision	3,167	15,124
Expenses from risk provision	−3,347	−11,590
Net measurement gain/loss	**94**	**−1,977**
Measurement gains	94	—
Measurement losses	—	−1,977
Net financial income	**12,889**	**50,288**
Net commission income	**909**	**2,747**
Commission income	2,076	7,890
Commission expenses	−1,167	−5,143
General administrative expenses	**−5,392**	**−37,176**
Personnel expenses	−3,194	−12,948
Materials costs	−2,198	−9,841
Depreciation/amortisation	—	−14,387
Net other operating expense	**−2,058**	**−1,066**
Other operating income	247	1,710
Other operating expenses	−2,305	−2,776
Net income from the disposal group before income taxes	**6,348**	**14,793**
Income taxes	−1,001	−2,740
Net income from the disposal group after income taxes	**5,347**	**12,053**

(3) Financial assets at fair value through profit or loss

in € thousands	31.12.2020	31.12.2019
Participations other than in alternative investments	217,009	219,034
Participations in alternative investments	1,750,431	1,594,796
Equities	609,067	745,518
Investment funds units	1,392,896	1,148,701
Fixed-income financial instruments that do not pass the SPPI test	2,406,974	2,040,028[1]
Derivative financial instruments	268,078	147,084
Senior fixed-income securities	76,162	166,451[1]
Capital investments for the account and risk of holders of life insurance policies	2,079,699	2,238,019
Financial assets at fair value through profit or loss	**8,800,316**	**8,299,631**

1 Prior-year figures adjusted. See the chapter "Changes in the presentation of the financial statements".

In connection with the acquisition of ABAG, the W&W Group was offered capitalisation products provided by some of the former owners. In the 2019 financial year, as well as at the start of 2020, the W&W Group subscribed to capitalisation products of a former owner of ABAG in the total amount of €100 million each. The capitalisation products were recognised under "Fixed-income financial instruments that do not pass the SPPI test".

(4) Financial assets at fair value through other comprehensive income

in € thousands	31.12.2020	31.12.2019
Subordinated securities and receivables	801,514	720,209
Senior debenture bonds and registered bonds	12,315,455	12,984,231
Senior fixed-income securities	25,745,799	23,104,330
Financial assets at fair value through other comprehensive income	**38,862,768**	**36,808,770**

Risk provision by class for debt instruments required to be measured at fair value through other comprehensive income

in € thousands	31.12.2020	31.12.2019
Subordinated securities and receivables	–1,090	–817
Senior debenture bonds and registered bonds	–6,051	–7,434
Senior fixed-income securities	–30,631	–23,349
Risk provision	**–37,772**	**–31,600**

(5) Financial assets at amortised cost

To enable a better understanding of the information, the following table provides a detailed breakdown of the carrying amounts of assets at amortised cost by risk provision:

in € thousands	31.12.2020	31.12.2019
Subordinated securities and receivables	**165,834**	**163,978**
Credit institutions	94,458	94,843
Other financial companies	30,468	36,110
Other companies	40,908	33,025
Senior debenture bonds and registered bonds	**34,808**	**30,898**
Construction loans	**22,830,677**	**21,493,189**
Loans under home loan savings contracts	1,537,337	1,610,040
Preliminary and interim financing loans	14,010,854	12,489,644
Other construction loans	7,282,486	7,393,505
Other receivables	**2,074,187**	**2,220,544**
Other loans and advances[1]	1,767,604	1,892,175
Miscellaneous receivables[2]	306,583	328,369
Portfolio hedge adjustment	**68,467**	**75,438**
Financial assets at amortised cost	**25,173,973**	**23,984,047**

1 Receivables that constitute a class pursuant to IFRS 7.
2 Receivables that constitute a class pursuant to IFRS 7 but are not covered by the scope of IFRS 7 and essentially contain receivables from insurance business with disclosure requirements pursuant to IFRS 4.

Not including risk provision, the loans and advances to credit institutions included under “Other loans and advances” amounted to €1,458.2 million (previous year: €1,557.9 million), of which €1,259.7 million (previous year: €1,056.9 million) were due on demand and €162.5 million (previous year: €501.0 million) were not due on demand.

The item "Portfolio hedge adjustment" involves a measurement item from the interest-rate-based measurement of financial assets at amortised cost designated in connection with the portfolio fair value hedge. Recognised in this regard is the change in the hedged item as relates to the hedged risk.

Risk provision by class for financial assets at amortised cost

in € thousands	31.12.2020	31.12.2019
Subordinated securities and receivables	–217	–235
Senior debenture bonds and registered bonds	–43	–29
Construction loans	–102,428	–66,747
Other loans and advances	–40,489	–25,811
Miscellaneous receivables	–9,994	–10,925
Risk provision	**–153,171**	**–103,747**

(6) Positive market values from hedges

in € thousands	31.12.2020	31.12.2018
Fair value hedges	**16,071**	**88,994**
Hedging of interest rate risk	16,071	88,994
Positive market values from hedges	**16,071**	**88,994**

(7) Financial assets accounted for using the equity method

in € thousands	31.12.2020	31.12.2018
Carrying amount as at 1 January	**100,100**	**93,016**
Additions	93	1,133
Dividend payments	–5,425	–5,452
Pro rata share of net income/expense	–6,082	11,361
Changes recognised directly in equity	24	42
Carrying amount as at 31 December	**88,710**	**100,100**

For all financial assets in the portfolio that are accounted for using the equity method, the following table presents, among other things, all assets, liabilities, revenue and net income for each company, as well as the shares thereof attributable to the W&W Group:

	BWK GmbH Unternehmens-beteiligungsgesellschaft	V-Bank AG
Participation purpose	Strategic investment	Strategic investment
Principal place of business	Stuttgart, Germany	Munich, Germany
Reporting date	31 December	31 December
Measurement standards	At equity	At equity

	BWK GmbH Unternehmens-beteiligungsgesellschaft		V-Bank AG		Total	
in € thousands	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Share of capital, in %	35.00	35.00	15.00	15.00		
Assets	236,399	271,780	2,284,133	1,998,318	2,520,532	2,270,098
Liabilities	10,014	10,186	2,229,570	1,949,391	2,239,584	1,959,577
Net assets (100%)	**226,385**	**261,594**	**54,563**	**48,927**	**280,948**	**310,521**
Group share of net assets	**79,235**	**91,558**	**8,185**	**7,339**	**87,420**	**98,897**
Reconciliation	–	–	1,290	1,203	1,290	1,203
Carrying amount of financial assets accounted for using the equity method	**79,235**	**91,558**	**9,475**	**8,542**	**88,710**	**100,100**

in € thousands	BWK GmbH Unternehmens-beteiligungsgesellschaft 1.1.2020 to 31.12.2020	BWK GmbH Unternehmens-beteiligungsgesellschaft 1.1.2019 to 31.12.2019	V-Bank AG 1.1.2020 to 31.12.2020	V-Bank AG 1.1.2019 to 31.12.2019	Total 1.1.2020 to 31.12.2020	Total 1.1.2019 to 31.12.2019
Income	8,370	33,104	34,080	23,189	42,450	56,293
Net income/expense for the year (100%)	**−19,709**	**30,796**	**5,441**	**3,885**	**−14,268**	**34,681**
Other comprehensive income (100%)	–	–	160	277	160	277
Total net income/expense (100%)	**−19,709**	**30,796**	**5,601**	**4,162**	**−14,108**	**34,958**
Group share of net income/expense for the year	**−6,898**	**10,779**	**816**	**582**	**−6,082**	**11,361**
Group share of other comprehensive income	**–**	**–**	**24**	**42**	**24**	**42**
Group share of net income/expense for the year	**−6,898**	**10,779**	**840**	**624**	**−6,058**	**11,403**
Dividends received	5,425	5,425	–	–	5,425	5,425

In the case of V-Bank AG, although we hold less than 20% of the voting rights, we exercise significant influence over it as a result of our representation on its supervisory body.

No publicly quoted market prices are available for the interests in associates in the W&W Group that are accounted for using the equity method.

(8) Investment property

As at the end of the year, the fair value of investment properties amounted to €2,409.6 million (previous year: €2,388.4 million). There are no restrictions on the ability to sell investment property or on the ability to dispose of income and sales proceeds.

As at 31 December 2020, there were contractual obligations to purchase and construct investment properties amounting to €62.9 million (previous year: €107.6 million). There are no material contractual obligations to develop investment property or for repairs, maintenance or improvements.

in € thousands	2020	2019
Gross carrying amounts as at 1 January	**2,232,638**	**2,196,900**
Additions of right-of-use assets as at 1 January 2019 as a result of initial application of IFRS 16	–	9,408
Adjusted gross carrying amounts as at 1 January	**2,232,638**	**2,206,308**
Additions	113,878	194,652
Disposals	-72,370	-17,568
Reclassifications	771	329
Classified as held for sale	-	-151,083
As at 31 December	**2,274,917**	**2,232,638**
Cumulative depreciation and impairments as at 1 January	**-377,414**	**-369,845**
Additions of right-of-use assets as at 1 January 2019 as a result of initial application of IFRS 16.	–	–
Adjusted amount of cumulative depreciation and impairments as at 1 January	**-377,414**	**-369,845**
Additions: depreciation (scheduled)	-41,079	-43,060
Additions: impairments	-965	-1,267
Disposals	18,593	5,939
Reversals of impairment losses	1,028	3,616
Reclassifications	-1,519	–
Classified as held for sale	–	27,203
As at 31 December	**-401,356**	**-377,414**
Net carrying amounts as at 1 January	**1,855,224**	**1,827,055**
Net carrying amounts as at 31 December	**1,873,561**	**1,855,224**

Additions included capitalised production costs of €17.2 million (previous year: €34.2 million).

Impairment expenses in the current period of €1.0 million (previous year: €1.3 million) relate to various residential and commercial properties whose net realisable value is lower than the carrying amount. One of the main reasons for this are ancillary acquisition costs.

(9) Reinsurers' portion of technical provisions

in € thousands	31.12.2020	31.12.2019
Provision for unearned premiums	10,357	13,861
Provision for future policy benefits	82,623	86,637
Provision for outstanding insurance claims	188,970	178,310
Other technical provisions	-3,903	-2,744
Reinsurers' portion of technical provisions	**278,047**	**276,064**

Further remarks can be found at the corresponding liability items starting at Note 19.

(10) Intangible assets

in € thousands	31.12.2020	31.12.2019	Remaining amortisation period (years)
Software	85,745	86,961	1–5
Brand names	11,257	12,865	7
Other purchased intangible assets	7,762	113	1–7
Intangible assets	**104,764**	**99,939**	–

Changes to intangible assets in 2020

in € thousands	Externally procured software	Internally developed software	Brand names	Other acquired intangible assets	Total
Gross carrying amounts as at 1 January	**372,658**	**6,048**	**32,162**	**17,025**	**443,620**
Additions	22,717	855	–	1	23,573
Disposals	−62,112	−5,095	–	−601	−67,808
Reclassifications	−1,131	–	–	–	−1,131
Changes in the scope of consolidation	208	283	–	8,883	9,374
As at 31 December	**332,340**	**2,091**	**32,162**	**25,308**	**407,628**
Cumulative amortisation and impairments as at 1 January	**−286,380**	**−5,365**	**−19,297**	**−16,912**	**−343,681**
Additions: amortisation (scheduled)	−25,025	−254	−1,608	−1,229	−28,116
Disposals	62,112	5,095	–	595	67,802
Reclassifications	1,131	–	–	–	1,131
As at 31 December	**−248,162**	**−524**	**−20,905**	**−17,546**	**−302,864**
Net carrying amounts as at 1 January	**86,278**	**683**	**12,865**	**113**	**99,939**
Net carrying amounts as at 31 December	**84,178**	**1,567**	**11,257**	**7,762**	**104,764**

Changes to intangible assets in 2019

in € thousands	Externally procured software	Internally developed software	Brand names	Other purchased intangible assets	Total
Gross carrying amounts as at 1 January	**397,501**	**52,482**	**32,162**	**17,620**	**515,492**
Additions	33,355	605	–	1	33,961
Disposals	–46,144	–47,039	–	–596	–93,779
Reclassifications	3,441	–	–	–	3,441
Classified as held for sale	–17,852	–	–	–	–17,852
Changes in the scope of consolidation	2,151	–	–	–	2,151
Changes from currency translation	206	–	–	–	206
As at 31 December	**372,658**	**6,048**	**32,162**	**17,025**	**443,620**
Cumulative amortisation and impairments as at 1 January	**–312,685**	**–52,284**	**–17,689**	**–17,406**	**–415,791**
Additions: amortisation (scheduled)	–27,189	–120	–1,608	–102	–29,019
Disposals	46,045	47,039	–	596	93,680
Reclassifications	–3,441	–	–	–	–3,441
Classified as held for sale	13,073	–	–	–	13,073
Changes in the scope of consolidation	–2,151	–	–	–	–2,151
Changes from currency translation	–32	–	–	–	–32
As at 31 December	**–286,380**	**–5,365**	**–19,297**	**–16,912**	**–343,681**
Net carrying amounts as at 1 January	**84,816**	**198**	**14,473**	**214**	**99,701**
Net carrying amounts as at 31 December	**86,278**	**683**	**12,865**	**113**	**99,939**

Wüstenrot Holding AG and W&W AG are parties to a brand name transfer and use agreement. As at 31 December 2020, the carrying amount of the resulting intangible asset amounted to €11.3 million (previous year: €12.9 million). The asset has a limited useful life, and it is being amortised on a straight-line basis over 20 years. Its remaining useful life is seven years. As at 31 December 2020, the capitalised brand name was offset by a financial liability to Wüstenrot Holding AG in the amount of €13.1 million (previous year: €15.1 million).

Total expenditures for research and development that were recognised in the income statement for the 2020 financial year amounted to €72.30 million (previous year: €30.0 million).

There were obligations to purchase intangible assets in the amount of €6.5 million (previous year: €8.5 million). These have to do with software licences of W&W Informatik GmbH.

(11) Property, plant and equipment

There were obligations to purchase property, plant and equipment in the amount of €175.1 million (previous year: €240.3 million). This was mostly due to the construction of the campus in Ludwigsburg/Kornwestheim. The measurement was performed using the net asset value method.

Additions to property for own use included costs for assets under construction in the amount of €106.5 million (previous year: €73.4 million).

Property, plant and equipment

in € thousands	Property for own use 2020	Property for own use 2019	Plant and equipment 2020	Plant and equipment 2019	Total 2020	Total 2019
Gross carrying amounts as at 1 January	**586,600**	**507,224**	**145,770**	**173,908**	**732,370**	**681,132**
Additions of right-of-use assets as at 1 January 2019 as a result of initial application of IFRS 16	–	60,523	–	3,436	–	63,959
Adjusted gross carrying amounts as at 1 January	**586,600**	**567,747**	**145,770**	**177,344**	**732,370**	**745,091**
Additions	116,083	75,808	14,565	22,784	130,648	98,592
Disposals	-537	-50,505	-15,200	-47,739	-15,737	-98,244
Reclassifications	-1,048	-328	-29	–	-1,077	-328
Classified as held for sale	–	-6,142	–	-6,680	–	-12,822
Changes in the scope of consolidation	7,708	–	3,872	–	11,580	–
Changes from currency translation	–	20	12	61	12	81
As at 31 December	**708,806**	**586,600**	**148,990**	**145,770**	**857,796**	**732,370**
Cumulative depreciation and impairments as at 1 January	**-231,066**	**-255,872**	**-103,527**	**-137,799**	**-334,593**	**-393,671**
Additions: depreciation (scheduled)	-30,568	-27,681	-18,734	-18,169	-49,302	-45,850
Disposals	529	50,114	12,886	47,586	13,415	97,700
Reclassifications	1,107	–	29	–	1,136	–
Classified as held for sale	–	2,375	-	4,867	–	7,242
Changes from currency translation	–	-2	-12	-12	-12	-14
As at 31 December	**-259,998**	**-231,066**	**-109,358**	**-103,527**	**-369,356**	**-334,593**
Net carrying amounts as at 1 January	**355,534**	**251,352**	**42,243**	**36,109**	**397,777**	**287,461**
Net carrying amounts as at 31 December	**448,808**	**355,534**	**39,632**	**42,243**	**488,440**	**397,777**

(12) Inventories

Inventories in the amount of €177.1 million (previous year: €151.4 million) related to property development business and primarily included land and buildings held for sale, as well as land with buildings under construction. The carrying amount of inventories recognised at the lower fair value less costs of disposal amounted to €11.7 million (previous year: €24.0 million). Also recognised under "Inventories" were raw materials and consumables in the amount of €0.2 million (previous year: €0.3 million).

An impairment provision in the amount of €0.1 million (previous year: €2.2 million) was created for inventories in the reporting year. Expenses for the utilisation of inventories during the reporting period amounted to €51.8 million (previous year: €25.4 million). Inventories in the amount of €1.1 million (previous year: €0) were pledged as collateral for liabilities in the reporting year.

(13) Current tax assets

Current tax assets relate to current tax receivables, and they are expected to be realised in the amount of €32.3 million (previous year: €8.7 million) within 12 months.

(14) Deferred tax assets

Deferred tax assets were recognised in connection with the following items:

in € thousands	31.12.2020	31.12.2019
Financial assets/liabilities at fair value through profit or loss	49,511	36,951
Financial assets at fair value through other comprehensive income	–	1,559
Financial assets at amortised cost	51,953	–
Positive/negative market values from hedges	16	138,545
Liabilities	187,356	61,872
Technical provisions	148,732	158,008
Provisions for pensions and similar obligations	377,734	335,023
Other balance sheet items	153,913	186,476
Tax loss carryforward	14,429	13,157
Deferred tax assets before netting effects	**983,644**	**931,591**
Netting effects	–528,971	–592,342[1]
Deferred tax assets after netting effects	**454,673**	**339,249[1]**

1 Prior-year figure adjusted, see chapter "Changes pursuant to IAS 8".

In the reporting year, the portion of the changes to deferred tax assets recognised directly in equity for some items can be seen in the consolidated statement of comprehensive income. The changes recognised in the income statement for some items are presented in Note 35.

Deferred taxes on provisions for pensions and other obligations in the amount of €360.2 million (previous year: €315.8 million) were recognised directly in the reserve for pension commitments.

Deferred tax assets in the amount of €210.2 million (previous year: €116.4 million) and deferred taxes on tax loss carryforwards in the amount of €14.7 million (previous year: €13.2 million) are expected to be realised within 12 months.

Deferred taxes for deductible temporary differences and tax loss carryforwards that related to corporate income and trade taxes in the amount of €31.9 million (previous year: €25.1 million) were not recognised, as they are not expected to be realised in the medium term.

(15) Other assets

Other assets mainly had to do with prepaid insurance benefits for the following year and deferred lease and maintenance costs.

(16) Financial liabilities at fair value through profit or loss

The category “Financial liabilities at fair value through profit or loss” includes derivatives in the amount of €44.2 million (previous year: €80.3 million). 44,2 80,3 Of this €31.5 million (previous year: €67.1 million) was attributable to interest-rate-related transactions, €1.2 million (previous year: €7.0 million) to currency-related transactions and €11.4 million (previous year: €6.2 million) to equity/index transactions.

(17) Liabilities

in € thousands	31.12.2020	31.12.2019
Liabilities evidenced by certificates	**1,412,976**	**947,565**
Liabilities to credit institutions	**2,193,839**	**2,232,992**
Liabilities to customers	**22,481,152**	**21,641,444**
Deposits from home loan savings business and savings deposits	19,502,655	18,446,460
Other liabilities	2,978,497	3,194,984
Lease liabilities	**83,215**	**77,268**
Miscellaneous liabilities	**1,322,509**	**1,373,138**
Other liabilities[1]	365,283	418,792
Sundry liabilities[2]	957,226	954,346
Liabilities from reinsurance business	120,334	124,575
Liabilities from direct insurance business	672,472	678,553
Other sundry liabilities	164,420	151,218
Portfolio hedge adjustment	**331,833**	**47,797**
Liabilities	**27,825,524**	**26,320,204**

1 Liabilities that constitute a class pursuant to IFRS 7.
2 Liabilities that constitute a class pursuant to IFRS 7 but are not covered by the scope of IFRS 7 and essentially contain liabilities from insurance business with disclosure requirements pursuant to IFRS 4.

Other liabilities to credit institutions, which are included under “Liabilities to credit institutions”, amounted to €2,1434.4 million (previous year: €2,219.8 million), of which €12.7 million (previous year: €12.0 million) were due on demand and €2,130.7 million (previous year: €2,207.8 million) were not due on demand.

2 249,5Of the other liabilities from liabilities to customers, €2,184.4 million (previous year: €2,249.5 million) are due on demand and €794.1 million (previous year: €945.5 million).

Of the liabilities from direct insurance business within sundry liabilities, €607.5 million (previous year: €622.5 million) were attributable to policyholders and €64.9 million (previous year: €56.0 million) to insurance agents.

The item "Portfolio hedge adjustment" involves a measurement item from the interest-rate-based measurement of liabilities designated in connection with the portfolio fair value hedge. Recognised in this regard is the change in the hedged item as relates to the hedged risk.

The fair value of each liability can be obtained from the measurement hierarchy. The carrying amount of sundry liabilities corresponds to fair value.

(18) Negative market values from hedges

in € thousands	31.12.2020	31.12.2019
Fair value hedges	**15,688**	**216,195**
Hedging of interest rate risk	15,688	216,195
Negative market values from hedges	**15,688**	**216,195**

(19) Technical provisions

	Gross	
in € thousands	31.12.2020	31.12.2019
Provision for unearned premiums	240,636	241,497
Provision for future policy benefits	30,568,319	29,959,727
Provision for outstanding insurance claims	2,695,829	2,591,943
Provision for premium refunds	5,862,892	4,594,755
Other technical provisions	34,615	41,219
Technical provisions	**39,402,291**	**37,429,141**

Provision for unearned premiums

	Gross	Reinsurers portion	Gross	Reinsurers portion
in € thousands	2020	2020	2019	2019
As at 1 January	**241,497**	**13,861**	**242,680**	**12,629**
Additions	240,636	10,357	241,497	13,861
Withdrawals	-241,497	-13,861	-242,680	-12,629
As at 31 December	**240,636**	**10,357**	**241,497**	**13,861**

Provision for future policy benefits

	Gross	Reinsurers portion	Gross	Reinsurers portion
in € thousands	31.12.2020	31.12.2020	31.12.2019	31.12.2019
Life insurance	29,571,190	82,623	29,072,557	86,637
Health insurance	997,129	—	887,170	—
Provision for future policy benefits	**30,568,319**	**82,623**	**29,959,727**	**86,637**

Provision for future policy benefits by type of business operated as life insurance

in € thousands	Gross 2020	Reinsurers portion 2020	Gross 2019	Reinsurers portion 2019
Provision for future policy benefits	26,834,538	–	26,478,755	–
Provision for future policy benefits for unit-linked insurance contracts	2,238,019	–	1,711,146	–
Receivables not yet due from policyholders	−112,569	–	−113,883	–
As at 1 January	**28,959,988**	**86,637**	**28,076,018**	**81,388**
Additions from premiums[1]	1,801,976	–	1,725,697	–
Use and release[1]	−2,291,702	–	−2,303,183	–
Interest[1]	700,351	–	718,726	–
Other changes[1]	290,624	−4,014	742,730	5,249
As at 31 December	**29,461,237**	**82,623**	**28,959,988**	**86,637**
Provision for future policy benefits	27,491,491	–	26,834,538	–
Provision for future policy benefits for unit-linked insurance contracts	2,079,699	–	2,238,019	–
Receivables not yet due from policyholders	−109,953	–	−112,569	–

1 We determined the breakdown of changes in the financial year on the basis of preliminary profit sourcing. The figures for the previous year were adjusted to conform to definitive profit sourcing.

Ageing provision in the area of health insurance

in € thousands	2020	2019
As at 1 January	**887,170**	**781,745**
Share of association rates	−80,818	−68,362
As at 1 January, not including association rates	**806,352**	**713,383**
Premiums from the provision for premium refunds	9,869	7,043
Additions from premiums	65,210	61,731
Interest	18,326	16,793
Direct credits	6,571	7,402
As at 31 December, not including association rates	**906,328**	**806,352**
Share of association rates	90,801	80,818
As at 31 December	**997,129**	**887,170**

Provision for outstanding insurance claims

in € thousands	Gross 31.12.2020	Reinsurers portion 31.12.2020	Gross 31.12.2019	Reinsurers portion 31.12.2019
Life and health insurance	236,761	12,232	222,932	10,342
Property/casualty insurance and reinsurance	2,459,068	176,738	2,369,011	167,968
Provision for outstanding insurance claims	**2,695,829**	**188,970**	**2,591,943**	**178,310**

In the area of life and health insurance, the provision for outstanding insurance claims changed as follows:

in € thousands	Gross 2020	Reinsurers portion 2020	Gross 2019	Reinsurers portion 2019
As at 1 January	**222,932**	**10,342**	**208,507**	**7,309**
Changes recognised in the income statement	13,829	1,890	14,425	3,033
As at 31 December	**236,761**	**12,232**	**222,932**	**10,342**

In the area of property/casualty insurance and reinsurance, the provision for outstanding insurance claims changed as follows:

in € thousands	Gross 2020	Reinsurers portion 2020	Gross 2019	Reinsurers portion 2019
As at 1 January	**2,369,011**	**167,968**	**2,338,514**	**199,102**
Additions	642,249	36,959	630,776	27,522
Use	–500,271	–41,532	–463,406	–46,020
Release	–45,690	13,557	–139,942	–12,761
Changes from currency translation	–6,231	–214	3,069	125
As at 31 December	**2,459,068**	**176,738**	**2,369,011**	**167,968**

The run-off triangles (gross and net) depicted below show the run-off of the provision for outstanding insurance claims in the area of property/casualty insurance and reinsurance.

With the gross run-off triangle, the provision for outstanding insurance claims (gross) is reconciled on the reporting date after deduction of the provision for claim adjustment expenses. With the net run-off triangle, the reinsurers' portion is deducted, in addition, when reconciling the net provision.

Gross run-off triangle[1]

in € thousands	31.12.2011	31.12.2012	31.12.2013	31.12.2014
Provision for outstanding insurance claims (gross)	**2,138,684**	**2,115,807**	**2,298,051**	**2,307,159**
Less provision for claim adjustment expenses	151,053	143,828	146,869	151,782
Provision for outstanding insurance claims (gross)	**1,987,631**	**1,971,979**	**2,151,182**	**2,155,377**
Payments, cumulative (gross)				
One year later	323,446	342,885	423,322	364,833
Two years later	470,817	466,803	587,072	505,919
Three years later	554,140	568,052	682,855	591,536
Four years later	634,042	636,356	744,049	656,358
Five years later	690,416	686,623	797,797	701,745
Six years later	733,169	733,089	837,437	739,746
Seven years later	774,277	768,435	870,043	–
Eight years later	806,812	797,174	–	–
Nine years later	832,537	–	–	–
Original provision, reestimated (gross)				
One year later	1,864,927	1,867,591	2,075,251	2,021,321
Two years later	1,768,517	1,801,134	1,970,230	1,927,813
Three years later	1,727,154	1,746,498	1,917,310	1,837,551
Four years later	1,688,593	1,715,199	1,845,499	1,753,505
Five years later	1,675,483	1,671,041	1,782,454	1,657,418
Six years later	1,637,511	1,620,406	1,698,995	1,670,709
Seven years later	1,596,263	1,546,986	1,720,722	–
Eight years later	1,529,010	1,569,716	–	–
Nine years later	1,551,832	–	–	–
Cumulative gross surplus (deficit) excluding currency rate effects	**435,798**	**402,263**	**430,460**	**484,669**
Cumulative gross surplus (deficit) including currency rate effects	**425,874**	**408,889**	**410,777**	**470,448**

1 The run-off triangle retroactively includes Group companies newly consolidated and retroactively excludes Group companies deconsolidated.

31.12.2015	31.12.2016	31.12.2017	31.12.2018	31.12.2019	31.12.2020
2,320,346	**2,317,581**	**2,345,648**	**2,338,514**	**2,369,011**	**2,459,068**
149,474	152,178	159,303	154,968	161,650	160,234
2,170,872	**2,165,403**	**2,186,345**	**2,183,546**	**2,207,361**	**2,298,834**
348,789	344,452	381,744	394,733	427,287	–
480,556	483,154	474,709	538,011	–	–
568,893	553,855	562,341	–	–	–
623,787	613,205	–	–	–	–
670,206	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
2,028,815	2,017,472	2,035,807	2,028,907	2,145,862	–
1,899,667	1,880,631	1,841,344	1,974,114	–	–
1,798,574	1,741,332	1,811,824	–	–	–
1,678,098	1,726,665	–	–	–	–
1,680,576	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
490,296	**438,739**	**374,521**	**209,432**	**61,498**	**–**
497,046	**453,485**	**372,626**	**207,838**	**67,798**	**–**

Net run-off triangle[1]

in € thousands	31.12.2011	31.12.2012	31.12.2013	31.12.2014
Provision for outstanding insurance claims (gross)	**2,138,684**	**2,115,807**	**2,298,051**	**2,307,159**
Reinsurers' portion	240,553	213,375	316,616	237,472
Provision for outstanding insurance claims (net)	**1,898,131**	**1,902,432**	**1,981,435**	**2,069,687**
Less provision for claim adjustment expenses	145,605	146,226	148,891	149,880
Provision for outstanding insurance claims (net)	**1,752,526**	**1,756,206**	**1,832,544**	**1,919,807**
Payments, cumulative (net)				
One year later	292,000	314,905	307,660	323,041
Two years later	420,514	427,222	438,212	440,783
Three years later	493,036	518,813	512,108	516,509
Four years later	564,039	576,288	564,949	572,962
Five years later	609,585	619,557	610,641	615,086
Six years later	645,340	658,478	643,259	648,445
Seven years later	678,902	685,626	671,223	–
Eight years later	701,758	710,197	–	–
Nine years later	723,314	–	–	–
Original provision, reestimated (net)				
One year later	1,631,744	1,652,034	1,734,546	1,793,132
Two years later	1,533,715	1,580,346	1,638,230	1,702,937
Three years later	1,486,977	1,532,754	1,588,680	1,618,970
Four years later	1,454,094	1,502,142	1,523,096	1,536,901
Five years later	1,441,670	1,463,334	1,462,090	1,459,426
Six years later	1,409,041	1,414,419	1,393,485	1,461,441
Seven years later	1,369,512	1,354,562	1,403,936	–
Eight years later	1,314,341	1,366,032	–	–
Nine years later	1,325,903	–	–	–
Cumulative net surplus (deficit) excluding currency rate effects	**426,623**	**390,174**	**428,608**	**458,366**
Cumulative net surplus (deficit) including currency rate effects	**427,528**	**400,574**	**415,271**	**445,997**
Net run-off ratios, in %				
Excluding currency rate effects	24.34	22.22	23.39	23.88
Including currency rate effects	24.39	22.81	22.66	23.23

1 The run-off triangle retroactively includes Group companies newly consolidated and retroactively excludes Group companies deconsolidated.

31.12.2015	31.12.2016	31.12.2017	31.12.2018	31.12.2019	31.12.2020
2,320,346	**2,317,581**	**2,345,648**	**2,338,514**	**2,369,011**	**2,459,068**
218,041	199,237	211,467	199,102	167,968	176,738
2,102,305	**2,118,344**	**2,134,181**	**2,139,412**	**2,201,043**	**2,282,330**
151,350	153,953	160,848	153,402	160,751	159,402
1,950,955	**1,964,391**	**1,973,333**	**1,986,010**	**2,040,292**	**2,122,928**
308,063	314,233	334,172	349,320	387,458	–
427,759	436,488	457,349	474,617	–	–
502,780	512,766	532,383	–	–	–
560,603	566,642	–	–	–	–
602,380	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
1,817,162	1,826,697	1,829,213	1,842,017	1,964,860	–
1,697,479	1,693,847	1,698,806	1,783,405	–	–
1,598,995	1,586,644	1,661,015	–	–	–
1,503,456	1,560,909	–	–	–	–
1,494,349	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
456,606	**403,482**	**312,318**	**202,605**	**75,433**	**–**
465,779	**420,671**	**313,526**	**198,820**	**79,463**	**–**
23.40	20.54	15.83	10.20	3.70	–
23.87	21.41	15.89	10.01	3.89	–

Provision for premium refunds

The provision for premium refunds changed as follows:

in € thousands	2020	2019
As at 1 January	**4,594,755**	**2,928,607**
Provision for premium refunds as at 1 January	**1,562,671**	**1,488,284**
Additions	345,281	317,190[1]
Withdrawals with effect on liquidity	−169,246	−152,469
Withdrawals with no effect on liquidity	−92,113	−90,334
As at 31 December	**1,646,593**	**1,562,671**
Provision for deferred premium refunds as at 1 January	**3,032,084**	**663,267**
Changes recognised in the consolidated income statement	14,105	−58,930
Changes recognised in other comprehensive income	1,167,523	1,650,691
Changes recognised directly in equity	2,587	–
As at 31 December	**4,216,299**	**3,032,084**
As at 31 December	**5,862,892**	**4,594,755**

1 Additions for the 2019 financial year included a rectification for 2018 based on Section 4 of the German Regulation on Minimum Premium Refunds (MindZV) in the amount of €15,186 thousand.

Other technical provisions

	Gross	Reinsurers' portion	Gross	Reinsurers' portion
in € thousands	2020	2020	2019	2019
As at 1 January	**41,219**	**−2,744**	**38,258**	**−3,216**
Additions	34,615	−3,903	41,219	−2,744
Use and release	−41,219	2,744	−38,258	3,216
As at 31 December	**34,615**	**−3,903**	**41,219**	**−2,744**

(20) Other provisions

in € thousands	31.12.2020	31.12.2019
Provisions for pensions	1,946,449	1,777,345
Provisions for other long-term employee benefits	39,486	42,784
Provisions for pensions and other long-term employee benefits	**1,985,935**	**1,820,129**
Miscellaneous provisions	1,145,748	1,131,586
Risk provision for issued loan commitments and financial guarantees	2,937	3,655
Other provisions	**3,134,620**	**2,955,370**

Provisions for pensions and other long-term employee benefits

Provisions for pensions

The change in the projected benefit obligation is depicted in the following:

Projected benefit obligation

	Present value of pension commitments		Fair value of plan assets		Net liabilities (net asset) of defined penisons plans/reported pension provisions	
in € thousands	2020	2019	2020	2019	2020	2019
As at 1 January	**2,065,805**	**1,806,698**	**288,460**	**293,389**	**1,777,345**	**1,513,309**
Income and expenses recognised in the consolidated income statement	43,912	49,986	5,147	4,836	38,765	45,150
Current service cost	27,333	19,626	2,912	–	24,421	19,626
Gains/losses from plan settlements and curtailments	105	72	–	–	105	72
Interest expense/income	16,474	30,288	–	–	16,474	30,288
Expected income from plan assets	–	–	2,235	4,836	-2,235	-4,836
Actuarial gains (-) or losses (+) recognised in “Other comprehensive income”	157,750	272,171	-4,259	8,214	162,009	263,957
Pension payments (utilisation)	-66,991	-65,197	-18,263	-17,979	-48,728	-47,218
Additions to the scope of consolidation	19,160	2,147	2,102	–	17,058	2,147
As at 31 December	**2,219,636**	**2,065,805**	**273,187**	**288,460**	**1,946,449**	**1,777,345**

There was no past service cost for either the current or the previous financial year. The projected benefit obligation corresponds to the carrying amount of the provision for pensions as at 1 January and 31 December of each financial year.

Current service cost is recognised in the consolidated income statement under “General administrative expenses”. Interest expenses are recognised under “Current net income/expense”.

The plan assets capable of being netted in connection with the outsourcing of pension commitments can be broken down as follows:

List of plan assets by investment class

in € thousands	31.12.2020	31.12.2019
Financial assets	**274,562**	**290,122**
Cash reserves	17,682	37,229
Equities	45,325	–
Investment funds units	32,305	25,542
Senior debenture bonds and registered bonds	50,280	50,315
Senior fixed-income securities	126,248	174,890
Derivative financial instruments	2,673	2,146
thereof market price quoted on an active market	1,858	109
Other loans and advances	49	–
Financial liabilities	**1,375**	**1,662**
Liabilities to credit institutions	6	–
Other liabilities	73	111
Derivative financial instruments	1,296	1,551
thereof market price quoted on an active market	1,296	1,551
Total	**273,187**	**288,460**

With the exception of derivatives, prices quoted on an active market were not available for any other assets.

The following material actuarial assumptions were applied when calculating pension provisions under defined-benefit plans:

in %	2020	2019
Actuarial interest rate	0.40	0.80
Trend in pensions	2.00	2.00
Trend in the projected benefit obligation	3.00	3.00
Trend in salaries	3.00	3.00
Trend in inflation	2.00	2.00
Biometrics	Heubeck-Richttafeln 2018 G	Heubeck-Richttafeln 2018 G

Sensitivity analysis

Changes in the assumptions would have had the following effects on the defined-benefit obligation. In the process, each sensitivity analysis is performed independently of the others.

Present value of defined-benefit pension commitments

		31.12.2020		31.12.2019	
		Present value in € millions	Change in %	Present value in € millions	Change in %
Discount rate	+50 bp	2,038.6	–8.0	1,903.1	–7.9
	–50 bp	2,418.3	9.1	2,248.2	8.9
Trend in pension/inflation	+25 bp	2,278.5	2.8	2,121.6	2.7
	–25 bp	2,156.0	–2.7	2,011.1	–2.6
Trends in salaries/projected benefit obligation	+25 bp	2,224.5	0.4	2,073.5	0.4
	–25 bp	2,207.2	–3.9	2,056.8	–0.4
Life expectancy	By one more year	2,308.5	4.2	2,146.1	3.9

With respect to biometrics, the effects are depicted if life expectancy increases by one year. This is approximately achieved through a reduction of mortality probabilities by 10%.

There are no extraordinary company- or plan-specific risks. The change in obligations is depicted for the current and the subsequent three financial years through annual forecasts.

Internal financing through pension provisions without explicit plan assets is an intentional, proven strategy for financing pension commitments. In so doing, sufficient risk offsetting takes place. There was no liquidity problem.
The weighted average term to maturity of benefit obligations (Macaulay duration) amounted to 15.7 years (previous year: 16.8 years).

Provisions for other long-term employee benefits

In measuring other long-term employee benefits, actuarial interest rates were used that corresponded to the shorter terms to maturity of the commitments (e.g. for early retirement, –0.12% (previous year: 0.10%); contracts for phased-in early retirement (“Altersteilzeit”), –0.10% (previous year: 0.20%); long-term service benefits, –0.10% (previous year: 0.20%)).

Miscellaneous provisions in 2020

in € thousands	For restructuring	For the refunding of closing fees in the case of loan waivers	For the interest bonus option	Other	Total
As at 1 January	**18,226**	**33,854**	**1,031,424**	**48,082**	**1,131,586**
Additions	12,546	1,225	85,533	25,162	124,466
Use	–11,849	–3,214	–179,161	–13,761	–207,985
Release	–6,024	–742	–10,796	–8,347	–25,909
Interest effect	26	1,577	35,815	36	37,454
Reclassification	–	100	–100	–	–
Changes from the scope of consolidation	–	300	75,500	10,113	86,136
Changes from currency translation	–	–	–	–	–
As at 31 December	**12,925**	**33,100**	**1,038,215**	**61,285**	**1,145,748**

Additions in the amount of €11.2 million were made to restructuring provisions as a result of the purchase of Aachener Bausparkasse. They were utilised nearly in full in the 2020 financial year.

Miscellaneous provisions in 2019

in € thousands	For restructuring	For the refunding of closing fees in the case of loan waivers	For the interest bonus option	Other	Total
As at 1 January	**2,164**	**32,236**	**1,014,835**	**42,517**	**1,091,752**
Additions	17,556	2,204	138,226	28,764	186,750
Use	–228	–2,280	–141,970	–15,499	–159,977
Release	–1,246	–79	–18,015	–6,960	–26,300
Classified as held for sale	–	–	–5,318	–684	–6,002
Interest effect	–	1,773	43,597	47	45,417
Reclassification	–	–	–	–109	–109
Changes from the scope of consolidation	–20	–	–	–3	–23
Changes from currency translation	–	–	69	9	78
As at 31 December	**18,226**	**33,854**	**1,031,424**	**48,082**	**1,131,586**

The change in the risk provision for issued loan commitments and financial guarantees is presented in Note 46.

The expected maturities of the amounts recognised in the balance sheet can be broken down as follows:

2020

in € thousands	Within 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Other provisions for restructuring	7,573	5,352	–	–	12,925
Miscellaneous provisions for the refunding of closing fees in the event of loan waivers	3,212	4,191	25,697	–	33,100
Miscellaneous provisions for interest bonus options	248,846	328,021	461,348	–	1,038,215
Other	36,475	14,303	5,489	5,241	61,508
Miscellaneous provisions	**296,106**	**351,867**	**492,534**	**5,241**	**1,145,748**

2019

in € thousands	Within 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Miscellaneous provisions for restructuring	12,715	5,511	–	–	18,226
Miscellaneous provisions for the refunding of closing fees in the event of loan waivers	4,216	4,845	24,793	–	33,854
Miscellaneous provisions for interest bonus options	243,730	306,963	480,731	–	1,031,424
Other	29,237	13,636	5,154	55	48,082
Miscellaneous provisions	**289,898**	**330,955**	**510,678**	**55**	**1,131,586**

(21) Current tax liabilities

Current tax liabilities amounted to €155.4 million (previous year: €125.7 million) and are expected to be realised within 12 months.

(22) Deferred tax liabilities

Deferred tax liabilities were recognised in connection with the following items:

in € thousands	31.12.2020	31.12.2019
Financial assets/liabilities at fair value through profit or loss	153,444	140,006
Financial assets at fair value through other comprehensive income	462,598	349,591
Financial assets at amortised cost	37,940	44,392
Positive/negative market values from hedges	7,697	–
Financial assets accounted for using the equity method	1,659	746
Liabilities	64,080	84,564
Technical provisions	164,425	164,175
Other balance sheet items	84,695	120,849
Deferred tax assets before netting effects	**976,538**	**904,323**
Netting effects	-528,971	-592,342[1]
Deferred tax assets after netting effects	**447,567**	**311,981[1]**

1 Prior-year figure adjusted, see chapter "Changes pursuant to IAS 8".

The portion of the changes to deferred tax liabilities recognised directly in equity for some items can be seen in the consolidated statement of comprehensive income. The changes recognised in the income statement for some items are presented in Note 35.

Deferred tax liabilities in the amount of €138.9 million (previous year: €64.6 million) are expected to be realised within 12 months.

(23) Other liabilities

This item includes contract liabilities in the amount of €7.1 million (previous year: €3.4 million) and deferred income and accrued expenses in the amount of €3.5 million (previous year: €2.4 million).

(24) Subordinated capital

Subordinated capital is depicted in the reporting about liquidity risk (Note 48) and takes into consideration existing options to repay it prior to final maturity.

	Carrying amount		Carrying amount	
in € thousands	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Subordinated liabilities	341,052	422,736	388,277	476,423
Profit participation certificates	2,110	2,114	2,607	2,652
Subordinated capital	**343,162**	**424,850**	**390,884**	**479,075**

(25) Equity

in € thousands	31.12.2020	31.12.2019
Interests of W&W shareholders in paid-in capital	1,486,463	1,486,514
Interests of W&W shareholders in earned capital	3,556,194	3,313,465
Non-controlling interests in equity	42,494	35,103
Equity	**5,085,151**	**4,835,082**

We propose appropriating the unappropriated surplus of €80.8 million that was generated by W&W AG in the 2020 financial year as follows: distribution of a dividend in the amount of €0.65 for each share entitled to receive dividends: €60,927,404.20 (dividend).

The proposal takes into account the 15,252 treasury shares held directly by the company on 31 December 2020, which pursuant to Section 71b of the German Stock Corporation Act (AktG) are not entitled to receive dividends. The number of shares entitled to receive dividends may change by the time of the Annual General Meeting. In such case, a correspond-ingly modified proposal for the appropriation of profit will be submitted to the Annual General Meeting for adoption that provides for keeping the distribution unchanged at €0.65 per share entitled to receive dividends while adjusting the amounts for the total distributed amount and for retained earnings.

On 25 June 2020, the Annual General Meeting of W&W AG resolved to distribute a dividend in the amount of €0.65 (previous year: €0.65) per share from the unappropriated surplus for the 2019 financial year as calculated in accordance with the German Commercial Code (HGB), which amounted to €75.4 million (previous year: €65.3 million). Based on the shares entitled to receive dividends, this corresponded to a maximum distribution of €60.9 million (previous year: €60.9 million). Of the remaining amount, €9.0 million (previous year: €4.0 million) was allocated to "Other reserves", and €5.5 million (previous year: €0.4 million) was carried forward.

Share capital

Share capital is divided into 93,734,468 outstanding registered no-par-value shares and is fully paid up. In legal terms, these are ordinary shares.

This means that they carry voting and dividend rights, a right to share in liquidation proceeds and subscription rights. There are no preferential rights or restrictions.

Changes in the number of shares outstanding

	31.12.2020	31.12.2019
As at 1 January	**93,695,834**	**93,622,994**
Repurchase of employee share ownership programme	-40,000	–
Issuance to employees	78,634	72,840
As at 31 December	**93,734,468**	**93,695,834**

Authorised capital

Pursuant to Article 5 (5) of the Articles of Association of W&W AG, the Executive Board is authorised until 12 June 2023 to increase, on one or more occasions, the company's share capital by up to €100 million via issuance of new registered no-par-value shares in exchange for cash or contributions in kind, subject to the approval of the Supervisory Board. Shareholders are entitled to a statutory subscription right.

Contingent capital

By resolution adopted at the Annual General Meeting on 13 June 2018, the Executive Board was authorised to issue warrant bonds, convertible bonds, participation rights, profit participation bonds or a combination of these instruments on or before 12 June 2023. Article 5 (6) of the Articles of Association accordingly provides that the share capital of WW AG is contingently increased by the nominal amount of not more than €240,000 thousand, divided into not more than 45,889,102 no-par-value registered shares.

Non-controlling interests in equity

The non-controlling interests in equity can be broken down as follows:

in € thousands	31.12.2020	31.12.2019
Interest in unrealised gains and losses	20,722	14,187
Interest in consolidated net profit	844	983
Other interests	20,928	19,933
Non-controlling interests in equity	**42,494**	**35,103**

The following table provides information for the WürttLeben subgroup, in which there are non-controlling interests that are material for W&W AG:

	WürttLeben subgroup, Stuttgart	
in € thousands	31.12.2020	31.12.2019
Participation of non-controlling interests, in %	5.11	5.11
Assets (100%)	38,982,323	36,774,247[1]
Liabilities (100%)	38,044,921	35,981,800[1]
Net assets (100%)	**937,402**	**792,447**
Net assets attributable to WürttLeben	937,402	792,447
Net assets attributable to non-controlling interests	–	–
Carrying amount of non-controlling interests in net assets	**47,901**	**40,494**
Sales revenues	2,978,566	2,992,914
Net income for year (100%)	16,802	19,739
Net income for the year attributable to WürttLeben	16,802	19,739
Net income for the year attributable to non-controlling interests	–	–
Other comprehensive income (100%)	128,153	180,763
Total net income (100%)	**144,955**	**200,502**
Total net income attributable to non-controlling interests	**859**	**1,009**
Dividends paid to non-controlling interests	–	–
Cash flows (100%)	196,949	-180,773

1 Prior-year figure adjusted.

Employee share ownership programme

An employee share ownership programme was conducted once again in the first half-year of 2020. It enabled all employees of companies in the W&W Group to acquire up to 40 shares (previous year: 40 shares) of W&W AG at a price of €6.76 (previous year: €12.62) per share, which represented a discount of €5.00 (previous year: €5.00) per share. Employees are required to hold these shares for at least three years (previous year: three years). The purchase price was established based on the XETRA closing price on 23 March 2020.

In addition to issuing treasury shares from the portfolio, a further 40,000 shares were repurchased on the market for the programme and then issued. Employees acquired a total of 78,634 (previous year: 72,840) of these shares. This resulted in personnel expenses of €0.4 million (previous year: €0.4 million). Thus, as at 31 December 2020 W&W AG still held 15,252 (previous year: 53,886) treasury shares.

Notes concerning the consolidated income statement

(26) Current net income/expense

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Interest income	**1,334,441**	**1,484,011**
Subordinated securities and receivables	24,972	21,560
Fixed-income financial instruments that do not pass the SPPI test	55,333	48,213[1]
Derivative financial instruments	95,571	78,104
Senior debenture bonds and registered bonds	218,806	274,132
Senior fixed-income securities	395,040	404,480[1]
Construction loans	510,120	600,167
Other receivables	27,627	45,940
Other loans and advances	15,896	21,072
Miscellaneous receivables	11,731	24,868
Negative interest on liabilities	6,972	11,415
Interest expenses	**-472,000**	**-615,373**
Liabilities evidenced by certificates	-6,957	-11,880
Deposit liabilities and other liabilities	-290,906	-398,565
Lease liabilities	-1,371	-1,620
Reinsurance liabilities	-2,470	-2,461
Miscellaneous liabilities	-8,057	-29,327
Subordinated capital	-18,065	-20,449
Derivative financial instruments	-121,743	-109,852
Negative interest on loans and advances	-6,218	-8,074
Other	-16,213	-33,145
Dividend income	**185,570**	**215,134**
Other current net income	**48,539**	**69,509**
Net income/expense from financial assets accounted for using the equity method	-6,082	11,335
Net income from investment property	54,595	58,167
Other	26	7
Current net income	**1,096,550**	**1,153,281**

1 Prior-year figures adjusted. See the chapter "Changes in the presentation of the financial statements".

The indicated interest expenses mainly correspond to financing expenses of the W&W Group.

Net income from investment property contains income from leasing in the amount of €115.0 million (previous year: €124.8 million). In addition, it includes directly attributable operating expenses for repairs, maintenance and management, as well as depreciation. These expenses consisted of €55.8 million (previous year: €63.5 million) for investment property that generated rental income and €4.5 million (previous year: €3.1 million) for investment property that did not generate any rental income.

(27) Net expense from risk provision

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Income from risk provision	**98,393**	**86,310**
Release of risk provision	83,463	73,035
Subordinated securities and receivables	254	199
Senior debenture bonds and registered bonds	2,146	1,810
Senior fixed-income securities	12,458	11,925
Construction loans	64,539	54,674
Other receivables	2,333	4,074
Other loans and advances	1,045	2,444
Miscellaneous receivables	1,288	1,630
Reinsurers' portion of technical provisions	1,733	353
Release of provisions in lending business, for irrevocable loan commitments, for financial guarantees	4,254	2,681
Write-ups/receipts on written-down securities and receivables	10,676	10,594
Expenses from risk provision	**−153,071**	**−90,345**
Additions to risk provision	−145,928	−86,105
Subordinated securities and receivables	−528	−466
Senior debenture bonds and registered bonds	−694	−809
Senior fixed-income securities	−19,406	−12,369
Construction loans	−101,790	−48,628
Other receivables	−23,470	−23,735
Other loans and advances	−21,884	−20,269
Miscellaneous receivables	−1,586	−3,466
Reinsurers' portion of technical provisions	−40	−98
Additions to provisions in lending business, for irrevocable loan commitments, for financial guarantees	−3,712	−4,240
Other expenses	−3,431	—
Expenses from insignificant modifications - related to creditworthiness	−3,431	—
Net income/expense from risk provision	**−54,678**	**−4,035**

(28) Net measurement gain/loss

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Net income from financial assets/liabilities at fair value through profit or loss	**63,657**	**728,084**
Participations, shares, investment fund units	11,784	198,013
Senior fixed-income securities	-6,369	5,218[2]
Derivative financial instruments	47,708	72,783
Capital investments for the account and risk of holders of life insurance policies	-20,944	381,011
Fixed-income financial instruments that do not pass the SPPI test	31,478	71,059[2]
Net expense from the discounting of provisions for home loan savings business	**-43,247**	**-37,601**
Net income from hedges[1]	**35,314**	**13,706**
Impairments/reversals of impairment losses taken on investment property	**63**	**2,349**
Net currency expense	**-111,033**	**-94,008**
Participations, shares, investment fund units	-107,614	19,918
Subordinated securities and receivables	—	76
Fixed-income financial instruments that do not pass the SPPI test	-56,929	7,052[2]
Senior fixed-income securities	-305,998	55,335[2]
Other receivables	-37,466	13,353
Derivative financial instruments	423,059	-194,630
Capital investments for the account and risk of holders of life insurance policies	-30,460	5,449
Liabilities	4,375	-561
Net measurement gain/loss	**-55,246**	**612,530**

1 Hedge accounting (hedged items and hedging instruments)
2 Prior-year figures adjusted. See the chapter "Changes in the presentation of the financial statements".

Net income from financial assets/liabilities at fair value through profit or loss included measurement gains in the amount of €899.4 million (previous year: €1,148.8 million) and measurement losses in the amount of €835.8 million (previous year: €420.7 million). Of this, measurement gains in the amount of €423.3 million (previous year: €331.3 million) and measurement losses in the amount of €375.6 million (previous year: €258.5 million) were attributable to derivatives, which mainly hedged interest-rate-dependent measurement gains and losses on investments.

The net currency expense included gains in the amount of €696.3 million (previous year: €211.3 million) and losses in the amount of €807.3 million (previous year: €305.3 million). Of this, currency gains in the amount of €657.4 million (previous year: €88.3 million) and currency losses in the amount of €234.3 million (previous year: €283.0 million) were attributable to currency derivatives, which hedged currency gains and losses on capital investments.

(29) Net income from disposals

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Income from disposals	**899,935**	**630,945**
Subordinated securities and receivables	4,356	4,021
Senior debenture bonds and registered bonds	518,782	261,580
Senior fixed-income securities	318,452	289,725
Construction loans	–	1
Investment property	58,343	75,618
Other	2	–
Expenses from disposals	**–74,023**	**–39,237**
Subordinated securities and receivables	–100	–881
Senior debenture bonds and registered bonds	–520	–
Senior fixed-income securities	–70,854	–37,755
Other receivables	–18	–
Investment property	–	–551
Other	–2,531	–50
Net income from disposals	**825,912**	**591,708**

(30) Earned premiums (net)

Life and health insurance

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Gross premiums written	2,432,835	2,359,228
Change in unearned premiums	8,396	7,696
Premiums from the provision for premium refunds	69,544	64,367
Earned premiums (gross)	**2,510,775**	**2,431,291**
Premiums ceded to reinsurers	–31,837	–29,668
Earned premiums (net)	**2,478,938**	**2,401,623**

Property/casualty insurance and reinsurance

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Gross premiums written	2,058,118	1,960,425
Direct	2,051,158	1,954,386
Reinsurance	6,960	6,039
Change in unearned premiums	–7,536	–6,513
Earned premiums (gross)	**2,050,582**	**1,953,912**
Premiums ceded to reinsurers	–114,376	–106,366
Earned premiums (net)	**1,936,206**	**1,847,546**

(31) Insurance benefits (net)

Benefits under insurance contracts from direct business are shown without claim adjustment expenses. These are in-cluded in general administrative expenses. Insurance benefits under reinsurance and the reinsurers' portion of insurance benefits may consist of both claim payments and adjustment expenses.

Recognised under the item “Change in the provision for premium refunds” is also the change in the provision for deferred premium refunds recognised in the income statement.

Life and health insurance

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Payments for insurance claims	−2,403,648	−2,395,178
Gross amount	−2,419,554	−2,411,228
Thereof to: Reinsurers' portion	15,906	16,050
Change in the provision for outstanding insurance claims	−11,936	−11,387
Gross amount	−13,829	−14,425
Thereof to: Reinsurers' portion	1,893	3,038
Change in the provision for future policy benefits	−618,075	−982,653
Gross amount	−614,062	−987,902
Thereof to: Reinsurers' portion	−4,013	5,249
Change in the provision for premium refunds	−359,288	−258,167
Gross amount	−359,288	−258,167
Thereof to: Reinsurers' portion	—	—
Change in other technical provisions	−22	−84
Gross amount	−22	−84
Thereof to: Reinsurers' portion	—	—
Insurance benefits (net)	**−3,392,969**	**−3,647,469**
Gross amount, total	−3,406,755	−3,671,806
Thereof to, total: Reinsurers' portion	13,786	24,337

Property/casualty insurance and reinsurance

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Payments for insurance claims	–983,341	–943,231
Gross amount	–1,052,703	–1,015,938
Thereof to: Reinsurers' portion	69,362	72,707
Change in the provision for outstanding insurance claims	–89,000	–58,946
Gross amount	–96,288	–27,427
Thereof to: Reinsurers' portion	7,288	–31,519
Change in the provision for premium refunds	–98	–93
Gross amount	–98	–93
Thereof to: Reinsurers' portion	–	–
Change in other technical provisions	9,965	–739
Gross amount	11,125	–1,212
Thereof to: Reinsurers' portion	–1,160	473
Insurance benefits (net)	**–1,062,474**	**–1,003,009**
Gross amount, total	–1,137,964	–1,044,670
Thereof to, total: Reinsurers' portion	75,490	41,661

(32) Net commission income/expense

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Commission income	**257,689**	**256,769**
from the conclusion of home loans savings contracts	131,080	123,010
from home loan savings business	34,426	36,020
from reinsurance	30,618	26,093
from brokering activities	57,017	66,841
from investment business	3,256	3,196
from other business	1,292	1,609
Commission expenses	**–754,894**	**–746,964**
from insurance	–486,101	–482,492
from banking/home loan savings business	–188,549	–185,826
from reinsurance	–346	–8
from brokering activities	–13,820	–13,160
from investment business	–22,456	–25,904
from other business	–43,622	–39,574
Net commission expense	**–497,205**	**–490,195**

The net commission expense includes income in the amount of €1.0 million (previous year: €0.5 million) and expenses in the amount of €2.2 million (previous year: €1.8 million) from trust and other fiduciary activities. These include the management or investment of assets on behalf of individuals, trusts, pension funds and other institutions.

During the reporting period, transactions involving financial instruments not at fair value through profit or loss generated commission income in the amount of €32.8 million (previous year: €36.1 million47,61) and commission expenses in the amount of €38.0 million (previous year: €47.6 million[1]).

(33) General administrative expenses

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Personnel expenses	**−598,919**	**−613,552**
Wages and salaries	−450,771	−463,638
Social remittances	−81,972	−84,286
Expenses for the pension scheme and support	−50,168	−49,754
Other	−16,008	−15,874
Materials costs	**−337,659**	**−381,550**
Depreciation/amortisation	**−77,419**	**−85,349**
Property for own use	−30,568	−31,927
Plant and equipment	−18,734	−19,654
Intangible assets	−28,117	−33,768
General administrative expenses	**−1,013,997**	**−1,080,451**

During the reporting period, contributions totalling €16.4 million (previous year: €20.1 million) were paid towards — defined-contribution plans. In addition, employer contributions totalling €40.7 million (previous year: €40.7 million) were paid towards statutory pension insurance.

General administrative expenses contain personnel expenses totalling €11.7 million (previous year: €14.7 million) for phased-in early retirement (“Altersteilzeit”) and early retirement.

(34) Net other operating income/expense

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Other operating income	**243,688**	**204,471**
Disposal revenue from inventories (property development business)	22,342	78,627
Release of miscellaneous provisions	21,103	12,851
Income from disposals	295	377
Other income from currency translation	6,375	157
Other technical income	25,268	16,309
Miscellaneous income	168,305	96,150
Other operating expenses	**−197,852**	**−232,991**
Other taxes	−3,895	−1,758
Expenses from inventories (property development business)	−106,257	−108,990
Additions to provisions	−18,026	−27,316
Losses from disposals	−15,726	−38,684
Other expenses from currency translation	−321	−3,216
Other technical expenses	−40,072	−34,929
Miscellaneous expenses	−13,555	−18,098
Net other operating income/expense	**45,836**	**−28,520**

1 Prior-year figure adjusted.

Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg, which had been held for sale as at 31 December 2018, was sold on 31 May 2019, resulting in a disposal gain of €9.8 million. In the consolidated income statement, this gain was recognised under “Net income from disposals” within “Net financial income” in the amount of €48.4 million and under “Net other operating income/expense” in the amount of –€38.6 million.

(35) Income taxes

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Current income taxes paid for the reporting period	-98,040	-73,362
Current taxes paid for other periods	-6,120	3,174
Deferred taxes	8,038	-33,762
Income taxes	**-96,122**	**-103,950**

Deferred taxes recognised in the income statement were created in connection with the following items:

Deferred taxes

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Financial assets/liabilities at fair value through profit or loss	5,839	-170,992
Financial assets at fair value through other comprehensive income	-38,630	9,323
Financial assets at amortised cost	74,060	-8,948
Positive/negative market values from hedges	-146,207	118,643
Financial assets accounted for using the equity method	-912	1,100
Liabilities	100,827	43,429
Technical provisions	-9,526	-2,451
Provisions for pensions and similar obligations	-4,667	-2,069
Other balance sheet items	27,030	-34,947
Tax loss carryforward	224	13,150
Deferred taxes	**8,038**	**-33,762**

The following reconciliation statement shows the relationship between the income taxes expected and those actually recognised in the consolidated financial statements:

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Consolidated earnings before income taxes from continued operations	**306,873**	**353,009**
Consolidated tax rate, in %	30.47	30.58
Expected income taxes	−93,504	−107,950
Tax rate changes	−511	–
Tax rate discrepancies of Group companies	3,967	4,673
Effects of tax-free income	2,962	15,014
Effects of non-deductible expenses	−9,244	−11,441
Prior-period effects (current and deferred)	1,452	−376
Other	−1,244	−3,870
Income taxes	**−96,122**	**−103,950**

The applicable income tax rate of 30.47% (previous year: 30.58%) selected as the basis for the reconciliation statement is composed of the corporate income tax rate of 15%, the solidarity surcharge on corporate income tax of 5.5%, and an average tax rate for trade tax of 14.64 (previous year: 14.75%).30,4730,58 The change in the average tax rate for trade tax was due to the reduction of the average assessment rate from factor 421.50 to 418.44.

222,9No deferred tax liabilities were recognised for temporary differences in the amount of €232.2 million (previous year: €222.9 million) in connection with interests in subsidiaries, branches and associated companies since the run-off of the release of temporary differences is not taxable and it is not probable that these temporary differences will reverse in the foreseeable future.

(36) Earnings per share

Basic earnings per share are determined by dividing the consolidated net profit by the weighted average number of shares:

		1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Result attributable to shareholders of W&W AG	in €	209,907,001	248,076,003
Number of shares at the beginning of the financial year	#	93,695,834	93,622,994
Number of treasury shares on the reporting date	#	−15,252	−53,886
Weighted average number of shares	#	93,724,836	93,677,674
Basic (= diluted) earnings per share	in €	**2.24**	**2.65**

There currently are no potential shares that would have a diluting effect. Diluted earnings per share thus correspond to basic earnings per share.

Notes concerning the consolidated statement of comprehensive income

(37) Unrealised gains and losses

	Financial assets at fair value through other comprehensive income		Financial assets accounted for using the equity method		Cash flow hedges	
in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Recognised in other comprehensive income	2,297,348	3,016,060	24	42	–	–
Reclassified to the consolidated income statement	-780,798	-514,035	–	–	68	153
Unrealised gains/losses (gross)	**1,516,550**	**2,502,025**	**24**	**42**	**68**	**153**

As at 1 January 2019, the W&W Group reclassified senior debenture bonds and registered bonds as well as senior bearer bonds from the business model “Hold to collect” to the business model “Hold to collect and sell”. As a result, portfolios of in the category “Financial assets at amortised cost” with a carrying amount of €1,900.0 million were reclassified to the category “Financial assets at fair value through other comprehensive income” with a carrying amount/fair value of €2,206.0 million, with unrealised gains of €304.9 million, gross, being recognised in other comprehensive income. The business model was adjusted as a consequence of the changed objective (particularly due to the sale of Wüstenrot Bank AG Pfandbriefbank) of earning income in future on a regular basis from cash flows and from the sale of financial assets. As at 1 January 2020, there were no reclassifications.

Notes concerning financial instruments and fair value

(38) Disclosures concerning the measurement of fair value

For reasons of comparability, consistency and quality of measurements, a hierarchical classification is undertaken for financial instruments measured at fair value in the consolidated balance sheet, and it takes into account the relevance of the factors forming part of the measurement. The inputs forming part of the measurement methods for determining fair value are assigned to three levels, and this level classification is used for all assets and liabilities that are measured regularly, once or for the purposes of preparing disclosures about fair value. The uniform standards and principles described below apply to this. In conceptual terms, the hierarchy is determined by the market basis of the input factors. It gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The level to which the financial instrument is assigned in its entirety is determined on the basis of the lowest level input factor in the hierarchy that is significant to the entire measurement of fair value. For this purpose, the significance of an input factor is evaluated in relation to fair value in its entirety. In evaluating the significance of a given input factor, the specific features of the asset or liability are analysed and regularly reviewed during the reporting period.

Level 1: Assigned to this level are financial instruments that are measured using unadjusted quoted or market prices for identical assets and liabilities on an active market. In this regard, the essential features of an active market are regular trading frequency and a sufficiently traded market volume that guarantees reliable price information.

Level 2: If pricing is not available on active markets, fair value is derived from comparable financial instruments or determined through application of generally recognised measurement models using parameters that are directly or indirectly observable on the market (e.g. interest rate, exchange rate, volatility, prices offered by third parties) (Level 2).

Level 3: If measurement of financial instruments is impossible, or not fully possible, using quoted or market prices or by means of a measurement model using input factors that are directly or indirectly observable on the market, factors based on non-observable market data (non-observable input factors) are used to measure financial instruments (Level 3). Generally, the measurement method used is the one that market participants use to determine the price of a financial instrument and that provides a reliable estimate of a price under a market transaction.

Only a few estimates by management are necessary in order to determine the fair value of assets and liabilities whose prices are quoted on an active market. Similarly, only a few subjective measurements or estimates are needed for assets and liabilities that are measured using models customary in the industry and whose inputs are quoted on active markets.

The required degree of subjective measurement and estimates by management has a higher weight for those assets and liabilities that are measured using special, complex models and for which some or all inputs are not observable. The values determined in this way are significantly influenced by the assumptions that have to be made.

If fair value cannot be reliably determined, the carrying amount is used as an approximate value to measure fair value. In this case, such financial instruments are assigned to Level 3.

The level classification is determined on a regular basis throughout the reporting period. If the relevant input factors change, this may lead to regroupings between the levels at such time. Financial instruments in Level 1 are regrouped to Level 2 if the previously identified active market on which quoting took place no longer exists. In this regard, the essential features of an active market are regular trading frequency and a sufficiently traded market volume that guarantees reliable price information. As part of a price verification process, it is ensured in this regard that measurement prices are monitored daily. In the event of price anomalies, the quality of the price source is analysed, and where market liquidity is lacking, the classification is adjusted. In analogous fashion, it is possible to regroup from Level 2 to Level 1 once an active market can be identified.

Regroupings to Level 3 take place if fair value no longer can be measured on the basis of observable input parameters. However, if these are identified for financial instruments that had previously been grouped in Level 3, they can be switched to Level 1 or Level 2 if there are reliable price quotations on an active market or if input parameters are observable on the market.

There were no regroupings between levels during the reporting year or the previous year.

Unadjusted quoted or market prices are used as Level 1 input factors for financial instruments in the balance sheet items “Financial assets at fair value through profit or loss” and “Financial liabilities at fair value through profit or loss”. These mainly involve quoted equities as well as derivative financial instruments, such as futures, that are traded on a regulated market.

The fair value of cash and cash equivalents corresponds to the carrying amount, which is primarily due to the short term to maturity of these instruments. These financial instruments are recognised in the classes “Cash reserves” and “Other loans and advances”. The class “Other loans and advances” includes credits, overnight and term deposits and margin exposures. They are measured at nominal value.

The measurement methods used for determining fair value in Levels 2 and 3 consist of generally accepted measurement models, such as the present-value method, under which anticipated future cash flows are discounted at current interest rates applicable to the relevant residual term to maturity, credit risks and markets. Here as well, measurement prices and detailed market parameters are monitored daily as part of the price verification process. This measurement method is used to measure securities, including debt securities, with agreed cash flows under the items "Financial assets at fair value through profit or loss”, "Financial liabilities at fair value through profit or loss” and "Financial assets at fair value through other comprehensive income”. In addition, the fair value of financial assets at amortised cost can be calculated in this way. The present value method is used to measure unquoted derivative financial instruments, such as interest rate swaps and non-optional forward transactions (e.g. currency forwards) in Level 2. These are included under the items "Financial assets at fair value through profit or loss", "Financial liabilities at fair value through profit or loss", "Positive market values from hedges" and "Negative market values from hedges". Fund units and investments for the account and risk of holders of life insurance policies are also mainly assigned to Level 2. The most recently available redemption price for the underlying investment certificate is used for measurement. In the balance sheet item “Liabilities”, cost or present value is normally used to calculate fair value and exclusively assigned to Levels 2 and 3.

The main measurement models and parameters for calculations of the fair value of individual assets and liabilities in Levels 2 and 3 are presented in the following overview.

Overview of measurement models of Levels 2 and 3 used in the classes

Class	Measurement model	Main parameters
Non-current assets held for sale and discontinued operations	In accordance with the respective balance sheet items	
Financial assets at fair value through profit or loss		
Participations other than in alternative investments	Capitalised earnings method Approximation method Net asset value method	Discount rate, future cash flows
Participations in alternative investments	Capitalised earnings method Approximation method Adjusted net asset value method	Discount rate, future cash flows
Equities	Approximation method Adjusted net asset value method	
Investment funds units	Approximation method Adjusted net asset value method	
Fixed-income financial instruments that do not pass the SPPI test	Present value method	Liquidity and credit spreads, interest rate curves
Derivative financial instruments	Present value method Black/Scholes model Libor market model, Hull/White model	Foreign exchange rates (spot and forward), interest rate curves Quoted prices/index, volatilities, interest rate curves, basis price and remaining maturity Interest rate curves, volatilities
Senior fixed-income securities	Present value method	Liquidity and credit spreads, interest rate curves
Capital investments for the account and risk of life insurance policyholders	Redemption price Black/Scholes model	Index weighting, volatility
Financial assets at fair value through other comprehensive income	Present value method	
Subordinated securities and receivables	Redemption price Black/Scholes model	Liquidity and credit spreads, interest rate curves
Senior debenture bonds and registered bonds	Present value method	Liquidity and credit spreads, interest rate curves
Senior fixed-income securities	Present value method	Liquidity and credit spreads, interest rate curves
Financial assets at amortised cost		
Subordinated securities and receivables	Present value method	Liquidity and credit spreads, interest rate curves
Senior debenture bonds and registered bonds	Present value method	Liquidity and credit spreads, interest rate curves
Construction loans (non-collective)[1]	Present value method	Interest rate curves
Other loans and advances	Cost Amortised cost	Nominal value
Sundry loans and advances	Cost	
Investment property	Present value method	Discount rate, future cash flows
Positive market values from hedges	Present value method	Interest rate curves
Liabilities under non-current assets classified as held for sale and discontinued operations	In accordance with the respective balance sheet items	
Financial liabilities at fair value through profit or loss	In accordance with the respective balance sheet items	
Derivative financial instruments	Present value method Black/Scholes model Libor market model, Hull/White model	Foreign exchange rates (spot and forward), interest rate curves Quoted prices/index, volatilities, interest rate curves, basis price and remaining maturity Interest rate curves, volatilities

Overview of measurement models of Levels 2 and 3 used in the classes

Class	Measurement model	Main parameters
Liabilities		
Liabilities evidenced by certificates	Present value method	Credit spreads, interest rate curves
Liabilities to credit institutions	Cost Approximation method	
Liabilities to customers	Cost	
Lease liabilities	Present value method	Discount rate Future cash flows
Miscellaneous liabilities		
Other liabilities	Cost	Nominal value
Sundry liabilities	Cost	Nominal value
Technical provisions		
Provision for future policy benefits for unit-linked insurance contracts	In accordance with the corresponding asset item	
Negative market values from hedges	**Present value method**	**Interest rate curves**
Subordinated capital	**Present value method**	**Credit spreads, interest rate curves**

1 For the fair value of collective loans under home loans savings contracts and preliminary and interim financing loans, the carrying amount is used as the approximate value, which is calculated based on amortised cost. By contrast, the present value method is used to calculate the fair value of non-collective construction loans.

The fair value of options not traded on an exchange is calculated using generally accepted option-pricing models that correspond to each option's type and the generally accepted underlying assumptions on which they are based. The value of options is determined, in particular, by the value of the underlying asset and its volatility, the agreed base price, interest rate or index, the risk-free interest rate and the contract's residual term to maturity. They are assigned to the class "Derivative financial instruments" in the items "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss".

The fair values of the classes of financial instruments derived from the items "Financial assets at amortised cost", "Liabilities" and "Subordinated capital" and their fair values listed solely in the notes to the consolidated financial statements are in general likewise measured using the present-value method.

Level 3 for the item "Financial assets at fair value through profit or loss" is characterised by non-exchange-traded equities, as well as investments, including alternative investments. Fair value is mainly determined on the basis of the net asset value. The NAV, which is calculated quarterly in accordance with industry standards, is provided by fund managers and then reviewed by risk controlling units and, if necessary, adjusted to account for outstanding performance-related compensation claims. This also applies for indirect property investments, which are assigned to "Participations other than in alternative investments". In the case of participations that are not assigned to alternative investments or property participations, fair value is normally calculated based on the pro-rata interest in the equity shown in the respective current annual financial statements. If no information is available, amortised cost is used as an approximate value for fair value.

In addition to investment property, most Level 3 items that are not measured at fair value are construction loans and liabilities to customers, which mainly consist of deposits under home loan savings contracts.

With regard to investment property, the DCF method is applied, utilising payment flows on the lessee and property level, and the specific internal interest rate for the property investment class is used as the discount rate. In the process, the occupancy rate as at the measurement date is taken into consideration. Construction loans essentially relate to loans under home loan savings contracts from collective business, as well as preliminary and interim financing loans. Because of the home loan savings options included in the home loan savings contract and because of the dependence on the timing of allotments, reliable fair value is not calculated for these sub-items, and the carrying amount is used as an approximate value for the purpose of determining fair value. For the sub-item "Other construction loans", by contrast, fair value is calculated using the DCF method. On the other hand, deposits under home loan savings contracts are assigned to the balance sheet item “Liabilities to customers” and likewise measured at amortised cost, which is also considered to be the approximate value for fair value.

Applicable to all classes is that liquidity and rating spreads observable on the financial market are taken into account when measuring active, interest-bearing financial instruments (Level 2). The measurement spread is determined by comparing reference curves with the financial instrument's corresponding risk-free money market and swap curves. Maturity-dependent spreads are used for the purposes of measurement, which also take into account the quality of the issuer within the various issuer groups within a rating class. The yield curves and rating- and maturity-dependent spreads that are made available by market data providers are automatically updated during the day. As a rule, the discounting curve in this regard is currency-specific. Swaps hedged under master agreements are measured with the aid of tenor-specific interest rate structure curves in the multi-curve approach.

Measurement gains and losses are significantly influenced by the underlying assumptions, particularly by the determination of cash flows and discount rates.

The following table “2020 measurement hierarchy (items that were measured at fair value)” presents all financial assets and liabilities that were measured at fair value. It shows the level applied in the respective balance sheet items.

For accounting purposes, the only financial instruments regularly measured at fair value in the W&W Group are those that are assigned to the categories

- Financial assets/liabilities at fair value through profit or loss,
- Financial assets at fair value through other comprehensive income and
- Positive/negative market values from hedges.

By contrast, the disclosures in the table "2020 measurement hierarchy (items that were not measured at fair value)" consist of those financial instruments and non-financial assets and liabilities for which fair value is provided in the notes.

2020 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1 31.12.2020	Level 2 31.12.2020	Level 3 31.12.2020	Fair value/ carrying amount 31.12.2020
Financial assets at fair value through profit or loss	**507,624**	**6,011,313**	**2,281,379**	**8,800,316**
Participations other than in alternative investments[1]	–	–	217,009	217,009
Participations in alternative investments[1]	–	–	1,750,431	1,750,431
Other financial companies	–	–	1,621,910	1,621,910
Other companies	–	–	128,521	128,521
Equities[1]	502,367	–	106,700	609,067
Investment funds units[1]	–	1,220,564	172,332	1,392,896
Fixed-income financial instruments that do not pass the SPPI test	–	2,378,138	28,836	2,406,974
Derivative financial instruments	5,257	262,821	–	268,078
Interest-rate-based derivatives	7	72,280	–	72,287
Currency-based derivatives	–	176,152	–	176,152
Equity- and index-based derivatives	5,250	14,266	–	19,516
Other derivatives	–	123	–	123
Senior fixed-income securities	–	76,162	–	76,162
Capital investments for the account and risk of life insurance policyholders	–	2,073,628	6,071	2,079,699
Financial assets at fair value through other comprehensive income	**–**	**38,862,768**	**–**	**38,862,768**
Subordinated securities and receivables	–	801,514	–	801,514
Senior debenture bonds and registered bonds	–	12,315,455	–	12,315,455
Credit institutions	–	7,793,330	–	7,793,330
Other financial companies	–	165,848	–	165,848
Other companies	–	44,667	–	44,667
Public authorities	–	4,311,610	–	4,311,610
Senior fixed-income securities	–	25,745,799	–	25,745,799
Credit institutions	–	7,003,272	–	7,003,272
Other financial companies	–	1,301,568	–	1,301,568
Other companies	–	1,759,569	–	1,759,569
Public authorities	–	15,681,390	–	15,681,390
Positive market values from hedges	**–**	**16,071**	**–**	**16,071**
Total assets	**507,624**	**44,890,152**	**2,281,379**	**47,679,155**

1 The class allocation was adjusted in comparison to the previous year.

2020 measurement hierarchy (items that were measured at fair value) (continuation)

in € thousands	Level 1 31.12.2020	Level 2 31.12.2020	Level 3 31.12.2020	Fair value/ carrying amount 31.12.2020
Financial liabilities at fair value through profit or loss	**2,488**	**41,700**	**–**	**44,188**
Derivative financial instruments	2,488	41,700	–	44,188
Interest-rate-based derivatives	170	31,345	–	31,515
Currency-based derivatives	–	1,248	–	1,248
Equity- and index-based derivatives	2,318	9,107	–	11,425
Technical provisions	**–**	**2,079,699**	**–**	**2,079,699**
Provision for future policy benefits for unit-linked insurance contracts	–	2,079,699	–	2,079,699
Negative market values from hedges	**–**	**15,688**	**–**	**15,688**
Total liabilities	**2,488**	**2,137,087**	**–**	**2,139,575**

2019 measurement hierarchy (items that were measured at fair value)

	Level 1	Level 2	Level 3	Fair value/ carrying amount
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Non-current assets held for sale and discontinued operations	**—**	**14,760**	**120**	**14,880**
Financial assets at fair value through profit or loss	**664,598**	**5,589,941**	**2,045,092**	**8,299,631**
Participations other than in alternative investments[1]	–	–	219,034	219,034
Participations in alternative investments[1]	–	–	1,594,796	1,594,796
Other financial companies	–	–	1,449,528	1,449,528
Other companies	–	–	145,268	145,268
Equities[1]	640,945	–	104,573	745,518
Investment funds units[1]	–	1,061,471	87,230	1,148,701
Fixed-income financial instruments that do not pass the SPPI test	–	2,006,8162	33,212	2,040,028[2]
Derivative financial instruments	23,653	123,431	–	147,084
Interest-rate-based derivatives	–	80,999	–	80,999
Currency-based derivatives	–	37,091	–	37,091
Equity- and index-based derivatives	23,653	5,233	–	28,886
Other derivatives	–	108	–	108
Senior fixed-income securities	–	166,4512	–	166,451[2]
Capital investments for the account and risk of life insurance policyholders	–	2,231,772	6,247	2,238,019
Financial assets at fair value through other comprehensive income	**—**	**36,808,770**	**—**	**36,808,770**
Subordinated securities and receivables	–	720,209	–	720,209
Senior debenture bonds and registered bonds	–	12,984,231	–	12,984,231
Credit institutions	–	8,694,056	–	8,694,056
Other financial companies	–	157,339	–	157,339
Public authorities	–	4,132,836	–	4,132,836
Senior fixed-income securities	–	23,104,330	–	23,104,330
Credit institutions	–	6,852,781	–	6,852,781
Other financial companies	–	1,106,461	–	1,106,461
Other companies	–	1,360,503	–	1,360,503
Public authorities	–	13,784,585	–	13,784,585
Positive market values from hedges	**—**	**88,994**	**—**	**88,994**
Total assets	**664,598**	**42,502,465**	**2,045,212**	**45,212,275**

1 The class allocation was adjusted in comparison to the previous year.
2 Prior-year figures adjusted. See the chapter "Changes in the presentation of the financial statements".

2019 measurement hierarchy (items that were measured at fair value)

in € thousands	Level 1 31.12.2019	Level 2 31.12.2019	Level 3 31.12.2019	Fair value/ carrying amount 31.12.2019
Liabilities under non-current assets classified as held for sale and discontinued operations	**–**	**772**	–	**772**
Financial liabilities at fair value through profit or loss	**694**	**79,593**	**–**	**80,287**
Derivative financial instruments	694	79,593	–	80,287
Interest-rate-based derivatives	–	67,079	–	67,079
Currency-based derivatives	–	6,958	–	6,958
Equity- and index-based derivatives	694	5,556	–	6,250
Technical provisions	**–**	**2,238,019**	**–**	**2,238,019**
Provision for future policy benefits for unit-linked insurance contracts	–	2,238,019	–	2,238,019
Negative market values from hedges	**–**	**216,195**	**–**	**216,195**
Total liabilities	**694**	**2,534,579**	**–**	**2,535,273**

2020 measurement hierarchy (items that were not measured at fair value)

in € thousands	Level 1 31.12.2020	Level 2 31.12.2020	Level 3 31.12.2020	Fair value 31.12.2020	Carrying amount 31.12.2020
Non-current assets held for sale and discontinued operations	**—**	**—**	**—**	**—**	**—**
Cash reserves	**75,056**	**—**	**—**	**75,056**	**75,056**
Deposits with central banks	74,779	–	–	74,779	74,779
Deposits with foreign postal giro offices	277	–	–	277	277
Financial assets at amortised cost	**32,340**	**8,317,519**	**17,447,919**	**25,797,778**	**25,173,973**
Subordinated securities and receivables	–	186,595	–	186,595	165,834
Senior debenture bonds and registered bonds	–	35,982	–	35,982	34,808
Construction loans	–	7,742,463	15,758,568	23,501,031	22,830,677
Other receivables	32,340	352,479	1,689,351	2,074,170	2,074,187
Other loans and advances	32,340	352,479	1,382,768	1,767,587	1,767,604
Miscellaneous receivables	–	–	306,583	306,583	306,583
Portfolio hedge adjustment	n/a	n/a	n/a	n/a	68,467
Investment property	**—**	**10,037**	**2,449,388**	**2,459,425**	**1,873,561**
Total assets	**107,396**	**8,327,556**	**19,897,307**	**28,332,259**	**27,122,590**
Liabilities under non-current assets classified as held for sale and discontinued operations	–	–	–	–	–
Verbindlichkeiten	**—**	**3,903,877**	**23,660,450**	**27,564,327**	**27,825,524**
Liabilities evidenced by certificates	–	1,404,587	–	1,404,587	1,412,976
Liabilities to credit institutions	–	1,634,037	569,338	2,203,375	2,193,839
Liabilities to customers	–	844,199	21,706,442	22,550,641	22,481,152
Lease liabilities	–	–	83,215	83,215	83,215
Miscellaneous liabilities	–	21,054	1,301,455	1,322,509	1,322,509
Other liabilities	–	20,050	345,233	365,283	365,283
Sundry liabilities	**—**	1,004	956,222	957,226	957,226
Portfolio hedge adjustment	**n/a**	n/a	n/a	n/a	331,833
Subordinated capital	**—**	**390,885**	**—**	**390,885**	**343,162**
Total liabilities	**—**	**4,294,762**	**23,660,450**	**27,955,212**	**28,168,686**

2019 measurement hierarchy (items that were not measured at fair value)

in € thousands	Level 1 31.12.2019	Level 2 31.12.2019	Level 3 31.12.2019	Fair value 31.12.2019	Carrying amount 31.12.2019
Non-current assets held for sale and discontinued operations	**26,157**	**446,963**	**2,147,334**	**2,620,454**	**2,601,920**
Cash reserves	**35,688**	**–**	**–**	**35,688**	**35,688**
Deposits with central banks	35,192	–	–	35,192	35,192
Deposits with foreign postal giro offices	496	–	–	496	496
Financial assets at amortised cost	**–**	**8,638,692**	**15,852,556**	**24,491,248**	**23,984,047**
Subordinated securities and receivables	–	179,569	–	179,569	163,978
Senior debenture bonds and registered bonds	–	32,224	–	32,224	30,898
Construction loans	–	7,881,195	14,177,750	22,058,945	21,493,189
Other receivables	–	545,704	1,674,806	2,220,510	2,220,544
Other loans and advances	–	545,704	1,346,437	1,892,141	1,892,175
Miscellaneous receivables	–	–	328,369	328,369	328,369
Portfolio hedge adjustment	n/a	n/a	n/a	n/a	75,438
Investment property	**–**	**40,906**	**2,347,530**	**2,388,436**	**1,855,224**
Total assets	**61,845**	**9,126,561**	**20,347,420**	**29,535,826**	**28,476,879**
Liabilities under non-current assets classified as held for sale and discontinued operations	**–**	**1,147,138**	**1,260,147**	**2,407,285**	**2,427,144**
Liabilities	**–**	**3,659,298[1]**	**2,684,394[1]**	**26,343,692**	**26,320,204**
Liabilities evidenced by certificates	–	922,614	–	922,614	947,565
Liabilities to credit institutions	–	1,698,709	549,086	2,247,795	2,232,992
Liabilities to customers	–	1,013,226	20,709,651	21,722,877	21,641,444
Lease liabilities	–	1,655	75,613	77,268	77,268
Miscellaneous liabilities	–	23,094	1,350,044	1,373,138	1,373,138
Other liabilities	–	21,836	396,956	418,792	418,792
Sundry liabilities	–	1,258	953,088	954,346	954,346
Portfolio hedge adjustment	**n/a**	n/a	n/a	n/a	47,797
Subordinated capital	**–**	**479,075**	**–**	**479,075**	**424,850**
Total liabilities	**–**	**5,285,511[1]**	**23,944,541[1]**	**29,230,052**	**29,172,198**

1 Prior-year figure adjusted.

Changes in Level 3 for financial assets measured at fair value through profit or loss

in € thousands	Participations other than in alternative investments	Participations in alternative investments (other financial companies)	Participations in alternative investments (other companies)	Equities
As at 1 January 2019	**228,349**	**262,573[3]**	**1,070,470[3]**	**63,574**
Total net income/expense for the period	6,074	26,683[3]	–3,294[3]	–1,439
Income recognised in the consolidated income statement[1]	11,820	86,137[3]	7,238[3]	–
Expenses recognised in the consolidated income statement[1]	–5,746	–59,454[3]	–10,532[3]	–1,439
Purchases	3,767	446,707[3]	9,393[3]	42,438
Sales	–19,061	–191,485[3]	–29,210[3]	–
Reclassifications	–	905,050[3]	–902,091[3]	–
Classified as held for sale	–120	–	–	–
Changes in the scope of consolidation	25	–	–	–
As at 31 December 2019	**219,034**	**1,449,528[3]**	**145,268[3]**	**104,573**
Income recognised in the consolidated income statement as at 31 December[2]	11,820	86,137[3]	7,238[3]	–
Expenses recognised in the consolidated income statement as at 31 December[2]	–5,746	–59,392[3]	–10,532[3]	–1,439
As at 1 January 2020	**219,034**	**1,449,528**	**145,268**	**104,573**
Total net income/expense for the period	2,576	–73,001	–8,632	–1,377
Income recognised in the consolidated income statement[1]	11,354	84,547	11,450	–
Expenses recognised in the consolidated income statement[1]	–8,778	–157,548	–20,082	–1,377
Purchases	7,067	443,991	14,039	6,545
Sales	–11,778	–198,608	–22,154	–3,041
Reclassifications	–	–	–	–
Changes in the scope of consolidation	110	–	–	–
As at 31 December 2020	**217,009**	**1,621,910**	**128,521**	**106,700**
Income recognised in the consolidated income statement as at the end of the reporting period[2]	11,354	84,547	11,450	–
Expenses recognised in the consolidated income statement as at the end of the reporting period[2]	–8,778	–157,549	–20,082	–1,377

1 Income and expenses are mainly included in the net measurement gain/loss in the consolidated income statement.
2 Period income and expenses for assets still in the portfolio at the end of the reporting period.
3 Prior-year figure adjusted based on updated classification.

	Financial assets at fair value through profit or loss			Non-current assets held for sale and discontinued operations	Total
	Investment fund units	Fixed-income financial instruments that do not pass the SPPI test	Capital investments for the account and risk of holders of life insurance policies		
	24,607	**35,837**	**574**	**1,518**	**1,687,502**
	3,554	–	2,867	–	34,445
	4,590	–	2,867	–	112,652
	–1,036	–	–	–	–78,207
	75,435	248	3,380	–	581,368
	–13,407	–2,873	–574	–	–256,610
	–2,959	–	–	–	–
	–	–	–	120	–
	–	–	–	–1,518	–1,493
	87,230	**33,212**	**6,247**	**120**	**2,045,212**
	4,590	–	2,867	–	112,652
	–1,036	–	–	–	–78,148
	87,230	**33,212**	**6,247**	**120**	**2,045,212**
	5,324	–741	1,900	–	–73,951
	7,273	–	1,900	–	116,524
	–1,949	–741	–	–	–190,475
	96,168	929	4,171	–	572,910
	–16,390	–4,564	–6,247	–	–262,782
	–	–	–	–	–
	–	–	–	–120	–10
	172,332	**28,836**	**6,071**	**–**	**2,281,379**
	7,273	–	1,900	–	116,524
	–1,949	–741	–	–	–190,476

Description of the applied measurement processes and effects of alternative assumptions in the case of financial instruments in Level 3.

Normally used in connection with the measurement process for calculating fair value are the capitalised earnings method, the adjusted net asset value method and the approximation method.

With regard to the capitalised earnings method, which is uniform throughout the Group, internal plan values and estimates are used as the basis for discounting future net cash flows and distributions under application of risk parameters derived on the market.

The adjusted net asset value method draws on the net asset value, whose individual investments are calculated outside the Group using recognised measurement methods, such as the DCF, multiplier and capitalised earnings methods. In this regard, the measurements are normally made in line with the IPEV Valuation Guidelines. Among other things, the pro-rata net asset value is adjusted to account for outstanding performance-related compensation claims of the fund manager. Thereafter, the W&W Group performs plausibility and validation checks of the net asset values supplied by the relevant fund companies, and, if appropriate, reviews the main portfolio entities held by each of the fund companies. In addition, carrying amounts, fair values, distributions and obligations to provide additional funding are monitored. An exception to the external supply of the pro-rata net asset value is made in the case of self-measured property participations that are assigned to “Participations other than in alternative investments”.

With regard to the approximation method, amortised cost is used to measure fair value for reasons of simplicity. The approximation method is applied, for instance, in the case of no quotation and minor significance.

The securities in Level 3 mainly consist of unquoted interests in participations in alternative investments, including private equity, as well as other participations. The fair values of these Level 3 portfolios are customarily calculated by the management of the respective company. For the majority of all externally measured interests, namely in the amount of €1,884.4 million (previous year: €1,441.8 million), fair value is determined on the basis of the net asset value. By contrast, the net asset value of participations other than in alternative investments is calculated internally in all cases. Of the total amount of the interests measured externally using the net asset value, €78.2 million (previous year: €80.4 million) was attributable to unquoted equities and fund certificates, and €1,806.2 million (previous year: €1,331.4 million) to participations in alternative investments, including private equity. The calculation of the net asset value in the case of externally measured interests is based on specific information that is not publicly available and to which the W&W Group does not have access. Thus, it was not possible to subject them to a sensitivity analysis.

In the W&W Group, net asset values (2020: €175.1 million; previous year: €172.0 million) are measured internally for Group property participations that are assigned to “Participations other than in alternative investments". The value of the properties included there is calculated using income-based present value methods. These recognised measurement methods are based on discount rates of 2.77% to 5.74% (previous year: 2.89% to 7.54%), which determine the fair value of the property. A change in discount rates by +100 basis points in connection with a sensitivity analysis leads to a reduction in fair value to €162.4 million (previous year: €157.3 million), while a change in discount rates by -100 basis points leads to an increase to €189.1 million (previous year: €188.2 million).

The most significant measurement parameters for interests measured using the capitalised earnings method (2020: €48.2 million; previous year: €50.3 million) are the risk-adjusted discount rate and future net cash flows. A material increase in the discount rate reduces fair value, whereas a reduction in this rate increases fair value. However, a change by 10% has only a minor influence on the presentation of the net assets, financial position and financial performance of the W&W Group.

In addition, for certain interests, fair value is by way of exception deemed to be approximated by amortised cost. In this case, as well, a sensitivity analysis is not possible due to lack of the specific parameters used.

All changes in the category “Financial assets at fair value through profit or loss” in Level 3 are reflected in the consolidated income statement. On the other hand, there are no financial assets at fair value through other comprehensive income in Level 3.

The measurement methods used are listed in the following table "Quantitative information about the measurement of fair value in Level 3".

Quantitative information about the measurement of fair value in Level 3

	Fair value		Measurement method	Non-observable input factors	Range, in %	
in € thousands	31.12.2020	31.12.2019			31.12.2020	31.12.2019
Financial assets at fair value through profit or loss	**2,281,379**	**2,045,092**				
Participations other than in alternative investments	217,009	219,034				
	21,397	25,465	Capitalised earnings method	Discount rate, future cash flows	7.28-14.21	6.50-12.09
	13,124	11,881	Approximation method	n/a	n/a	n/a
	182,488	181,688	Net asset value method	n/a	n/a	n/a
Participations in alternative investments	1,750,431	1,594,796				
Other financial companies	1,621,910	1,449,528				4.24
	56,364	198,282	Approximation method	n/a	n/a	n/a
	1,565,546	1,251,246	Adjusted net asset value method[1]	n/a	n/a	n/a
Other companies	128,521	145,268				
	26,753	24,850	Capitalised earnings method	Discount rate, future cash flows	3.54	3.76
	–	2,836	Approximation method	n/a	n/a	n/a
	101,768	117,582	Adjusted net asset value method[1]	n/a	n/a	n/a
Equities	106,700	104,573				
	29,199	25,102	Approximation method	n/a	n/a	n/a
	77,501	79,471	Adjusted net asset value method[1]	n/a	n/a	n/a
Investment funds units	172,332	87,230				
	885	12,635	Approximation method	n/a	n/a	n/a
	171,447	74,595	Adjusted net asset value method[1]	n/a	n/a	n/a
Fixed-income financial instruments that do not pass SPPI test	28,836	33,212	Approximation method	n/a	n/a	n/a
Capital investments for the account and risk of holders of life insurance policies	6,071	6,247	Black-Scholes model	Index weighting, volatility	n/a	n/a
Non-current assets held for sale and discontinued operations	**—**	**120**	**Approximation method**	**n/a**	**n/a**	**n/a**

1 Supplied net asset values are calculated for individual investments outside the Group using recognised measurement methods, such as the DCF, multiplier and capitalised earnings methods. In this regard, the measurements are normally made in line with the IPEV Valuation Guidelines. Since calculation of the net asset value is based on a variety of investments, and since available information about the measurement methods and parameters used there is incomplete or not uniform (including, e.g. adjustment to account for outstanding performance-related compensation claims of the fund manager), a range is not disclosed.

(39) Disclosures concerning hedges

Disclosures concerning hedges

	Fair value hedges	
	Hedging of interest rate risk through interest rate swaps	
in € thousands	31.12.2020	31.12.2019
Nominal values of hedges	9,106,000	7,935,630
Up to 1 year	60,000	451,384
1-5 years	2,331,000	1,105,600
Longer than 5 years	6,715,000	6,378,646
Positive market values from hedges	16,071	88,994
Negative market values from hedges	15,688	216,196
Changes in fair value	300,191	133,145

The hedging instruments are recognised in the items “Positive market values from hedges” and “Negative market values from hedges”.

Disclosures concerning hedged items

	Cash flow hedges Hedging of interest rate risk through interest rate swaps				Fair value hedges Hedging of interest rate risk through interest rate swaps			
	Existing hedges		Terminated hedges		Existing hedges		Terminated hedges	
in € thousands	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Carrying amount of hedges	–	–						
Assets	–	–	–	–	3,051,339	426,747	–	–
Liabilities	–	–	–	–	3,065,884	2,961,668	–	–
Cumulative changes and changes attributable to the hedged risk	–	–			–	–	–	–
Assets	–	–	–	–	-22,237	20,377	-21,984	-10,391
Liabilities	–	–	–	–	-255,556	6,254	83,340	74,012
Changes from the hedged risk	–	–	–	–	-259,141	-75,507	–	–
Reserve for cash flow hedges	–	–	–	-47	–	–	–	–

The hedged items are contained in the follow balance sheet items:

- Financial assets at fair value through other comprehensive income
- Financial assets at amortised cost
- Liabilities

Disclosures concerning the effects in the consolidated statement of comprehensive income

	Cash flow hedges		Fair value hedges	
	Hedging of interest rate risk through interest rate swaps		Hedging of interest rate risk through interest rate swaps	
in € thousands	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Unrealised gains and losses recognised in other comprehensive income	–	–	n/a	n/a
Income/expenses from ineffective portions	–	–	5,364	5,242
Reserves for cash flow hedges reclassified to the consolidated income statement	-67	-153	n/a	n/a

The income and expenses from ineffective portions and the reserves for cash flow hedges reclassified to the consolidated income statement are included in the net measurement gain/loss in the consolidated income statement.

(40) Transfers of financial assets and granted and received collateral, as well as netting of financial assets and liabilities

During the reporting period and in the previous year, financial assets were transferred that were not or were not fully derecognised. In the W&W Group, all of these had to do with securities that were sold in connection with repurchase agreements or lent in connection with securities lending transactions. In the reporting period, these securities were allocated to the category "Financial assets at fair value through other comprehensive income" and to the classes resulting from this, and they are subject to the same market price and counterparty credit risks.

Repurchase agreements are characterised by the fact that securities are sold for consideration, but at the same time it is agreed that such securities have to be purchased back at a later point against payment to the seller of an amount agreed to in advance. In addition to the purchase price, collateral is granted and received, depending on the market value of the securities sold. In securities lending transactions, securities are lent against the granting of cash or non-cash collateral. After the borrowing period expires, the securities are returned to the lender. Sold or lent securities continue to be recognised in the balance sheet of the W&W Group in accordance with the previous categorisation. The ability of the W&W Group to dispose of these securities is restricted. At the same time, a financial liability is recognised in the amount of money received. Non-cash collateral is recognised only if the W&W Group is authorised to resell or pledge it without the issuer being in default in payment. This was not the case.

The relationship between securities that were sold in connection with repurchase agreements and those that were lent in connection with securities lending transactions, as well as the associated liabilities, is as follows:

Transferred financial assets

	Carrying amount					
	Repurchase agreements		Securities lending transactions		Total	
in € thousands	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Financial assets at fair value through other comprehensive income	**736,697**	**1,019,113**	**–**	**10,068**	**736,697**	**1,029,181**
Senior fixed-income securities	736,697	1,019,113	–	10,068	736,697	1,029,181
Total	**736,697**	**1,019,113**	**–**	**10,068**	**736,697**	**1,029,181**
Associated liabilities	736,697	1,019,113	–	–	736,697	1,019,113
Net position	–	–	–	10,068	–	10,068

As was the case in the previous year, as at 31 December 2020 no securities had been taken in and then passed on in connection with reverse repurchase agreements.

Likewise, there were no other business transactions under which the W&W Group retained ongoing commitments from the transfer.

Assets granted as collateral

Financial assets granted as collateral in 2020

in € thousands	Transferred financial assets 31.12.2020	Open market operations with central banks 31.12.2020	Other collateral granted 31.12.2020	Granted but as yet unused collateral 31.12.2020	Total 31.12.2020
Financial assets at fair value through other comprehensive income	**736,697**	**249,668**	**—**	**1,076,012**	**2,062,377**
Senior fixed-income securities	736,697	249,668	–	1,076,012	2,062,377
Total	**736,697**	**249,668**	**—**	**1,076,012**	**2,062,377**

Financial assets granted as collateral in 2019

in € thousands	Transferred financial assets 31.12.2019	Open market operations with central banks 31.12.2019	Other collateral granted 31.12.2019	Granted but as yet unused collateral 31.12.2019	Total 31.12.2019
Financial assets at fair value through other comprehensive income	**1,029,181**	**—**	**—**	**472,244**	**1,501,425**
Senior fixed-income securities	1,029,181	–	–	472,244	1,501,425
Total	**1,029,181**	**—**	**178,977**	**472,244**	**1,680,402**

Granted but as yet unused collateral mainly has to do with securities on deposit with Clearstream International S.A., as well as with the Deutsche Bundesbank. In the reporting period just ended, as was the case in the previous year, no securities were pledged from the custodial account with Clearstream International S. A. for settlement and custodial services in connection with issued covered bonds.

Other collateral granted in the previous year has to do with loans in the amount of €179.0 million that were assigned in connection with the utilisation of promotional loan programmes.

The amount of cash collateral granted for derivatives amounted to €67.1 million (previous year: €363.0 million).

Aside from the securities pledged as collateral for the foregoing repurchase agreements, no cash collateral was provided for them, as was the case in the previous year.

As at the reporting date, loans of €249.7 million (previous year: €0) had been obtained from the Deutsche Bundesbank in connection with open market operations. To secure these loans, the Deutsche Bundesbank requires as collateral a correspondingly high deposit of securities in the Deutsche Bundesbank custodial account. Securities that are on deposit in the custodial account of Deutsche Bundesbank in order to collateralise loans may be substituted at will with other securities accepted by the European Central Bank, provided that they do not fall below the required collateral value.

In addition, in accordance with regulatory requirements, the underwriting liabilities of German primary insurers in the W&W Group are covered by assets allocated to guarantee assets (financial instruments and properties). Assets allocated to guarantee assets are primarily available to settle policyholder claims. The pro rata allocation of individual assets to guarantee assets is not evident from the IFRS consolidated financial statements.

Assets received as collateral

Assets received as collateral may be liquidated only in the event of breach of contract. Collateral that can be resold or pledged without the issuer being in default in payment was not received.

Cash collateral received under repurchase agreements amounted to €736.7 million (previous year: €1,019.1 million).

Offsetting of financial instruments

The W&W Group nets financial assets and financial liabilities and presents the net amount if the relevant netting agreements under which they were concluded satisfy the offsetting criteria in IAS 32.42. The W&W Group offsets financial instruments in the balance sheet, which are cleared through the central counterparty Eurex Clearing AG.
If the netting agreements do not fully satisfy the offsetting criteria in IAS 32, the financial instruments are not offset in the balance sheet. This is normally the case if in the event of payment default or insolvency of a counterparty and in the normal course of business, the right to set off the recognised amounts is not always legally enforceable or there is no intention to settle on a net basis. In the W&W Group, this applies, inter alia, to bilateral transactions that were concluded under master agreements without the use of a central counterparty. The offsetting effects underlying these netting agreements are to be shown in the notes and are presented in the following.

The following tables show the derivatives and repurchase agreements that are subject to a master netting agreement. They also include the collateral granted by or received from the respective counterparty. In the case of clearing through the central counterparty Eurex Clearing AG, the W&W Group makes use of the option to pledge securities for the initial margin.

Offsetting of financial assets in 2020

	Gross amount of financial assets prior to offsetting	Offset amount of financial liabilities	Recognised net amount of financial assets	Associated amounts that are not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
in € thousands	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
Derivatives (netting legally enforceable)	591,471	-580,226	11,245	–	–	11,245
Derivatives (netting not legally enforceable)	278,928	–	278,928	-9,742	-219,751	49,435

Offsetting of financial liabilities in 2020

	Gross amount of financial liabilities prior to offsetting	Offset amount of financial liabilities	Recognised net amount of financial liabilities	Associated amounts that are not offset in the balance sheet		Net amount
				Financial instruments	(Cash) collateral granted	
in € thousands	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
Derivatives (netting legally enforceable)	580,226	-580,226	–	–	-140,000	-140,000
Derivatives (netting not legally enforceable)	46,537	–	46,537	-1,876	-42,060	2,601
Repurchase agreements, securities lending transactions and similar agreements (netting not legally enforceable)	736,697	–	736,697	-736,697	–	–

Netting of financial assets in 2019

	Gross amount of financial assets prior to offsetting	Offset amount of financial liabilities	Recognised net amount of financial assets	Associated amounts that are not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Derivatives (netting legally enforceable)	503,111	-497,481	5,630	–	–	5,630
Derivatives (netting not legally enforceable)	85,968	–	85,968	-1,515	-68,184	16,269

Offsetting of financial liabilities in 2019

	Gross amount of financial liabilities prior to offsetting	Offset amount of financial liabilities	Recognised net amount of financial liabilities	Associated amounts that are not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received	
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Derivatives (netting legally enforceable)	497,481	-497,481	–	–	-148,668	-148,668
Derivatives (netting not legally enforceable)	150,493	–	150,493	-5,529	-214,380	-69,416
Repurchase agreements, securities lending transactions and similar agreements (netting not legally enforceable)	1,019,113	–	1,019,113	- 1,019,113	–	–

(41) Trust business

Trust business not required to be shown in the balance sheet had the following scope:

in € thousands	31.12.2020	31.12.2019
Trust assets pursuant to the German Building Code	12,124	12,182
Other	3,715	–
Trust assets	**15,839**	**12,182**
Trust liabilities pursuant to the German Building Code	12,124	12,182
Other	3,715	–
Trust liabilities	**15,839**	**12,182**

(42) Supplementary disclosures concerning the effect of financial instruments

Net gains and losses by category of financial instrument, which are depicted in the following table, consist of the following:

- Net gains consist of disposal gains, measurement gains, income from risk provision, subsequent receipts on written-down financial instruments and currency gains from measurement on the reporting date.
- Net losses consist of disposal losses, measurement losses, expenses from risk provision and currency losses from measurement on the reporting date.
- Interest income and expenses and commission income and expenses are not included in net gains and losses. Like-wise, dividends are not recognised in net gains.

Net gains/losses

in € thousands	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Financial assets/liabilities at fair value through profit or loss	**289,680**	**572,761**
Net gains	1,562,224	1,280,181
Net losses	-1,272,544	-707,420
Financial assets at fair value through other comprehensive income	**1,976,733**	**3,060,748**
thereof recognised in other comprehensive income	1,515,920	2,502,324
thereof recognised in profit or loss	-309,823	48,895
Net gains	33,079	73,914
Net losses	-342,902	-25,019
reclassified from net other income/expense to the income statement	770,636	509,529
Net gains	841,590	548,165
Net losses	-70,954	-38,636
Financial assets at amortised cost	**-88,540**	**10,451**
Net gains	85,673	89,394
Net losses	-174,213	-78,943
Financial liabilities at amortised cost	**1,846**	**-612**
Net gains	7,109	43
Net losses	-5,263	-655

For financial assets and liabilities at amortised cost, total interest income amounted to €551.7 million (previous year: €668.5 million), and total interest expenses amounted to €331.6 million (previous year: €469.9 million).

Total interest income from financial assets at fair value through other comprehensive income amounted to €629.4 million (previous year: €682.2 million).

In addition, currency translation – with the exception of currency translation involving financial instruments at fair value through profit or loss – generated currency income in the amount of €33.5 million (previous year: €79.9 million) and currency expenses in the amount of €370.5 million (previous year: €18.6 million).

Financial assets at amortised cost amounted to €25,249.1 million (previous year: €24,019.8 million), and financial assets at fair value through profit or loss amounted to €8,816.4 million (previous year: €8,388.6 million).

Financial liabilities at amortised cost amounted to €28,168.7 million (previous year: €26,745.1 million), and financial assets at fair value through profit or loss amounted to €59.9 million (previous year: €296.5 million).

(43) Gains and losses recognised from the derecognition of financial assets at amortised cost

In the reporting year, there were no material gains or losses from the derecognition of financial assets at amortised cost.

Disclosures concerning risks under financial instruments and insurance contracts

(44) Risk management

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

The risk management and controlling system comprises the totality of all organisational regulations and measures that have been established to identify risks at an early stage and to handle the risks associated with business activity. Risk controlling is a part of risk management and includes the assessment, evaluation, monitoring and reporting of the risks encountered by the entities assuming them. It also monitors risk governance measures. Risk management in the W&W Group consists of the following key functions:

- **Legal:** Compliance with the relevant risk-related internal and external requirements for risk management and creation of the legal preconditions for continuation of business operations.
- **Protection of the going concern:** Avoidance of risks that endanger the company as a going concern, preservation of financial security and development of strategies to protect the company as a going concern and the capital basis nec-essary for this.
- **Quality assurance:** Establishment of a common understanding of risks, a pronounced awareness of risks and transparent communication of risks in the W&W Group, as well as active notification of flaws and any potential for improvement in risk management.
- **Value creation:** Governance measures for risk hedging and preservation of value, promotion and assurance of sustainable value creation for shareholders through risk capital allocation that enables opportunities to be seized.

Based on the key functions of risk management, the following overarching objectives are pursued:

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

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

The W&W Group manages risks on the basis of a **risk management framework.**

The **integrated risk strategy** establishes the strategic framework of the risk management system of the W&W Group (W&W financial conglomerate), the Solvency II group (insurance group), the financial holding group and Wüstenrot & Württembergische AG. The risk management system is an integral component of a proper and effective business organisation. As part of this framework, definitions are established for risk appetite, which are derived from the business strategy and the risk profile, for the overall risk objectives and for the application of consistent standards, methods, procedures and tools.

The **Group Risk Policy** defines the organisational framework for risk management and is a prerequisite for an effective risk management system within the W&W Group. This framework ensures that the standard of quality is comparable across all business areas and that risk management is highly consistent on all Group levels. As a key component of the common risk culture, the Group Risk Policy and the processes and systems defined in it promote the requisite risk awareness.

The duties and responsibilities of all persons and committees involved in risk management issues are defined. Within the organisational and operational structure, the individual areas of responsibility for all of the following bodies, committees and functions are defined, as well as their interfaces and reporting lines among one another, thus ensuring the regular and timely flow of information across all levels of the W&W Group.

The Executive Board of W&W AG bears overall responsibility for the proper business organisation of the W&W Group. It is the ultimate decision-making body on risk issues. This includes ensuring that the risk management system established Group-wide is effectively and appropriately implemented, maintained and enhanced. This also includes developing, promoting and integrating an appropriate risk culture. The Chief Risk Officer (CRO) is responsible for risk management on the Executive Board of W&W AG.

In its role as the control body overseeing the Executive Board, the **Supervisory Board of W&W AG** also monitors the appropriateness and effectiveness of the risk management system, as well as implementation of the risk strategy, including risk appetite. In addition, it is regularly informed about the current risk situation. Certain types of transactions require approval by the Supervisory Board or its Risk and Audit Committee.

The **Risk and Audit Committee of W&W AG** and the corresponding committees of Wüstenrot Bausparkasse AG, Württembergische Versicherung AG and Württembergische Lebensversicherung AG are regularly presented with information required pursuant to the bylaws, including risk reports with a description of the current risk situation and the measures that have been initiated to manage it.

As the central body for the coordination of risk management, the **Group Board Risk** supports the Executive Board of W&W AG and the Management Board in risk issues. The permanent members of the Group Board Risk are the CRO of W&W AG and the CROs of the Housing and Insurance divisions. The risks in the brandpool division are covered by the Group-wide risk management in accordance with the processes specified in the Group risk policy. Other members of this body are the (independent) risk controlling function of W&W AG, which also handles the responsibilities on behalf of the Solvency II group, the two (independent) risk controlling functions of the Housing (Wüstenrot) and Insurance (Württembergische) divisions and select observers. The body meets once a month and, where necessary, on an ad hoc basis. The Group Board Risk monitors the risk profile of the W&W Group, its appropriate capitalisation and its liquidity. Moreover, it deliberates on Group-wide standards for risk organisation and for the deployment of uniform risk management methods and tools and proposes these to the members of the Executive Boards of the Group for approval.

The Insurance Risk Board manages and monitors risks in the Insurance division (Württembergische). The BSW Risk Board handles this duty in the Housing division (Wüstenrot). The participation of the responsible Executive Board members and the departments concerned guarantees the integration of circumstances pertaining to individual companies as well as the speedy exchange of information and quick decision-making. We integrate risk-related aspects of the brandpool division via an established reporting line to the Group Board Risk.

The **risk management process** in the W&W Group is based on the closed control loop described in the integrated risk strategy as well as in the following.

Risk identification. In connection with the risk inventory process, the corporate and working environment is constantly monitored throughout the Group for potential risks, and identified risks must be reported without delay. This high penetration throughout the organisation makes a decisive contribution to promoting an appropriate risk culture. Moreover, we have implemented a uniform Group-wide new-product process for the purposes of identifying risks associated with the introduction of new products and sales channels and with the cultivation of new markets. This process incorporates the risk controlling units at the level of the Group and the individual companies. The systematic identification of risks takes places in connection with the risk inventory. In addition, the risk situation is reviewed during the year, where called for. Here, assumed or potential risks are continually recorded, updated and documented. On the basis of an initial assessment for the respective individual company, defined threshold values are used to differentiate risks into material and immaterial risks. Also evaluated is the extent to which individual risks can take on a material character through interaction or accumulation (risk concentrations). Risks that are classified as material are actively managed in the four steps of the risk management process described in more detail in the following. For risks that are classified as immaterial, the responsible business units monitor them during the year, using (early-warning) risk indicators in order to determine whether they have changed, and evaluate them in full at least once a year.

Risk assessment. This process step includes all methods, processes and systems that serve to adequately assess identified risks. Risks are largely assessed by means of a stochastic procedure using the value-at-risk standard. If this procedure cannot be used for certain risk areas, analytical computational procedures or regulatory standard procedures are applied, as well as expert estimates.

At both the Group level as well as the level of the individual W&W companies, the relevant statutory and regulatory confidence levels are applied for measuring risks from an economic perspective:

- For individual W&W companies, including W&W AG, that are subject to insurance supervision law, this corresponds to a confidence level of 99.5%, based on a risk horizon of one year.
- For individual W&W companies, including W&W AG, that are subject to banking supervision law, this corresponds to a confidence level of 99.9%, based on a risk horizon of one year.

For the W&W Group, risks are depicted with a confidence level of 99.5%. The target and minimum ratios for economic risk-bearing capacity at the Group level are derived from the capital requirements that result from compliance with the aforementioned confidence levels at the associated individual companies. Accordingly, an overall confidence level in excess of 99.5% is achieved.

In addition, risks are assessed from a supervisory (normative) perspective using regulatory risk parameters. If risk models are employed that are oriented toward the balance sheet or income statement specific to the individual company, a confidence level of at least 95.0% is applied to them.

We include the results of these assessments in the evaluation of risk-bearing capacity or in additional risk controlling tools, taking into consideration potential risk concentrations. We regularly conduct sensitivity analyses in connection with stress scenarios for specific risk areas and across risk areas. Indicator analyses, such as (early-warning) risk indicators, augment the range of tools used to evaluate risk.

Risk taking and risk governance. We define risk governance as the operational implementation of risk strategies in the risk-bearing business units. The decision to assume risk is made within the scope of business- and risk-specific requirements by the decision-making body in each individual company. Based on the risk strategy, the respective departments in our operating companies manage their own risk positions. Thresholds, signal systems and limit and line systems are used to support risk governance. If the specified thresholds are exceeded, predefined actions or escalation processes are initiated. As a rule, the entity that assumed the risks is responsible for managing and controlling them. In performing this task, it decides about products and transactions. It must continuously check whether the assumed risks are in conformity with the risk profile specified by the risk strategy of the W&W Group or one of its companies and whether risk-bearing capacity as well as the risk limits and risk lines are observed. Risk-taking and risk-monitoring tasks are strictly separated in terms of function. Key management parameters at the Group level are the IFRS result and divi-sion-specific indicators. In order to link earnings management with risk governance, we conduct supplementary analyses for the purpose of value-oriented management. For us, this includes, inter alia, a present-value earnings perspective, optimisation and allocation of capital and internal risk governance.

The sufficiency of risk capitalisation is evaluated on several dimensions, which as a rule are equally weighted but highlight different objectives and aspects:

- The economic perspective assesses risk coverage capacity, i.e. permanent assurance of the company's substance in order to protect first-rank creditors against losses from an economic standpoint.
- The normative perspective looks at compliance with the regulatory minimum requirements for risk capitalisation in order to be able to continue business operations as planned.

In addition, in accordance with the requirements for managing the balance sheet and the income statement, specific risk models oriented toward them are applied at the level of the individual companies. While the economic and financial risk-bearing capacity concept has been developed and parameterised internally, the regulatory procedure follows the externally specified methodology.

Risk monitoring. In order to identify risks early on, risk indicators are employed to monitor changes in the risk situation. Such indicators include financial and risk indicators (e.g. risk-bearing capacity ratios, limit utilisations), supervisory indicators (e.g. capital ratios, liquidity coverage ratio) and market indicators (e.g. stock prices, credit spreads). Material, quantifiable risks are controlled by means of limits and lines. Limits are set at most in the amount that permits compliance with the respective minimum ratios for economic risk-bearing capacity even where the limits are maxed out. Business is transacted solely within the scope of these limits and lines. By creating a corresponding limit and line system, risk concentrations in particular are limited both at the level of the individual company and at the level of the financial conglomerate. The monitoring of risks, which is independent of the assumption of risks, primarily takes place at the level of the individual company. Where material risks exist that affect more than just the individual company, they are also monitored at the Group level. Monitoring activities are used to develop recommendations for action, which lead to corrective intervention being taken early on with respect to the objectives set forth in the business and risk strategy and are subject to corresponding measures controlling.

Risk reporting. By means of the established reporting processes, regular and timely reports are generated about the risk position of various groups or individual companies. In this regard, the flow of information concerning the risk situation of the individual companies in the W&W Group is accomplished through internal risk reporting, risk inventory and calculation of risk-bearing capacity. The results of the companies affiliated with the Group are transmitted to the risk controlling function responsible for the W&W Group, which then aggregates them and analyses them for their impact on the W&W Group.

The key element of the risk reporting system is the quarterly overall risk report, which is sent to the Group Board Risk, the Executive Board and the Supervisory Board. Presented in this report are, in particular, the amount of available capital, regulatory and economic capital adequacy, compliance with limits and lines, the results of stress testing and the risk governance measures that have already been taken and that still need to be taken. Also reported on in this connection are significant trends in early-warning risk indicators. This overall risk report is presented to the Group Board Risk and discussed with respect to risk assessment. On this basis, action recommendations and measures are established where necessary for the W&W Group, which are then implemented and tracked by the responsible risk management units.

Depending on how critical it is, information that is considered material from the standpoint of risk is forwarded immediately to the Group Board Risk, the Executive Board and the Supervisory Board. Processes and reporting procedures have been put in place for internal ad-hoc risk reporting at the Group and individual company level. Quantitative criteria are used as thresholds, which as a rule are in line with internal and supervisory parameters. In addition, pertinent ad-hoc risk reporting takes place when qualitatively material events occur.

The operability, appropriateness and effectiveness of our risk management system is audited by Internal Audit. As part of the audits of financial statements, an audit firm audits the establishment of early risk detection systems at the individual company level and the appropriateness and effectiveness of the risk management at the level of the credit institutions, as well as that of the W&W Group.

In managing the risk profile, attention is paid to avoiding **risk concentrations** from financial instruments and insurance contracts in order to maintain a balanced risk profile. In addition, in connection with risk governance, an effort is made to achieve an appropriate relationship between the risk capital requirements of the risk areas in order to limit susceptibility to individual risks.

Risk concentration means potential losses that may result either from the accumulation of similar risks or from the accumulation of different risks, such as at a single counterparty, and that are large enough to jeopardise the solvency or financial position of the individual company or the Group.

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

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

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

Other concentrations exist through positions that we intentionally take in certain assets classes (equities, participations, bonds) through strategic asset allocation. As a financial conglomerate, the W&W Group is influenced to an extensive degree by a variety of external factors (e.g. current interest rates, changed customer behaviour, digitalisation, regulatory pressure, industry reputation). This risk concentration intentionally forms a part of the business strategy. Operational risk concentrations may arise in connection with outsourcing (a single comprehensive mandate or several equivalent mandates) and through an accumulation of projects, particularly large projects.

Adequate instruments and methods are in place to manage concentrations. We counter concentrations in the area of capital investments, inter alia, through diversification, the use of limit and line systems and the monitoring of exposure concentrations. In lending and insurance business, we apply clearly defined acceptance and underwriting policies and purchase appropriate reinsurance coverage from various providers with good credit ratings.

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

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

For further information about risk management in the W&W Group, please see the risk reporting in the management report.

(45) Market price risks

Interest rate change risks

Interest rate change risk, which is a part of interest rate risk and a form of market price risk, describes the risk that assets and/or liabilities held in interest-bearing securities may change in value due to a shifting and/or twisting of market interest rate curves. The interest rate change risk results from the market value risk of investments in conjunction with the obligation to generate the guaranteed interest and the guaranteed surrender values for policyholders.

The current interest rate level poses income risks for the W&W Group (particularly Württembergische Lebensversicherung AG and Wüstenrot Bausparkasse AG), since new investments and reinvestments can be made only at lower interest rates, while at the same time the interest rates and interest obligations pledged to customers (interest guarantee risk) still have to be met. Persistently low interest rates also pose great challenges for pension funds, including Allgemeine Rentenanstalt Pensionskasse AG, in terms of financing the build-up of the additional interest reserve/interest rate rein-forcement under the ancillary condition of regulatory solvency. The interest guarantee risk is managed through comprehensive asset liability management and a dynamic product and rate policy, as well as the corresponding creation of reserves.

With Section 5 of the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV), the legislators expanded the framework, which is also recognised for tax purposes, for strengthening the provision for future policy benefits in the form of an additional interest reserve in the new portfolio. The amount of the additional interest reserve is determined by the reference interest rate, which is based on the average of Euro interest swap rates over 10 years. In 2020 the reference interest rate dropped to 1.73% (previous year: 1.92%).

Based on the regulations for the additional interest reserve, an interest rate reinforcement established in the business plan was provided in the old portfolio. The amount of interest rate reinforcement is determined by the measurement interest rate, which amounted to 1.73% (previous year: 1.92%) for Württembergische Lebensversicherung AG and to 2.17% (previous year: 2.30%) for ARA Pensionskasse AG. In the W&W: Group, the additional interest reserve and interest rate reinforcement were strengthened by €352.3 million (previous year: €364.8 million) on this basis. In order to depict the build-up of the additional interest rate reserve and interest rate reinforcement as realistically as possible, capital disbursement probabilities were applied in this regard that are specific to each company. For 2021 we expect a further decline in the interest rates relevant to valuation and thus a further increase in the additional interest reserve and in interest rate reinforcement. Since 2010, we have gradually increased the security level of the computation basis "interest rate" for annuity insurance policies in the old portfolio by means of reserve reinforcements.

A breakdown of the provision for future policy benefits by type of insured risk and by insurance amount is provided in the notes to the consolidated balance sheet.

Financial derivatives are used in the W&W Group to manage interest rate risk. Derivative management instruments primarily consist of interest rate swaps and interest rate options (swaptions), as well as futures, forward purchases and forward sales. They are predominantly used to hedge interest rate risks, but also to reduce risk concentrations. They are shown in the risk management and controlling process as economic hedging instruments or as hedges for the future purchase of securities.

If these economic hedges meet the requirements for hedge accounting, the hedges for the Housing division are also depicted as such in the IFRS consolidated financial statements. At our home loan savings bank and our insurance companies, fixed-income positions are hedged against reinvestment risks and losses in asset value on both the individual transaction level and the portfolio level (fair value hedge). In addition, at the home loan savings bank, loans, advances and securities in the category “Financial assets at fair value through other comprehensive income” are measured at fair value.

The effects that a potential change in the interest rate level by 100 or 200 basis points (parallel shifting of the interest structure curve) would have on the consolidated income statement and on other comprehensive income are depicted in the following table. Because the interest rate level continues to remain very low, it was again elected to dispense with calculating a decline in the interest rate level by 200 bps, since the results did not appear meaningful.
The changes in the consolidated income statement are due, in particular, to derivative positions and fixed-income securities of Wüstenrot Bausparkasse AG. The changes in other comprehensive income are primarily attributable to bonds, including debenture bonds, of Wüstenrot Bausparkasse AG and Württembergische Lebensversicherung AG.

In the Insurance division, the long duration in interest-bearing investments is reflected in the results. In addition, swaptions concluded to hedge against reinvestment risk in the case of low interest rates have an impact on the consolidated income statement, since their value rises sharply when interest rates fall but becomes worthless when interest rates rise. Furthermore, forward purchases of bonds that were concluded for the purpose of duration control and to limit reinvestment risks have a negative effect when interest rates rise and a positive effect on results when interest rates fall.

With respect to net income for the period and to net income recognised in other comprehensive income, there is no asset-value-oriented interest rate change risk for debt securities and construction loans that are carried at amortised cost.

Interest rate change risk: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement		Change in other comprehensive income	
in € thousands	31.12.2020	31.12.2019	31.12.2020	31.12.2019
+100 basis points	–456,022	–326,443	–848,745	–847,728
–100 basis points	556,836	393,545	1,032,353	980,128
+200 basis points	–887,770	–606,084	–1,573,265	–1,593,832

Risks of changes in the prices of equity instruments

On the one hand, the risk of changes in the prices of equity instruments describes the general risk that assets and thus net income and/or equity may change negatively as a result of market movements. On the other, it also describes the specific risk characterised by issuer-related aspects.

In the W&W Group, the risk of changes in the prices of equity instruments is mainly characterised by equity and participation risk. Equity risk is the risk that losses may result from the change in the prices of open equity positions. Participation risk is the risk that losses may result from negative value changes regarding participations, from the cancellation of dividends or from the need to pay income subsidies. The risk of changes in the prices of equity instruments is managed through equity options and futures.

The following overview shows the effects that an increase or decrease in the market value of equity instruments by 10% and 20% would have on the consolidated income statement and on other comprehensive income. Also depicted are the effects after deferred taxes and, for life/health insurers, in addition the effects after the provision for deferred premium refunds.

The changes affect, in particular, equity positions, participations and alternative investments of Württembergische Versicherung AG and Württembergische Lebensversicherung AG. Also having an effect are equity positions and participations of W&W AG, as well as corresponding positions in fund portfolios.

Price change risk: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement	
in € thousands	31.12.2020	31.12.2019
+ 10%	88,208	94,225
–10%	–88,056	–93,310
+ 20%	176,232	188,716
–20%	–175,566	–185,108

Exchange rate risks

Exchange rate risk describes the risk that losses may result from a change in exchange rates. The extent of this risk depends on the number of open positions and on the potential that the relevant currency will experience a rate change.

The effects that an increase or decrease in key exchange rates would have on the consolidated income statement are depicted in the following table. Also taken into account were the effects of deferred taxes and, for life/health insurers, moreover the effects of the provision for deferred premium refunds.

The depicted exchange rate risk results from both asset and liability positions and includes only monetary assets, i.e. means of payment and claims denominated in amounts of money, as well as obligations that have to be settled with a fixed or determinable amount of money. The exchange rate risk associated with equity instruments (non-monetary assets) is not included.

Exchange rate risk: Net effect after deferred taxes and provision for deferred premium refunds

	Change in the consolidated income statement	
in € thousands	31.12.2020	31.12.2019
USD		
+ 10%	-1,007	6,921
- 10%	1,076	-6,921
DKK		
+ 1%	267	193
- 1%	-267	-193

In all, it can be seen from the table that, in accordance with the strategic positioning of our overall investment portfolio, exchange rate risk is of only minor significance. Compared with the previous year, USD sensitivity was considerably reduced through currency forwards.

For further information about the management of market price risk in the W&W Group, please see the risk reporting in the management report.

(46) Counterparty credit risks

We define counterparty credit risk as potential losses that may result if borrowers or debtors default or experience a deterioration in creditworthiness.

Counterparty credit risks can arise from the default or changed rating of securities (counterparty credit risk associated with investments), from the default of business partners in customer lending business (counterparty credit risk associated with customer lending business) and from the default on receivables due from our counterparties in reinsurance (other counterparty credit risk).

We limit counterparty credit risks through the careful selection of issuers and reinsurance partners, as well as broadly diversified investments. In this context, we take into consideration the capital investment rules applicable to the respective business area. The contracting partners and securities, including debt securities, are mainly limited to good credit ratings in the investment grade range.

Our strategic focus on residential construction loans excludes individual loans that endanger the portfolio due to the high granularity and the predominant collateralisation with land charges.

The W&W Group monitors risks from the default on receivables due from policyholders, agents and reinsurers with the aid of EDP-supported controls of outstanding accounts. With regard to receivables from policyholders, the average default rate over the last three years to the reporting date amounted to 0.14% (previous year: 0.15%). With regard to receivables from agents, the average default rate over the last three years amounted to 2.2% (previous year: 2.2%). Because of the high credit rating of reinsurers, receivables from reinsurance do not constitute a material risk.

Reinsurance contracts are in place with counterparties on the reinsurance market that have flawless credit, meaning that the default risk is significantly reduced.

For further information about the management of counterparty credit risk in the W&W Group, please see the risk reporting in the management report.

Breakdown of risk provision for financial assets at amortised cost in 2020

in € thousands	Opening balance as at 1.1.2020	Reclassifications from Level 1	Reclassifications from Level 2	Reclassifications from Level 3	Classified as held for sale	Additions for newly issued/ acquired financial assets	Additions for financial assets currently in the portfolio
Subordinated securities and receivables	**−235**	**—**	**—**	**—**	**—**	**−11**	**−5**
Level 1	−235	–	–	–	–	−11	−5
Senior debenture bonds and registered bonds	**−29**	**—**	**—**	**—**	**—**	**−22**	**−1**
Level 1	−29	–	–	–	–	−22	−1
Construction loans	**−66,747**	**—**	**—**	**—**	**—**	**−10,290**	**−78,008**
Level 1	−12,963	1,092	−415	−24	–	−3,624	−4,643
Level 2	−28,363	−826	4,751	−849	–	−2,340	−53,097
Level 3	−25,421	−266	−4,336	873	–	−4,326	−20,268
Other loans and advances	**−25,811**	**—**	**—**	**—**	**—**	**−21,204**	**−555**
Level 1	−19,091	–	–	–	–	−19,338	−321
Level 2	−1,132	–	–	–	–	−338	-
Level 3	−5,588	–	–	–	–	−1,528	−234
Sundry loans and advances	**−10,925**	**—**	**—**	**—**	**—**	**−357**	**−1,229**
Level 1	−10,925	–	–	–	–	−357	−1,229
Risk provision for financial assets measured at amortised cost	**−103,747**	**—**	**—**	**—**	**—**	**−31,884**	**−79,798**

Additions/releases as a result of changes to the models/risk parameters	Releases of financial assets currently in the portfolio	Releases of derecognised financial assets as a result of repayment of principal, modification or sale	Utilisation/ reclassification (write-off)	Changes from currency translation	Interest effects	Reclassifications	Closing balance as at 31.12.2020
—	**18**	**16**	**—**	**—**	**—**	**—**	**–217**
—	18	16	—	—	—	—	–217
—	**1**	**8**	**—**	**—**	**—**	**—**	**–43**
—	1	8	—	—	—	—	–43
–1,527	**35,863**	**13,446**	**5,462**	**—**	**–627**	**–**	**–102,428**
804	6,276	5,085	76	—	—	—	–8,336
–1,188	16,605	2,208	34	—	—	—	–63,065
–1,143	12,982	6,153	5,352	—	–627	—	–31,027
—	**—**	**866**	**9,276**	**—**	**—**	**–3,061**	**–40,489**
—	—	598	8,458	—	—	–3,036	–32,730
—	—	14	–	—	—	–25	–1,481
—	—	254	818	—	—	—	–6,278
—	**—**	**1,288**	**1,229**	**—**	**—**	**—**	**–9,994**
—	—	1,288	1,229	—	—	—	–9,994
–1,527	**35,882**	**15,624**	**15,967**	**—**	**–627**	**–3,061**	**–153,171**

Breakdown of risk provision for financial assets at amortised cost in 2019

in € thousands	Opening balance as at 1.1.2019	Reclassifications from Level 1	Reclassifications from Level 2	Reclassifications from Level 3	Classified as held for sale	Additions for newly issued/ acquired financial assets	Additions for financial assets currently in the portfolio
Subordinated securities and receivables	**–145**	**–**	**–**	**–**	**–**	**–98**	**–16**
Level 1	–145	–	–	–	–	–98	–16
Senior debenture bonds and registered bonds	**–741**	**–**	**–**	**–**	**–**	**–**	**–16**
Level 1	–741	–	–	–	–	–	–16
Senior fixed-income securities	**–468**	**–**	**–**	**–**	110	**–**	**–3**
Level 1	–468	–	–	–	110	–	–3
Construction loans	**–128,293**	**–**	**–**	**–**	**49,908**	**–8,249**	**–40,368**
Level 1	–14,893	581	–446	–28	1,721	–3,086	–2,332
Level 2	–38,806	–500	3,263	–1,668	7,448	–3,309	–16,983
Level 3	–74,594	–81	–2,817	1,696	40,739	–1,854	–21,053
Other loans and advances	**–29,623**	**–**	**–**	**–**	**1,003**	**–15,577**	**–3,893**
Level 1	–1,116	–	–	–	18	–12,237	–3,173
Level 2	–26,486	–	1	–2	10	-	–5
Level 3	–2,021	–	–1	2	975	–3,340	–715
Other receivables	**–10,634**	**–**	**–**	**–**	**–**	**–1,921**	**–1,545**
Level 1	–10,634	–	–	–	–	–1,921	–1,545
Risk provision for financial assets at amortised cost	**–169,904**	**–**	**–**	**–**	**51,021**	**–25,845**	**–45,841**

	Additions/releases as a result of changes to the models/risk parameters	Releases of financial assets currently in the portfolio	Releases of derecognised financial assets as a result of repayment of principal, modification or sale	Utilisation/reclassification (write-off)	Changes from currency-translation	Interest effects	Reclassifications	Closing balance as at 31.12.2019
	—	**1**	**23**	**—**	**—**	**—**	**—**	**–235**
	—	1	23	—	—	—	—	–235
	—	**1**	**13**	**—**	**—**	**—**	**714**	**–29**
	—	1	13	—	—	—	714	–29
	—	**10**	**3**	**—**	**–1**	**—**	**349**	**—**
	—	10	3	—	–1	—	349	—
	—	**35,275**	**14,230**	**12,079**	**–662**	**–535**	**–132**	**–66,747**
	—	4,877	559	108	–24	—	—	–12,963
	—	19,847	2,301	147	–103	—	—	–28,363
	—	10,551	11,370	11,824	–535	–535	–132	–25,421
	—	**102**	**2,216**	**19,839**	**–10**	**—**	**132**	**–25,811**
	—	7	205	3,351	—	—	–6,146	–19,091
	—	8	971	16,156	—	—	8,215	–1,132
	—	87	1,040	332	–10	—	–1,937	–5,588
	—	**—**	**1,630**	**1,545**	**—**	**—**	**—**	**–10,925**
	—	—	1,630	1,545	—	—	—	–10,925
	—	**35,389**	**18,115**	**33,463**	**–673**	**–535**	**1,063**	**–103,747**

Breakdown of risk provision for financial assets at fair value through other comprehensive income in 2020

in € thousands	Opening balance as at 1.1.2020	Reclassifications from Level 1	Additions for newly issued/acquired financial assets	Additions for financial assets currently in the portfolio
Subordinated securities and receivables	**−817**	**—**	**−442**	**−45**
Level 1	−817	—	−442	−45
Senior debenture bonds and registered bonds	**−7,434**	**—**	**−515**	**−146**
Level 1	−7,434	—	−515	−146
Senior fixed-income securities	**−23,349**	**—**	**−11,522**	**−7,136**
Level 1	−19,606	309	−11,522	−766
Level 2	−3,743	−309	—	−6,370
Risk provision for financial assets at fair value through other comprehensive income	**−31,600**	**—**	**−12,479**	**−7,327**

Breakdown of risk provision for financial assets at fair value through other comprehensive income in 2019

in € thousands	Opening balance as at 1.1.2020	Reclassifications from Level 1	Additions for newly issued/acquired financial assets	Additions for financial assets currently in the portfolio
Subordinated securities and receivables	**−640**	**—**	**−225**	**−106**
Level 1	−640	—	−225	−106
Senior debenture bonds and registered bonds	**−7,931**	**—**	**−111**	**−551**
Level 1	−7,931	—	−111	−551
Senior fixed-income securities	**−23,158**	**—**	**−9,653**	**−1,624**
Level 1	−16,106	7	−9,650	−1,371
Level 2	−7,052	−7	−3	−253
Risk provision for financial assets at fair value through other comprehensive income	**−31,729**	**—**	**−9,989**	**−2,281**

Releases of financial assets currently in the portfolio	Releases of derecognised financial assets as a result of repayment of principal, modification or sale	Additions to the scope of consolidation	Reclassifications	Closing balance as at 31.12.2020
76	**133**	**—**	**5**	**−1,090**
76	133	—	5	−1,090
598	**1,446**	**—**	**—**	**−6,051**
598	1,446	—	—	−6,051
3,816	8,252	**−633**	**−59**	**−30,631**
3,660	6,309	−546	−59	−22,221
156	1,943	−87	—	−8,410
4,490	**9,831**	**−633**	**−54**	**−37,772**

Releases of financial assets currently in the portfolio	Releases of derecognised financial assets as a result of repayment of principal, modification or sale	Additions to the scope of consolidation	Reclassifications	Closing balance as at 31.12.2019
18	**148**	**—**	**−12**	**−817**
18	148	—	−12	−817
476	**1,314**	**—**	**−631**	**−7,434**
476	1,314	—	−631	−7,434
3,231	8,186	**—**	**−331**	**−23,349**
2,443	5,402	—	−331	−19,606
788	2,784	—	—	−3,743
3,725	**9,648**	**—**	**−974**	**−31,600**

Breakdown of provision for off-balance-sheet business in 2020

in € thousands	Opening balance as at 1.1.2020	Reclassifications from Level 1	Reclassifications from Level 2	Reclassifications from Level 3	Classified as held for sale	Additions for newly issued/acquired financial assets	Additions for financial assets currently in the portfolio
Irrevocable loan commitments	**−3,655**	**–**	**–**	**–**	**–**	**−2,340**	**−1,054**
Level 1	−1,625	−29	−2	–	–	−1,448	−194
Level 2	−1,803	25	20	−2	–	−826	−541
Level 3	−227	4	−18	2	–	−66	−319
Provision for off-balance-sheet business	**−3,655**	**–**	**–**	**–**	**–**	**−2,340**	**−1,054**

Breakdown of the risk provision for off-balance-sheet business in 2019

in € thousands	Opening balance as at 1.1.2019	Reclassifications from Level 1	Reclassifications from Level 2	Reclassifications from Level 3	Classified as held for sale	Additions for newly issued/acquired financial assets	Additions for financial assets currently in the portfolio
Irrevocable loan commitments	**−3,207**	**—**	**—**	**−1**	**654**	**−2,188**	**−1,474**
Level 1	−2,143	27	−2	−1	366	−1,473	−30
Level 2	−924	−20	8	−1	20	−529	−1,234
Level 3	−140	−7	−6	1	268	−186	−210
Provision for off-balance-sheet business	**−3,207**	**—**	**—**	**−1**	**654**	**−2,188**	**−1,474**

Additions/releases as a result of changes to the models/risk parameters	Releases of financial assets currently in the portfolio	Releases of derecognised financial assets as a result of repayment of principal, modification or sale	Additions to the scope of consolidation	Changes from currency translation	Reclassifications	Closing balance as at 31.12.2020
397	**1,154**	**2,580**	**–19**	**—**	**—**	**–2,937**
315	428	1,061	–16	—	—	–1,510
50	375	1,428	–	—	—	–1,274
32	351	91	–3	—	—	–153
397	**1,154**	**2,580**	**–19**	**—**	**—**	**–2,937**

Additions/releases as a result of changes to the models/risk parameters	Releases of financial assets currently in the portfolio	Releases of derecognised financial assets as a result of repayment of principal, modification or sale	Additions to the scope of consolidation	Changes from currency translation	Reclassifications	Closing balance as at 31.12.2019
—	**656**	**1,915**	**—**	**–8**	**–2**	**–3,655**
—	430	1,208	—	–5	–2	–1,625
—	209	668	—	—	—	–1,803
—	17	39	—	–3	—	–227
—	**656**	**1,915**	**—**	**–8**	**–2**	**–3,655**

Breakdown of provision for reinsurers' portion of technical provisions in 2020

in € thousands	Opening balance as at 1.1.2020	Additions for newly issued/ acquired financial assets	Releases of derecognised financial assets as a result of repayment of principal, modification or sale	Closing balance as at 31.12.2020
Portion of the provision for outstanding insurance claims	**−6,859**	**−39**	**1,733**	**−5,165**
Level 1	−6,859	−39	1,733	−5,165
Reinsurers' portion of technical provisions	**−6,859**	**−39**	**1,733**	**−5,165**

Breakdown of provision for reinsurers' portion of technical provisions in 2019

in € thousands	Opening balance as at 1.1.2019	Additions for newly issued/ acquired financial assets	Releases of derecognised financial assets as a result of repayment of principal, modification or sale	Closing balance as at 31.12.2019
Portion of the provision for outstanding insurance claims	**−7,114**	**−98**	**353**	**−6,859**
Level 1	−7,114	−98	353	−6,859
Reinsurers' portion of technical provisions	**−7,114**	**−98**	**353**	**−6,859**

Interest income accrued on impaired assets was recognised as an interest effect.

Newly issued construction loans totalling €5,105 million (previous year: €5,545 million) resulted in an increase in the risk provision in the amount of €10.3 million (previous year: €8.2 million). Repayments of principal totalling €4,500 million (previous year: €5,084 million) resulted in a release from the risk provision in the amount of €13.4 million (previous year: €14.2 million).

Newly acquired senior fixed-income securities at fair value through other comprehensive income totalling €6,618 million (previous year: €7,326 million) resulted in an increase in the risk provision in the amount of €11.5 million (previous year: €9.7 million). Disposals and scheduled repayments totalling €5,716 million (previous year: €5,638 million) resulted in a release from the risk provision in the amount of €8.3 million (previous year: €8.2 million).

Changes in the contractual cash flows of financial assets that did not lead to derecognition and whose risk provision was calculated in the amount of credit losses expected over the term resulted in a loss of €1.8 million. The carrying amount prior to the change in the contractual cash flows was €114.6 million.

For assets directly written off in the reporting year, we are continuing to attempt to collect the contractually agreed amounts of €4.3 million (previous year: €8.2 million) despite an estimation that they are uncollectable.

Effects of collateral on the amount of expected credit losses in 2020

	Unimpaired assets			Impaired assets		
	Gross carrying amount before held collateral	Reduction of the maximum default risk through held collateral	Net carrying amount	Gross carrying amount before held collateral	Reduction of the maximum default risk through held collateral	Net carrying amount
in € thousands	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
Financial assets at fair value through other comprehensive income	**33,298,814**	**—**	**33,298,814**	**—**	**—**	**—**
Subordinated securities and receivables	762,478	—	762,478	—	—	—
Senior debenture bonds and registered bonds	10,333,568	—	10,333,568	—	—	—
Senior fixed-income securities	22,202,768	—	22,202,768	—	—	—
Financial assets at amortised cost	**24,983,270**	**20,568,340**	**4,414,930**	**247,840**	**206,348**	**41,492**
Subordinated securities and receivables	166,051	—	166,051	—	—	—
Senior debenture bonds and registered bonds	34,851	—	34,851	—	—	—
Senior fixed-income securities	—	—	—	—	—	—
Construction loans	22,693,411	20,534,125	2,159,286	239,694	206,348	33,346
Construction loans secured with a land charge (Grundpfandrecht)	20,440,320	20,440,320	—	205,301	205,301	—
Construction loans secured otherwise	93,805	93,805	—	1,047	1,047	—
Unsecured construction loans	2,159,286	—	2,159,286	33,346	—	33,346
Other receivables	2,088,957	34,215	2,054,742	8,146	—	8,146
Other loans and advances	1,794,718	34,215	1,760,503	8,146	—	8,146
Miscellaneous receivables	294,239	—	294,239	—	—	—
Reinsurers' portion of technical provisions	**283,212**	**—**	**283,212**	**—**	**—**	**—**
Irrevocable loan commitments	**1,399,642**	**—**	**1,399,642**	**4,546**	**—**	**4,546**

Effects of collateral on the amount of expected credit losses in 2019

	Unimpaired assets			Impaired assets		
	Gross carrying amount before held collateral	Reduction of the maximum default risk through held collateral	Net carrying amount	Gross carrying amount before held collateral	Reduction of the maximum default risk through held collateral	Net carrying amount
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Financial assets at fair value through other comprehensive income	**32,761,045**	**–**	**32,761,045**	**–**	**–**	**–**
Subordinated securities and receivables	679,050	–	679,050	–	–	–
Senior debenture bonds and registered bonds	10,968,049	–	10,968,049	–	–	–
Senior fixed-income securities	21,113,946	–	21,113,946	–	–	–
Financial assets at amortised cost	**23,766,145**	**19,380,508**	**4,385,637**	**195,340**	**146,303**	**49,037**
Subordinated securities and receivables	164,213	–	164,213	–	–	–
Senior debenture bonds and registered bonds	30,927	–	30,927	–	–	–
Senior fixed-income securities	–	–	–	–	–	–
Construction loans	21,375,003	19,380,508	1,994,495	184,933	146,303	38,630
Construction loans secured with a land charge (Grundpfandrecht)	19,259,133	19,259,086	47	145,564	145,488	76
Construction loans secured otherwise	121,422	121,422	–	815	815	–
Unsecured construction loans	1,994,448	–	1,994,448	38,554	–	38,554
Other receivables	2,196,002	–	2,196,002	10,407	–	10,407
Other loans and advances	1,863,193	–	1,863,193	10,407	–	10,407
Miscellaneous receivables	332,809	–	332,809	–	–	–
Reinsurers' portion of technical provisions	**282,923**	**–**	**282,923**	**–**	**–**	**–**
Irrevocable loan commitments	**1,218,420**	**–**	**1,218,420**	**2,024**	**–**	**2,024**

In customer lending business, we largely focus on construction financing loans for retail customers, which are secured with inrem collateral. Construction loans are mainly secured with first-rank land charges (Grundpfandrechte).

In addition, loans and advance payments on insurance policies are fully secured with life insurance policies.

There were no significant changes in the quality of collateral in the financial year.

Because of sufficient collateralisation, no risk provision was created in the financial year for gross carrying amounts totalling €8.1 million (previous year: €1.3 million).

The irrevocable loan commitments mainly relate to construction loans, which are primarily secured with land charges (Grundpfandrechte) or otherwise.

For financial instruments to which the impairment rules of IFRS 9 are not applied, their carrying amount corresponds to the maximum default risk.

The following table provides a breakdown of gross carrying amounts according to external and internal rating classes.

Gross carrying amounts by external rating class per level in 2020

	AAA	AA	A	BBB	BB	B or worse	Total
in € thousands	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
Financial assets at fair value through other comprehensive income	**6,659,111**	**12,770,824**	**8,831,359**	**2,932,140**	**840,230**	**1,265,150**	**33,298,814**
Subordinated securities and receivables	–	72,176	526,276	163,059	–	967	762,478
Level 1	–	72,176	526,276	163,059	–	967	762,478
Senior debenture bonds and registered bonds	3,391,345	4,115,246	2,288,175	514,907	–	23,895	10,333,568
Level 1	3,391,345	4,115,246	2,288,175	514,907	–	23,895	10,333,568
Senior fixed-income securities	3,267,766	8,583,402	6,016,908	2,254,174	840,230	1,240,288	22,202,768
Level 1	3,267,766	8,583,402	6,016,908	2,254,174	745,177	1,200,418	22,067,845
Level 2	–	–	–	–	95,053	39,870	134,923
Financial assets at amortised cost	**–**	**11,186**	**95,015**	**80,300**	**–**	**14,401**	**200,902**
Subordinated securities and receivables	–	–	85,751	80,300	–	–	166,051
Level 1	–	–	85,751	80,300	–	–	166,051
Senior debenture bonds and registered bonds	–	11,186	9,264	–	–	14,401	34,851
Level 1	–	11,186	9,264	–	–	14,401	34,851
Reinsurers' portion of technical provisions	–	251,633	30,127	–	–	1,452	283,212
Level 1	**–**	**251,633**	**30,127**	**–**	**–**	**1,452**	**283,212**
Total	6,659,111	12,782,010	8,926,374	3,012,440	840,230	1,279,551	33,499,716
Total	**14,512,482**	**10,618,896**	**3,049,200**	**3,782,691**	**491,516**	**501,400**	**32,956,185**

Gross carrying amounts by external rating class per level in 2019

	AAA	AA	A	BBB	BB	B or worse	Total
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Financial assets at fair value through other comprehensive income	**14,512,482**	**10,597,646**	**2,970,414**	**3,687,587**	**491,516**	**501,400**	**32,761,045**
Subordinated securities and receivables	–	–	109,985	562,034	6,690	341	679,050
Level 1	–	–	109,985	562,034	6,690	341	679,050
Senior debenture bonds and registered bonds	7,341,009	3,308,523	283,326	35,191	–	–	10,968,049
Level 1	7,341,009	3,308,523	283,326	35,191	–	–	10,968,049
Senior fixed-income securities	7,171,473	7,289,123	2,577,103	3,090,362	484,826	501,059	21,113,946
Level 1	7,171,473	7,289,123	2,577,103	3,087,767	447,036	457,770	21,030,272
Level 2	–	–	–	2,595	37,790	43,289	83,674
Financial assets at amortised cost	**–**	**21,250**	**78,786**	**95,104**	**–**	**–**	**195,140**
Subordinated securities and receivables	–	–	69,109	95,104	–	–	164,213
Level 1	–	–	69,109	95,104	–	–	164,213
Senior debenture bonds and registered bonds	–	21,250	9,677	–	–	–	30,927
Level 1	–	21,250	9,677	–	–	–	30,927
Reinsurers' portion of technical provisions	**–**	**242,996**	**38,187**	**–**	**–**	**1,740**	**282,923**
Level 1	–	242,996	38,187	–	–	1,740	282,923
Total	**14,512,482**	**10,618,896**	**3,049,200**	**3,782,691**	**491,516**	**501,400**	**32,956,185**

Gross carrying amounts by internal rating class per level in 2020

	Internal rating: A1-A2	Internal rating: B1-B2	Internal rating C1-C2:	Internal rating: D-H	Internal rating: I-M	Internal rating: worse than M	Total
in € thousands	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
Financial assets at amortised cost	**3,684,293**	**9,378,181**	**2,901,663**	**4,132,839**	**297,462**	**251,183**	**22,933,105**
Construction loans secured by a land charge (Grundpfandrecht)	3,684,293	9,378,181	2,901,663	4,132,839	297,462	251,183	20,645,621
Level 1	3,684,293	9,376,739	2,866,573	3,451,821	8,154	–	19,387,580
Level 2	–	1,442	35,090	680,867	289,308	46,033	1,052,740
Level 3	–	–	–	151	–	205,150	205,301
Construction loans secured otherwise	–	15,471	42,857	19,902	15,171	1,451	94,852
Level 1	–	15,448	41,823	16,059	13,664	–	86,994
Level 2	–	23	1,034	3,843	1,507	404	6,811
Level 3	–	–	–	–	–	1,047	1,047
Unsecured construction loans	416,701	1,146,979	370,266	199,052	23,130	36,504	2,192,632
Level 1	416,701	1,145,775	358,559	152,253	289	–	2,073,577
Level 2	–	1,204	11,707	46,799	22,841	3,158	85,709
Level 3	–	–	–	–	–	33,346	33,346
Irrevocable loan commitments[1]	**40,504**	**271,689**	**324,346**	**746,999**	**14,059**	**6,591**	**1,404,188**
Level 1	40,504	271,689	323,974	738,425	2,186	–	1,376,778
Level 2	–	–	372	8,574	11,873	2,045	22,864
Level 3	–	–	–	–	–	4,546	4,546
Total	**3,724,797**	**9,649,870**	**3,226,009**	**4,879,838**	**311,521**	**257,774**	**24,337,293**

1 Nominal value.

Gross carrying amounts by internal rating class per level in 2019

in € thousands	Internal rating: A1-A2 31.12.2019	Internal rating: B1-B2 31.12.2019	Internal rating C1-C2: 31.12.2019	Internal rating: D-H 31.12.2019	Internal rating: I-M 31.12.2019	Internal rating: worse than M 31.12.2019	Total 31.12.2019
Financial assets at amortised cost	**2,150,528**	**8,691,701**	**4,549,385**	**3,585,077**	**252,170**	**175,836**	**21,559,936**
Construction loans secured by a land charge (Grundpfandrecht)	2,150,528	8,691,701	4,549,385	3,585,077	252,170	175,836	19,404,697
Level 1	2,150,528	8,690,441	4,483,121	2,839,282	13,387	54	18,176,813
Level 2	–	1,260	66,264	745,795	238,783	30,218	1,082,320
Level 3	–	–	–	–	–	145,564	145,564
Construction loans secured otherwise	–	8,629	40,446	53,373	18,470	1,319	122,237
Level 1	–	8,629	38,110	46,933	13,025	–	106,697
Level 2	–	–	2,336	6,440	5,445	504	14,725
Level 3	–	–	–	–	–	815	815
Unsecured construction loans	291,160	650,507	672,008	314,573	56,031	48,723	2,033,002
Level 1	291,160	649,171	630,969	236,889	280	–	1,808,469
Level 2	–	1,336	41,039	77,597	55,633	10,374	185,979
Level 3	–	–	–	87	118	38,349	38,554
Irrevocable loan commitments[1]	**41,907**	**151,619**	**277,919**	**721,774**	**20,213**	**7,012**	**1,220,444**
Level 1	41,907	151,587	277,771	715,040	2,524	–	1,188,829
Level 2	–	32	148	6,734	17,689	4,988	29,591
Level 3	–	–	–	–	–	2,024	2,024
Total	**2,192,435**	**8,843,320**	**4,827,304**	**4,306,851**	**272,383**	**182,848**	**22,780,380**

1 Nominal value.

(47) Underwriting risks

Life and health insurance business

Description of the insurance portfolio

In the W&W Group, life and health insurance business consists of life insurance (endowment and term insurance), annuity insurance, occupational disability insurance and health insurance. Life insurance portfolios mainly contain long-term contracts with discretionary surplus participation. Unit-linked endowment life insurance policies and annuity insurance policies are covered congruently by fund units attributable to the policies.

Reinsurance acceptance business is conducted to only a negligible extent.

Risks of the insurance portfolio and the risk management system

Life insurance is characterised by the long duration of the commitments entered into, for which reason calculations are made using conservative assumptions.

Risks from life insurance business mainly consist of biometric risk, interest guarantee risk and cancellation and cost risk. The assessment of the interest guarantee risk is dealt with in detail in Note 45.

Biometric actuarial bases, such as mortality, life expectancy and invalidity probabilities, are subject both to short-term risks of fluctuation and error, as well as to longer-term change trends. We control these risks on an ongoing basis through actuarial analyses and tests. In terms of product development, we take potential changes into account through corresponding actuarial modelling.

With annuity insurance, the assessment of life expectancy (longevity risk) is of particular importance for the provision for future policy benefits. In addition to monitoring our own results, we also rely on the findings, notices and guidelines of the German Association of Actuaries (DAV) for the purposes of stabilising the information basis. In light of the fact that the trend in mortality improvement has not yet sufficiently attenuated, the life insurance companies, as in previous years, once again adjusted the safety margins for longevity risk in the provision for future policy benefits in the 2020 financial year. Prospective findings concerning mortality trends or a renewed adjustment of safety margins recommended by the DAV may in future lead to further additions to the provision for future policy benefits.

The responsible actuary has judged the actuarial bases to be reasonable. The findings and notices of the DAV and the supervisory authority did not result in any different appraisal in this regard. Internal reporting to the supervisory authority contains an annual comparison with actual events. Minor changes in assumptions with respect to the biometric factors, interest rates and costs on which calculations are based are absorbed by the safety margins built into the actuarial bases. In the event that expectations as to risks, costs and/or interest rates should change, the effect on net income is substantially lessened by adjusting the future surplus participation of policyholders.

Biometrics risks are limited by obtaining suitable reinsurance from reinsurance companies with pristine investment-grade ratings.

Sensitivity analysis

In life insurance, actuarial bases with high safety margins are used to calculate premiums in order to account for longevity. Safety margins that are no longer required are returned to customers in the form of surplus participation. Short-term fluctuations are offset by reducing or increasing the additions to the provision for premium refunds intended for future surplus participation. In the event of longer-term changes, surplus participation is adjusted accordingly, in addition.

Biometric risk

An increase in mortality has a negative effect on mortality insurance policies (endowment and term life insurance), whereas it has a positive effect on annuity insurance policies. Currently expected mortality rates lead to distinctly positive risk results on account of the existing safety margins. In accordance with the mechanism described above, deviations from the expected value have only negligible effects on gross income and can even be absorbed in their entirety. This effect is further reduced by obtaining reinsurance. The safety margin for annuity insurance policies has been adjusted at a high level through additional strengthening of the provisions for longevity risk.

In the area of occupational disability insurance, invalidity probabilities are subject to medical and legal changes, as well as to social and economic trends. As measured against current expectations, the safety margins built into the calculation remain sufficient, meaning that positive results can be expected. Deviations from expectations that have appreciable effects on either gross or net income are not considered to be realistic.

In the area of health insurance, the risk resulting from the increase in per capita claims is limited by the ability to adjust premiums that were contractually agreed with customers.

Cancellation risk

Changed cancellation behaviour by customers can result in greater liquidity outflows than expected.

In the past, cancellation rates were subject to very negligible fluctuations, meaning that only slight changes have to be classified as realistic. The effect on both gross and net income is insignificant.

Moreover, negative effects on net income arise only in the initial years following contract conclusion, provided that claims not yet due against the policyholder are recognised that are no longer collectable following cancellation. A suitable impairment is created to account for cancellations. The creation of impairments is based on conservative assumptions stemming from the experience of previous years.

As a general rule, a surrender in later years has no effect on income, and in the case of cancellation penalties, there is even a positive effect on net income, since the released provisions correspond at least to the paid surrender value.

Unit-linked insurance policies are covered congruently by the corresponding funds. If additional guarantee commitments are made, they are taken into account in the provision for future policy benefits. Increases or decreases in cancellations do not lead to any appreciable effects on net income.

Risk concentrations

Concentrations of underwriting risk in life and health insurance result from regional risk concentrations, as well as from high risks associated with individually insured persons.

The life and health insurers manage regional risk concentrations by selling their insurance products throughout the country. The risk concentration from individually insured persons (cluster risk) is reduced by obtaining reinsurance from first-rate reinsurers in the area of life insurance.

Remaining risk concentrations result from the respectively insured risks, i.e. mortality, longevity and disability risk. For the purposes of illustrating the existing risk concentration, the following table breaks down the provision for future policy benefits by insured risk.

Provision for future policy benefits, by type of insured risk

	Gross	Net	Gross	Net
in € thousands	31.12.2020	31.12.2020	31.12.2020	31.12.2020
Area of life insurance	**29,571,190**	**29,488,567**	**29,072,557**	**28,985,920**
Predominantly mortality risk	10,206,300	10,206,300	10,659,463	10,659,463
Predominantly longevity risk (annuities)	18,051,317	18,050,831	17,191,744	17,191,413
Predominantly disability risk	1,313,573	1,231,436	1,221,350	1,135,044
Area of health insurance	**997,129**	**997,129**	**887,170**	**887,170**
Total	**30,568,319**	**30,485,696**	**29,959,727**	**29,873,090**

The following overview shows the primary insurers' gross provision for future policy benefits for insurance contracts by insured amount (for annuity policies, 12 times the annual annuity).

Provision for future policy benefits for insurance contracts with an insured amount of

	Gross	Gross
in € thousands	31.12.2020	31.12.2019
Less than €0.5 million	28,756,599	28,376,897
€0.5 million to €1 million	261,824	260,760
€1 million to €5 million	346,528	268,960
€5 million to €15 million	206,239	165,940
Total	**29,571,190**	**29,072,557**

Risks from options and guarantees contained in insurance contracts

- **Unit-linked life and annuity insurance: guaranteed minimum benefit**
  With unit-linked life and annuity insurance, the investment risk is borne by policyholders. There is no market risk, since all contracts are congruently covered. Products are designed so as to ensure that a corresponding reserve is created for the parts of the premium needed to cover the guaranteed minimum benefit.

For dynamic hybrid products with guaranteed minimum benefits, there is a risk of monetisation should the price of the capital protection fund ("Wertsicherungsfonds") fall, in which case the investment risk is transferred to the insurance company. If the capital protection fund does not achieve the required capital protection commitment, the guarantee commitment provided by the insurance company becomes effective, in addition. Where the price rises, a liquidity risk may result through the shifting from other assets into the capital protection fund.

- **Annuity insurance:** lump-sum option
  Exercise of the lump-sum option is influenced by factors specific to the policyholder. Where the guaranteed interest rate is high, rational financial behaviour by customers during times of low interest rates can lower the rate of exercise of the lump-sum option. As a result, the expected reduction of the interest rate guarantee exposure would no longer exist.

- **Life insurance:** annuitisation option
  The annuitisation option is carried out at the rates applicable to new contracts. This option has no effect on the balance sheet or the income statement.

- **Surrender and premium-waiver option**
  With all contracts with a surrender option, the provision for future policy benefits is at least as high as the surrender value. The same applies to the provision for future policy benefits to be created for premium-exempt benefits in the case of premium waivers.

- **Dynamic premium option**
  In life insurance, the option to increase insurance benefits by paying a greater premium without a reevaluation of risk is generally carried out at the original actuarial interest rate, but based on prior experience, the policyholder's decision is more strongly influenced by the insurance character of the contract or by the expectation of higher interest through surplus participation. Although rational financial behaviour by customers during times of low interest rates can increase the interest rate guarantee exposure, the terms and conditions for newer rate generations dealing with the increase of insurance provide for the ability to carry out the increase using the current actuarial bases. In health insurance, the risk of a negative selection generated by the above-described option is taken into account through an option premium or through the way the option is structured.

For further remarks about the interest rate guarantee, please see Note 45 "Market price risks".

Property/casualty insurance business and reinsurance business

Description of the insurance portfolio

In the Property/Casualty Insurance segment, Württembergische Versicherung AG conducts primary insurance business for private and commercial customers with a key focus on Germany. In this regard, Württembergische Versicherung AG insures risks in the traditional business lines of general liability insurance, motor insurance, property insurance, legal expenses insurance, casualty insurance, transport and aviation insurance and credit and suretyship insurance.

Reinsurance acceptance business is conducted to only a negligible extent.

Risks of the insurance portfolio and the risk management system

Underwriting risk arises from the uncertainty about future trends in claims and costs under concluded insurance contracts, as a consequence of which unexpected claim and benefit obligations can lead to a negative net income situation.

In the area of property insurance, underwriting risks are mainly of a short-term nature, since claim adjustment can usually happen quickly. In the case of serious personal injuries in the areas of general liability insurance, motor liability insurance and casualty insurance, the risks are also subject to exogenous developments, such as medical advances and the life expectancy associated with them. Moreover, they are influenced by developments involving statutory damage compensation and liability rules.

Sensitivity analysis

Risks are underwritten solely on the basis of actuarial and statistical analyses. This means that Württembergische Versicherung AG has built sufficient safety margins into its rates in order to cover risk fluctuations.

Expert actuarial opinions and regular simulation and stress calculations are used to review the adequacy of provisions. The results of this study led to the finding that Württembergische Versicherung AG has sufficient reserves in the area of property/casualty insurance.

If claims or costs trend contrary to expectations, this can have negative effects on the income statement.

Underwriting risks are measured using companyspecific stochastic models or statistical and analytical factoring models that are customary in the industry. Claim scenario analyses are also carried out.

Risk concentrations

Risk concentrations result primarily from locally high market shares and the risks insured under the various business lines. For the purposes of illustrating the existing risk concentrations, the following table breaks down the provision for claims by business line. In this regard, it is evident that the portfolio, which is characterised by a broadly diversified mix of business lines, contributes to a reduction of risk exposures.

Provision for outstanding insurance claims

	Gross	Net	Gross	Net
in € thousands	31.12.2020	31.12.2020	31.12.2020	31.12.2020
General liability, corporate customers	383,508	371,638	374,804	364,428
Property insurance, corporate customers	290,307	241,470	270,691	223,303
General liability, retail customers	85,772	84,428	77,910	76,570
Other, retail customers	2,033	2,033	1,997	1,997
Motor liability	1,094,242	986,507	1,072,833	973,507
Other motor	809	809	974	974
Household	18,170	17,966	16,513	16,135
Legal protection	193,120	193,026	179,165	179,165
Partial cover	4,671	4,362	5,980	5,243
Casualty	237,989	237,223	216,597	215,947
Full cover	52,792	51,466	60,973	58,237
Residential building	93,641	89,442	89,030	83,994
Other	238,775	226,488	224,476	214,134
Total	**2,695,829**	**2,506,858**	**2,591,943**	**2,413,634**

For further information about the management of underwriting risk in the W&W Group, please see the risk reporting in the Management Report.

(48) Liquidity risk

Liquidity risk describes the risk that a company will be unable to procure the financial resources necessary to settle the commitments it has made. Liquidity risks may also result where a financial asset cannot be sold promptly and at short notice at its fair value or where liquid resources can be obtained only under terms less favourable than anticipated. Liquidity risk thus consists of insolvency risk, market liquidity risk and refinancing risk. The consolidated liquidity plan constitutes the basis for managing liquidity risk at the Group level. It is based on liquidity planning by the individual companies. Liquidity fluctuations are monitored with a signal system in order to ensure minimum liquidity.

The following presents a breakdown of the residual term to maturity of select financial instruments:

Breakdown of remaining term to maturity in 2020: Assets

	Within 3 mont	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
in € thousands						
Financial assets at fair value through profit or loss	**237,869**	**110,447**	**881,875**	**1,521,023**	–	**2,751,214**
Fixed-income financial instruments that do not pass the SPPI test	74,074	69,320	810,706	1,452,874	–	2,406,974
Derivative financial instruments	158,624	25,443	15,862	68,149	–	268,078
Senior fixed-income securities	5,171	15,684	55,307	–	–	76,162
Financial assets at fair value through other comprehensive income	**502,961**	**174,582**	**4,052,843**	**34,132,382**	–	**38,862,768**
Subordinated securities and receivables	20,644	–	69,376	711,494	–	801,514
Senior debenture bonds and registered bonds	131,587	59,758	871,315	11,252,795	–	12,315,455
Senior fixed-income securities	350,730	114,824	3,112,152	22,168,093	–	25,745,799
Financial assets at amortised cost	**2,276,780**	**1,602,631**	**6,893,700**	**14,026,241**	**306,154**	**25,105,506**
Subordinated securities and receivables	3,301	1,498	59,716	101,319	–	165,834
Senior debenture bonds and registered bonds	194	19,374	5,995	9,245	–	34,808
Senior fixed-income securities	–	–	–	–	–	–
Construction loans	685,536	1,450,065	6,768,090	13,879,998	46,988	22,830,677
Other receivables	1,587,749	131,694	59,899	35,679	259,166	2,074,187
Positive market values from hedges	**736**	**65**	**133**	**15,137**	–	**16,071**
Reinsurers' portion of technical provisions	**32,370**	**55,027**	**94,969**	**72,356**	**23,325**	**278,047**

The following presents a breakdown of the residual term to maturity of select financial instruments:

Breakdown of remaining term to maturity in 2019: Assets

in € thousands	Within 3 mont	3 months to 1 year	1 to 5 years	Later than 5 years	Undefined maturity	Total
Financial assets at fair value through profit or loss	**101,068**	**174,224**	**556,650**	**1,451,072**	70,549	**2,353,563**
Fixed-income financial instruments that do not pass the SPPI test	34,292[1]	115,074[1]	437,614[1]	1,382,499[1]	70,549	2,040,028[1]
Derivative financial instruments	40,597	14,262	25,564	66,661	–	147,084
Senior fixed-income securities	26,179[1]	44,888[1]	93,472[1]	1,9121	–	166,451[1]
Financial assets at fair value through other comprehensive income	**875,147**	**179,086**	**3,114,640**	**32,462,866**	177,031	**36,808,770**
Subordinated securities and receivables	11,734	–	60,553	647,922	–	720,209
Senior debenture bonds and registered bonds	244,614	46,259	845,199	11,848,159	–	12,984,231
Senior fixed-income securities	618,799	132,827	2,208,888	19,966,785	177,031	23,104,330
Financial assets at amortised cost	**2,546,209**	**1,950,455**	**7,116,374**	**11,952,768**	**342,803**	**23,908,609**
Subordinated securities and receivables	3,384	6,983	–	97,400	56,211	163,978
Senior debenture bonds and registered bonds	616	9,996	10,989	9,297	–	30,898
Senior fixed-income securities	–	–	–	–	–	–
Construction loans	850,116	1,744,246	7,058,157	11,803,608	37,062	21,493,189
Other receivables	1,692,093	189,230	47,228	42,463	249,530	2,220,544
Positive market values from hedges	**9,750**	**2,722**	**23,769**	**52,753**	–	**88,994**
Reinsurers' portion of technical provisions	**28,978**	**47,791**	**105,481**	**68,865**	**24,949**	**276,064**

1 Prior-year figures adjusted. See the chapter "Changes in the presentation of the financial statements".

The following overview depicts the contractually agreed future gross distributions at the earliest possible date for the financial instruments in the portfolio as at the reporting date. For the liability items resulting from insurance contracts, the expected maturity structure is shown:

Contractually agreed cash flows in 2020

	Within 3 months	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Later than 20 years	Total
in € thousands	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2020
Financial liabilities at fair value through profit or loss	**31,650**	**—**	**7,146**	**6,098**	**288**	**—**	**—**	**45,182**
Derivative financial liabilities at fair value through profit or loss	31,650	—	7,146	6,098	288	—	—	45,182
Negative market values from hedges	**7,168**	**—**	**17,184**	**9,508**	**727**	**—**	**—**	**34,587**
Liabilities	**4,688,770**	**19,535,013**	**1,234,703**	**1,010,730**	**206,572**	**3,422**	**22,528**	**26,701,738**
Liabilities evidenced by certificates	80,526	—	429,529	834,889	72,063	—	—	1,417,007
Liabilities to credit institutions	1,887,655	50,493	240,273	16,078	897	935	2,889	2,199,220
Liabilities to customers	2,443,425	19,403,520	495,988	152,519	131,103	—	—	22,626,555
Deposits from home loan savings business and other savings deposits	—	19,403,520	—	—	—	—	—	19,403,520
Savings deposits with agreed termination period	104,851	—	—	—	—	—	—	104,851
Other deposits	2,338,574	—	495,988	152,519	131,103	—	—	3,118,184
Down payments received	—	—	—	—	—	—	—	—
Lease liabilities	4,006	14,266	51,226	3,582	2,006	2,005	15,858	92,949
Miscellaneous liabilities	273,158	66,734	17,687	3,662	503	482	3,781	366,007
Subordinated capital	**24,074**	**—**	**71,815**	**173,192**	**62,312**	**62,346**	**292,937**	**686,676**
Profit participation certificates	296	—	2,592	—	—	—	—	2,888
Subordinated liabilities	23,778	—	69,223	173,192	62,312	62,346	292,937	683,788
Irrevocable loan commitments	**1,349,109**	**20,473**	**31,349**	**3,257**	**—**	**—**	**—**	**1,404,188**
Total	**6,100,771**	**19,555,486**	**1,362,197**	**1,202,785**	**269,899**	**65,768**	**315,465**	**28,872,371**

Contractually agreed cash flows in 2019

	Within 3 months	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	Later than 20 years	Total
in € thousands	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Financial liabilities at fair value through profit or loss	**38,220**	**1,809**	**20,643**	**35,653**	**3,628**	**290**	**—**	**100,243**
Derivative financial liabilities at fair value through profit or loss	38,220	1,809	20,643	35,653	3,628	290	–	100,243
Negative market values from hedges	**41,497**	**—**	**108,515**	**78,756**	**1,644**	**220**	**—**	**230,632**
Liabilities	**4,841,040**	**18,404,166**	**878,279**	**993,224**	**214,889**	**25,306**	**10,175**	**25,367,079**
Liabilities evidenced by certificates	69,931	–	157,011	653,274	73,559	–	–	953,775
Liabilities to credit institutions	1,970,468	18	227,025	58,737	106	101	1,965	2,258,420
Liabilities to customers	2,465,918	18,334,031	415,736	274,459	138,500	20,235	–	21,648,879
Deposits from home loan savings business and other savings deposits	–	18,334,031	–	–	–	–	–	18,334,031
Savings deposits with agreed termination period	112,430	–	–	–	–	–	–	112,430
Other deposits	2,353,488	–	415,736	274,459	138,500	20,235	–	3,202,418
Down payments received	–	–	–	–	–	–	–	–
Lease liabilities	2,797	13,251	51,341	4,917	2,244	2,243	3,873	80,666
Miscellaneous liabilities	331,926	56,866	27,166	1,837	480	2,727	4,337	425,339
Subordinated capital	**58,985**	**—**	**127,446**	**179,541**	**62,312**	**62,312**	**302,036**	**792,632**
Profit participation certificates	296	–	592	2,148	–	–	–	3,036
Subordinated liabilities	58,689	–	126,854	177,393	62,312	62,312	302,036	789,596
Irrevocable loan commitments	**1,154,244**	**31,115**	**35,085**	**—**	**—**	**—**	**—**	**1,220,444**
Total	**6,133,986**	**18,437,090**	**1,169,968**	**1,287,174**	**282,473**	**88,128**	**312,211**	**27,711,030**

For further information about the management of liquidity risk in the W&W Group, please see the risk reporting in the management report.

Prospective maturity of amounts recognised in the balance sheet in 2020

in € thousands	Within 3 months 31.12.2020	3 months to 1 year 31.12.2020	1 to 5 years 31.12.2020	5 to 10 years 31.12.2020	10 to 15 years 31.12.2020	15 to 20 years 31.12.2020	Later than 20 years 31.12.2020	Total 31.12.2020
Liabilities from reinsurance business	**16,076**	**198**	**—**	**—**	**—**	**—**	**—**	**16,274**
Liabilities to customers from direct insurance business	**236,100**	**56,285**	**146,068**	**88,378**	**54,903**	**34,159**	**48,460**	**664,353**
Technical provisions	**962,104**	**2,744,119**	**8,204,293**	**6,434,850**	**4,163,165**	**2,730,930**	**7,062,072**	**32,301,533**
Provision for future policy benefits by type of business operated as life insurance	413,707	1,888,283	7,219,853	5,872,637	3,708,922	2,296,573	6,091,516	27,491,491
Provision for outstanding insurance claims	521,620	730,467	733,899	248,716	148,946	140,122	172,058	2,695,828
Provision for unit-linked insurance contracts	26,567	91,063	250,541	313,497	305,297	294,235	798,498	2,079,698
Other technical provisions	210	34,306	—	—	—	—	—	34,516
Total	**1,214,280**	**2,800,602**	**8,350,361**	**6,523,228**	**4,218,068**	**2,765,089**	**7,110,532**	**32,982,160**

Prospective maturity of amounts recognised in the balance sheet in 2019

in € thousands	Within 3 months 31.12.2019	3 months to 1 year 31.12.2019	1 to 5 years 31.12.2019	5 to 10 years 31.12.2019	10 to 15 years 31.12.2019	15 to 20 years 31.12.2019	Later than 20 years 31.12.2019	Total 31.12.2019
Liabilities from reinsurance business	**18,394**	**316**	**—**	**—**	**—**	**—**	**—**	**18,710**
Liabilities to customers from direct insurance business	**244,010**	**52,900**	**131,449**	**92,322**	**61,074**	**38,636**	**58,162**	**678,553**
Technical provisions	**956,890**	**2,386,394**	**7,962,183**	**6,363,443**	**4,329,031**	**2,851,000**	**6,856,778**	**31,705,719**
Provision for future policy benefits by type of business operated as life insurance	439,550	1,586,808	6,909,447	5,731,019	3,827,301	2,403,589	5,936,824	26,834,538
Provision for outstanding insurance claims	499,321	686,758	707,289	244,854	147,829	138,163	167,729	2,591,943
Provision for unit-linked insurance contracts	17,809	71,819	345,447	387,570	353,901	309,248	752,225	2,238,019
Other technical provisions	210	41,009	—	—	—	—	—	41,219
Total	**1,219,294**	**2,439,610**	**8,093,632**	**6,455,765**	**4,390,105**	**2,889,636**	**6,914,940**	**32,402,982**

Capital management

As the holding company, W&W AG manages the capital resources of the W&W Group. On the one hand, it collects dividends and transfers of profit or loss; on the other hand, it carries out capital measures, such as capital increases and decreases, and makes loans to Group companies.

The objectives of capital management are an efficient allocation of and an adequate return on IFRS equity. In order to ensure this, claims to income or loss are derived for the individual subsidiaries based on a minimum return on the respective IFRS equity.

As at 31 December 2020, the equity of the W&W Group according to IFRS amounted to €5,085.2 million (previous year: €4,835.1 million). The changes in the individual equity components are depicted in Note 25 "Equity".

Other objectives of capital management are, on the one hand, ensuring risk-bearing capacity on the basis of the internal risk-bearing capacity model of the W&W Group and, on the other hand, meeting the minimum regulatory capital requirements set forth in, among other things, the provisions of the EU Capital Requirements Regulation (CRR), the German Banking Act (KWG), the German Act on the Supervision of Insurance Undertakings (VAG) and the German Act on the Supervision of Financial Conglomerates (FKAG).

Another capital requirement is that the W&W Group as a whole, as well as the individual subsidiaries and W&W AG, maintain sufficient regulatory capital. In connection with efficient capital management, the W&W Group moreover deploys subordinated capital in order to satisfy supervisory requirements concerning solvency.

Internally, the W&W Group has set target solvency ratios for the large subsidiaries and W&W AG, as well as at the level of the Solvency II group and the financial conglomerate, that are considerably in excess of current statutory requirements in order to ensure the continued high stability of the groups and of the individual companies.

We provide further remarks about our capital management and its objectives in the risk report in the combined management report.

(49) Regulatory solvency

W&W AG and the W&W Group's insurance companies and credit and financial services institutions are subject at the company level to supervision by the German Federal Financial Supervisory Authority (BaFin) and the Deutsche Bundesbank pursuant to the German Act on the Supervision of Insurance Undertakings (VAG), the German Banking Act (KWG), the EU Capital Requirements Regulation (CRR) and the German Act on the Supervision of Financial Conglomerates (FKAG), as well as to the respective rules applicable in the country of registration of the W&W Group's supervised foreign companies. This supervision results in requirements concerning the capital resources of these companies.

W&W AG ensures that all supervised subsidiaries maintain, at a minimum, the capital resources that they require in order to satisfy regulatory requirements. In this respect, in accordance with supervisory laws, equity and subordinated capital form the basis for such capital management.

In the case of Wüstenrot Bausparkasse AG, subordinated liabilities are allocated to regulatory capital pursuant to Regulation (EU) No 575/2013.

In the case of Württembergische Lebensversicherung AG, subordinated liabilities are allocated to regulatory capital pursuant to Section 89 (3) No. 2 of the German Act on the Supervision of Insurance Undertakings (VAG).

As at the reporting date, Wüstenrot Bausparkasse AG fulfilled the regulatory capital requirements. As at 31 December 2020, the total capital ratio of Wüstenrot Bausparkasse AG was 17.7% (previous year:2020 19.1%). As at the reporting date, the regulatory coverage ratios of the insurance companies that belong to the Group were likely well above 100%. The final results will be published in the second quarter of 2021 in the Solvency and Financial Conditions Reports (SFCR). The ratios calculated as at 31 December 2019 were reported to BaFin in the second quarter of 2020.20192020 They amounted to 395.3% for Wüstenrot & Württembergische AG, to 521.8% for Württembergische Lebensversicherung AG and to 181.1% for Württembergische Versicherung AG. Württembergische Lebensversicherung AG received approval from BaFin to apply transitional measures for technical provisions, and it is currently applying them.

In addition to supervision at the level of the individual company, W&W Group companies are also subject to sectoral supervision by BaFin at the consolidated level. For instance, W&W AG and its insurance companies constitute a Solvency II group. In addition, BaFin has classified the W&W Group as a financial conglomerate.

Moreover, until the middle of the year, Wüstenrot & Württembergische AG, as a financial holding company, was the superordinate undertaking of the financial holding group. With the revision and entry into force of the Capital Requirements Regulation (CRR II), and in combination with structural changes within the Group, such as the sale of credit institutions, Wüstenrot & Württembergische AG applied with BaFin in June 2020 for elimination of the financial holding group. This application was approved by letter of 22 July 2020. The final supervisory notifications for the financial holding group were submitted as at the reporting date of 30 June 2020.

W&W AG and the W&W Group's insurance companies constitute a Solvency II group. As at the reporting date, the regulatory coverage ratio was likely well above 100%. The final results will be published in the second quarter 2021 in the Solvency and Financial Condition Report (SFCR). The ratio for the previous year, which stood at 238.4%, was reported to BaFin in the second quarter of 2019.2020

As the superordinate undertaking of the financial conglomerate, W&W AG must ensure that the regulatory requirements for financial conglomerates are satisfied. These requirements include, among other things, that the W&W Group financial conglomerate maintains sufficient capital resources to satisfy minimum regulatory requirements at all times. As at the reporting date, the coverage ratio was likely well above 100%. In the previous year, the coverage ratio stood at 234.1% as at 31 December 2019.2019

Internal calculations on the basis of the data for and on the basis of the planning for 2021 and 2022 show that the regulatory requirements concerning capital resources can be more than satisfied in the financial conglomerate and in the Solvency II group in the future as well.2020

(50) Risk-bearing-capacity model

Please see our depiction in the risk report in the Group Management Report.

(51) External rating

Please see the combined management report with respect to the current ratings of the W&W Group.

Other disclosures

(52) Revenue from contracts with customers

Breakdown of revenue

The following table presents a breakdown of revenues by type, as well as a reconciliation with the respective reporting segment.

2020

	Housing	Life and Health Insurance	Property/ Casualty Insurance	All other segments	Consolidation/ reconciliation	Total
in € thousands	1.1.2020 to 31.12.2020	1.1.2020 to 31.12.2020	1.1.2020 to 31.12.2020	1.1.2020 to 31.12.2020	1.1.2020 to 31.12.2020	1.1.2020 to 31.12.2020
Commission revenue	**89,040**	**13,603**	**14,658**	**45,079**	**–66,389**	**95,991**
from home loan savings business	32,697	–	–	1,729	–	34,426
from brokering activities	52,396	13,603	14,658	1,440	–25,080	57,017
from investment business	–	–	–	41,000	–37,744	3,256
from other business	3,947	–	–	910	–3,565	1,292
Net other operating income/expense	**7,087**	**477**	**5,192**	**37,578**	**–2,759**	**47,575**
Disposal revenue from inventories (property development business)	–	–	–	22,342	–	22,342
Disposal revenue from property, plant and equipment	15	–	–	94	–	109
Disposal revenue from intangible assets	–	–	–	250	–	250
Other revenue	7,072	477	5,192	14,892	–2,759	24,874
Net income from disposals	**–**	**115,200**	**–**	**–**	**–**	**115,200**
Disposal revenue from investment property	–	115,200	–	–	–	115,200
Total	**96,127**	**129,280**	**19,850**	**82,657**	**–69,148**	**258,766**
Type of revenue recognition						
satisfied at a point in time	68,022	129,280	19,850	46,046	–46,115	217,083
satisfied over time	28,105	–	–	36,611	–23,033	41,683
Total	**96,127**	**129,280**	**19,850**	**82,657**	**–69,148**	**258,766**

2019

in € thousands	Housing 1.1.2019 to 31.12.2019	Life and Health Insurance 1.1.2019 to 31.12.2019	Property/ Casualty Insurance 1.1.2019 to 31.12.2019	All other segments 1.1.2019 to 31.12.2019	Consolidation/ reconciliation 1.1.2019 to 31.12.2019	Total 1.1.2019 to 31.12.2019
Commission revenue	**99,312**	**15,243**	**15,677**	**49,977**	**−72,543**	**107,666**
from home loan savings business	29,585	–	–	6,443	−8	36,020
from brokering activities	65,580	14,630	15,677	2,553	−31,599	66,841
from investment business	–	–	–	40,356	−37,160	3,196
from other business	4,147	613	–	625	−3,776	1,609
Net other operating income/expense	**18,169**	**591**	**5,435**	**101,615**	**−2,792**	**123,018**
Disposal revenue from inventories (property development business)	–	–	–	78,627	–	78,627
Disposal revenue from property, plant and equipment	–	–	–	315	–	315
Other revenue	18,169	591	5,435	22,673	−2,792	44,076
Net income from disposals	**–**	**204,060**	**–**	**–**	**–**	**204,060**
Disposal revenue from investment property	–	204,060	–	–	–	204,060
Total	**117,481**	**219,894**	**21,112**	**151,592**	**−75,335**	**434,744**
Type of revenue recognition						
satisfied at a point in time	92,069	219,894	21,112	113,890	−52,994	393,971
satisfied over time	25,412	–	–	37,702	−22,341	40,773
Total	**117,481**	**219,894**	**21,112**	**151,592**	**−75,335**	**434,744**

Performance obligations

Commission revenue from home loan savings business

In home loan savings business, commission revenue mainly consists of fees that are collected for the administration of home loan savings contracts, such as account maintenance fees, as well as for payment transactions. The fees received for account maintenance are recognised in the income statement over time in the course of the ongoing provision of the service. The other fees are recognised as commission revenue at the point in time at which the one-time service is completed.

Commission revenue from brokering activities

Commission revenue from brokering activities for our own banking/home loan savings products and those of other entities, as well as for the insurance products of other entities, is recognised in the income statement at the point in time at which the respective brokering service is completed. Portfolio commissions for brokering services relating to investment units are recognised in the income statement at the time of contract fulfilment.

Commission revenue from investment business

Commission revenue from investment business consists of advisory services with respect to the purchase of investment fund units.

Disposal revenue from inventories (property development business)

In property development business, disposal revenue is mainly generated from the construction and sale of residential housing units. This revenue is recognised in the income statement at a point in time based on the progress of the construction of the sold residential housing unit, as well as on the contractually specified down payments that are received. Furthermore, pursuant to IAS 2, the associated residential units that are currently under construction or have not yet been turned over to customers are carried under inventories at the cost of purchase or manufacture and then recognised upon sale as an expense under “Other operating expenses”. In the case of new construction, the property developer is required to provide a five-year warranty for each purchased residential unit.

Disposal revenue from investment property
Disposal revenue from investment property is recognised at the time of transfer of ownership and relates exclusively to properties of life and health insurers.

Contract balances

Receivables from contracts with customers primarily consisted of fees owed by home loan savings customers in the amount of €11.1 million (previous year: €9.4 million) and receivables from property development business in the amount of €5.4 million (previous year: €16.8 million), and they are included in the item “Financial assets at amortised cost” (sub-items “Other receivables”). Impairment expenses amounted to €4.4 million (previous year: €3.9 million) for loan and advances to home loan savings customers and to €0.0 million (previous year: €3.0 million) for receivables from property development business.

In the area of property development business relating to the construction and sale of residential housing units, down payments received amounted to €0.0 million (previous year: €35.8 million). 0,0 35,8 Revenue from property development business was recognised in the reporting period in the amount of €35.8 million (previous year: €19.6 million), which was included at the start of the period in the liability balance under the sub-item for down payments received. 35,8 19,6 The rise in down payments received was attributable to the advanced state of construction in property development projects.

In addition, business activities in the other divisions did not result in any contract assets or contract liabilities.

Transaction price allocated to the remaining performance obligations

At the end of the reporting period, there were unsatisfied or partially unsatisfied customer contracts in property development business, since the anticipated time required to construct residential housing units is normally somewhat longer than one year. This did not result in a material aggregate amount of the transaction price being allocated to unsatisfied or partially unsatisfied performance obligations.

Significant judgments

No significant judgments were made.

Contract costs

Contract costs are incurred solely in the area of property development business in the form of commissions paid for the sale of building plots and self-constructed residential housing units. Such contract costs are capitalised and then amortised in installments over the period of the service provision. As at the reporting date, contract costs amounted to €0.6 million (previous year: 0,6 2,0€2.0 million). Amortisation amounts totalled €1.4 million (previous year: 1,4 0,2 €0.2 million).

(53) Currency gains and losses

Currency translation – with the exception of currency translation involving financial instruments at fair value through profit or loss – generated total currency income in the amount of €21.5 million (previous year: €20.0 million) and currency expenses in the amount of €48.5 million (previous year: €10.36 million).

(54) Leases

W&W Group as lessee

The W&W Group leases properties, vehicles and EDP equipment for own use, as well as investment properties.

Most of the properties for own use have indefinite terms. Renewal options exist in some cases. Price adjustment clauses are likewise agreed to, which are based on the consumer price index. There are normally no purchase options. EDP equipment and vehicles have fixed terms of up to three years. Investment properties have terms of up to 99 years.

The following overview shows the changes in right-of-use assets in the consolidated balance sheet from 1 January to 31 December 2019 and 2020.

Right-of-use assets in 2019

in € thousands	Investment property 2019	Property for own use 2019	Vehicles 2019	EDP equipment 2019	Total 2019
Carrying amounts as at 1 January	**9,408**	**76,779**	**3,436**	**2,752**	**92,375**
Additions	1,185	2,098	911	–	4,194
Disposals	–	-391	-30	–	-421
Classified as held for sale (carrying amount)	–	-4,220	-298	–	-4,518
Scheduled depreciation	-175	-14,451	-1,596	-1,065	-17,287
Classified as held for sale (impairment)	–	1,182	125	–	1,307
As at 31 December	**10,418**	**60,997**	**2,548**	**1,687**	**75,650**

Right-of-use assets in 2020

in € thousands	Investment property 2020	Property for own use 2020	Vehicles 2020	EDP equipment 2020	Total 2020
Carrying amounts as at 1 January	**10,418**	**60,997**	**2,548**	**1,687**	**75,650**
Additions	5,177	9,625	1,127	8,459	24,388
Disposals	–	-3	-14	-1,711	-1,728
Scheduled depreciation	-103	-17,299	-1,608	-1,773	-20,783
As at 31 December	**15,492**	**53,320**	**2,053**	**6,662**	**77,527**

Recognised in the consolidated income statement were interest expenses from lease liabilities in the amount of €1.4 million (previous year: €1.6 million) and expenses for short-term leases in the amount of €0.1 million (previous year: €0.2 million).

Recognised under “Property for own use” are, in particular, the properties located at Friedrich-Scholl-Platz 1 in Karlsruhe, Germany, and at Presselstraße 10 in Stuttgart, Germany, which were sold in the 2011 and 2018 financial year, respectively, and then leased back for continued own use (known as sale-and-leaseback transactions).

The lease for the property at Friedrich-Scholl-Platz 1 in Karlsruhe has a term of 15 years and cannot be terminated. Also agreed upon was a one-time lease renewal option for a fixed term of five years. If the lessee intends to exercise the option, it must give the lessor notice thereof 16 months prior to expiry of the lease term. Moreover, the lease contains a general prospective price adjustment clause, which is based on how the consumer price index changes. In addition, neither a repurchase option nor contingent lease payments or restrictions were agreed to. Most of the property is used within the Group. A portion has been subleased outside the Group. This sublease is expected to generate future minimum payments of €5.2 million (previous year: €6.2 million).

The lease for the property on Presselstraße has a term of five years and cannot be terminated. Also agreed upon was a one-time lease renewal option for a fixed term of five years. If the lessee intends to exercise the option, it must give the lessor notice thereof six months prior to expiry of the lease term. Furthermore, the lease provides for annual rent in-creases of 3% from 1 January 2020. In addition, neither a repurchase option nor contingent lease payments or restrictions were agreed to. The property is used within the Group.

Payment outflows under leases in the amount of €21.1 million were recognised in the cash flow statement (previous year: €18.8 million).

For an analysis of the remaining term to maturity of lease liabilities, please see Note 48 “Liquidity risk”.

W&W Group as lessor

We are the lessor under operating leases for investment property. Many of the leases entered into have open-ended terms. Some, however, have fixed terms. With regard to commercial properties, price adjustment clauses are regularly agreed to, which are based on the consumer price index. With regard to residential properties, such agreements have been entered into for properties that have been acquired since 2012 and for those that have undergone high-quality renovations. Rental income amounted to €115.0 million (previous year: €124.8 million). Variable rent payments recognised as income amounted to €1.4 million (previous year: €1.4 million).

Undiscounted minimum lease payments

	Lessor - operating leases	
in € thousands	31.12.2020	31.12.2019
Within 1 year	79,647	83,127
1 to 2 years	65,983	69,912
2 to 3 years	61,649	63,031
3 to 4 years	51,131	58,683
4 to 5 years	41,045	46,784
Later than 5 years	290,707	255,022
Total	**590,162**	**576,559**

A finance lease under which we are the lessor is in place for the portion of the property at Friedrich-Scholl-Platz 1 in Karlsruhe which has been subleased outside the Group. The lease receivables from this sublease are due as follows:

Undiscounted minimum lease payments

	Lessor - finance leases	
in € thousands	31.12.2020	31.12.2019
Within 1 year	1,032	1,032
1 to 2 years	1,032	1,032
2 to 3 years	1,032	1,032
3 to 4 years	1,032	1,032
4 to 5 years	1,032	1,032
Later than 5 years	–	1,032
Gross investment value (also net investment value)	**5,160**	**6,192**

(55) Contingent receivables, contingent liabilities and other obligations

in € thousands	31.12.2020	31.12.2019
Contingent liabilities	**1,919,106**	**2,110,199**
from deposit protection funds	296,653	347,501
from sureties and warranties	10,141	10,148
from capital contribution calls not yet made	1,375,104	1,388,257
from contractual obligations to buy and build investment property	62,880	107,631
from contractual obligations to buy and build property, plant and equipment	172,700	239,700
Other contingent liabilities	1,628	16,962
Other obligations	**1,404,188**	**1,220,444**
Irrevocable loan commitments	1,404,188	1,220,444
Total	**3,323,294**	**3,330,643**

Pursuant to Sections 221 et seq. of the German Act on the Supervision of Insurance Undertakings (VAG), German life insurers are required to be members of a protection fund. Pursuant to Section 221 (2) VAG, ARA Pensionskasse AG joined the protection fund for life insurers as a voluntary member. Based on the German Protection Fund Financing Regulation (Life), the protection fund for life insurers levies annual contributions of not more than 0.02% of total net technical provisions until a protection fund of 0,1% of total net technical provisions has been built up. The Group is not subject to any future obligations from this.

In addition, the protection fund can levy special contributions equal to an additional 0,1% of total net technical provisions. This corresponds to an obligation of €29.4 million (previous year: €34.5 million).

Following the underwriting of insurance contracts, the protection fund for health insurers can levy special contributions of not more than 0,2% of total net technical provisions in order to fulfil its duties. This resulted in a payment obligation of €2.3 million (previous year: €2.1 million).

In addition, the W&W Group's life insurers and pension funds have undertaken to provide the protection fund or, alternatively, Protektor Lebensversicherungs AG with financial resources in the event that the resources of the protection fund are insufficient in the case of a reorganisation. The obligation amounts to 1% of total net technical provisions, with off-setting of the contributions that have previously been made to the protection fund to date. Including the abovementioned payment obligation of 1%, the total obligation as at the reporting date amounted to €264.9 million (previous year: €310.9 million).

As at 31 December 2020, obligations for capital contribution calls not yet made as relate to investments in the W&W Group amounted to €1,375.1 million (previous year: €1,388.3 million).

Irrevocable loan commitments consisted of remaining obligations under loans and credit lines that have been granted but not yet drawn down or fully drawn down. The risk of a change in interest rates is low for irrevocable loan commitments due to their short terms.

Wüstenrot Bausparkasse AG is a member of Entschädigungseinrichtung deutscher Banken GmbH, which is a company that operates the compensation scheme established by the Association of German Banks. Furthermore, Wüstenrot Bausparkasse AG is a member of Bausparkassen-Einlagensicherungsfonds e.V., which is an association that operates the deposit protection fund established by the Association of Private Home Loan and Savings Banks. As a result of participation in the compensation scheme and the deposit protection funds, member institutions are obligated to provide additional funding when necessary.

In connection with the sale of Wüstenrot Bank Pfandbriefbank AG, the buyer has various claims against W&W AG under guarantees. As a rule, the claims are limited to a maximum liability and become time-barred in the short to medium term. There are currently no indications of any claims that will exceed the created provisions.

As a result of membership in Verkehrsopferhilfe e.V., which is an association that assists road accident victims through a guarantee fund established by German motor liability insurers, the W&W Group is obligated to provide this association with the resources necessary for carrying out its purpose. The amount that it is required to pay in each year is determined by its share of the premium revenue that member companies earned from direct insurance in the calendar year before last.

Employees who joined one of the two sponsoring undertakings, Württembergische Versicherung AG and Württembergische Lebensversicherung AG, prior to 1 January 2002 could be accepted as members in the pension fund Pensionskasse der Württembergischen VVaG (WürttPK). Being a legally independent, regulated pension fund, WürttPK is subject to supervision by the German Federal Financial Supervisory Authority (BaFin). WürttPK benefits are financed through contributions by members and subsidies by the sponsoring undertakings. Pursuant to their articles of association, Württembergische Versicherung AG and Württembergische Lebensversicherung are obligated to pay subsidies. In accordance with the business plan, the sponsoring undertakings handle administration at no cost. In addition, there is secondary liability in some cases under the German Occupational Pensions Act (BetrAVG).

With regard to the calculation of tax refund claims and tax debts made as at the reporting date, it cannot be ruled out that the fiscal authorities will take a different position. In addition, the outcome of pending tax proceedings, both in and out of court, cannot be determined or predicted. Additional liabilities and receivables may need to be recognised in this area whose occurrence is not overwhelming likely, meaning that no corresponding liabilities and receivables were created.

Württembergische Lebensversicherung AG indemnified the pension institutions Versorgungseinrichtung Karlsruhe e.V. (VeK) and AVM – Arbeitnehmer Vorsorge Management – überbetriebliche Unterstützungskasse e.V. against claims for compensation of damages resulting from a mistake in the processing of the insurance contracts of the sponsoring undertakings.

Waiver of recourse and indemnity declaration

Pursuant to an existing waiver of recourse and indemnification agreement, in the event that the company is sued as a result of an agent having provided faulty advice in connection with the brokering of an insurance product that the company sells, the company has agreed to waive potential recourse claims against the agent, unless the agent acted wilfully and the damage is covered by liability insurance. With respect to the agent's own liability in connection with the brokering of insurance or financial services products offered by an insurance company of the W&W Group, by a collaboration partner of one of these insurance companies or in the course of further advice for one of these companies or collaboration partners, the company has also agreed to provide an indemnity in the event faulty advice was provided. The minimum insurance cover is limited to €200 thousand per claim and a total of €300 thousand per year and, for damages in connection with faulty advice provided in insurance brokering, to €1,300 thousand per claim and €1,900 thousand per year.

(56) Related party disclosures

Group parent company

The supreme controlling company is Wüstenrot & Württembergische AG, Stuttgart, Germany.

Transactions with related persons

Natural persons considered to be related parties pursuant to IAS 24 are members of the key management personnel (the Management Board and Supervisory Board of W&W AG) and their close family members.
For disclosures concerning the remuneration of the members of management in key positions, please see the remuneration report (Note 56).

Transactions with related persons of W&W AG were carried out in connection with the normal business activity of Group companies. This mainly had to do with business relationships in the areas of home loan savings business and life, health and property insurance.

All transactions were at arm's length and/or took place at preferential terms customary in the industry.

As at 31 December 2020, receivables from related persons amounted to €183 thousand (previous year: €598 thousand), and liabilities to related persons amounted to €591 thousand (previous year: €750 thousand). In 2020 interest income from loans made to related persons amounted to €10 thousand (previous year: €18 thousand), and interest expenses for savings deposits of related persons amounted to €17 thousand (previous year: €6 thousand). In the 2020 financial year, premiums in the amount of €61 thousand (previous year: €50 thousand) were paid by related persons for insurance policies in the areas of life, health and property insurance.

Transactions with related companies

Unconsolidated subsidiaries of W&W AG and other related companies

The W&W Group is a party to various services agreements with unconsolidated W&W AG subsidiaries and other related W&W AG companies, inter alia, in the area of investment management. Wüstenrot Holding AG and W&W AG are parties to a brand name transfer and use agreement. As at 31 December 2020, a financial liability was owed to Wüstenrot Holding AG under this agreement in the amount of €13.1 million (previous year: €15.1 million). W&W AG makes fixed annual amortisation payments (principal and interest) to Wüstenrot Holding AG in the amount of €2.5 million, plus value-added tax.

Wüstenrot Stiftung Gemeinschaft der Freunde Deutscher Eigenheimverein e.V., which is a charitable foundation, as well as Wüstenrot Holding AG, WS Holding AG and Pensionskasse der Württembergischen VVaG are recognised under "Other related parties" as the post-employment benefit plan for the benefit of employees.

The transactions were at arm's length.

As of the reporting date, the open balances from transactions with related companies were as follows:

in € thousands	31.12.2020	31.12.2019
Financial assets with respect to related companies	**141,341**	**176,912**
Unconsolidated subsidiaries	115,765	151,925
Other related parties	25,576	24,987
Financial liabilities with respect to related companies	**144,200**	**194,752**
Unconsolidated subsidiaries	45,765	73,889
Associated companies	70,220	80,442
Other related parties	28,215	40,421

As at the reporting date, the open transactions with related companies of W&W AG in its capacity as Group parent company amounted to €0.6 million (previous year: €0.6 million) on the assets side and to €16.0 million (previous year: €17.9 million) on the liabilities side.

Income and expenses from transactions with related companies were as follows:

in € thousands	1.1.2020 bis 31.12.2020	1.1.2019 bis 31.12.2019
Income from transactions with related companies	**51,823**	**49,406**
Affiliated undertakings	1	1
Unconsolidated subsidiaries	49,673	47,289
Associated companies	30	7
Other related parties	2,119	2,109
Expenses from transactions with related companies	**–64,489**	**–92,849**
Unconsolidated subsidiaries	–52,109	–49,545
Associated companies	–205	–205
Other related parties	–12,175	–43,099

In the previous year, expenses from transactions with related companies included under “Other related parties” a voluntary subsidy in the amount of €27.0 million paid to Pensionskasse der Württembergischen VVaG.

In the reporting year, income from transactions with related companies of W&W AG in its capacity as Group parent company amounted to €1.2 million (previous year: €1.6 million) and expenses to €4.2 million (previous year: €4.4 million).

(57) Remuneration report

Remuneration of the individual members of the Executive Board

The outlines of the remuneration system are depicted in detail in the remuneration report contained in the management report. The following remarks contain the disclosures required under Section 314 (1) No. 6 of the German Commercial Code (HGB).

Total remuneration was examined by the Supervisory Board, and it bears a reasonable relationship to the duties and performance of Executive Board members, as well as to the company's condition.

Total remuneration paid to Executive Board members during the reporting year for performing their duties at Wüstenrot & Württembergische AG amounted to €3,823.0 thousand (previous year: €3,468.9 thousand) and is composed of the following elements:

Remuneration of the individual members of the Executive Board in 2020

	Term of office ends	Non-performance-related remuneration		Performance-related remuneration (short term)		Performance-related remuneration (from previous years)		Ancillary benefits		Total	
in € thousands		2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Active members of the Executive Board											
Jürgen A. Junker	03/2026	1,040.0	1,040.0	109.2	117.6	134.1	81.2	140.2	146.8	1,423.5	1,385.6
Dr Michael Gutjahr	08/2020	377.2	565.8	35.9	58.5	78.6	80.7	11.5	18.0	503.2	723.0
Alexander Mayer	08/2025	450.7	–	44.4	–	20.0	–	12.1	–	527.2	–
Jürgen Steffan	06/2024	535.0	483.8	56.7	41.9	40.7	97.9	11.4	14.1	643.8	637.7
Jens Wieland	06/2025	565.8	565.8	79.6	78.6	58.0	55.6	21.9	22.6	725.3	722.6
Total	2,968.7	**2,655.4**	**325.8**	**296.6**	**331.4**	**315.4**	**197.1**	**201.5**	**3,823.0**	**3,468.9**	**2,754.5**

Of the ancillary benefits, remuneration for work as members of the Supervisory Board in the Group companies amounted to €120.0 thousand (previous year: €128.2 thousand).

Sustained performance-related remuneration for a prior financial year was earned with the close of the year 2020. This consisted, on the one hand, of remuneration from employment relationships with the insurance companies for the 2017 financial year, since in the years 2018 to 2020 the W&W Group posted average IFRS after-tax earnings of at least €100 million p.a. and did not post a loss in any of the three years. On the other, for their work at Wüstenrot Bausparkasse AG, Dr Michael Gutjahr and Jürgen Steffan earned remuneration for the 2017 to 2019 financial years in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV). This performance-related remuneration will be disbursed in 2021.

In addition to the earned performance-related remuneration shown in the above table, contingent claims to disbursement of performance-related remuneration for the years 2018 to 2020 were acquired (in each case, the amount of performance-related remuneration not yet disbursed). Disbursement is made only if the aforementioned conditions occur or do not occur in the years 2021 to 2023. Moreover, in the case of Dr Michael Gutjahr and Jürgen Steffan, the variable remuneration for Wüstenrot Bausparkasse AG is disbursed in instalments until 2026, in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions. For 2020 the final amount will not be calculated until the Supervisory Board has ascertained whether targets were achieved.

Performance-related remuneration for the 2019 financial year, which was disbursed in 2020 after ascertaining the degree to which targets were achieved, resulted in a release totalling €0.9 thousand (previous year: 0,9 expense of €8.9 thousand). 8,9 The amount consists of an expense for Jürgen A. Junker in the amount of €1.2 thousand (previous year: €4.0 thousand) and for Alexander Mayer in the amount of €1.7 thousand (previous year: €0.0) and releases for Dr Michael Gutjahr in the amount of €0.8 thousand (previous year: expense of €4.5 thousand), for Jürgen Steffan in the amount of €0.3 thousand (previous year: €0.0) and for Jens Wieland in the amount of €2.8 thousand (previous year: €0.4 thousand).

In the 2019 financial year, provisions in the amount of €335.2 thousand (previous year: €296.6 thousand) were created for acquired contingent claims against the insurance companies to disbursement in 2023 of performance-related remuneration for the 2019 financial year, as well as for the acquired contingent claims of Dr Michael Gutjahr and Jürgen Steffan against Wüstenrot Bausparkasse AG until 2026. Since Jens Wieland is paid his performance-related remuneration in full by W&W Informatik GmbH and W&W Service GmbH after ascertainment in the following year of the degree to which targets were achieved, meaning that there are no contingent claims against these companies, the amount of the provisions for contingent claims is lower than for short-term performance-related remuneration. After achievement of targets was ascertained, an expense was incurred in the amount of €0.2 thousand (previous year: €10.1 thousand).

Aside from that, Group companies did not grant or pay any other remuneration that was not disbursed, remuneration converted into claims of another nature, remuneration used to increase other claims or other remuneration that to date has not been indicated in any annual financial statements.

The present value of pensions attributable to the Group amounted to €9,572.1 thousand (previous year: €7,213.2 thousand). Of this amount, attributable to Dr Michael Gutjahr is the amount of €4,680.3 thousand (previous year: €4,339.9 thousand), based on a retirement age of 61, and to Jürgen A. Junker the amount of €996.1 thousand (previous year: €714.6 thousand), to Jürgen Steffan the amount of €1,510.9 thousand (previous year: €1,344.2 thousand) and to Jens Wieland the amount of €1,004.7 thousand (previous year: €814.6 thousand), in each case based on a retirement age of 65. These benefits have to do with long-term post-employment benefits. Additions during the financial year attributable to the Group amounted to €1,207.8 thousand (previous year: €1,547.7 thousand). Of these additions, attributable to Jürgen A. Junker is the amount of €281.5 thousand (previous year: €329.0 thousand), to Alexander Mayer the amount of €228.9 thousand (previous year: €0), to Dr Michael Gutjahr the amount of €340.4 thousand (previous year: €524.3 thousand), to Jürgen Steffan the amount of €166.7 thousand (previous year: €435.0 thousand) and to Jens Wieland the amount of €190.1 thousand (previous year: €259.4 thousand).

133,0The pension of Dr Michael Gutjahr amounted to €136.7 thousand (previous year: €133.0 thousand), whereby the pension is offset by occupational pension benefits against third parties. 136,7 Because Dr Gutjahr may claim his pension when his term of office expires, he has no claim to a transitional allowance.

Past service cost was not incurred. No benefits were promised or granted in the financial year or in the previous year by a third party to a member of the Executive Board for his work.

The company did not grant any loans to members of the Executive Board. No liabilities were entered into in favour of Executive Board members.

Total remuneration paid to former Executive Board members in the financial year amounted to €1,894.2 thousand (previous year: €1,829.0 thousand). Of this amount, €433.2 thousand (previous year: €434.9 thousand) was attributable to survivor benefits.

A reserve in the amount of €25,676.7 thousand (previous year: €25,395.5 thousand) was created for pension commitments to former members of the Executive Board and their survivors.

There were no other encumbrances on the W&W Group during the financial year for benefits to former members of the Executive Board or Supervisory Board or their survivors through severance payments, pensions, survivor benefits or other benefits of a related nature.

The following table "Benefits granted" depicts the contractually granted benefits, ancillary benefits and the minimum and maximum remuneration that can be achieved for variable remuneration components for the 2020 reporting year. The table "Inflow in/for the reporting year" shows the amounts earned in the financial year from fixed remuneration and short-term and long-term variable remuneration.

Benefits granted

	Jürgen A. Junker				Dr Michael Gutjahr (until 31 August 2020)				Alexander Mayer (from 1 September 2020)			
	Executive Board Chairman Legal, Audit, Communication, Group Development				Personnel, Accounting, Financial Management, Retained Organisation				Accounting, Financial Management, Retained Organisation			
			Minimum	Maximum			Minimum	Maximum			Minimum	Maximum
in € thousands	2019	2020	2020	2020	2019	2020	2020	2020	2019	2020	2020	2020
Fixed remuneration	1,040.0	1,040.0	1,040.0	1,040.0	565.8	377.2	377.2	377.2	–	450.7	450.7	450.7
Ancillary benefits[1]	146.8	140.2	140.2	140.2	18.0	11.5	11.5	11.5	–	12.1	12.1	12.1
Total	**1,186.8**	**1,180.2**	**1,180.2**	**1,180.2**	**583.8**	**388.7**	**388.7**	**388.7**	**–**	**462.8**	**462.8**	**462.8**
One-year variable remuneration	104.0	104.0	–	145.6	47.5	31.7	–	44.4	–	41.3	–	57.9
One-year variable remuneration for Wüstenrot Bausparkasse AG	–	–	–	–	4.5	3.0	–	4.2	–	–	–	–
Multi-year variable remuneration	156.0	156.0	–	218.4	71.3	47.5	–	66.5	–	62.0	–	86.8
FFinancial year 2019: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2020-2022)	156.0	–	–	–	71.3	–	–	–	–	–	–	–
Financial year 2020: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2021-2023)	–	156.0	–	–	–	71.3	–	–	–	62.0	–	–
Financial year 2019: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in instalments until 2026 in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions	–	–	–	–	18.1	–	–	–	–	–	–	–
Financial year 2020: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in instalments until 2027 in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions	–	–	–	–	–	12.1	–	17.0	–	–	–	–
Total	**1,446.8**	**1,440.2**	**1,180.2**	**1,544.2**	**725.2**	**483.0**	**388.7**	**520.8**	**–**	**566.1**	**462.8**	**607.5**
Pension expenses (= service cost pursuant to IAS 19)	134.8	184.8	184.8	184.8	–	–	–	–	–	64.6	64.6	64.6
Total remuneration (German Corporate Governance Code)	**1,581.6**	**1,625.0**	**1,365.0**	**1,729.0**	**725.2**	**483.0**	**388.7**	**520.8**	**–**	**630.7**	**527.4**	**672.1**

1 Ancillary benefits also include remuneration for work as members of the Supervisory Board in the Group companies.

Benefits granted – continued

	Jürgen Steffan				Jens Wieland			
	Risk and Compliance, Group Controlling and Cost Controlling, Personnel				Enterprise IT Management, Customer Data Protection and Operational Security			
			Minimum	Maximum			Minimum	Maximum
in € thousands	2019	2020	2020	2020	2019	2020	2020	2020
Fixed remuneration	483.8	535.0	535.0	535.0	565.8	565.8	565.8	565.8
Ancillary benefits[1]	14.1	11.4	11.4	11.4	22.6	21.9	21.9	21.9
Total	**497.9**	**546.4**	**546.4**	**546.4**	**588.4**	**587.7**	**587.7**	**587.7**
One-year variable remuneration	27.0	54.0	–	75.6	77.0	77.0	–	107.8
One-year variable remuneration for Wüstenrot Bausparkasse AG	10.8	–	–	15.1	–	–	–	–
Multi-year variable remuneration	40.4	81.0	–	113.4	64.5	64.5	–	90.3
FFinancial year 2019: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2020-2022)	40.4	–	–	–	64.5	–	–	–
Financial year 2020: Average IFRS after-tax earnings of at least €100 million p.a. (financial years 2021-2023)	–	81.0	–	–	–	64.5	–	–
Financial year 2019: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in instalments until 2026 in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions	43.4	–	–	–	–	–	–	–
Financial year 2020: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in instalments until 2027 in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions	–	–	–	–	–	–	–	–
Total	**619.4**	**681.4**	**546.4**	**750.5**	**729.9**	**729.2**	**587.7**	**785.8**
Pension expenses (= service cost pursuant to IAS 19)	72.4	99.4	99.4	99.4	82.6	105.2	105.2	105.2
Total remuneration (German Corporate Governance Code)	**691.8**	**780.8**	**645.8**	**849.9**	**812.5**	**834.4**	**692.9**	**891.0**

1 Ancillary benefits also include remuneration for work as members of the Supervisory Board in the Group companies.

Inflow in/for the reporting year

	Jürgen A. Junker		Dr Michael Gutjahr (until 31 August 2020)		Alexander Mayer (from 1 September 2020)	
	Executive Board Chairman Legal, Audit, Communication, Group Development		Personnel, Accounting, Financial Management, Retained Organisation		Accounting, Financial Management, Retained Organisation	
in € thousands	2020	2019	2020	2019	2020	2019
Fixed remuneration	1,040.0	1,040.0	377.2	565.8	450.7	–
Ancillary benefits[1]	140.2	146.8	11.5	18.0	12.1	–
Total	**1,180.2**	**1,186.8**	**388.7**	**583.8**	**462.8**	**–**
One-year variable remuneration	109.2	117.6	35.9	58.5	44.4	–
Multi-year variable remuneration	134.1	81.2	78.6	80.7	20.0	–
Financial year 2016: Average IFRS after-tax earnings of at least €100 million p.a.(financial years 2017-2019)	–	81.2	–	72.0	–	–
Financial year 2017: Average IFRS after-tax earnings of at least €100 million p.a.(financial years 2018-2020)	134.1	–	67.0	–	20.0	–
Financial year 2017: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions (financial years 2018, 2019 and 2020)	–	–	2.3	2.3	–	–
Financial year 2018: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions (financial years 2019 and 2020)	–	–	2.9	6.4	–	–
Financial year 2019: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions (financial year 2020)	–	–	6.3	–	–	–
Total remuneration (Section 314 (1) No. 6 of the German Commercial Code [HGB])	**1,423.5**	**1,385.6**	**503.2**	**723.0**	**527.2**	**–**
Pension expenses (= service cost pursuant to IAS 19)	184.8	134.8	–	–	64.6	–
Total remuneration (German Corporate Governance Code)	**1,608.3**	**1,520.4**	**503.2**	**723.0**	**591.8**	**–**

1 Ancillary benefits also include remuneration for work as members of the Supervisory Board in the Group companies.

Inflow in/for the reporting year – continued

	Jürgen Steffan		Jens Wieland	
	Risk and Compliance, Group Controlling and Cost Controlling, Personnel		Enterprise IT Management, Customer Data Protection and Operational Security	
in € thousands	2020	2019	2020	2019
Fixed remuneration	535.0	483.8	565.8	565.8
Ancillary benefits[1]	11.4	14.1	21.9	22.6
Total	**546.4**	**497.9**	**587.7**	**588.4**
One-year variable remuneration	56.7	41.9	79.6	78.6
Multi-year variable remuneration	40.7	97.9	58.0	55.6
Financial year 2016: Average IFRS after-tax earnings of at least €100 million p.a.(financial years 2017-2019)	–	56.1	–	55.6
Financial year 2017: Average IFRS after-tax earnings of at least €100 million p.a.(financial years 2018-2020)	–	58.0	–	–
Financial year 2017: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions (financial years 2018, 2019 and 2020)	11.1	11.1	–	–
Financial year 2018: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions (financial years 2019 and 2020)	14.2	30.7	–	–
Financial year 2019: Disbursement of variable remuneration for Wüstenrot Bausparkasse AG in conformity with the requirements of the German Ordinance on the Supervisory Requirements for Institutions' Remuneration Systems (InstitutsVergV) applicable to major institutions (financial year 2020)	15.4	–	–	–
Total remuneration (Section 314 (1) No. 6 of the German Commercial Code [HGB])	**643.8**	**637.7**	**725.3**	**722.6**
Pension expenses (= service cost pursuant to IAS 19)	99.4	72.4	105.2	82.6
Total remuneration (German Corporate Governance Code)	**743.2**	**710.1**	**830.5**	**805.2**

1 Ancillary benefits also include remuneration for work as members of the Supervisory Board in the Group companies.

Remuneration of the Supervisory Board

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

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

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

In the 2020 financial year, the company paid the members of the Supervisory Board of Wüstenrot & Württembergische AG total remuneration of €746.3 thousand (previous year: €781.7 thousand). Of this amount, further Supervisory Board mandates in the Group accounted for €86.0 thousand (previous year: €116.3 thousand). In the 2020 financial year, the company paid members of the Supervisory Board of Wüstenrot & Württembergische AG who had retired during the financial year pro rata temporis remuneration of €0 (previous year €60.5 thousand).

Members of the Supervisory Board are reimbursed for expenses and the value-added tax due on Supervisory Board remuneration. However, this is not included in the designated expenses.

Advances and loans to active members of the Supervisory Board of the W&W Group amounted to €188.3 thousand (previous year: €581.3 thousand). The loans were granted by Group companies. The agreed interest rates range from 1.6% to 7.9%. Loans amounting to €406.0 thousand (previous year: €7.2 thousand) were repaid by active members of the Supervisory Board. No liabilities were entered into in favour of these persons.

Subscription rights or other share-based remuneration for members of the Supervisory Board do not exist in the W&W Group. No provisions for current pensions or entitlements had to be created for members of the Supervisory Board or their survivors.

The company did not pay any remuneration or grant any benefits to members of the Supervisory Board for personally performed services, such as consulting or brokering services.

Remuneration of the individual members of the Supervisory Board in 2020

in € thousands	Base remu-neration 2020	Attendance fees 2020	Committee remunera-tion 2020	Group 2020	Total 2020	Total 2019
Hans Dietmar Sauer (Chair)	62.5	2.0	40.0	–	104.5	107.9
Frank Weber (Deputy Chair)	43.8	2.0	16.0	16.0	77.8	78.3
Petra Aichholz	25.0	2.0	–	–	27.0	15.3
Peter Buschbeck	25.0	2.0	4.0	–	31.0	34.5
Prof. Dr Nadine Gatzert	25.0	2.0	8.0	–	35.0	31.6
Dr Reiner Hagemann	25.0	2.0	12.0	–	39.0	39.5
Ute Hobinka	25.0	2.0	12.0	–	39.0	37.8
Jochen Höpken	25.0	2.0	4.0	–	31.0	30.0
Corinna Linner	25.0	2.0	20.0	–	47.0	47.5
Marika Lulay	25.0	2.0	4.0	–	31.0	31.5
Bernd Mader	25.0	2.0	8.0	–	35.0	35.5
Andreas Rothbauer	25.0	2.0	8.0	24.0	59.0	59.5
Hans-Ulrich Schulz	25.0	2.0	8.0	–	35.0	35.5
Christoph Seeger	25.0	2.0	12.0	30.0	69.0	67.8
Jutta Stöcker	25.0	2.0	8.0	–	35.0	32.6
Susanne Ulshöfer	25.0	2.0	8.0	16.0	51.0	36.4
Subtotal	**456.3**	**32.0**	**172.0**	**86.0**	**746.3**	**721.2**
Gudrun Lacher (former)	–	–	–	–	–	13.4
Ruth Martin (former)	–	–	–	–	–	12.0
Gerold Zimmermann (former)	–	–	–	–	–	35.1
Total	**456.3**	**32.0**	**172.0**	**86.0**	**746.3**	**781.7**

Total remuneration for persons in key positions

The total remuneration for persons of Group management in key positions (Management Board and Supervisory Board of Wüstenrot & Württembergische AG) amounted to €7,858.6 thousand (previous year: €6,563.6 thousand). Of this amount, short-term employee benefits accounted for €6,455.7 thousand (previous year: €5,329.6 thousand), post-employment benefits accounted for €857.0 thousand (previous year: €598.9 thousand), other long-term benefits accounted for €545.9 thousand (previous year: €635.1 thousand) and termination benefits accounted for €0 thousand (previous year: €0 thousand).

(58) Number of employees

In terms of full-time equivalents, the number of employees of the W&W Group as at 31 December 2020 was 6,473 (previous year: 6,754). As at the reporting date, the number of employees was 7,666 (previous year: 7,991).

The average headcount in the last 12 months was 7,715 (previous year: 8,033). This average is calculated as the arithmetic mean of the end-of-quarter headcounts as of the reporting date between 31 March 2020 and 31 December 2020 and during the corresponding prior-year period and is distributed over the individual segments as follows:

Number of employees by segment on annual average

	31.12.2020	31.12.2019
Housing	2,261	2,166
Life and Health Insurance	631	836
Property/Casualty Insurance	3,794	3,583
All other segments	1,029	1,448
Total	**7,715**	**8,033**

(59) Auditor

The Supervisory Board of Wüstenrot & Württembergische AG engaged Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft to audit the consolidated financial statements. The cost of the audit firm's services for the W&W Group totalled €3,575 thousand (previous year: €4,655 thousand) for the financial year.3 574 655 115Of this amount, audit services accounted for €2,941 thousand (previous year: €4,285 thousand), other assurance services accounted for €35 thousand (previous year: €115 thousand), tax advisory services accounted for €0 (previous year: €21 thousand) and other services accounted for €599 thousand (previous year: €234 thousand).

The fee for the auditing services of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft relates to the audit of the consolidated financial statements and the annual financial statements of W&W AG, as well as to other permissible services occasioned directly by the audit. In addition, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft conducted audits of the annual financial statements and group reporting of various subsidiaries, as well as statutory audits in accordance with the German Securities Trading Act (WpHG), the German Act on the Supervision of Insurance Undertakings (VAG), the German Stock Corporation Act (AktG) and other legal provisions. In addition to statutory audits, the firm was also engaged to perform voluntary audits in the Group.

The other assurance services consisted of audits under the WpHG and additional assurance services in connection with foreign bonuses. No use was made of tax advisory services in the financial year. The other services consisted of the provision of various professional advice, primarily concerning current and future accounting and regulatory issues. Also, a tool solution was provided for the structured processing of regulatory and legislative developments. In addition, audits were conducted in connection with new IT migration projects.

(60) Events after the reporting date

At this time, Brexit has had no materially significant impact on the UK branch of Württembergische Versicherung AG that would influence recognition or values.

In addition, no material events that require reporting occurred after the reporting date.

(61) Corporate Governance Code

The Executive Board and Supervisory Board of the publicly traded Wüstenrot & Württembergische AG, Stuttgart, Germany, submitted the statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) and have made it permanently available to shareholders on the website of the W&W Group at www.ww-ag.com (in German only). → Investor Relations → Publikationen → Weitere Publikationen

(62) Group affiliation

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

(63) List of ownership interests pursuant to Section 315e (1) of the German Commercial Code (HGB) in conjunction with Section 313 (2) HGB

The list of ownership interests of the W&W Group as at 31 December 2020 is presented below.2020 We made use of the exemption provided for in Section 313 (3) sentence 4 HGB in conjunction with Section 313 (2) No. 4 HGB.

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Wüstenrot & Württembergische AG, Stuttgart		F
Affiliates		
Germany		
3B Boden-Bauten-Beteiligungs-GmbH, Ludwigsburg	100.00	F
Adam Riese GmbH, Stuttgart	100.00	F
Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart	100.00	F
Altmark Versicherungsmakler GmbH, Stuttgart	100.00	M
Altmark Versicherungsvermittlung GmbH, Stuttgart	100.00	M
Asendorfer Kippe ASK GmbH & Co. KG, Stuttgart	100.00	M
Bausparkasse Wüstenrot Immo GmbH, Stuttgart	100.00	M
Beteiligungs-GmbH der Württembergischen, Stuttgart	100.00	M
City Immobilien GmbH & Co. KG der Württembergischen, Stuttgart	100.00	F
City Immobilien II GmbH & Co. KG der Württembergischen, Stuttgart	100.00	F
Ganzer GmbH & Co. KG, Harrislee	100.00	M
Gerber GmbH & Co. KG, Stuttgart	100.00	F
Gestorf GmbH & Co. KG, Stuttgart	100.00	M
GMA Gesellschaft für Markt- und Absatzforschung mbH, Ludwigsburg	100.00	M
Hinterbliebenenfürsorge der Deutschen Beamtenbanken GmbH, Karlsruhe	100.00	M
IVB – Institut für Vorsorgeberatung Risiko- und Finanzierungsanalyse GmbH, Karlsruhe	100.00	M
KLV BAKO Dienstleistungs-GmbH, Karlsruhe	94.00	M
KLV BAKO Vermittlungs-GmbH, Karlsruhe	77.10	M
Miethaus und Wohnheim GmbH i.L., Ludwigsburg	100.00	M
Rente.de AV GmbH, Stuttgart (formerly NIST GmbH, Berlin)	100.00	M
Schulenburg GmbH & Co. KG, Stuttgart	100.00	M
treefin GmbH, Munich	100.00	M
W&W Asset Management GmbH, Ludwigsburg	100.00	F
W&W brandpool GmbH, Stuttgart	100.00	F
W&W Gesellschaft für Finanzbeteiligungen mbH, Stuttgart	100.00	F
W&W Informatik GmbH, Ludwigsburg2	100.00	F
W&W Produktion GmbH i.L., Berlin	100.00	M
W&W Service GmbH, Stuttgart2	100.00	F
Windpark Golzow GmbH & Co. KG, Rheine	100.00	M
WL Erneuerbare Energien Verwaltungs GmbH, Stuttgart	100.00	M
WL Renewable Energy GmbH & Co. KG, Stuttgart	100.00	F
WL Sustainable Energy GmbH & Co. KG, Stuttgart	100.00	F

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart[2]	100.00	F
Württembergische Akademie GmbH, Stuttgart	100.00	M
Württembergische Immobilien AG, Stuttgart	100.00	F
Württembergische Kö 43 GmbH, Stuttgart	89.90	M
Württembergische Krankenversicherung AG, Stuttgart	100.00	F
Württembergische Lebensversicherung AG, Stuttgart	94.89	F
Württembergische Logistik I GmbH & Co. KG, Stuttgart	100.00	M
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart	100.00	M
Württembergische Versicherung AG, Stuttgart	100.00	F
Württembergische Vertriebspartner GmbH, Stuttgart	100.00	M
Württembergische Verwaltungsgesellschaft mbH, Stuttgart	100.00	M
Württfeuer Beteiligungs-GmbH, Stuttgart	100.00	M
WürttLeben Alternative Investments GmbH, Stuttgart	100.00	F
WürttVers Alternative Investments GmbH, Stuttgart	100.00	F
Wüstenrot Bausparkasse AG, Ludwigsburg	100.00	F
Wüstenrot Grundstücksverwertungs-GmbH, Ludwigsburg	100.00	M
Wüstenrot Haus- und Städtebau GmbH, Ludwigsburg	100.00	F
Wüstenrot Immobilien GmbH, Ludwigsburg	100.00	M
Australia		
REI Head Trust, Sydney	100.00	M
REI Property Sub Trust, Sydney	100.00	M
Finnland		
Kiinteistö Oy Porkkalankatu 5, Helsinki	100.00	F
France		
Württembergische France Immobiliere SARL, Strasbourg	100.00	M
Württembergische France Strasbourg SARL, Strasbourg	100.00	M
Ireland		
W&W Asset Management Dublin DAC, Dublin	100.00	F
W&W Europe Life Limited i.L., Dublin	100.00	M
W&W Investment Managers DAC, Dublin	100.00	F
Austria		
G6 Zeta Errichtungs- und VerwertungsGmbH & Co OG, Vienna	99.90	M
SAMARIUM drei GmbH & Co OG, Vienna[3]	100.00	M
United States		
BR Guthrie LLC, Wilmington	100.00	M
BR US Holdings I LLC, Wilmington	100.00	M
BR US Holdings II LLC, Wilmington	100.00	M
Guthrie Property Owner LP, Wilmington	100.00	M

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Consolidation through special structuring		
Germany		
LBBW AM-69, Stuttgart	100.00	F
LBBW AM-76, Stuttgart	100.00	F
LBBW AM-94, Stuttgart	100.00	F
LBBW AM-AROS, Stuttgart	100.00	F
LBBW AM Emerging Markets Bonds-Fonds 1, Stuttgart	100.00	F
LBBW AM Emerging Markets Bonds-Fonds 2, Stuttgart	100.00	F
LBBW AM Emerging Markets Bonds-Fonds 3, Stuttgart	100.00	F
LBBW AM High Yield Corporates Bonds Fonds, Stuttgart	98.03	F
LBBW AM REA-Fonds, Stuttgart	100.00	F
LBBW AM-Südinvest 160, Stuttgart	100.00	F
LBBW AM-US Municipals 1, Stuttgart	100.00	F
LBBW AM-USD Corporate Bond Fonds 1, Stuttgart	100.00	F
LBBW AM-USD Corporate Bond Fonds 2, Stuttgart	100.00	F
LBBW AM-WSV, Stuttgart	100.00	F
LBBW AM-WV Corp Bonds Fonds, Stuttgart	100.00	F
LBBW AM-WV P&F, Stuttgart	100.00	F
W&W Real Estate International 1, Frankfurt am Main	100.00	F
Ireland		
The W&W Global Income Fund ICAV - The W&W Private Debt Fund, Dublin	100.00	F
W&W Flexible Premium, Dublin	100.00	F
W&W Flexible Premium II, Dublin	100.00	F
W&W Global Strategies South East Asian Equity Fund, Dublin	99.90	F
W&W International Global Convertibles Fonds, Dublin	91.46	F

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Type of consolidation[1]
Joint ventures		
Germany		
ver.di Service GmbH, Berlin	50.00	M
Associates		
Germany		
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	E
BWK Holding GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	M
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin	28.73	M
Keleya Digital-Health Solutions GmbH, Hamburg	21.96	M
V-Bank AG, Munich	15.00	E
Hungary		
Fundamenta-Lakáskassza-Lakástakarékpénztár Zrt., Budapest	11.47	M

1 Explanation of types of entities and consolidation:
F = Companies included in the consolidated financial statements by way of full consolidation
E = Companies included in the consolidated financial statements using the equity method
M = Not included in the consolidated financial statements due to minor significance.

2 Pursuant to Section 264 (3) of the German Commercial Code (HGB), W&W Service GmbH, Stuttgart, Germany, and W&W Informatik GmbH, Ludwigsburg, Germany, are exempt from the obligation to prepare, have audited and publish a management report in accordance with the rules applicable to corporations and limited liability companies. Pursuant to Section 264 b HGB, Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart, Germany, is exempt from the obligation to prepare, have audited and publish a management report in accordance with the rules applicable to corporations and limited liability companies.

3 SAMARIUM drei GmbH & Co OG, Vienna, is a structured entity.

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Currency	Reporting date	Equity[1]	After-tax earnings[1]
Other investments[3] of 20% or more					
Germany					
Adveq Opportunity II Zweite GmbH, Frankfurt am Main	29.31	€	31.12.2019	14,364,999	1,482,009
DBAG Fund VI Feeder GmbH & Co. KG, Frankfurt am Main	30.71	€	31.12.2019	45,518,330	5,425,924
DBAG Fund VIII Feeder GmbH & Co. KG, Frankfurt am Main	44.25				New investment 25.9.2020
Onshore Wind Portfolio 2012 GmbH & Co. KG, Frankfurt am Main	20.72	€	31.8.2020	96,605,871	5,168,397
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart	25.00	€	31.12.2019	1,859,465	-141,225
VV Immobilien GmbH & Co. US City KG i.L., Munich	23.10	€	31.12.2018	9,489	-17,009
Ireland					
BlackRock NTR Renewable Power Fund plc, Dublin	89.55	US$[2]	31.12.2019	38,762,000	12,790,000
White Oak Yield Spectrum Feeder ICAV, Dublin	37.30	US$[2]	31.12.2019	339,715,326	20,939,104
Luxembourg					
BlackRock Euro Investment Grade Infrastructure Debt Fund SCSp, Luxembourg	22.50	€	31.12.2019	225,422,000	9,297,000
CI III Lux Feeder Fund FCP-RAIF, Luxembourg	35.88	€	31.12.2019	22,432,861	-155,480
Crescent Private Credit Partners Unitranche Fund (Ireland) LP, Luxembourg	51.48	US$[2]	31.12.2019	32,078,000	-18,000
Deerpath Capital SLP-RAIF, Luxembourg	25.81	US$[2]	31.12.2019	105,748,071	1,682,694
HPS Speciality Loan Europe Fund V , SCSp, Luxembourg	26.96				New investment 30.11.2020
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxembourg	23.80	€	31.12.2019	89,255,335	-4,314,304
IKAV SICAV-FIS SCA - ecoprime TK I, Luxembourg	41.28	€	30.9.2020	38,968,689	2,685,281
IKAV SICAV-FIS SCA - Energy (Ecoprime III), Luxembourg	45.36	€	30.9.2020	27,875,165	3,681,244
IKAV SICAV-FIS SCA - Global PV Investments, Luxembourg	46.25	€	30.9.2020	22,103,081	1,526,158
Muzinich Pan-European Private Debt II, SCSp, Luxembourg	26.19				New investment 26.11.2020
Secondary Opportunities SICAV-SIF - SOF III Feeder USD, Luxembourg	35.48	US$[2]	31.12.2019	56,249,714	5,213,430
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxembourg	27.56	US$[2]	31.12.2019	680,342,087	71,281,318
Whitehelm European Infrastructure Fund II, Luxembourg	25.62	€	30.6.2020	93,274,262	-1,284,841
United Kingdom					
Asper Renewable Power Partners 2 LP, London	29.53	€	31.12.2019	59,458,756	-7,987
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh	30.21	US$[2]	31.12.2019	141,842,687	-16,189,558
EIG Global Private Debt (Europe UL) , L.P., London	29.67	US$[2]	31.12.2019	131,121,000	7,228,000
Project Glow Co-Investment Fund, L.P., George Town	51.72	US$[2]	31.12.2019	896,345	32,790,435
United States					
Project Finale Co-Investment Fund Holdings LLC, Wilmington	30.00	US$[2]	31.12.2019	44,535,893	1,466,916

List of ownership interests (continued)

Name and registered office of the company	Interest in capital, in %	Currency	Reporting date	Equity[1]	After-tax earnings[1]
Other investments[3] ab 5 % und bis 20 %					
Germany					
European Sustainable Power Fund Nr. 2 GmbH & Co. KG, Grünwald	12.10	€	30.9.2019	448,339,782	21,897,412
Ireland					
White Oak Summit Fund , ILP, Dublin	15.66	US$[2]	31.12.2019	207,506,253	7,068,133
Luxembourg					
AMP Capital Infrastructure Debt Fund (EUR) III L.P., Luxembourg	9.63	€	31.12.2019	361,075,376	20,669,083
Barings Global Credit Fund (LUX) SCSp, SICAF-SIF - Barings European Private Loan Fund II, Luxembourg	6.44	€	31.12.2019	30,888,361	74,295
First State European Diversified Infrastructure Feeder Fund II SCA, SICAV-SIF, Luxembourg	12.99	€	31.12.2019	285,274,939	27,266,538
United Kingdom					
Brookfield Capital Partners Fund III (NR A) L.P., George Town	12.20	US$[2]	31.12.2019	562,181,000	450,214,000
Global Infrastructure Partners III-C2, L.P., London	9.60	US$[2]	31.12.2019	467,608,176	21,979,753
Kennet IV L.P., St Peter Port	18.83	€	31.12.2019	199,834,722	-1,997,296
United States					
ISQ Global Infrastructure Fund (EU) L.P., Wilmington	5.19	US$[2]	31.12.2019	2,687,861,249	137,857,386

1 The figures relate to the most recent annual financial statements available on the reporting date.
2 US$/€ rate on 31 December 2019: 1.2271/1.0000. CA$/€ rate on 31 December 2019: 1.5633/1.0000.
The participations listed in the following are structured entities.

W&W Group
Responsibility statement

To the best of our knowledge, and in accordance with applicable accounting principles, the consolidated financial statements present a true and accurate view of the Group's net assets, financial position and financial performance, and the Group management report provides a true and accurate presentation of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stuttgart, 2 March 2021

Jürgen A. Junker

Alexander Mayer

Jürgen Steffan

Jens Wieland

W&W Group
Auditor‘s report

Report of the independent statutory auditor

To Wüstenrot & Württembergische AG, Stuttgart, Germany

Report on the audit of the consolidated financial statements and of the combined management report

Audit opinions

We have audited the consolidated financial statements of Wüstenrot & Württembergische AG, Stuttgart, consisting of the consolidated balance sheet as at 31 December 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 January to 31 December 2020, as well as the notes to the consolidated financial statements, together with a summary of significant accounting policies. In addition, we have audited the combined management report of Wüstenrot & Württembergische AG, Stuttgart, for the financial year 1 January to 31 December 2020. In conformity with German statutory requirements, we have not audited the content of the Group corporate governance statement pursuant to Section 341j of the German Commercial Code (HGB) in conjunction with Section 315d HGB, which is contained in the section “Corporate governance statement”.

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

- the attached consolidated financial statements comply in all material respects with the IFRSs applicable in the EU and with the additional German statutory requirements that are applicable pursuant to Section 315e (1) HGB, and in compliance with those provisions, they present a true and accurate view of the Group’s net assets and financial position as at 31 December 2020 and its financial performance for the financial year 1 January to 31 December 2020, and

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

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

Basis for the audit opinions

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

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020.2020 These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on them.

In the following, we describe the key audit matters in our view:

Measurement of the gross provision for future policy benefits in life insurance, taking into consideration the interest rate commitments to policyholders

Reasons why this was determined to be a key audit matter

The calculation of the gross provision for future policy benefits in life insurance (without taking into account the provision for future policy benefits for unit-linked insurance policies) is performed in accordance with provisions of supervisory law largely on the basis of prospective methods and includes various assumptions about biometrics (inter alia, mortality, longevity, occupational disability), about the exercise of policyholder options (cancellation and lump-sum disbursement rates) and about the costs for and interest payable on technical obligations. Depending on the product, these actuarial bases are determined in some cases in a fully automated manner in the portfolio management systems and in other cases in subsequent calculations performed in connection with the preparation of the financial statements.

The actuarial bases are based, on the one hand, on the product-related actuarial bases for premium calculation and, on the other, on current actuarial bases. They result in part from statutory provisions (e.g. the reference interest rate pursuant to the German Regulation on Calculation of the Provision for Future Policy Benefits (DeckRV) and from publications of the German Association of Actuaries (DAV). In addition, they include assumptions derived for each individual company on the basis of past experience, taking into consideration current legal and economic developments, such as probabilities of cancellation and lump-sum disbursement and biometric assumptions. As a general rule, these assumptions are derived using mathematical methods from historical data, in some cases taking into consideration long-term assumptions in accordance with the proposals of the DAV.

In this regard, technical provisions are also to be created to the extent necessary in accordance with reasonable commercial judgment in order to ensure that the obligations under insurance policies can be satisfied at all times. Consideration is to be paid in this respect to the supervisory provisions enacted in the interest of policyholders concerning the actuarial bases to be applied when calculating provisions, including the actuarial interest rate to be applied and the allocation of certain capital income to the provisions.

Particularly with regard to the creation of the gross provision for future policy benefits, interest rate commitments to policyholders are also to be taken into consideration to the extent that current or expected income from assets is insufficient to cover these commitments. As part of the gross provision for future policy benefits, this results in the creation of a provision for additional interest, which consists of the additional interest reserve (new portfolio) and interest rate rein-forcement (old portfolio).

In calculating the provision for additional interest, use is made of the options described in the letter of the German Federal Financial Supervisory Authority (BaFin) of 5 October 2016 entitled “Explanations concerning the calculation of the additional interest reserve for the new portfolio and the funding of interest rate reinforcement for the old portfolio”. In this context, probabilities of cancellation and lump-sum disbursement are applied, the specification of which involves the exercise of discretion. Having an impact here are, in particular, assumptions about the future behaviour of policy-holders. In addition, for certain endowment policies, biometric actuarial bases are applied with reduced haircuts, which likewise involves the exercise of discretion.

On account of the estimation processes and the associated exercise of discretion, as well as on account of the amount of the gross provision for future policy benefits, there is a risk that the measurement will not be in conformity with accounting requirements. For this reason, we defined this matter to be a key audit matter.

Audit approach

As part of our audit, we examined the processes used to calculate the gross provision for future policy benefits (including the provision for additional interest) and tested the controls implemented in these processes for their effectiveness in ensuring the accuracy and completeness of the insurance portfolio.

In addition, we performed statement-based audit procedures. By extrapolating the gross provision for future policy benefits on the basis of profit breakdowns of past years and current portfolio trends, we formulated our own expectations and compared them with the recognised values. In addition, we recalculated the product-based gross provision for future policy benefits and the provision for additional interest for a selection of partial portfolios and policies. Furthermore, we performed indicator and time-series analyses in order to evaluate the change in the gross provision for future policy benefits as a whole as well as for partial portfolios or partial components over time.

We analysed the derivation of the actuarial bases using current and historical portfolio trends, profit breakdown and expected future behaviour of policyholders. For this purpose, we in particular drew on the recommendations and publications of the DAV and BaFin.

In addition, we examined whether the gross provision for future policy benefits, including the provision for additional interest, was created pursuant to the approved business plans or the notifications in accordance with Section 143 of the German Act on the Supervision of Insurance Undertakings (VAG) and in observance of other supervisory rules.

Furthermore, we analysed the explanatory report of the responsible actuary for the individual Group companies and also the results of the annual BaFin forecast calculation for whether the measurement of the gross provision for future policy benefits took into consideration all risks with respect to the appropriateness of the actuarial bases and the ability to satisfy insurance policies at all times.

As part of our audit, we used our own insurance mathematicians.

Our audit procedures did not result in any objections to the measurement of the gross provision for future policy benefits, taking into consideration the interest rate commitments to policyholders.

Reference to associated disclosures
The disclosures concerning the recognition and measurement of the gross provision for future policy benefits are contained in the notes to the consolidated financial statements in the section “Accounting policies: Technical provisions”.

Measurement of the sub-provision for reported insurance claims in direct property and casual-ty business included in the gross provision for outstanding insurance claims

Reasons why this was determined to be a key audit matter
The gross provision for outstanding insurance claims is mainly allocated to direct property and casualty business.

The gross provision for reported insurance claims relates to most of the gross provision for outstanding insurance claims in direct property and casualty business.

The measurement of the gross provision for reported insurance claims in direct property and casualty business is performed individually and is based on an estimate made by the Executive Board on the basis of current information concerning claims development and on assumed future claims development based on knowledge about the settlement of comparable claims.

On account of the exercise of discretion and the estimation procedures applied, we determined that measurement of the sub-provision for reported insurance claims in direct property and casualty business included in the gross provision for outstanding insurance claims is a key audit matter. There is a risk here that the gross provision for reported insurance claims as a whole and in the individual insurance branches is not appropriately measured.

Audit approach
As part of our audit, we examined the processes for claims processing and the calculation of the gross provision for reported insurance claims and tested the implemented controls.

In this regard, for the gross provision for reported insurance claims in direct property and casualty business, we gained an understanding of the processing of individual insurance claims, from the processing and reserving of filed claims to the depiction in the consolidated financial statements.

Furthermore, we performed spot checks of insurance claims in direct property and casualty business and examined whether the provisions created in this respect for reported insurance claims were appropriately measured on the basis of current information and knowledge as at the reporting date. For this purpose, we used the records for various insurance branches and types to gain an understanding of the amount of the individual provisions and in the process examined whether discretion was exercised within a justifiable range with regard to the specification of compensation levels. We analysed the age structure of individual claims and on this basis evaluated the quality of the data set underlying this sub-provision. Moreover, we used multiyear comparisons to review loss ratios and average losses for abnormalities with respect to measurement. In addition, we analysed whether the data base included in the calculation in the form of a claims register was complete.

Using abnormalities in settlement results, we analysed the actual change in the provision for outstanding insurance claims that had been created in the previous year.

Furthermore, on the basis of mathematical and statistical procedures, we performed our own claims projections in order to evaluate the measurement of the gross provision for reported insurance claims in direct property and casualty business. In this regard, we used the best estimated value as determined by us for a selection of business lines that was made on a risk-oriented basis as the standard for evaluating the measurement of the provision for claims as a whole.

As part of our audit, we used our own insurance mathematicians.

Our audit procedures did not result in any objections concerning the measurement of the sub-provision for reported insurance claims in direct property and casualty business included in the gross provision for outstanding insurance claims.

Reference to associated disclosures

The disclosures concerning the measurement of the gross provision for outstanding insurance claims are contained in the notes to the consolidated financial statements in the section "Accounting policies: Technical provisions".

Measurement of interest-bearing receivables held for the purpose of investment, unlisted securities and derivative financial instruments

Reasons why this was determined to be a key audit matter

The Wüstenrot & Württembergische AG Group holds interest-bearing receivables for the purpose of investment, particularly registered bonds and debenture bonds, as well as unlisted interest-bearing securities and derivative financial instruments.

If quoted prices for identical financial instruments (Level 1 of the measurement hierarchy) are unavailable on active markets, recognised measurement methods are used to determine fair value. In determining value, derived market data are used as input factors to the greatest possible extent (Level 2 of the measurement hierarchy). If these are not sufficiently current, parameters are also used that are not based on market data (Level 3 of the measurement hierarchy).

The amount of receivables, securities and derivatives that are measured using the model (Levels 2 and 3 of the measurement hierarchy) in the consolidated balance sheet is considerable. These do not include registered bonds, which as a rule are measured on the basis of price data (blended prices) and not on models.

For the majority of interest-bearing receivables, unlisted securities and derivative financial instruments, fair values are calculated using recognised measurement procedures that are customary on the market, particularly discounted cash flow methods. Other recognised instrument-specific measurement procedures are used to only a limited extent. Primarily used as input data in this regard are measurement parameters that are observable on the market (in particular, yield curves, risk premiums and volatilities), but also to a lesser extent measurement parameters that are not observable on the market. Discretion is exercised in connection with the selection of the procedures and the specification of the measurement parameters and assumptions.

Because discretion is exercised in connection with the specification of the measurement procedures and the assumptions to be made about the material measurement parameters and assumptions in connection with model-based measurement and the (overall) volatility of the results of these financial instruments and the associated risk of a materially incorrect presentation in the consolidated financial statements, this has to do with a key audit matter.

Audit approach

As part of our audit, we first analysed the process for measuring interest-bearing receivables, unlisted securities and derivative financial instruments for risks of error and tested the implemented controls. The focus here was on controls that ensure the accuracy of the portfolio data.

For these financial instruments, we performed spot checks to gain an understanding of the applied measurement procedures in methodological and mathematical terms. Furthermore, for a partial portfolio of these financial instruments, we examined the discretion-dependent measurement parameters that are observable on the market for whether they are located within a range that is observable on the market. In this connection, we gained an understanding of the utilised measurement parameters by comparing them with publicly available measurement parameters for a selection. If parameters were not observable on the market, we evaluated them by remeasuring a select partial portfolio of the financial instruments.

In addition, for a partial portfolio of unlisted securities, interest-bearing receivables and derivative financial instruments, we performed our own calculations of fair value, drawing on the assistance of measurement specialists, and compared the results with the figures calculated by the Executive Board.

Our audit procedures did not result in any objections to the measurement of interest-bearing receivables, unlisted securities and derivative financial instruments.

Reference to associated disclosures
The disclosures concerning the measurement of interest-bearing receivables, unlisted securities and derivative financial instruments are contained in the notes to the consolidated financial statements in Note 38 “Disclosures concerning the measurement of fair value”.

Measurement of provisions for home loan savings business

Reasons why this was determined to be a key audit matter
The provisions for home loan savings business include, in particular, provisions for expected charges for interest bonuses (interest bonus provisions) where the requirements defined in the product-specific General Terms and Conditions for Home Loan Savings Contracts (ABB) are met. The amount of the provisions to be created is determined on the basis of historical data (empirical forward projection) and, in the absence of sufficient historical data, on the basis of expert estimates.

The provisions for home loan savings business are fraught with uncertainties to a great extent and require that assumptions and estimates be made with respect to the relevant parameters and future customer behaviour. In addition, the measurement model is correspondingly complex. These circumstances may have a significant impact on the recognition and amount of the provision and thus on net assets and financial performance. Therefore, we determined the measurement of provisions for home loan savings business (interest bonus provisions) to be a key audit matter.

Audit approach
We examined the process for calculating the amount of the provision for expected charges for interest bonuses and evaluated the implemented controls.

We gained a methodological understanding of the measurement models used for the calculation and examined whether the material estimation parameters were taken into account in the model.

For the purpose of validating the estimation parameters, we analysed the annual comparison of the actual change during the financial year with the estimates made for the previous year (target/actual comparison).

Moreover, we gained an understanding of the mathematical accuracy of the calculations of the amount of the provisions.

On the basis of a selection of products, we examined whether the data base underlying the calculation of the provision rates and the bonus potential was complete. Moreover, for a selection of home loan savings contracts, we recalculated the bonus entitlement and gained an understanding of whether all relevant products were taken into account in the measurement model.

In connection with our audit of the model, we used our own specialists, who have special expertise in the area of home loan savings mathematics.

Our audit procedures did not result in any objections to the measurement of provisions for home loan savings business (interest bonus provisions).

Reference to associated disclosures
The company's disclosures concerning the measurement of home loan savings provisions are contained in the notes

to the consolidated financial statements in the section “Accounting policies: Other provisions”.

Other information

The Supervisory Board is responsible for the report of the Supervisory Board. The Executive Board and the Supervisory Board are responsible for the statement pursuant to the Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG), which is an element of the Group corporate governance statement. Beyond this, the Executive Board is responsible for the other information. The other information comprises: the aforementioned Group corporate governance statement. In addition, the other information comprises the combined, non-financial report of the W&W Group, a copy of which was provided to us prior to issuing this audit report. Furthermore, the other information comprises additional elements envisaged for the annual report, a copy of which was provided to us prior to issuing this audit report, in particular:

- the letter to shareholders,
- the responsibility statement,
- the report of the Supervisory Board,

but not the consolidated financial statements, the disclosures in the combined management report that are included in the substantive audit or our associated audit report.

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

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

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

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

The Executive Board is responsible for preparing the consolidated financial statements in a manner that complies in all material respects with the IFRSs applicable in the EU and with the additional German statutory requirements that are applicable pursuant to Section 315e (1) of the German Commercial Code (HGB), as well as for ensuring that in compliance with those provisions, the consolidated financial statements present a true and accurate view of the Group’s net assets, financial position and financial performance. Furthermore, the Executive Board is responsible for the internal controls that it has specified as necessary in order to facilitate the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Executive Board is responsible for assessing the Group’s ability to continue as a going concern. In addition, it is responsible for disclosing, as applicable, matters related to the going concern. Moreover, it is responsible for using the going concern basis of accounting unless it intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the combined 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 consolidated financial statements and of the arrangements and measures relevant to the audit of the combined 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 internal control;

- Evaluate the appropriateness of the accounting policies used by the Executive Board and the reasonableness of the estimates and related disclosures made by the Executive Board;

- Draw conclusions on the appropriateness of the Executive Board's use of the going concern basis of accounting and, based on the audit evidence obtained, about whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our opinion. We draw our conclusions based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements depict the underlying business transactions and events in such a way as to present a true and accurate view of the Group's net assets, financial position and financial performance in accordance with the IFRSs applicable in the EU and with the additional German statutory requirements that are applicable pursuant to Section 315e (1) HGB.

- Obtain sufficient and appropriate audit evidence for the accounting information of the companies or business activities in the Group in order to submit audit opinions concerning the consolidated financial statements and the combined management report. We are responsible for guiding, monitoring and conducting the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions;

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with the law and its depiction of the view of the Group's position;

- Perform audit procedures concerning the forward-looking statements made by the Executive Board in the combined 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 provide a separate audit opinion concerning the forward-looking statements or the underlying assumptions. There is a substantial, unavoidable risk that future events may significantly deviate from the forward-looking statements.

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

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

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

Other statutory and legal requirements

Report on the audit of the electronic reproductions of the consolidated financial statements and the combined management report that are prepared for the purposes of disclosure pursuant to Section 317 (3b) of the German Commercial Code (HGB)

Audit opinion

Pursuant to Section 317 (3b) of the German Commercial Code (HGB), we performed an audit with reasonable assurance of whether the reproductions of the consolidated financial statements and the combined management report that are prepared for the purposes of disclosure (hereinafter, the “ESEF documents”) and that are included in the attached file WW_AG_KLB+KA_ESEF-2020-12-31.zip comply with the requirements of Section 328 (1) HGB concerning the electronic reporting format (the “ESEF format”) in all material respects. In conformity with German statutory provisions, this audit covers only the transmission of the information in the consolidated financial statements and the combined management report in the ESEF format and therefore does not cover either the information included in those reproductions or other information included in the aforementioned file.

In our opinion, the reproductions of the consolidated financial statements and the combined management report that are included in the aforementioned attached file and that are prepared for the purposes of disclosure comply with the requirements of Section 328 (1) HGB concerning the electronic reporting format in all material respects. Other than this audit opinion and the audit opinions concerning the attached consolidated financial statements and the attached combined management report for the financial year from 1 January to 31 December 2020 that are included in the foregoing “Report on the audit of the consolidated financial statements and of the combined management report”, we do not provide any audit opinion concerning the information included in those reproductions or concerning the other information included in the aforementioned file.

Basis for the audit opinion

We conducted our audit of the reproductions of the consolidated financial statements and the combined management report that are included in the aforementioned attached file in conformity with Section 317 (3b) HGB and in observance of the draft standard promulgated by the IDW (Institute of Public Auditors in Germany) “Audit of electronic reproductions of financial statements and management reports prepared for the purposes of disclosure pursuant to Section 317 (3b) HGB” (IDW EPS 410). Our responsibility in accordance therewith is described extensively in the section “Responsibility of the Group statutory auditor for the audit of the ESEF documents”. Our statutory auditor practice applied the requirements for the quality assurance system contained in the IDW quality assurance standard “Requirements for quality assurance in statutory auditor practice” (IDW QS 1).

Responsibility of the Executive Board and the Supervisory Board for the ESEF documents

The company's Executive Board is responsible for preparing the ESEF documents with the electronic reproductions of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4, no. 1 HGB and for marking up the consolidated financial statements in accordance with Section 328 (1) sentence 4, no. 2 HGB.

In addition, the company's Executive Board is responsible for the internal controls that it considers necessary in order to facilitate the preparation of ESEF documents that are free from material infringements, whether intentional or unintentional, of the requirements of Section 328 (1) HGB concerning the electronic reporting format.

The company's Executive Board is moreover responsible for submitting the ESEF documents to the operator of the German Federal Gazette, together with the audit report and the attached audited consolidated financial statements and the audited combined management report, as well other documents to be disclosed.

The Supervisory Board is responsible for monitoring the preparation of the ESEF documents as part of the accounting process.

Responsibility of the Group statutory auditor for the audit of the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material infringements, whether intentional or unintentional, of the requirements of Section 328 (1) HGB. We exercise our best judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material infringements, whether intentional or unintentional, of the requirements of Section 328 (1) HGB, 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;
- Obtain an understanding of internal controls relevant to the audit of the ESEF documents 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 internal control;
- Evaluate the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents satisfies the requirements concerning the technical specifications for this file as are set forth in Delegated Regulation (EU) 2019/815, in the version in force on the audit date;
- Evaluate whether the ESEF documents facilitate an identical XHTML reproduction of the audited consolidated financial statements and the audited combined management report; and
- Evaluate whether the markup of the ESEF documents with inline XBRL technology (iXBRL) facilitates a suitable, complete, machine-readable XBRL copy of the XHTML reproduction.

Other disclosures pursuant to Article 10 of the EU Audit Regulation

We were selected as the Group statutory auditor at the meeting of the Supervisory Board on 5 December 2018. We were given a mandate by the chair of the Supervisory Board's Risk and Audit Committee on 30 April 2020. We have served as the Group statutory auditor of Wüstenrot & Württembergische AG since this financial year.
We declare that the audit opinions contained in this audit report are consistent with the additional report to the Supervisory Board's Risk and Audit Committee in accordance with Article 11 of the EU Audit Regulation.

Responsible auditor

The auditor responsible for the audit is Martin Gehringer.

Stuttgart, 18 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

signed Wagner
Wirtschaftsprüfer
(German public auditor)

signed Gehringer
Wirtschaftsprüfer
(German public auditor)

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Balance sheet as at 31 December 2020

Assets

in € thousands	cf. Note no.[1]	31.12.2020	31.12.2020	31.12.2020	31.12.2019
B. Capital investments					
I. Land, land-type rights and buildings, including buildings on third-party land	1		354,707		254,223
II. Capital investments in affiliated companies and participations	2				
1. Interests in affiliated companies		1,344,247			1,444,333
2. Loans to affiliated companies		387,500			411,500
3. Participations		74,147			57,411
			1,805,894		1,913,244
III. Other capital investments					
1. Shares, interests or shares in investment assets and other variable-yield securities	3	692,680			574,536
2. Bearer bonds and other fixed-income securities		315,781			273,928
3. Other loans	4	235,338			285,883
4. Deposits with credit institutions	5	156,969			70,798
thereof with affiliated companies: €99,700 thousand (previous year: €57,100 thousand)					
5. Other investments		87			87
			1,400,855		1,205,232
IV. Deposits from reinsurance accepted			23,955		28,671
				3,585,411	3,401,370
C. Receivables					
I. Amounts receivable on reinsurance business			43,697		52,425
II. Other receivables	6		244,678		253,178
thereof with affiliated companies: €237,477 thousand (previous year: €245,273 thousand)				288,375	305,603
Carryover				**3,873,786**	**3,706,973**

1 See the respective number in the notes.

Assets

in € thousands	cf. Note no.	31.12.2020	31.12.2020	31.12.2020	31.12.2019
Carryover				**3,873,786**	**3,706,973**
D. Other assets					
I. Property, plant and equipment and inventories			845		1,046
II. Current accounts with banks, cheques and cash			18,099		62,086
				18,944	63,132
E. Deferred assets					
I. Deferred interest and rental income			5,558		7,264
II. Other deferred assets	7		75		19
				5,633	7,283
F. Excess of plan assets over pension liabilities	8			1,017	872
Total Assets				**3,899,380**	**3,778,260**

Liabilities

in € thousands	cf. Note no.	31.12.2020	31.12.2020	31.12.2020	31.12.2019
A. Equity					
I. Share capital[1]	9	490,311			490,311
thereof less: mathematical value of own shares		80			281
			490,231		490,030
II. Capital reserve	10		994,742		995,195
III. Retained earnings	11				
Other retained earnings		459,577			425,577
			459,577		425,577
IV. Unappropriated surplus	12		80,795		75,444
				2,025,345	1,986,246
B. Technical provisions					
I. Provision for unearned premiums					
1. Gross amount		19,378			22,609
2. Thereof to: the portion for ceded reinsurance business		–			3,931
			19,378		18,678
II. Provision for future policy benefits					
1. Gross amount		24,152			28,552
			24,152		28,552
III. Provision for outstanding insurance claims					
1. Gross amount		470,459			463,320
2. Thereof to: the portion for ceded reinsurance business		111,614			105,615
			358,845		357,705
IV. Claims equalisation provision and similar provisions			106,326		102,069
V. Other technical provisions					
1. Gross amount		3,877			5,333
2. thereof to: the portion for ceded reinsurance business		−1 248			−801
			5,125		6,134
				513,826	513,138
Carryover				**2,539,171**	**2,499,384**

1 Disclosures concerning authorised and contingent capital can be found in the notes.

Liabilities

in € thousands		cf. Note no.	31.12.2020	31.12.2020	31.12.2020	31.12.2019
Carryover					**2,539,171**	**2,499,384**
C.	**Other provisions**					
I.	Provisions for pensions and similar obligations	13		1,098,019		1,026,665
II.	Tax provisions			83,107		67,287
III.	Other provisions	14		32,714		29,658
					1,213,840	1,123,610
D.	**Deposits retained from ceded reinsurance business**	15			16,037	14,498
E.	**Other liabilities**					
I.	Accounts payable on reinsurance business			35,797		48,333
	thereof to affiliated companies: €32,180 thousand (previous year: €38,436 thousand)					
II.	Miscellaneous liabilities	16		94,525		92,364
	thereof for taxes: €2,354 thousand (previous year: €110 thousand) thereof to affiliated companies: €85,558 thousand (previous year: €89,445 thousand)				130,322	140,697
F.	**Deferred liabilities**	17			10	71
Total Liabilities					**3,899,380**	**3,778,260**

Income statement W&W AG HGB
for the period 1 January to 31 December 2020

in € thousands	cf. Note no.	1.1.2020 to 31.12.2020	1.1.2020 to 31.12.2020	1.1.2020 to 31.12.2020	1.1.2019 bis 31.12.2019
I. Technical account					
1. Earned premiums for own account					
a) Gross premiums written		406,983			389,970
b) Premiums ceded to reinsurers		110,023			106,887
			296,960		283,083
c) Change in provision for unearned premiums		3,231			–1,789
d) Change in the reinsurers' portion of the gross provision for unearned premiums		–3 931			938
			–700		–851
				296,260	282,232
2. Income from technical interest for own account	18			857	1,193
3. Other technical incomes for own account				394	410
4. Expenses for insurance claims for own account					
a) Payments for insurance claims					
aa) Gross amount		250,137			243,985
bb) Reinsurers' portion		65,508			69,462
			184,629		174,523
b) Change in the provision for outstanding insurance claims	19				
aa) Gross amount		8,450			–16,648
bb) Reinsurers' portion		5,956			–23,255
			2,494		6,607
				187,123	181,130
5. Change in other net technical provisions					
a) Net provision for future policy benefits			4,400		1,351
b) Other net technical provisions			1,009		106
				5,409	1,457
6. Expenses for insurance business for own account	20				
a) Gross expenses for insurance business			131,798		120,383
b) thereof less received commissions and profit participations from ceded insurance business			24,384		24,233
				107,414	96,150
7. Other technical expenses for own account				1,665	1,502
8. Subtotal				**6,718**	**6,510**
9. Change in the claims equalisation provision and similar provisions				–4,257	–7,515
10. Technical result for own account				2,461	–1,005
Carryover				**2,461**	**–1,005**

in € thousands	cf. Note no.	1.1.2020 to 31.12.2020	1.1.2020 to 31.12.2020	1.1.2020 to 31.12.2020	1.1.2019 to 31.12.2019
Carryover				**2,461**	**–1,005**
II. Non-technical account					
1. Income from capital investments					
a) Income from participations		14,149			33,490
thereof from affiliated companies: €11,256 thousand (previous year: €30,321 thousand)					
b) Income from other investments	21	33,967			36,058
thereof from affiliated companies: €20,557 thousand (previous year: €20,508 thousand)					
c) Income from write-ups	22	2,528			14,301
d) Gains from the disposal of investments	23	77,163			2,381
e) Income from profit pools and profit transfer and partial profit transfer agreements		145,309			177,188
			273,116		263,418
2. Expenses for capital investments					
a) Expenses for the management of investments, interest expenses and other expenses for investments		6,693			6,579
b) Write-downs on investments	24	15,799			10,511
c) Losses from the disposal of investments	25	7,613			6,261
d) Expenses from loss assumption		5,349			12,020
			35,454		35,371
			237,662		228,047
3. Technical interest income			–853		–1,190
				236,809	226,857
4. Other income	26		64,352		83,875
5. Other expenses	27		136,287		164,022
				–71,935	–80,147
6. Result from normal business operations				167,335	145,705
7. Income taxes	28		66,910		56,223
8. Other taxes			147		–526
				67,057	55,697
9. Net Profit				**100,278**	**90,008**
10. Retained earnings carried forward from the previous year				5,517	436
11. Allocation to retained earnings					
Other retained earnings				25,000	15,000
12. Unappropriated surplus				**80,795**	**75,444**

Notes

Notes concerning the annual financial statements

Wüstenrot & Württembergische AG draws up its annual financial statements and prepares its Management Report in accordance with the statutory requirements of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Act on the Supervision of Insurance Undertakings (VAG) and the German Regulation on the Accounting of Insurance Undertakings (Rech-VersV).

Accounting policies: Assets

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

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

Interests in affiliated companies

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

Loans to affiliated companies

Recognised under the item “Loans to affiliated companies” are bearer bonds, promissory notes and loans receivable. For recognition and measurement, please see the comments on the items below.

Participations

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

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

Pursuant to Section 341b (2) in conjunction with Section 253 (4) of the German Commercial Code (HGB), interests or shares in investment assets are recognised at average cost less unscheduled write-downs in accordance with the strict lower-value principle. If the reasons for a lower carrying amount no longer exist, the asset is written up to a maximum of its historical cost.

Bearer bonds and other fixed-income securities

Pursuant to Section 341b (2) in conjunction with Section 253 (4) of the German Commercial Code (HGB), bearer bonds and other fixed-income securities are recognised at average cost less unscheduled write-downs in accordance with the strict lower-value principle and are measured taking into account the requirement to reverse impairment losses.

Other loans

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

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

Pursuant to Section 341c (3) HGB, promissory notes and loans receivable 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 10.0%. If on the basis of the ratings analyses it can no longer be expected that the securities will be repaid in conformity with the contract, they are written down to the lower fair value. In addition, collective impairments are taken on registered bonds on a portfolio basis in accordance with experience in recent years.

Deposits with credit institutions

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

Other investments

Other investments are measured at cost.

Receivables from deposits with ceding companies and from reinsurance business and other receivables

As a rule, funds withheld by ceding companies for as-sumed reinsurance and amounts receivable from reinsurance business are recognised at nominal value. In addition, amounts receivable from reinsurance business include receivables that were measured using the default probability of the S&P rating model and for which collective impairments were taken.

We recognise the default risk of reinsurers by taking a collective impairment for amounts receivable on reinsurance business and by deducting on the liabilities side the part that relates to the reinsurers’ portions of technical provisions for insurance claims.

Other receivables are measured at cost or in their nominal amounts.

Other assets

Property, plant and equipment are measured at cost less scheduled straight-line depreciation over their normal useful life. Assets with a net cost of up to €800 are depreciated in full in the year of acquisition. Until 2019 assets with a net cost of more than €250 and up to €1,000 were 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 surplus participation, which, under compliance with the strict lower-value principle, corresponds to amortised cost in accordance with Section 253 (4) of the German Commercial Code (HGB) and thus, in the absence of other measurement methods, to fair value within the meaning of Section 255 (4) sentence 4 HGB.

No use was made of the option to recognise deferred tax assets on the basis of the tax relief resulting under Section 274 (1) sentence 2 HGB.

Reversals of impairment losses

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

Derivatives

We conclude currency forwards in order to economically hedge German covered mortgage bonds and bearer bonds. They are measured on a transaction-specific basis. Provisions are created for contingent losses from these transactions.

Acquired option rights are measured at cost in the amount of the option premium less write-downs in accordance with the strict lower-value principle, taking into account the requirement to reverse impairment losses. Option premiums for sold options are recognised under “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.

Determination of fair value

As a rule, we use the capitalised earnings values deter-mined by outside appraisers for the purpose of measuring properties used by the Group. New appraisals are commissioned at regular intervals. The W&W campus is measured using the net asset value method.

We base the fair value of investments in affiliated companies and participations on their capitalised earnings 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.

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

Interests or shares in investment assets are recognised at their most recently available redemption price.

Measurement methods for liabilities

Technical provisions

The provision for unearned premiums in assumed business is recognised in accordance with the information provided by the prior insurers and in compliance with supervisory rules.

The provision for future policy benefits for casualty insurance policies that provide for premium refunds and for life insurance business is created in accordance with the information provided by the prior insurers.

Provisions for outstanding insurance claims for assumed business are calculated in accordance with the information provided by the prior insurers, in some cases as augmented by our own findings.

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

The provisions for nuclear installation risks and for major pharmaceutical risks arising under product liability insurance are created in accordance with Section 30 RechVersV.

Other technical provisions are created in accordance with the information provided by the prior insurers, in some cases as augmented by our own findings.

The reinsurers' portion of technical provisions is calculated in accordance with the contractual agreements.

Provisions for pensions and similar obligations

The provisions for pensions and similar obligations are calculated in accordance with actuarial principles. Pursuant to the German Accounting Law Modernisation Act (BilMoG), the amount needed to satisfy the obligation is determined using the projected unit credit method and recognised at the present value of the acquired pension entitlement. In determining these provisions, the following actuarial assumptions apply:

In %	31.12.2020	31.12.2019
Actuarial interest rate	2.31	2.71
Trend in pensions	2.00	2.00
Trend in salaries	3.00	3.00
Fluctuation: area of salaried employees	3.50	3.50
Fluctuation: area of individual contracts	1.00	1.00
Biometrics	Heubeck-Richttafeln 2018 G	Heubeck-Richttafeln 2018 G

Pursuant to Section 253 (2) sentence 1 of the German Commercial Code (HGB), the actual interest rate applied is the average market interest rate over the past 10 years. The discount rates published by the Deutsche Bundesbank on 31 October 2020 with a 10-year average interest rate were modified by taking the average monthly decline in interest rates from 1 January to 31 October 2020 and extrapolating it for the months of November and December 2020. The difference between measurement of the provision for pensions and similar obligations using the 10-year average interest rate and that using the 7-year average interest rate pursuant to Section 253 (6) HGB amounted to €123.3 million. We elected to use the simplification rule in Section 253 (2) sentence 2 HGB.

The conversion expense from the first-time application of the BilMoG in 2010 amounted to €117.3 million and may be allocated over a period of up to 15 years. As at the reporting date, under-coverage totalling €0.8 million still existed for two of the companies for which Wüstenrot & Württembergische AG has assumed joint liability for pension commitments. In connection with required netting under Section 246 (2) HGB, pledged reinsurance policies (€5.0 million; previous year: €4.9 million) were taken into account at fair value (coverage assets). This is composed of the coverage capital plus irrevocably committed participation contracts.

Tax provisions and other provisions

Other provisions and tax provisions are recognised in the amount needed to satisfy the obligation. In accordance with Section 253 (1) sentence 2 of the German Commercial Code (HGB), provisions with a maturity of longer than one year are generally determined in the amount needed to satisfy the obligation, 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 maturity of the provision at 1.4%. The rate used to discount other provisions corresponds to the average rate of the past seven years published by the Deutsche Bundesbank pursuant to the German Regulation on the Discounting of Provisions (Rück-AbzinsV) 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 remaining term to maturity are recognised as interest income or interest expenses under "Other income" or "Other expenses", as the case may be. Tax interest accrued as at the reporting date is recognised under "Miscellaneous provisions". Tax provisions are recognised in the amount needed to satisfy the obligation. If they are long term, then pursuant to IDW RS HFA 34, they are discounted using an interest rate of 6.0% in accordance with Section 233a of the German Fiscal Code (AO).

Provisions for phased-in early retirement, social affairs and long-term service emoluments

A provision is created for the legal obligations under phased-in early retirement contracts existing on the reporting date, taking into account employer expenses for social insurance, in the amount of the present value of future top-up benefits (salary and supplemental contributions towards pension insurance) and compensation payments due to reduced pension insurance claims and the satisfaction arrears 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 Deutsche Bundesbank in accordance with the German Regulation on the Discounting of Provisions (RückAbzinsV). In addition, a salary trend of 2.2% p.a. is taken into account during measurement. Biometric factors are taken into account when calculating the provision via a flatrate discount of 2.0%. In addition, pursuant to Section 285, no. 25 of the German Commercial Code (HGB) in conjunction with Section 246 (2) sentence 2 HGB, pledged reinsurance policies are taken into account at cost and netted with the phased-in early retirement commitments as coverage assets. The fair value consists of coverage capital plus irrevocably committed participation contracts.

The provisions for social affairs and for long-term service emoluments are determined in the amount needed to satisfy the obligation, as required by Section 253 (1) sentence 2 HGB, by applying the Heubeck mortality tables 2018 G and an interest rate of 0.86% under the projected benefit obligation method. Fluctuation and future salary increases are taken into account.

Deposits retained from ceded reinsurance business and other liabilities

Deposits retained from ceded reinsurance business and other liabilities are recognised in the amount needed to satisfy them.

Currency translation

All business transactions are recognised in their original currency and translated into euros at the ECB’s average spot exchange rate in effect on the relevant date. We comply in economic terms with the principle of congruent coverage per currency.

We translate items associated with foreign insurance business at the ECB’s average spot exchange rate in effect on the reporting date. The corresponding income and expenses are recognised in the income statement at the relevant ECB average spot exchange rate in effect on the settlement date.

We generally measure investments denominated in foreign currency in accordance with the rules of individual measurement in conformity with the lower-value principle. They are subsequently measured at the ECB’s average spot exchange rate.

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

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

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

Exchange rate gains and losses from 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

Active, non-Group reinsurance business is recorded in the following year, since the necessary accounting information from cedants for the current accounting year is not available at the time the financial statements are drawn up. Business assumed by affiliated companies is recognised in the reporting year. As a result of later recording, premium income for 2019 in the amount of €5.4 million (previous year: €6.2 million) was recognised in the 2020 reporting year.

Notes concerning assets

B. Investments

The change in investments is depicted 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 used exclusively in the Group consisted of four (previous year: four) properties with a carrying amount of €354.7 million (previous year: €254.2 million), of which a significant portion is attributable to the first phase of the W&W campus project, which has now been completed, and to the second phase of the campus project currently underway.

Assets under construction have been in the portfolio since 2016 for the second phase of the campus project.

No properties were acquired or sold during the reporting year.

The underlying useful lives of the buildings amounts to 40 to 50 years.

II. Investments in affiliated companies and participations (2)

Pursuant to Section 285, no.11 of the German Commercial Code (HGB) 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 W&W AG owns at least 5% of the interests. Furthermore, we made use of the exemptions granted by Section 286 (3), no. 1 HGB.

III. Other capital investments

1. Shares, interests or shares in investment assets and other variable-yield securities (3)

in € thousands	31.12.2020	31.12.2019
Interests or shares in investment assets	692,680	574,536
Total	**692,680**	**574,536**

3. Other loans (4)

in € thousands	31.12.2020	31.12.2019
Registered bonds	94,435	124,434
Promissory notes and loans receivable	140,903	161,449
Total	**235,338**	**285,883**

4. Deposits with credit institutions (5)

As at the end of the reporting year, we had overnight and term deposits invested in the amount of €157.0 million (previous year: €70.8 million), thereof €99.7 million (previous year: €57.1 million) in affiliated companies.

Fair value of investments

Valuation reserves

in € thousands	Carrying amount 31.12.2020	Fair value 31.12.2020	Valuation reserves[1] 31.12.2020	Carrying amount 31.12.2019	Fair value 31.12.2019	Valuation reserves[1] 31.12.2019
Land, land-type rights and buildings, including buildings on third-party land	354,707	365,271	10,564	254,223	261,920	7,697
Interests in affiliated companies	1,344 247	3,181,138	1,836,891	1,444,333	2,689,367	1,245,034
Loans to affiliated companies	387,500	424,519	37,019	411,500	446,698	35,198
Participations	74,147	92,415	18,268	57,411	68,997	11,586
Shares, interests or shares in investment assets and other variable-yield securities	692,680	772,420	79,740	574,536	636,175	61,639
Bearer bonds and other fixed-income securities	315,781	335,670	19,889	273,928	285,091	11,163
Registered bonds	94,435	107,660	13,225	124,434	138,277	13,843
Promissory notes and loans receivable	140,903	150,965	10,062	161,449	169,970	8,521
Deposits with credit institutions	156,969	157,050	81	70,798	70,846	48
Other investments	87	87	–	87	87	–
Deposits from reinsurance accepted	23,955	23,955	–	28,671	28,671	–
Total	**3,585,411**	**5,611,150**	**2,025,739**	**3,401,370**	**4,796,099**	**1,394,729**
Carrying amount of all investments, in %			**56.50**			**41.00**

1 Net perspective, balance of valuation reserves and hidden liabilities.

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

In the case of debenture bonds, the carrying amounts of €30,000 thousand are €838 thousand higher than the market values.

They were not written down because the circumstances were unrelated to creditworthiness. We expect to receive interest and redemption payments as scheduled.

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

Derivative instrument/grouping	Type	Nominal value	Fair value	Measurement method applied	Carrying amount and item[1]
		in € thousands	in € thousands		in € thousands
Share/index-related transactions	Option OTC	74	673	Mathematical option price model	661
Currency-related transactions	Currency forwards	109,828	1,187	Discounted cash flow method	–15

1 Derivatives have to do with pending transactions that are not accounted for. An exception to this are paid option premiums.

This table focuses on derivatives whose carrying amount does not correspond to fair value on the reporting date.

Derivatives have to do with transactions to be settled in the future, whose value is based on the change in the value of an underlying asset pursuant to the agreed contractual terms. Normally, there are no or only minor acquisition costs for these.

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

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

Fund name	Investment objective	Certificate value under Section 36 of the German Investment Act (InvG)	Carrying amount	Discrepancy from the carrying amount	Distributions during the financial year
		in € thousands	in € thousands	in € thousands	in € thousands
LBBW AM-76	Mixed fund (equities share of up to 70%)	354,484	320,034	34,450	–
LBBW AM-EMB3	Pension fund	120,346	95,504	24,842	–
LBBW AM-W&W AG Corporate Bonds	Bond fund	87,859	76,500	11,359	–
W&W Flexible Point & Figure	Mixed fund (equities share of up to 70%)	42,723	42,723	-	–
LBBW AM-USD Corp. Bonds Fonds 3	Bond fund	41,386	40,686	700	1,034
LBBW AM Cove.Call USA Fund	Equity fund	21,373	19,600	1,773	261
W&W Flexible Premium II Fund B	Mixed fund (equities share of up to 70%)	17,787	17,787	-	-
W&W South East Asian Equity	Equity fund	19,612	16,823	2,789	15

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

II. Other receivables (6)

in € thousands	31.12.2020	31.12.2019
Receivables from settlement transactions with affiliated companies and companies in which a participation interest is held	85,227	62,110
Receivables under profit and loss transfer agreements	145,309	177,188
Receivables from the tax office	6,727	4,125
Assets that have been pledged, deposited or assigned for the purposes of security1	6,941	5,996
Miscellaneous other receivables	474	3,759
Total	**244,678**	**253,178**

1 Thereof pledged cash collateral from margin requirements from the conclusion of OTC derivatives in the amount of €0 thousand (previous year: €20 thousand) and reinsurance policies with affiliated companies for the purpose of protecting pension commitments against insolvency in the amount of €6,941 thousand (previous year: €5,976 thousand).

Remaining term to maturity of receivables

Receivables with a remaining term to maturity of one year or more amount to €6,941 thousand and relate to receivables from reinsurance policies on pension commitments.

E. Deferred assets

II. Other deferred assets (7)

These mainly include deferrals of use fees in the amount of €75 thousand (previous year: €19 thousand).

F. Excess of plan assets over pension liabilities (8)

Assets that serve to cover liabilities under pension obligations or similar long-term obligations and that are inaccessible to all other creditors are required to be netted against the provisions for such obligations. If, in the process, the fair value of such assets exceeds the carrying amount of the provisions, the item “Excess of plan assets over pension liabilities” is to be created on the assets side of the balance sheet. The offsetting pursuant to Section 246 (2) sentence 3 of the German Commercial Code (HGB) of claims under reinsurance policies in the amount of €1.7 million (previous year: €1.7 million) with partial amounts of the phased-in early retirement provisions for satisfaction arrears in the amount of €0.7 million (previous year: €0.8 million) resulted in an excess of €1.0 million (previous year: €0.9 million).

Notes concerning liabilities

A. Equity

Another employee share ownership programme was conducted in the first half-year of 2020. It enabled all employees of companies in the W&W Group to acquire up to 40 shares of W&W AG at a price of €6.76 per share, which represented a discount of €5.00 per share. Employees are required to hold these shares for at least three years. In connection with this employee share ownership programme, W&W AG issued a total of 78,634 treasury shares within the Group in 2020 in exchange for payment of an acquisition price. That corresponds to an amount of €0.4 million (0.08%) of the relevant share capital. W&W AG has collected a total of €0.5 million from the issuance of treasury shares. A total of 40,000 shares were repurchased on the market for the programme. The remaining balance of 15,252 treasury shares, representing an amount of €79,767.96 (0.02%) of share capital, is to be used for further employee share ownership programmes.

I. Share capital (9)

Share capital of €490.2 million (previous year: €490.0 million) is divided into 93,749,720 (previous year: 93,749,720) registered no-par-value shares and is fully paid up, with each share mathematically representing €5.23 of share capital. In 2020 employees purchased a total of 78,634 treasury shares, resulting in an increase €0.8 million. The remaining 15,252 shares are deducted as treasury shares at €0.2 million.

Share capital

in € thousands

As at 31 December 2019	490,030
Purchase of treasury shares	–209
Sale of treasury shares	410
As at 31 December 2020	**490,231**

II. Capital reserve (10)

As at the reporting date, the capital reserve amounted to €994.7 million (previous year: €995.2 million). It relates to the premium from the capital contribution of €271.9 million (previous year: €271.9 million) and other additional payments of €725.9 million (previous year: €725.9 million), less €3.1 million (previous year: €2.6 million), which constitutes the net amount of difference between, on the one hand, the mathematical value of treasury shares and, on the other, the difference between the acquisition costs and the sales proceeds for them, which was allocated to the capital reserve.

Capital reserve

in € thousands	
As at 31 December 2019	995,195
Purchase of treasury shares	–573
Sale of treasury shares	120
As at 31 December 2020	**994,742**

III. Retained earnings (11)

Retained earnings increased from €425.6 million to €459.6 million as a result of the resolution adopted by the Annual General Meeting to allocate €9.0 million from the 2019 unappropriated surplus and €25.0 million from the 2020 net profit.

Retained earnings

in € thousands	
As at 31 December 2019	425,577
Allocation by the Annual General Meeting from the 2019 unappropriated surplus	9,000
Allocation from the 2020 net profit	25,000
As at 31 December 2020	**459,577**

IV. Unappropriated surplus (12)

The unappropriated surplus amounted to €80.8 million (previous year: €75.4 million). It includes retained earnings in the amount of €5.5 million (previous year: €0.4 million) carried forward from the previous year.

Proposal for the appropriation of unappropriated surplus

The unappropriated surplus amounts to €80,794,768.42. We propose that it be appropriated as follows:

in €	31.12.2020
Dividend of €0.65 per share	60,927,404.20
Allocation to other retained earnings	19,000,000.00
Carry forward to new account	867,364.22
Total	**80,794,768.42**

The proposal takes into account the 15,252 treasury shares held directly by the company on 31 December 2020, which pursuant to Section 71b of the German Stock Corporation Act (AktG) are not entitled to receive dividends. The number of shares entitled to receive dividends may change by the time of the Annual General Meeting. In such case, a correspondingly modified proposal for the appropriation of unappropriated surplus will be submitted to the Annual General Meeting for adoption, while keeping the distribution unchanged at €0.65 per share entitled to receive dividends.

C. Other provisions

I. Provisions for pensions and similar obligations (13)

In addition to pension provisions for Wüstenrot & Württembergische AG and employees of the former Württembergische Feuerversicherung AG and Gemeinschaft der Freunde Wüstenrot GmbH, also recognised here are the pension provisions for nine (previous year: nine) subsidiaries. Wüstenrot & Württembergische AG assumed joint liability for the pension commitments of these subsidiaries in exchange for a one-time compensation payment in the amount of the former partial value, and it made an internal agreement with the subsidiaries to meet these pension obligations. The income and expenses from the change in these pension obligations are settled annually in cash with the subsidiaries. As at the reporting date, the pension provisions amounted to €1,098.0 million (previous year: €1,026.7 million). This amount includes the netting of the asset value from reinsurance policies in the amount of €5.0 million (previous year: €4.9 million).

III. Other provisions (14)

in € thousands	31.12.2020	31.12.2019
Phased-in early retirement	1,382	729
Expenses for the annual financial statements	1,933	2,992
Holiday obligations and flex-time credits	2,412	3,106
Bonuses and performance incentives	4,200	4,509
Outstanding trade payables relating to land ownership	1,306	347
Expenses for omitted land maintenance	64	85
Employee long-service obligations	234	224
Legal risks	5,474	6,842
Interest expense under Section 233a of the German Fiscal Code (AO)	9,207	7,462
Provision for sureties	1,134	994
Contributions to the employers' liability insurance scheme, compensatory levy for disabled persons, etc.	5,199	2,051
Derivatives	169	317
Total	**32,714**	**29,658**

“Miscellaneous provisions” also include benefits for phased-in early retirement. This item contains the portion of the provision that is not “out-financed” in an insolvency-proof manner through reinsurance. Pledged reinsurance policies for the credit balance under phased-in early retirement agreements, which are inaccessible to all other creditors and serve solely to satisfy these phased-in early retirement obligations, are netted with these. Income and expenses from discounting and from the assets to be offset are handled in an analogous manner. Pledged reinsurance policies are taken into account at their fair value. This is composed of the coverage capital plus irrevocably committed surplus participation.

As at 31 December, the item “Benefits for phased-in early retirement” was as follows:

in € thousands	31.12.2020	31.12.2019
Amount needed to satisfy vested claims	2,104	1,545
Thereof capable of netting with reinsurance	722	816
Carrying amount	**1,382**	**729**

D. Deposits retained from ceded reinsurance business (15)

Retained deposits have an indefinite term. Depending on individual trends in claims and the conditions on the capital market, the term may be longer than five years.

E. Other liabilities

II. Miscellaneous liabilities (16)

in € thousands	31.12.2020	31.12.2019
Miscellaneous liabilities to affiliated companies	85,558	89,445
Trade payables	116	1,251
Taxes	2,354	110
Other miscellaneous liabilities	6,497	1,558
Total	**94,525**	**92,364**

Remaining term to maturity of other liabilities
This item includes liabilities with a remaining term to maturity of up to one year in the amount of €93,782 thousand. Liabilities with a remaining term to maturity of more than one year amounted to €743 thousand.

F. Deferred liabilities (17)

These consist of discounts for registered bonds and deferred interest items in the amount of €10 thousand (previous year: €71 thousand).

Notes concerning the income statement

I. Technical account

2. Technical interest income for own account (18)

Recognised here pursuant to Section 38 of the German Regulation on the Accounting of Insurance Undertakings (Rech-VersV) is interest on actuarial provisions after deduction of the reinsurers' portion. It also includes interest on the provision for future policy benefits for assumed reinsurance in life insurance business.

4. Expenses for insurance claims for own account

b) Change in the provision for outstanding insurance claims (19)
Losses in the amount of €0.9 million (previous year: gains of €13.8 million) resulted from the settlement of the provision for outstanding insurance claims that was assumed from the previous financial year. The losses mainly stemmed from the business lines life insurance (€9.4 million) and motor (€7.8 million). Settlement gains were posted by the business lines liability (€5.4 million), fire (€3.1 million) and other property insurance (€4.2 million).

6. Expenses for insurance business for own account (20)

Gross expenses for insurance business amounted to €131.8 million (previous year: €120.4 million), of which €131.4 million (previous year: €119.9 million) was attributable to acquisition costs and €0.4 million (previous year: €0.5 million) to general administrative expenses.

II. Non-technical account

1. Income from investments

b) Income from other capital investments (21)

in € thousands	2020	2019
Land, land-type rights and buildings, including buildings on third-party land	9,141	8,956
Other investments	24,826	27,102
Total	**33,967**	**36,058**

c) Income from write-ups (22)

The individual amounts are shown in the annex to the notes under “Individual disclosures concerning assets”.

Currency write-ups in the amount of €30 thousand were recorded in 2020.

d) Gains from the disposal of investments (23)

in € thousands	2020	2019
Land, land-type rights and buildings, including buildings on third-party land	2	–
Affiliated companies	71,016	–
Participations[1]	2,444	113
Shares, interests or shares in investment assets and other variable-yield securities	–	322
Bearer bonds and other fixed-income securities[2]	3,432	1,762
Deposits with credit institutions[3]	269	184
Total	**77,163**	**2,381**

1 Thereof exchange rate gains of €22 thousand (previous year: €54 thousand)
2 Thereof exchange rate gains of €157 thousand (previous year: €2 thousand)
3 Thereof exchange rate gains of €269 thousand (previous year: €184 thousand)

Through the sale of our participations in Wüstenrot stavebni sporitelna a.s. and Wüstenrot hypotecni banka a.s., we netted a disposal gain of €66.0 million.

2. Expenses for investments

b) Write-downs on investments (24)

The item includes unscheduled write-downs that were taken in accordance with Section 253 (3) sentences 5 and 6 and (4) of the German Commercial Code (HGB) in conjunction with Section 277 (3) sentence 1 HGB. They can be broken down as follows:

in € thousands	2020	2019
Affiliated companies and participations	650	2,155
Securities and investment fund units	7,316	2,352
Other loans	284	41
Deposits with credit institutions	1 581	–
Total	**9,831**	**4,548**

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 in the amount of €2.2 million were recorded in 2020.

c) Losses from the disposal of investments (25)

in € thousands	2020	2019
Affiliated companies	5,041	4,099
Participations[1]	982	1,395
Shares and variable-yield securities	386	421
Bearer bonds and fixed-income securities[2]	201	81
Other investments	1,003	265
Total	**7,613**	**6,261**

1 Thereof exchange rate losses of €65 thousand (previous year: €1 thousand)
2 Thereof exchange rate losses of €13 thousand (previous year: €57 thousand)

4. Other income (26)

This position includes the following material items:

in € thousands	2020	2019
Income from services provided to affiliated companies	53,226	76,521
Interest income from taxes	6,012	3,758
Exchange rate gains[1]	1,350	434
Release of other provisions	1,871	528
Total	**62,459**	**81,241**

1 Thereof realised exchange rate gains of €0 (previous year: €383 thousand)

5. Other expenses (27)

The position includes the following material items:

in € thousands	2020	2019
General administrative expenses	100,025	130,496
thereof: expenses for services provided to affiliated companies[1]	53,226	76,521
Interest expenses	34,610	30,927
thereof: interest due on credit accounts resulting from the assumption of joint liability for pension commitments	13,001	14,729
thereof: interest expenses for pension provisions	12,393	14,861
thereof: interest expenses from the compounding of provisions	19	17
Negative interest	122	421
Currency expenses[2]	213	481
Total	**134,848**	**161,904**

1 Includes a voluntary special supplement in the previous year for the flat-rate reinforcement of the actuarial reserve.
2 Thereof realised exchange rate losses of €201 (previous year: €0)

With respect to phased-in early retirement agreements, expenses from compounding in the amount of €3.0 thousand (previous year: €6.0 thousand) and income from discounting with respect to the assets to be offset in the amount of €36.8 thousand (previous year: €43.1 thousand) were offset against each other pursuant to Section 246 (2) second sentence of the German Commercial Code (HGB). Similarly, expenses from the compounding of the pension provision in the amount of €12,393.0 thousand (previous year: €14,861.0 thousand) and income from the discounting of assets under reinsurance polices in the amount of €106.0 thousand (previous year: €115.6 thousand) were offset against each other pursuant to Section 246 (2) second sentence HGB.

7. Income taxes (28)

Taxes on income showed expenses of €66.9 million (previous year: €56.2 million) as at 31 December 2020. Tax expens-es rose by €10.7 million. The increase resulted both from higher net income as calculated in accordance with German commercial law and from current account tax effects. The increase was tempered by effects from the tax-free sale of interests in limited companies and income from prior-year taxes.

Deferred tax assets and deferred tax liabilities resulted from the carrying amounts for land, land-type rights and buildings, which differ from one another under commercial law and tax law accounting rules, and from shares, interests or shares in investment assets and other variable-yield securities, the provision for outstanding insurance claims and provisions for pensions. Deferred taxes were calculated using a tax rate of 30.4%. Expected future tax charges and tax reductions are netted when calculating the tax amounts to be deferred. We made use of the option provided in Section in 274 (1) sentence 2 of the German Commercial Code (HGB) not to recognise deferred tax assets in the balance sheet that exceed the netted amount.

Other mandatory disclosures

Mandates

Memberships on supervisory boards required to be created by law, as well as on comparable domestic and foreign con-trol bodies (disclosures pursuant to Section 285, no. 10 of the German Commercial Code (HGB):

a) Group mandates on domestic supervisory boards required to be created by law
b) Third-party mandates on domestic supervisory boards required to be created by law
c) Mandates on comparable control bodies

Members of the Supervisory Board of W&W AG

Hans Dietmar Sauer (Chair)
Former Chair of the Board of Managing Directors
Landesbank Baden-Württemberg
Former Chair of the Management Board
Landeskreditbank Baden-Württemberg

Frank Weber (Deputy Chair)[1]
Chair of the Works Council
Württembergische Versicherung AG/Württembergische Lebensversicherung AG,
Karlsruhe location
Chair of the Group Works Council
a) Württembergische Lebensversicherung AG, Stuttgart

Petra Aichholz[1]
Insurance employee
Württembergische Versicherung AG

Peter Buschbeck
Member of the Management Board
Investors Marketing AG

Prof. Dr Nadine Gatzert
Chair of Insurance Economics and Risk Management
Friedrich Alexander University Erlangen/Nuremberg
b) Nürnberger Beteiligungs-AG, Nuremberg
Nürnberger Lebensversicherung AG, Nuremberg
ERGO Group AG, Düsseldorf (until 6 April 2020)

Dr Reiner Hagemann
Former Chair of the Management Board
Allianz Versicherungs-AG
Former member of the Management Board
Allianz AG

Ute Hobinka[1]
Chair of the Works Council
W&W Informatik GmbH
a) W&W Informatik GmbH, Ludwigsburg, Deputy Chair

Jochen Höpken[1]
Task Group Chair
ver.di (multi-service trade union)
b) FIDUCIA & GAD IT AG, Karlsruhe

1 Employee representatives.

Corinna Linner
Linner Wirtschaftsprüfung
b) Donner & Reuschel AG, Munich/Hamburg

Marika Lulay
Chief Executive Officer (CEO), Managing Director and
member of the Supervisory Board of GFT Technologies SE
b) EnBW Energie Baden-Württemberg AG, Karlsruhe

Bernd Mader[1]
Head of customer service – cross-department responsibilities
Württembergische Versicherung AG

Andreas Rothbauer[1]
Chair of the Works Council
Wüstenrot Bausparkasse AG, Ludwigsburg location
a) Wüstenrot Bausparkasse AG, Ludwigsburg

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

Christoph Seeger
Chair of the Central Works Council
Wüstenrot Bausparkasse AG
a) Wüstenrot Bausparkasse AG, Ludwigsburg, Chair

Jutta Stöcker
Former member of the Management Board
RheinLand Versicherungsgruppe
b) RheinLand Lebensversicherung AG, Neuss (until 1 September 2020)
RheinLand Versicherungs AG, Neuss
RheinLand Holding AG, Neuss
ERGO Group AG, Düsseldorf (until 6 April 2020)

Susanne Ulshöfer[1]
Member of the Works Council
Wüstenrot Bausparkasse AG, Ludwigsburg location
a) Wüstenrot Bausparkasse AG, Ludwigsburg

1 Employee representatives.

Members of the Executive Board of W&W AG

Jürgen A. Junker, Chair
Group Legal, Group Audit, Communication, Group Development (strategy, M&A, strategic brand management and corpo-rate identity, customer data) and Company Organisation
a) Württembergische Lebensversicherung AG, Stuttgart, Chair
Württembergische Versicherung AG, Stuttgart, Chair
Wüstenrot Bausparkasse AG, Ludwigsburg, Chair
c) Wüstenrot Wohnungswirtschaft reg. Gen. m.b.H., Salzburg

Dr Michael Gutjahr
(until 31 August 2020)
Group Personnel, Group Accounting, Financial Management, Retained Organisation
a) Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart, Chair (until 31 August 2020)
W&W Informatik GmbH, Ludwigsburg, Chair (until 22 April 2020)

Alexander Mayer
(from 1 September 2020)
Group Accounting, Financial Management, Retained Organisation
c) W&W Investment Managers Designated Activity Company (DAC), Dublin (until 31 December 2020)
W&W Europe Life Limited i. L., Dublin, Chairman
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart, Deputy Chair of the Supervisory Board (from 16 December 2020)

Jürgen Steffan
Risk and Compliance (money laundering/securities compliance), Group Controlling, Cost Controlling, Group Personnel
a) Württembergische Krankenversicherung AG, Stuttgart, Deputy Chair
W&W Informatik GmbH, Ludwigsburg, Vorsitzender (from 22 April 2020)
b) V-Bank AG, Munich (from 21 January 2020), Deputy Chair from 14 February 2020, Chair from 29 June 2020
EUWAX AG, Stuttgart (from 3 February 2021)
c) Vereinigung Baden-Württembergische Wertpapierbörse e.V., Stuttgart (from 16 October 2020), Deputy Chair of the Executive Committee from 26 October 2020
Wüstenrot stavební spořitelna a.s., Prague, Chair of the Supervisory Board (until 1 April 2020)
Wüstenrot hypoteční banka a.s, Prague, Chair of the Supervisory Board (until 1 April 2020)

Jens Wieland
Enterprise IT Management, Customer Data Protection and Operational Security

Supplementary disclosures

Contingent liabilities and other financial obligations

As a member of the German Reinsurance Pharma Pool (Pharma-Rückversicherungs-Gemeinschaft), we assumed pro rata liability in the amount of 1.41%. The pool currently has a total volume of €106.7 million. Based on the creditworthiness assessment of the German Reinsurance Pharma Pool, a drawdown is not expected.

By way of a release and hold harmless agreement dated 20 October 1993, Württembergische Versicherung AG assumed the risk under the contract executed by W&W AG via a London broker. Accordingly, Württembergische Versicherung AG recognised provisions for outstanding insurance claims in the amount of €19.3 million. Vis-à-vis third parties, W&W AG is liable for these obligations. From today's perspective, Württembergische Versicherung AG has sufficient reserves. As a result, liability on the part of W&W AG currently appears unlikely. Based on the creditworthiness assessment of the debtor, a drawdown is not expected.

Wüstenrot Bausparkasse AG intends to collateralise loans of W&W AG that are not secured in rem. The loans were grant-ed for residential housing purposes. W&W AG provided a guaranty on behalf of Wüstenrot Bausparkasse AG for the loan claim under the loans that existed at the time of contract conclusion. The guaranty will be reduced in step with loan re-payments. As at the reporting date, the guaranty amounted to €22.1 million, taking into account the provision in the amount of €1.1 million that was created for loan guaranties. Based on the creditworthiness assessment by Wüstenrot Bausparkasse AG about the borrowers, a further drawdown is not expected.

In connection with an agreement concerning the takeover of staff that was concluded between W&W Service GmbH and WISAG Facility Management Süd-West GmbH & Co. KG, W&W AG provided WISAG Facility Management Süd-West GmbH & Co. KG with an unconditional, open-ended, directly enforceable guaranty, up to a total amount of €10.0 million. This guaranty constitutes surety for the fulfilment of all current and future financial liabilities of W&W Service GmbH under that agreement. Based on the creditworthiness assessment of the debtor, a drawdown under the guaranty is not expected.

The Stuttgart Regional Council approved subsidies in connection with the formation of the “Feuerseepiraten” day care centre at the Stuttgart site. In return, the Regional Council received a bank guaranty in the amount of €0.1 million. Since the subsidy terms stipulated by the Stuttgart Regional Council have been met, a drawdown is not expected.

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.

Outstanding obligations to pay in for participations and fund investments amounted to €84.5 million (of which for affili-ated companies are €5.6 million.

W&W AG has financial obligations in the amount of approximately €172.7 million under contracts concluded for the first and second phases of construction for the new W&W campus.

As a result of existing control and profit-and-loss transfer agreements, we expect compensatory payments in the amount of €10.8 million over the next three years for losses incurred by start-ups. Profits are expected in the intermediate term.

Expenses for internal Group services are expected to amount to €33.8 million in 2021.

Authorised capital

Pursuant to Article 5 (5) of the Articles of Association of W&W AG, the Executive Board is authorised until 12 June 2023 to increase, on one or more occasions, the company's share capital by up to €100,000,000.00 via issuance of new registered no-par-value shares in exchange for cash or contributions in kind, subject to the approval of the Supervisory Board (Authorised Capital 2018). Shareholders are entitled to a statutory subscription right. Shareholders may also be accorded the statutory subscription right by having one or more credit institutions or companies equivalent thereto pursuant to Section 186 (5) of the German Stock Corporation Act (AktG) subscribe to the new shares under an obligation to offer them to shareholders for subscription (indirect subscription right). Subject to approval by the Supervisory Board, the Executive Board is authorised to preclude shareholders from exercising the statutory subscription right in the following cases:

- for fractional amounts; or
- with capital increases in exchange for contributions in kind for the purpose of acquiring (including indirectly) companies, parts of companies or participations in companies or for the purpose of acquiring other assets; or
- if, pursuant to Section 186 (3) sentence 4 AktG, new shares are issued in exchange for cash at a price that is not significantly below the stock exchange price of the shares that are already listed and the pro rata amount of the new shares does not exceed 10% of the share capital at the time this authorisation is recorded in the commercial register or, if less, at the relevant time the authorisation was exercised. Counting towards the 10% limit are other shares that are newly issued or, following buyback, resold by the company during the term of this authorisation under preclusion of the subscription right or, in accordance with Section 186 (3) sentence 4 AktG, in connection with a cash capital increase. Also counting towards the 10% limit are shares with respect to which a warrant or conversion right, a warrant or conversion obligation, or a right in favour of the company to delivery of shares exists on account of warrant bonds, convertible bonds or profit participation certificates with warrant or conversion rights or obligations, or rights in favour of the company to delivery of shares that had been issued by the company or its subordinate Group companies during the term of this authorisation under preclusion of the subscription right pursuant to Section 221 (4) sentence 2 in conjunction with Section 186 (3) sentence 4 AktG; or
- insofar as it is necessary in order to grant holders of warrant rights or creditors of convertible bonds or profit parti-ci-pation rights with conversion rights that are issued by the company or its subordinate Group companies a right to subscribe to new shares to the extent to which they would be entitled after exercising warrant rights, conversion rights or rights to delivery of shares or after satisfying warrant or conversion obligations.

Subject to approval by the Supervisory Board, the Executive Board is authorised to stipulate the further details of the capital increase, its implementation, including the issue price, and the contribution to be paid for the new no-par-value registered shares. The Supervisory Board is authorised to modify the wording of the Articles of Association after imple-mentation of an increase of the share capital out of Authorised Capital 2018 to conform to the respective increase of the share capital, as well as after expiry of the term of the authorisation.

Contingent capital

By resolution adopted at the Annual General Meeting on 13 June 2018, the Executive Board was authorised to issue warrant bonds, convertible bonds, participation rights, profit participation bonds or a combination of these instruments on or before 12 June 2023. Article 5 (6) of the Articles of Association accordingly provides that the share capital of W&W AG is contingently increased by the nominal amount of at most €240,000,003.46, divided into at most 45,889,102 no-par-value registered shares (Contingent Capital 2018). The contingent capital increase is to be imple-mented only if

- holders or creditors of warrant rights or conversion rights or those obligated to exercise the warrant or to convert under warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the company on or before 12 June 2023 make use of their warrant rights or conversion rights, or
- holders or creditors of warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the company on or before 12 June 2023 are obligated to exercise the warrant or to convert and satisfy such obligation, or

- the company exercises a right to deliver to holders or creditors of warrant bonds, convertible bonds or profit participation rights that, on the basis of the authorisation granted to the Executive Board by the Annual General Meeting on 13 June 2018, are issued by the company or a subordinate Group company or guaranteed by the company on or before 12 June 2023 shares of the company in lieu of cash payment, either in whole or in part,

and provided that neither cash settlement is granted nor treasury shares or those of some other publicly traded company are used to service it. New shares are to be issued at the warrant or conversion price to be stipulated in accordance with the aforementioned authorisation resolution of 13 June 2018 or at the lower issue amount stipulated in accordance with the aforementioned authorisation resolution of 13 June 2018. The new shares participate in profit from the start of the financial year in which they come about. To the extent permitted by law, and subject to approval by the Supervisory Board, the Executive Board is authorised to stipulate that, in the event that a resolution on appropriation of profit has not been adopted for the financial year immediately preceding the year of issue at the time of issue, the new shares are to participate in profit from the start of the financial year immediately preceding the year of issue. Subject to approval by the Supervisory Board, the Executive Board is further authorised to stipulate the further details of the implementation of the contingent capital increase. Use may be made of the authorisation granted by resolution of the Annual General Meeting on 13 June 2018 to issue warrant bonds, convertible bonds and profit participation rights only if the warrant bonds, convertible bonds or profit participation rights are structured in such a way that the capital that is paid in for them satis-fies the supervisory requirements in effect at the time the authorisation is used for eligibility as own funds at the level of the company and/or the Group and/or the financial conglomerate and does not exceed any intake limits. Furthermore, use may be made of the authorisation granted by resolution of the Annual General Meeting on 13 June 2018 to permit subordinate Group companies to issue warrant bonds, convertible bonds and profit participation rights and have them guaranteed by the company if this is permissible under the supervisory provisions applying in each case.

Corporate Governance Code

The Executive Board and Supervisory Board of the company submitted the statement of compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) and have made it permanently available to shareholders on the website of the W&W Group at
www.ww-ag.com → Investor Relations → Publikationen → Weitere Publikationen (in German only).
It can also be found in the corporate governance statement in the Management Report.

Related party disclosures

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

The control and profit-and-loss transfer agreements concluded with Württembergische Versicherung AG, W&W Informatik GmbH, W&W Asset Management GmbH, W&W Service GmbH and W&W brandpool GmbH remain in place.

Group affiliation

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

The company has received the following notifications pursuant to Section 33 (1) of the German Securities Trading Act (WpHG):

Company name	Registered office	Exceeds/falls below	Reporting threshold	Date	Share-holding	Number of votes	Attribution pursuant to Section 22 WpHG
Wüstenrot Stiftung Gemein-schaft der Freunde Deutscher Eigenheimverein e.V. (attribu-tion via Wüstenrot Holding AG, Ludwigsburg)	Ludwigsburg, Stuttgart	Falls below	50%	17/08/2016	39.91%	37,417,638	Section 22 (1) sentence 1, no. 1 WpHG
Wüstenrot Stiftung Gemein-schaft der Freunde Deutscher Eigenheimverein e.V. (attri-bution via WS Holding AG, Stuttgart)	Ludwigsburg, Stuttgart	Exceeds	25%	17/08/2016	26.40%	24,750,000	Section 22 (1) sentence 1, no. 1 WpHG
Dr Lutz Helmig (attribution via HORUS Finanzholding GmbH)	Hallbergmoos, Germany	Exceeds	10%	11/12/2013	10.26%	9,615,546	Section 22 (1) sentence 1, no. 1 WpHG

Legal bases

Wüstenrot & Württembergische Aktiengesellschaft maintains its registered office in Stuttgart and is recorded in the Commercial Register of the Local Court of Stuttgart under Number HRB 20203.

Events after the reporting date

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

Expenses for the auditor

The fee for the auditing services of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft relates to the audit of the consolidated financial statements and the annual financial statements of W&W AG, as well as to other permissible ser-vices occasioned directly by the audit. In addition, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft conducted audits of the annual financial statements and group reporting of various subsidiaries, as well as statutory audits in accordance with the German Securities Trading Act (WpHG), the German Act on the Supervision of Insurance Undertak-ings (VAG), the German Stock Corporation Act (AktG) and other legal provisions.

Other assurance services include audits pursuant to the General Terms and Conditions of the Deutsche Bundesbank, the substantive audit of the sustainability report and other audits under the German Securities Trading Act (WpHG), as well as other confirmation services in connection with foreign premiums. Tax advisory services consist of advisory and sup-port services for various Group companies. The other services consist of the provision of professional advice to Group companies from an accounting or regulatory standpoint, as well as a tool solution for the structured processing of regu-latory and legislative developments. In addition, for subsidiaries, audits were conducted in connection with new IT migration projects.

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

Employees

Number[1]	2020	2019
Total employees	532	541
thereof women	280	279
thereof men	252	262
thereof full-time	387	409
thereof part-time	145	132

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

Remuneration of the individual members of the Executive Board

The outlines of the remuneration system are depicted in detail in the remuneration report contained in the Management Report. The following remarks contain the disclosures required under Section 285, no. 9 of the German Commercial Code (HGB).

Total remuneration was examined by the Supervisory Board, and it bears a reasonable relationship to the duties and performance of Executive Board members, as well as to the company’s condition. In addition to their work for the company, Dr Michael Gutjahr, Alexander Mayer and Jens Wieland serve as board members or managing directors for other W&W Group companies.

Total remuneration paid to Executive Board members during the reporting year for performing their duties at Wüstenrot & Württembergische AG amounted to €2,729.1 thousand (previous year: €2,475.2 thousand) and is composed of the following elements:

Remuneration of the individual members of the Executive Board in 2020

	Term of office ends	Non-performance-related remuneration		Performance-related remuneration (short term)		Performance-related remuneration (sustained) from 2017	Performance-related remuneration (sustained) from 2016	Ancillary benefits		Total	
in € thousands		2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Active members of the Executive Board											
Jürgen A. Junker	03/2026	1,040.0	1,040.0	109.2	117.6	134.1	81.2	20.2	20.2	1,303.5	1,259.0
Dr Michael Gutjahr	08/2020	316.8	475.2	33.3	53.7	36.9	34.8	9.7	13.8	396.7	577.5
Alexander Mayer	08/2025	83.2	–	8.7	–	–	–	2.1	–	94.0	–
Jürgen Steffan	06/2024	535.0	267.5	56.7	30.5	–	–	11.4	7.0	603.1	305.0
Jens Wieland	06/2025	260.1	260.1	27.3	29.4	34.3	33.8	10.1	10.4	331.8	333.7
Total		**2,235.1**	**2,042.8**	**235.2**	**231.2**	**205.3**	**149.8**	**53.5**	**51.4**	**2,729.1**	**2,475.2**

Sustained performance-related remuneration for a prior financial year, i.e. the 2017 financial year, was earned with the close of the year 2020, since in the years 2018 to 2020 the W&W Group posted average IFRS after-tax earnings of at least €100 million p.a. and did not post a loss in any of the three years. This performance-related remuneration will be disbursed in 2021.

In addition to the earned performance-related remuneration shown in the above table, contingent claims to disbursement of performance-related remuneration for the years 2018 to 2020 were acquired (in each case, the amount of performance-related remuneration not yet disbursed). Disbursement is made only if the aforementioned conditions occur or do not occur in the years 2021 to 2023. For 2020 the final amount will not be calculated until the Supervisory Board has ascertained whether targets were achieved.

Performance-related remuneration for the 2019 financial year, which was disbursed in 2020 after ascertaining the degree to which targets were achieved, resulted in a release totalling €2.3 thousand (previous year: €4.0 thousand). The amount consists of an expense for Jürgen A. Junker in the amount of €1.3 thousand (previous year: €4.0 thousand) and releases for Dr Michael Gutjahr in the amount of €0.9 thousand (previous year: expense of €0.4 thousand), for Jürgen Steffan in the amount of €0.8 thousand (previous year: €0.0) and for Jens Wieland in the amount of €1.9 thousand (previous year: €0.4 thousand).

In the 2019 financial year, provisions in the amount of €231.2 thousand (previous year: €186.3 thousand) were created for acquired contingent claims to disbursement in 2023 of performance-related remuneration for the 2019 financial year.

In addition, the company did not grant or pay remuneration that was not disbursed, remuneration converted into claims of another nature, remuneration used to increase other claims, or other remuneration that to date has not been indicated in any annual financial statements.

The present value of pensions attributable to the Group amounted to €5,220.8 thousand (previous year: €4,300.4 thou-sand). Of this amount, attributable to Dr Michael Gutjahr is the amount of €2,928.7 thousand (previous year: €2,716.1 thousand), based on a retirement age of 61, and to Jürgen A. Junker the amount of €591.6 thousand (previous year: €422.9 thousand), to Alexander Mayer the amount of €357.6 thousand (previous year: €0), to Jürgen Steffan the amount of €1,049.5 thousand (previous year: €925.0 thousand) and to Jens Wieland the amount of €293.4 thousand (previous year: €236.3 thousand), in each case based on a retirement age of 65. These benefits have to do with long-term post-employment benefits. Additions during the financial year that are attributable to the company amounted to €623.6 thousand (previous year: €636.7 thousand). Of these additions, attributable to Jürgen A. Junker is the amount of €168.7 thousand (previous year: €166.9 thousand), to Dr Michael Gutjahr the amount of €212.5 thousand (previous year: €161.3 thousand), to Alexander Mayer the amount of €60.8 thousand (previous year: €0), to Jürgen Steffan the amount of €124.5 thousand (previous year: €0) and to Jens Wieland the amount of €57.1 thousand (previous year: €58.8 thousand).

The pension of Dr Michael Gutjahr amounted to €114.8 thousand (previous year: €111.7 thousand), whereby the pension is offset by occupational pension benefits against third parties. Because Dr Gutjahr may claim his pension when his term of office expires, he has no claim to a transitional allowance.

The company did not grant any loans to members of the Executive Board. No liabilities were entered into in favour of Executive Board members.

Total remuneration paid to former Executive Board members in the financial year amounted to €1,894.2 thousand (previ-ous year: €1,829.0 thousand). Of this amount, €433.2 thousand (previous year: €434.9 thousand) was attributable to survivor benefits.

A reserve in the amount of €20,674.5 thousand (previous year: €20,511.1 thousand) was created for pension commit-ments to former members of the Executive Board and their survivors.

There were no other encumbrances on the company during the financial year for benefits to former members of the Executive Board or Supervisory Board or their survivors through severance payments, pensions, survivor benefits or other benefits of a related nature.

Remuneration of the Supervisory Board

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

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

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

In the 2020 financial year, the company paid the members of the Supervisory Board of Wüstenrot & Württembergische AG total remuneration of €660.3 thousand (previous year: €665.4 thousand). In the 2020 financial year, the company paid members of the Supervisory Board of Wüstenrot & Württembergische AG who had retired during the financial year pro rata temporis remuneration of €0.0 (previous year: €30.2 thousand).

Members of the Supervisory Board are reimbursed for expenses and the value-added tax due on Supervisory Board remuneration. However, this is not included in the designated expenses.

Wüstenrot & Württembergische AG has no receivables from members of the Supervisory Board as a result of granted advances or loans.

Subscription rights or other share-based remuneration for members of the Supervisory Board do not exist in the W&W Group. No provisions for current pensions or entitlements had to be created for members of the Supervisory Board or their survivors.

The company did not pay any remuneration or grant any benefits to members of the Supervisory Board for personally performed services, such as consulting or brokering services.

Remuneration of the individual members of the Supervisory Board in 2019

	Base Remuneration	Attendance fee	Committee Remuneration	Total	Total
in € thousands	2020	2020	2020	2020	2019
Hans Dietmar Sauer (Chair)	62.5	2.0	40.0	104.5	107.9
Frank Weber (Deputy Chair)	43.8	2.0	16.0	61.8	62.3
Petra Aichholz	25.0	2.0	–	27.0	15.3
Peter Buschbeck	25.0	2.0	4.0	31.0	34.5
Prof. Dr Nadine Gatzert	25.0	2.0	8.0	35.0	31.6
Dr Reiner Hagemann	25.0	2.0	12.0	39.0	39.5
Ute Hobinka	25.0	2.0	12.0	39.0	37.8
Jochen Höpken	25.0	2.0	4.0	31.0	30.0
Corinna Linner	25.0	2.0	20.0	47.0	47.5
Marika Lulay	25.0	2.0	4.0	31.0	31.5
Bernd Mader	25.0	2.0	8.0	35.0	35.5
Andreas Rothbauer	25.0	2.0	8.0	35.0	35.5
Hans-Ulrich Schulz	25.0	2.0	8.0	35.0	35.5
Christoph Seeger	25.0	2.0	12.0	39.0	37.8
Jutta Stöcker	25.0	2.0	8.0	35.0	32.6
Susanne Ulshöfer	25.0	2.0	8.0	35.0	20.4
Subtotal	**456.3**	**32.0**	**172.0**	**660.3**	**635.2**
Gudrun Lacher (former)	–	–	–	–	13.4
Gerold Zimmermann (former)	–	–	–	–	16.8
Total	**456.3**	**32.0**	**172.0**	**660.3**	**665.4**

Annex to the notes

Individual disclosures concerning assets

Notes concerning assets

in € thousands	Carrying amounts 2019	Additions	Disposals	Reclassifi-cations	Write-ups	Write-downs	Carrying amounts 2020
B. I. Land, land-type rights and buildings, including buildings on third-party land	**254,223**	**106,457**	**—**	**5**	**–**	**5,968**	**354,707**
B. II. Investments in affiliated companies and participations							
1. Interests in affiliated companies	1,444,333	9,000	—	109,050	–	36	1,344,247
2. Loans to affiliated companies	411,500	49,500	—	73,500	–	–	387,500
3. Participations	57,411	21,109	—	4,452	693	614	74,147
4. Loans to companies in which a participation is maintained	–	–	—	–	–	–	–
Total B. II.	**1,913,244**	**79,609**	**—**	**187,002**	**693**	**650**	**1,805,894**
B. Other investments							
1. Shares, interests or shares in investment assets and other variable-yield securities	574,536	124,505	—	530	898	6,729	692,680
2. Bearer bonds and other fixed-income securities	273,928	92,232	—	50,445	653	587	315,781
3. Other loans							
a) Registered bonds	124,434	–	—	30,000	284	283	94,435
b) Promissory notes and loans receivable	161,449	120,954	—	141,500	–	–	140,903
4. Deposits with credit institutions	70,798	113,950	—	26,198	–	1,581	156,969
5. Other capital investments	87	–	—	–	–	–	87
Total B. III.	**1,205,232**	**451,641**	**—**	**248,673**	**1,835**	**9,180**	**1,400,855**
Total	**3,372,699**	**637,707**	**—**	**435,680**	**2,528**	**15,798**	**3,561,456**

List of ownership interests

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/ loss after taxes[1]
Germany						
3B Boden-Bauten-Beteiligungs-GmbH, Ludwigsburg	100.00		€	31.12.2019	63,337,941	1,349,982
Adam Riese GmbH, Stuttgart2		100.00	€	31.12.2019	25,000	–
Adveq Europe II GmbH, Frankfurt am Main		16.77	€	31.12.2019	989,780	–7,268
Adveq Opportunity II Zweite GmbH, Frankfurt am Main		29.31	€	31.12.2019	14,364,999	1,482,009
Adveq Technology V GmbH, Frankfurt am Main		16.50	€	31.12.2019	41,624,372	15,932,509
Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart		100.00	€	31.12.2019	47,525,555	9,230,148
Altmark Versicherungsmakler GmbH, Stuttgart		100.00	€	31.12.2019	2,969,382	551,470
Altmark Versicherungsvermittlung GmbH, Stuttgart		100.00	€	31.12.2019	382,266	65,645
Asendorfer Kippe ASK GmbH & Co. KG, Stuttgart		100.00	€	31.12.2019	2,777,701	–212,076
Atlantic Labs IV GmbH & Co. KG, Berlin		14.92		31.12.2019	11,179,934	–894,252
Auda Ventures GmbH & Co. Beteiligungs-KG, Munich		5.79	€	31.12.2019	2,014,136	–1,411,591
Bausparkasse Wüstenrot Immo GmbH, Stuttgart		100.00	€	New investment 1.1.2020		
Beteiligungs-GmbH der Württembergischen, Stuttgart		100.00	€	31.12.2019	3,310,146	138,555
BPE2 Private Equity GmbH & Co. KG, Hamburg		10.00	€	30.6.2020	795,700	305
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart		35.00	€	31.12.2019	246,025,883	19,598,712
BWK Holding GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart		35.00	€	31.12.2019	11,416,484	852,614
City Immobilien GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2019	103,502,585	3,950,438
City Immobilien II GmbH & Co. KG der Württembergischen, Stuttgart		100.00	€	31.12.2019	104,432,380	3,045,434
CROWN Premium Private Equity III GmbH & Co. KG, Grünwald		6.60	€	31.12.2019	15,010,676	653,646
DBAG Fund VI Feeder GmbH & Co. KG, Frankfurt am Main		30.71	€	31.12.2019	45,518,330	5,425,924
DBAG Fund VIII Feeder GmbH & Co. KG, Frankfurt am Main		44.25	€	New investment 25.9.2020		
Deutscher Solarfonds "Stabilität 2010" GmbH & Co. KG, Frankfurt am Main		17.77	€	31.10.2019	80,955,146	12,629,940
Domus Beteiligungsgesellschaft der Privaten Bausparkassen mbH, Berlin		28.73	€	31.12.2019	31,885	–4,008
Earlybird DWES Fund VI Affiliates GmbH & Co. KG, Munich		7.74	€	31.12.2019	84,818,324	–6,031,872
Elvaston Capital Fund III GmbH & Co. KG, Berlin	6.08	6.08		31.12.2019	125,277,554	190,734
Elvaston Capital Fund IV GmbH & Co. KG, Berlin	1.16	6.60	€	31.12.2019	53,843,722	–2,618,688
EquiVest II GmbH & Co. Zweite Beteiligungs KG Nr. 1 für Vermögensanlagen, Munich		8.47	€	31.12.2019	297,898	–33,050,220
European Sustainable Power Fund Nr. 2 GmbH & Co. KG, Grünwald	1.00	11.10		30.9.2019	448,339,782	21,897,412
familynet GmbH, Potsdam		5.89		31.12.2018	1,337,961	–1,474,358
Ganzer GmbH & Co. KG, Harrislee		100.00	€	31.12.2019	2,000,000	967,154
Gerber GmbH & Co. KG, Stuttgart		100.00	€	31.12.2019	264 234,695	1,926,589
Gestorf GmbH & Co. KG, Stuttgart		100.00	€	31.12.2019	472,024	32,930
GLL GmbH & Co. Messeturm Holding KG, Munich		5.97	€	31.12.2019	133,118	136,499
GMA Gesellschaft für Markt- und Absatzforschung mbH, Ludwigsburg		100.00	€	31.12.2019	2,028,403	207,581
Hinterbliebenenfürsorge der Deutschen Beamtenbanken GmbH, Karlsruhe		100.00	€	31.12.2019	113,641	–710

List of ownership interests (continued)

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Cur-rency	Reporting date	Equity[1]	Net income/ loss after taxes[1]
IVB - Institut für Vorsorgeberatung, Risiko- und Finanzierung-sanalyse GmbH, Karlsruhe		100,00	€	31.10.2019	78,181	1,653
IVZ Immobilien Verwaltungs GmbH & Co. Südeuropa KG, München		10,00	€	31.12.2019	624,438	–250,591
Keleya Digital-Health Solutions GmbH, Hamburg		21,96	€	31.12.2019	416,438	–692,678
Kinderheldin GmbH, Berlin		10,00	€	31.12.2019	254,891	–289,715
KLV BAKO Dienstleistungs-GmbH, Karlsruhe		94,00	€	31.12.2019	231,418	8,519
KLV BAKO Vermittlungs-GmbH, Karlsruhe		77,10	€	31.12.2019	241,989	8,991
Miethaus und Wohnheim GmbH i.L., Ludwigsburg		100,00	€	31.12.2019	1,961,603	194,420
NORD KB Micro-Cap V GmbH & Co. KG, Hannover		10,21	€	31.12.2019	69,113,606	–2,611,801
Onshore Wind Portfolio 2012 GmbH & Co. KG, Frankfurt am Main	4,41	16,31	€	31.08.2020	96,605,871	5,168,397
Rente.de AV GmbH, Stuttgart2 (ehemals: Nist GmbH, Berlin)		100,00	€	31.12.2019	25,000	–
Schulenburg GmbH & Co. KG, Stuttgart		100,00	€	31.12.2019	116,391	–93,778
treefin GmbH, München2		100,00	€	31.12.2019	3,382,560	–
V-Bank AG, München		15,00	€	31.12.2019	48,591,247	3,748,858
VC Fonds Baden-Württemberg GmbH & Co. KG, Stuttgart		25,00	€	31.12.2019	1,859,465	–141,225
ver.di Service GmbH, Berlin		50,00	€	31.12.2019	157,912	7,636
VV Immobilien GmbH & Co. United States KG i.L., München		9,98	€	31.12.2018	10,000	–23,899
VV Immobilien GmbH & Co. US City KG i.L., München		23,10	€	31.12.2018	9,489	–17,009
W&W Asset Management GmbH, Ludwigsburg2	100,00		€	31.12.2019	11,261,185	–
W&W brandpool GmbH, Stuttgart2	100,00		€	31.12.2019	3,275,000	–
W&W Gesellschaft für Finanzbeteiligungen mbH, Stuttgart	100,00		€	31.12.2019	59,409,366	–26,341
W&W Informatik GmbH, Ludwigsburg2	100,00		€	31.12.2019	473,025	–
W&W Produktion GmbH i.L., Berlin2	100,00		€	31.12.2019	25,000	–
W&W Service GmbH, Stuttgart2	100,00		€	31.12.2019	100,153	–
Wellington Partners Life Sciences V Investment GmbH & Co. KG, München		5,75	€	31.12.2020	89,757,205	2,331,335
Windpark Golzow GmbH & Co. KG, Rheine		100,00	€	31.12.2019	7,917,096	–483,718
WL Erneuerbare Energien Verwaltungs GmbH, Stuttgart		100,00	€	31.12.2019	76,488	2,913
WL Renewable Energy GmbH & Co. KG, Stuttgart		100,00	€	31.12.2019	94,718,381	9,882,966
WL Sustainable Energy GmbH & Co. KG, Stuttgart		100,00	€	31.12.2019	81,236,893	9,896,865
Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart		100,00	€	31.12.2019	118,430,875	3,855,632
Württembergische Akademie GmbH, Stuttgart			€	31.12.2019	2,098,062	17,103
Württembergische Immobilien AG, Stuttgart		100,00	€	31.12.2019	120,257,087	673,389
Württembergische Kö 43 GmbH, Stuttgart		89,90	€	31.12.2019	22,808,270	511,806
Württembergische Krankenversicherung AG, Stuttgart	100,00		€	31.12.2019	49,048,122	5,600,000
Württembergische Lebensversicherung AG, Stuttgart	94,89		€	31.12.2019	473,511,724	35,000,000
Württembergische Logistik I GmbH & Co. KG, Stuttgart		100,00	€	31.12.2019	9,849,320	–1,505,415
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart		100,00	€	31.12.2019	76,694	–

List of ownership interests (continued)

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/ loss after taxes[1]
Württembergische Versicherung AG, Stuttgart2	100.00		€	31.12.2019	350,563,107	–
Württembergische Vertriebspartner GmbH, Stuttgart2		100.00	€	31.12.2019	74,481	–
Württembergische Verwaltungsgesellschaft mbH, Stuttgart		100.00	€	31.12.2018	35,454	560
Württfeuer Beteiligungs-GmbH, Stuttgart		100.00	€	31.12.2018	1,036,660	–25,467
WürttLeben Alternative Investments GmbH, Stuttgart2		100.00	€	31.12.2019	103,025,000	–
WürttVers Alternative Investments GmbH, Stuttgart2		100.00	€	31.12.2019	46,025,000	–
Wüstenrot Bausparkasse AG, Ludwigsburg	100.00		€	31.12.2019	830,563,506	30,238,795
Wüstenrot Grundstücksverwertungs-GmbH, Ludwigsburg	100.00		€	31.12.2019	2,057,024	10,082
Wüstenrot Haus- und Städtebau GmbH, Ludwigsburg	100.00		€	31.12.2018	96,954,047	2,628,846
Wüstenrot Immobilien GmbH, Ludwigsburg	100.00		€	31.12.2018	2,708,514	949,083
YIELCO Special Situations GmbH & Co. KG, München		8.01	€	31.12.2018	40,388,574	–199,123
Australia						
REI Head Trust, Sydney		100.00	AU$	30.6.2020	62,803,000	3,821,000
REI Property Sub Trust, Sydney		100.00	AU$	30.6.2020	62,636,000	3,903,000
Finland						
Kiinteistö Oy Porkkalankatu 5, Helsinki		100.00	€	31.12.2019	42,285,756	-
France						
Württembergische France Immobiliere SARL, Strasbourg		100.00	€	30.9.2020	15,573,530	1,453,507
Württembergische France Strasbourg SARL, Strasbourg		100.00	€	30.9.2020	45,854,772	1,941,761
Ireland						
BlackRock NTR Renewable Power Fund plc, Dublin		89.55	US$	31.12.2019	38,762,000	12,790,000
W&W Asset Management Dublin DAC, Dublin		100.00	€	31.12.2019	11,599,131	5,172,073
W&W Europe Life Limited i.L., Dublin	100.00		€	31.12.2014	18,834,772	–733,611
W&W Investment Managers DAC, Dublin		100.00	€	31.12.2019	8,541,199	3,753,168
White Oak Summit Fund ILP, Dublin		15.66	US$	31.12.2019	207,506,253	7,068,133
White Oak Yield Spectrum Feeder ICAV, Dublin		37.30	US$	31.12.2019	339,715,326	20,939,104
Luxembourg						
Alcentra European Credit Fund II SCSp, Luxembourg		9.44			New investment 4.2.2019	
Alcentra European Credit Fund III SCSp, Luxembourg		5.97	€	30.6.2020	772,601,768	–42,424,155
AMP Capital Infrastructure Debt Fund (EUR) III L.P., Luxembourg		9.63	€	31.12.2019	361,075,376	20,669,083
AMP Capital Infrastructure Debt Fund IV (EUR) L.P., Luxembourg		8.98	€	31.12.2019	223,130,065	7,724,716
Barings Global Credit Fund (LUX) SCSp, SICAV-SIF - Barings European Private Loan Fund II, Luxembourg		6.44	€	31.12.2019	30,888,361	74,295
BlackRock Euro Investment Grade Infrastructure Debt Fund SCSp, Luxembourg		22.50	€	31.12.2019	225,422,000	9,297,000
CI III Lux Feeder Fund FCP-RAIF, Luxembourg		35.88	€	31.12.2019	22,432,861	–155,480

List of ownership interests (continued)

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/loss after taxes[1]
Crescent Private Credit Partners Unitranche Fund (Ireland) L.P., Luxembourg		51.48	US$	31.12.2019	32,078,000	–18,000
Deerpath Capital SLP-RAIF, Luxembourg		25.81	US$	31.12.2019	105,748,071	1,682,694
First State European Diversified Infrastructure Feeder Fund II SCA, SICAV-SIF, Luxembourg		12.99	€	31.12.2019	285,274,939	27,266,538
HPS Speciality Loan Europe Fund V SCSp, Luxembourg		26.96			New investment 30.11.2020	
Idinvest Lux Fund, SICAV-SIF SCA – Idinvest Private Debt III, Luxembourg		23.80	€	31.12.2019	89,255,335	–4,314,304
Idinvest Private Debt V SCSp SICAV-RAIF, Luxembourg		19.96	€	31.12.2019	217,828,515	7,668,708
IKAV SICAV-FIS SCA – Ecoprime Energy, Luxembourg		18.81	€	30.9.2020	97,703,581	3,733,222
IKAV SICAV-FIS SCA – ecoprime TK I, Luxembourg		41.28	€	30.9.2020	38,968,689	2,685,281
IKAV SICAV-FIS SCA – Global Energy (Ecoprime III), Luxembourg	15.12	30.24	€	30.9.2020	27,875,165	3,681,244
IKAV SICAV-FIS SCA – Global PV Investments, Luxembourg		46.25	€	30.9.2020	22,103,081	1,526,158
Muzinich Pan-European Private Debt II, SCSp, Luxembourg		26.19			New investment 26.11.2020	
Rotonda Infrastructure 1 SCSp, Luxembourg		9.68	€	30.9.2019	117,548,988	–947,014
Secondary Opportunities SICAV-SIF – SOF II Feeder USD, Luxembourg		16.79	US$	31.12.2019	28,020,364	1,189,507
Secondary Opportunities SICAV-SIF – SOF III Feeder USD, Luxembourg		35.48	US$	31.12.2019	56,249,714	5,213,430
StepStone European Fund SCS, SICAV-FIS – StepStone Capital Partners III, Luxembourg	7.15	20.41	US$	31.12.2019	680,342,087	71,281,318
Whitehelm European Infrastructure Fund II, Luxembourg		25.62	€	30.6.2020	93,274,262	–1,284,841
WhiteOak Yield Spectrum (Luxembourg) Feeder Fund V SCSp, Luxembourg		19.11			New investment 21.9.2020	
Austria						
G6 Zeta Errichtungs- und VerwertungsGmbH & Co OG, Vienna		99.90	€	31.12.2019	24,202,338	2,712,744
SAMARIUM drei GmbH & Co OG, Vienna		100.00	€	31.12.2019	9,623,088	595,235
Hungary						
Fundamenta-Lakáskassza-Lakástakarékpénztár Zrt., Budapest	11.47		HUF	31.12.2019	63,600,000,000	7,004,000,000
United Kingdom						
ASF VI Infrastructure L.P., Edinburgh		5.45	US$	31.12.2019	250,342,796	1,396,208
Asper Renewable Power Partners 2 L.P., London		29.53	€	31.12.2019	59,458,756	–7,987
Brookfield Capital Partners Fund III (NR A) L.P., George Town		12.20	US$	31.12.2019	562,181,000	450,214,000
Capital Dynamics Clean Energy and Infrastructure III L.P., Birmingham		16.21	£	31.12.2019	71,215,125	919,788
Capital Dynamics Clean Energy and Infrastructure Feeder L.P., Edinburgh		30.21	US$	31.12.2019	141,842,687	–16,189,558
Carlyle Cardinal Ireland Fund L.P., George Town		5.83	€	31.12.2019	158,675,000	–2,973,000
EIG Global Private Debt (Europe UL) L.P., London		29.67	US$	31.12.2019	131,121,000	7,228,000
Glennmont Clean Energy Fund Europe 1 'A' L.P., London		11.52	€	31.12.2019	83,267,412	64,716,727

List of ownership interests (continued)

Name and registered office of the company	Direct interest in capital, in %	Indirect interest in capital, in %[3]	Currency	Reporting date	Equity[1]	Net income/ loss after taxes[1]
Global Infrastructure Partners III-C2, L.P., London		9.60	US$	31.12.2019	467,608,176	21,979,753
Kennet III A L.P., St Peter Port		6.73	€	31.12.2019	101,680,117	11,858,303
Kennet IV L.P., St Peter Port		18.83	€	31.12.2019	199,834,722	–1,997,296
Landmark Infrastructure Partners II Offshore, L.P., George Town		7.80			New investment 2.9.2020	
Partners Group Emerging Markets 2007 L.P., Edinburgh		9.38	US$	31.12.2019	74,838,000	4,140,000
Project Glow Co-Investment Fund, L.P., George Town		51.72	CA$	31.12.2019	896,345	32,790,435
United States of America						
ARDIAN North America Fund II L.P., Wilmington	2.56	8.19	US$	31.12.2019	130,383,704	–8,928,711
BR Guthrie LLC, Wilmington4		100.00		–	–	–
BR US Holdings I LLC, Wilmington		100.00	US$	31.12.2019	38,030,214	–1,250,644
BR US Holdings II LLC, Wilmington		100.00	US$	31.12.2020	1,897,112	–2,888
Guthrie Property Owner LP, Wilmington		100.00	US$	30.11.2020	37,239,928	1,119,950
H.I.G. Whitehorse Offshore Loan Feeder Fund L.P., Miami		11.06	US$	31.12.2019	231,150,526	26,954,957
ISQ Global Infrastructure Fund (EU) L.P., Wilmington		5.19	US$	31.12.2019	2,687,861,249	137,857,386
Project Finale Co-Investment Fund Holdings LLC, Wilmington		30.00	US$	31.12.2019	44,535,893	1,466,916

1 The figures relate to the most recent annual financial statements available on the reporting date.
2 Profit and loss transfer agreement in place.
3 Pursuant to Section 16 (4) of the German Stock Corporation Act (AktG), the indirect interest (or: ownership interest; or: ownership share) consists of interests that belong to a dependent company or to another company for the account of the company or a company dependent on it.
4 Information not available; consolidated in 2019.

Individual disclosures concerning the income statement

in € thousands	Gross premiums written 2020	Gross premiums written 2019	Net technical income/loss for own account (prior to claim equalisation provisions) 2020	Net technical income/loss for own account (prior to claim equalisation provisions) 2019	Net technical income/loss for own account (after claim equalisation provisions) 2020	Net technical income/loss for own account (after claim equalisation provisions) 2019
Fire insurance	71,147	68,172	–1,919	1,481	–1,058	737
Other property insurance	104,297	98,116	1,788	2,661	–2,581	–450
Total fire and other property insurance	**175,444**	**166,288**	**–131**	**4,142**	**–3,639**	**287**
Motor insurance	133,912	129,769	1,566	–6,930	–4,112	–10,230
Liability insurance	36,939	35,838	6,555	5,973	10,756	5,177
Casualty insurance	22,273	21,695	937	2,838	938	2,838
Transport and aviation hull insurance	3,902	3,811	–330	587	295	663
Other insurance	29,974	27,260	–2,465	–755	–2,363	-395
Total property/casualty insurance business	**402,444**	**384,661**	**6,132**	**5,855**	**1,875**	**–1,660**
Life insurance	4,539	5,309	586	655	586	655
Total	**406,983**	**389,970**	**6,718**	**6,510**	**2,461**	**–1,005**

Commissions and other remuneration paid to insurance agents, personnel expenses

in € thousands	2020	2019
Wages and salaries	38,503	39,520
Social remittances and expenses for support	7,355	6,440
Expenses for the pension scheme	4,245	3,885
Total	**50,103**	**49,845**

W&W AG does not have its own mobile sales force. As a result, the table required by the German Regulation on the Accounting of Insurance Undertakings (RechVersV) contains only personnel expenses and no commissions or other remuneration of insurance agents.

Wüstenrot & Württembergische AG

Responsibility statement

To the best of our knowledge, and in accordance with applicable accounting principles, the annual financial statements present a true and accurate view of the company’s net assets, financial position and financial performance, and the combined management report provides a true and accurate presentation of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Stuttgart, 1 March 2021

Jürgen A. Junker

Alexander Mayer

Jürgen Steffan

Jens Wieland

Wüstenrot & Württembergische AG
HGB auditor’s report

Report of the independent statutory auditor

To Wüstenrot & Württembergische AG, Stuttgart

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

Audit opinions

We have audited the annual financial statements of Wüstenrot & Württembergische AG, Stuttgart, consisting of the balance sheet as at 31 December 2020, the income statement for the financial year from 1 January to 31 December 2020, and the notes, together with the presentation of accounting policies. In addition, we have audited the combined management report of Wüstenrot & Württembergische AG, Stuttgart, for the financial year 1 January to 31 December 2020. In conformity with German statutory requirements, we have not audited the content of the corporate governance statement pursuant to Section 341a of the German Commercial Code (HGB) in conjunction with Section 289f HGB, which is contained in the section “Corporate governance statement”.

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 provisions of German commercial law applicable to insurance undertakings, and in compliance with German standards for proper accounting, they present a true and accurate view of the company’s net assets and financial position as at 31 December 2020 and its financial performance for the financial year 1 January to 31 December 2020.

- the attached combined management report as a whole presents a true and accurate view of the company’s position. The combined management report is consistent with the annual financial statements in all material respects, complies with German statutory requirements and accurately depicts the opportunities and risks of future development. Our audit opinion concerning the combined 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 combined management report.

Basis for the audit opinions

We conducted our audit of the audit financial statements and the combined management report in conformity with Section 317 of the German Commercial Code (HGB) and with Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities (hereinafter, the “EU Audit Regulation”), as well as in accordance with the German standards for the proper auditing of financial statements promulgated by the IDW (Institute of Public Auditors in Germany). Our responsibility in accordance with those provisions and standards is described extensively in the section of our audit report entitled “Responsibility of the statutory auditor for the audit of the annual financial statements and the combined 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, pursuant to Article 10(2)(f) of the EU Audit Regulation, we declare that we did not provide any prohibited non-audit services referred to in Article 5(1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions concerning the annual financial statements and the combined 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 2020 to 31 December 2020. 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 them.

In the following, we describe the key audit matters in our view:

Measurement of interests in affiliated companies

Reasons why this was determined to be a key audit matter
Interests in affiliated companies are not quoted, meaning that fair values as at the reporting date cannot be derived for them from active markets. For these investments, fair values are calculated using recognised measurement procedures that are customary on the market, particularly the capitalised earnings method and the net asset value method. Used as input data in connection with the capitalised earnings method are primarily measurement parameters that are not observable on the market (in particular, planning assumptions about anticipated income and expenses, such as premiums, interest surplus and claims and general administrative expenses), but also to a lesser extent measurement parameters derived from the market (particularly key specification factors of the capitalisation interest rate). Discretion is exercised in connection with the selection of the procedures and the specification of the measurement parameters and assumptions.

Because discretion is exercised in connection with the specification of the measurement procedures and the assumptions to be made about the material measurement parameters and assumptions in connection with model-based measurement and the write-downs and write-ups that may result from this, as well as the associated risk of a materially incorrect presentation in the annual financial statements, this has to do with a key audit matter.

Audit approach
We gained an understanding of the planning and measurement processes.

For a sample of interests in affiliated companies, we gained a methodological and mathematical understanding of the measurement models utilised.

Where fair value was determined using the capitalised earnings method, we reviewed, in particular, the most significant planning assumptions in connection with analysing planning. In the process, we also gained an understanding of the reasons for the deviations that occurred in the current year as compared with the previous year's planning and their anticipated one-time or ongoing effects, particularly in light of the coronavirus pandemic. For the planning analyses, we relied on current business performance, as well as on publicly available information.

Furthermore, we compared the planning presented to us with the planning approved by the Executive Board of the responsible company. Also, by means of a retrospective comparison, we analysed the planning from the previous year with the business performance actually achieved and reviewed the deviations.

We gained an understanding of the capitalisation interest rates used for discounting and how they were determined pursuant to the capital asset pricing model. This related to the base interest rate and the market risk premium, as well as the individually specified beta factors, country risk premiums and growth discounts. In addition, we gained an understanding of the calculation method presented to us and the parameters used by examining market data and available information about comparable companies, including a review of adjustments specific to the business model.

Moreover, we used our own specialists, who have special expertise in the area of company valuation, to perform a spot check of interests in affiliated companies.

For interests in affiliated companies whose fair value was determined using the net asset value method, we gained a methodological and mathematical understanding for a selection of value calculations.

Our audit procedures did not result in any objections to the measurement of interests in affiliated companies.

Reference to associated disclosures
The disclosures concerning the measurement of interests in affiliated companies are contained in the notes in the sections “Accounting policies: Interests in affiliated companies” and “Calculation of fair value”.

Other information

The Supervisory Board is responsible for the report of the Supervisory Board. The Executive Board and the Supervisory Board are responsible for the statement pursuant to the Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG), which is an element of the corporate governance statement. Beyond this, the Executive Board is responsible for the other information. The other information comprises: the aforementioned corporate governance statement. In addition, the other information comprises the combined, non-financial report of the W&W Group, a copy of which was provided to us prior to issuing this audit report. Furthermore, the other information comprises additional elements envisaged for the annual report, a copy of which was provided to us prior to issuing this audit report, in particular:

- the letter to shareholders,
- the responsibility statement,
- the report of the Supervisory Board,

but not the annual financial statements, the disclosures in the combined management report that are included in the substantive audit or our associated audit report.

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

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

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

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

The Executive Board is responsible for preparing the annual financial statements in a manner that complies in all material respects with provisions of German commercial law applicable to insurance undertakings, as well as for ensuring that in compliance with German standards for proper accounting, the annual financial statements present a true and accurate view of the company’s net assets, financial position and financial performance. Furthermore, the Executive Board is responsible for the internal controls that it has specified as necessary in compliance with German standards for 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 it from doing so.

Furthermore, the Executive Board is responsible for preparing the combined 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 statutory requirements and accurately depicts the opportunities and risks of future development. In addition, the Executive Board responsible for the arrangements and measures (systems) that it considers necessary in order to facilitate the preparation of a combined management report in conformity with applicable German statutory requirements and to enable sufficient and appropriate evidence to be provided for the statements in the combined 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 combined management report.

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

Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether the combined 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 depicts the opportunities and risks of future development, as well as to issue an audit report containing our audit opinions concerning the annual financial statements and the combined management report.

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

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

- Identify and assess the risks of material misstatement of the annual financial statements and the combined 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 audit 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 combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- Evaluate the appropriateness of the accounting policies used by the Executive Board and the reasonableness of the estimates and related disclosures made by the Executive Board;
- Draw conclusions on the appropriateness of the Executive Board's use of the going concern basis of accounting and, based on the audit evidence obtained, about whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our opinion. We draw our conclusions based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements depict the underlying business transactions and events in such a way as to present a true and accurate view of the company's net assets, financial position and financial performance in accordance with German standards for proper accounting.
- Evaluate the consistency of the combined management report with the annual financial statements, its conformity with the law and its depiction of the view of the company's position;

- Perform audit procedures concerning the forward-looking statements made by the Executive Board in the combined 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 provide a separate audit opinion concerning the forward-looking statements or the underlying assumptions. There is a substantial, unavoidable risk that future events may significantly deviate from the forward-looking statements.

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

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

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

Other statutory and legal requirements

Report on the audit of the electronic reproductions of the annual financial statements and the combined management report that are prepared for the purposes of disclosure pursuant to Section 317 (3b) of the German Commercial Code (HGB)

Audit opinion

Pursuant to Section 317 (3b) of the German Commercial Code (HGB), we performed an audit with reasonable assurance of whether the reproductions of the annual financial statements and the combined management report that are prepared for the purposes of disclosure (hereinafter, the "ESEF documents") and that are included in the attached file WW_AG_KLB+JA_ESEF-2020-12-31.zip comply with the requirements of Section 328 (1) HGB concerning the electronic reporting format (the "ESEF format") in all material respects. In conformity with German statutory provisions, this audit covers only the transmission of the information in the annual financial statements and the combined management report in the ESEF format and therefore does not cover either the information included in those reproductions or other information included in the aforementioned file.

In our opinion, the reproductions of the annual financial statements and the combined management report that are included in the aforementioned attached file and that are prepared for the purposes of disclosure comply with the requirements of Section 328 (1) HGB concerning the electronic reporting format in all material respects. Other than this audit opinion and the audit opinions concerning the attached annual financial statements and the attached combined management report for the financial year from 1 January to 31 December 2020 that are included in the foregoing "Report on the audit of the annual financial statements and of the combined management report", we do not provide any audit opinion concerning the information included in those reproductions or concerning the other information included in the aforementioned file.

Basis for the audit opinion

We conducted our audit of the reproductions of the annual financial statements and the combined management report that are included in the aforementioned attached file in conformity with Section 317 (3b) HGB and in observance of the draft standard promulgated by the IDW (Institute of Public Auditors in Germany) "Audit of electronic reproductions of financial statements and management reports prepared for the purposes of disclosure pursuant to Section 317 (3b) HGB" (IDW EPS 410). Our responsibility in accordance therewith is described extensively in the section "Responsibility of the statutory auditor for the audit of the ESEF documents". Our statutory auditor practice applied the requirements for the quality assurance system contained in the IDW quality assurance standard "Requirements for quality assurance in statutory auditor practice" (IDW QS 1).

Responsibility of the Executive Board and the Supervisory Board for the ESEF documents

The company's Executive Board is responsible for preparing the ESEF documents with the electronic reproductions of the annual financial statements and the combined management report in accordance with Section 328 (1) sentence 4, no. 1 HGB.

In addition, the company's Executive Board is responsible for the internal controls that it considers necessary in order to facilitate the preparation of ESEF documents that are free from material infringements, whether intentional or unintentional, of the requirements of Section 328 (1) HGB concerning the electronic reporting format.

The company's Executive Board is moreover responsible for submitting the ESEF documents to the operator of the German Federal Gazette, together with the audit report and the attached audited annual financial statements and the audited combined management report, as well other documents to be disclosed.

The Supervisory Board is responsible for monitoring the preparation of the ESEF documents as part of the accounting process.

Responsibility of the statutory auditor for the audit of the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material infringements, whether intentional or unintentional, of the requirements of Section 328 (1) HGB. We exercise our best judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material infringements, whether intentional or unintentional, of the requirements of Section 328 (1) HGB, 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;
- Obtain an understanding of internal controls relevant to the audit of the ESEF documents 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 internal control;
- Evaluate the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents satisfies the requirements concerning the technical specifications for this file as are set forth in Delegated Regulation (EU) 2019/815, in the version in force on the audit date; and
- Evaluate whether the ESEF documents facilitate an identical XHTML reproduction of the audited annual financial statements and the audited combined management report.

Other disclosures pursuant to Article 10 of the EU Audit Regulation

We were selected as the Group statutory auditor at the meeting of the Supervisory Board on 5 December 2018. We were given a mandate by the chair of the Supervisory Board's Risk and Audit Committee on 30 April 2020. We have served as the statutory auditor of Wüstenrot & Württembergische AG since this financial year.

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

In addition to the audit of the annual and consolidated financial statements for the audited company and its controlled companies, we essentially provided the following services:

- Review of the half-year financial report,
- Audit of voluntary annual financial statements of controlled companies,
- Audit of the non-financial report for the purpose of obtaining limited certainty and
- Permissible non-audit services in the form of advisory services (mainly in connection with the introduction of IFRS 17, the implementation of supervisory requirements and a system migration)

Responsible auditor

The auditor responsible for the audit is Martin Gehringer.

Stuttgart, 18 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

signed Wagner
Wirtschaftsprüfer
(German public auditor)

signed Gehringer
Wirtschaftsprüfer
(German public auditor)

Wüstenrot & Württembergische AG

Report of the Supervisory Board

The Supervisory Board fulfilled its duties in the 2020 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 Wüstenrot & Württembergische AG is composed of 16 members. The company is required by law to have women make up at least 30% of the Supervisory Board. It is composed of nine men and seven women. Accordingly, women make up 44% of the Supervisory Board. The shareholder representatives consist of four women and four men, meaning that full gender parity is achieved in this case. Further details about the composition of the Supervisory Board can be found in the corporate governance statement.

Over the course of the 2020 financial year, the Supervisory Board did not experience any changes in its member-ship.

Full Supervisory Board

In the year under review, the Supervisory Board had four ordinary meetings at which it considered at length the development of the company and the Group. 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 and the Group concerning strategy, planning, business performance and risk position. In addition, the issue of risk management was addressed at length by the Supervisory Board and by the Risk and Audit Committee. To this end, detailed risk reports were prepared and then presented to the Supervisory Board for discussion. The business and risk strategy was submitted to and discussed with the Supervisory Board. The Executive Board submitted the report of the Internal Audit department and the report of the Group Compliance Officer to the Risk and Audit Committee and to the Supervisory Board. The head of the Internal Audit department and the Group Compliance Officer took part in the meeting of the Risk and Audit Committee. In addition, the Chair of the Executive Board and the Chair of the Supervisory Board exchanged information on an ongoing and, where warranted by events, prompt basis about all key developments and decisions.

At the forefront of the meetings of the Supervisory Board of Wüstenrot & Württembergische AG was enhancement of the “W&W Besser!” programme and the W&W strategy concept 2025. In addition the Supervisory Board discussed the risk-bearing capacity of the W&W Group – particularly in light of the coronavirus pandemic – and the strategies in the Housing and Insurance divisions. In this regard, the Supervisory Board invited representatives from the divisions to attend the meeting and discussed their strategies with them in depth.

The further discussions in the Supervisory Board focused on the impact of the coronavirus pandemic, continuing digitalisation measures, digital business models and the consequences that these have for the Group structure, staff development and the IT structure within the Group. In particular, the environment of persistently low interest rates, increasing regulation and changed customer behaviour in the “new digital reality” were addressed. A further priority was the Group’s strategic orientation, which was discussed in detail by the Supervisory Board. The Executive Board reported regularly about the W&W campus project, particularly concerning the planning process, construction progress and cost developments.

Business performance and trends in results in the individual segments were addressed at length, particularly with respect to the challenging conditions brought about the coronavirus pandemic, as were the current situation on the capital markets, current regulatory developments and the expected impact on the Group. In connection with the discussion of participation management, special attention was given to the development of W&W brandpool GmbH, as well as to the successful sale of the Czech participations – Wüstenrot stavební spořitelna a.s. (Czech home loan and savings bank) and Wüstenrot hypoteční banka a.s. (Czech mortgage bank). The Supervisory Board received a comprehensive report on W&W AG's investments. In addition, it had detailed discussions about operational planning for 2021 and further medium-term planning,

All measures requiring approval by law 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. At its September 2020 meeting, the Supervisory Board discussed in details the elimination of the Wüstenrot & Württembergische financial holding group and the associated discontinuation of supervision on the basis of the consolidated situation of W&W AG as a financial holding company pursuant to Article 4(1) No. 20 of the CRR. On this basis, the Supervisory Board decided to modify its bylaws, as well as those for the Executive Board.

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 2019, the measure was defined for broadening the expertise of Supervisory Board members in the area of compliance, and this was implemented during the 2020 financial year. In 2020 the Supervisory Board members once again evaluated their strengths in the fields of investment, actuarial practice and accounting by means of a self-assessment. This in turn forms the basis for the development plan that the Supervisory Board prepares each year. The plan identifies areas where the Supervisory Board as a whole or its individual members wish to acquire greater expertise. At its December meeting, the Supervisory Board adopted the development plan for 2021. The self-assessment and the development plan were forwarded to the supervisory authority.

The Supervisory Board concerned itself in detail with the amendments to the German Corporate Governance Code (DCGK). Together with the Executive Board, it adopted an updated statement of compliance in December 2020, both on the basis of the 2017 DGCK and on the basis of the 2020 DGCK. The statement of compliance was published on the company's website (in German only). In the course of the audit, the auditor found no evidence that the statement of compliance was inaccurate.

All 16 members of the Supervisory Board took part in all four meetings of the Supervisory Board in 2020. In addition, all eight members of the Risk and Audit Committee took part in all three meetings/teleconferences of the Risk and Audit Committee. Likewise, all six members of the Nomination Committee took part in both meetings of the Nomination Committee that were held in the 2020 financial year. Furthermore, all four members of the Personnel Committee (until 29 September 2020, the Remuneration Control and Personnel Committee) took part in both meetings in the 2020 financial year.

There were no conflicts of interest requiring disclosure in 2020.

Efficient work of committees

In order to enable it to efficiently perform its duties, the Supervisory Board created four committees, which are able to prepare resolutions for deliberation and adoption by the full Supervisory Board, as well as adopt resolutions themselves. These are the Risk and Audit Committee, the Nomination Committee, the Personnel Committee (until 29 September 2020, the Remuneration Control and Personnel Committee) and the Conciliation Committee. Further details about the composition and working methods of the Supervisory Board committees can be found in the corporate governance statement.

In 2020 the **Risk and Audit Committee** had two ordinary meetings and a further meeting to discuss the half-year financial report. The committee also adopted by way of written circulation two resolutions concerning the approval of so-called "permissible non-audit services" by the auditor. The **Personnel Committee** had two ordinary meetings. The **Nomination Committee** had two ordinary meetings. The **Conciliation Committee** did not meet. The issues falling within the purview of the respective committees were thoroughly discussed at committee meetings. The committee chairs reported to the Supervisory Board about the work of the committees at its next meeting.

In addition to topics for which it is responsible by virtue of law and by virtue of the bylaws of the Supervisory Board, the **Risk and Audit Committee** principally concerned itself with the issue of risk-bearing capacity, particularly in light of the coronavirus pandemic. In organisational terms, the policy on the provision of non-audit services by the auditor and the internal investment policy were revised and adopted in amended form.

In addition, the Risk and Audit Committee monitored the auditor with respect to non-audit services and its independence. The committee reviewed the non-financial Group report at its meeting on 22 March 2021, at which the auditor provided the committee with verbal and written input about the methodology and key results of its audit. The audit report was sent to each member of the committee.

Following initial treatment of the subject by the **Personnel Committee,** the Supervisory Board also discussed remuneration matters, particularly the remuneration system for the Executive Board, and it took note of the report of the Executive Board on the structuring of the remuneration system for employees. The Supervisory Board and the **Nomination Committee** reviewed and evaluated the professional qualifications and aptitude of each member of the Executive Board and the Supervisory Board in accordance with the Supervisory Board's policy on "Fit and proper requirements for managers and members of the Supervisory Board". The reporting by the Executive Board continued to cover current personnel issues.

Audit of the annual financial statements and the consolidated financial statements

The Supervisory Board examined at length the annual financial statements and the consolidated financial statements for the 2020 financial year, the combined management report for Wüstenrot & Württembergische AG and the W&W Group as at 31 December 2020, as well as the proposal of the Executive Board concerning the appropriation of unappropriated surplus. The annual financial statements, the consolidated financial statements and the combined management report are complete and in conformity with the estimates made by the Executive Board in the reports to be issued to the Supervisory Board in accordance with Section 90 of the German Stock Corporation Act (AktG). The proposal of the Executive Board concerning the appropriation of net income corresponds to consistent accounting policies that take into consideration the company's liquidity position and planned investments. Therefore the Supervisory Board agrees with the proposal of the Executive Board.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, which was appointed auditor by the Supervisory Board, duly audited the annual financial statements and the consolidated financial statements for the 2020 financial year prepared by the Executive Board, as well as the combined management report for Wüstenrot & Württembergische AG and the W&W Group for the 2020 financial year, and it issued an unqualified audit 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 Risk and Audit Committee on 22 March 2021 and at the accounting meeting of the Supervisory Board on 23 March 2021. The submitted audit report meets the statutory requirements of Section 321 of the German Commercial Code (HGB) and was taken into account by the Supervisory Board in connection with its own audit. There were no circumstances that could call into question the independence of the auditor.

Following initial discussion by the Risk and Audit Committee at its meeting of 23 March 2021, the Supervisory Board reviewed the separate non-financial Group report (CSR report), which included verbal and written input from the auditor about the methodology and key results of its audit. The audit report was sent to each member of the Supervisory Board. The result of the auditor's audit of the CSR report is consistent with the result of the review by the Supervisory Board. The Supervisory Board raised no objections to the CSR report.

Following the definitive result of the audit of the annual financial statements, the consolidated financial statements and the combined management report, as well as the proposal of the Executive Board concerning the appropriation of unappropriated surplus, the Supervisory Board raised no objections, and at its meeting on 23 March 2021, it approved the annual financial statements prepared by the Executive Board as well as the consolidated financial statements. Accordingly, the annual financial statements are deemed approved pursuant to Section 172 sentence 1 of the German Stock Corporation Act (AktG).

The Supervisory Board also discussed the solvency over-view for W&W AG and the W&W Group as at 31 December 2019, as well as the auditor's report on it.

Composition of the Executive Board

The Executive Board experienced the following changes in its membership in the 2020 financial year:

Dr Michael Gutjahr stepped down from the Executive Board on 31 August 2020. The Supervisory Board would like to thank Dr Gutjahr for his dedication, his high level of commitment and his achievements over the past years. He played a key role in structuring the company. Effective 1 September 2020, Alexander Mayer, member of the Executive Board of Württembergische Versicherung AG and Württembergische Lebensversicherung AG and managing director of W&W Asset Management GmbH, was appointed to the Executive Board of W&W AG.

As a result of integration of the unit Organisation and IT Management into the area Group Development and Company Organisation, the Executive Board's business allocation plan was modified effective 1 January 2020. In addition, in connection with the change on the Executive Board, the Executive Board's business allocation plan was modified again effective 1 September 2020.

The Supervisory Board expresses its gratitude and appreciation to the Executive Board and to the employees at all Group companies for their work and their tireless commitment during these challenging times.

Stuttgart, 23 March 2021

The Supervisory Board

Hans Dietmar Sauer
Chairman

Glossary

Actuarial interest rate

Interest rate that is used by a life insurance company to calculate the provision for future policy benefits as well as, customarily, premiums, and that is guaranteed for the entire maturity. If a higher amount of interest is earned, customers receive most of this as profit participation.

Additional interest reserve

An additional provision for future policy benefits mandated by statute for life insurance contracts in the new portfolio (see also interest reinforcement for the old portfolio) in order to cover interest obligations in an environment of low interest rates. The legal basis is Section 341f (2) of the German Commercial Code (HGB) in conjunction with Section 5 of the German Policy Benefit Provision Regulation (DeckRV).

Affiliated companies

This term refers to the parent company (Group parent company) and all subsidiaries. Subsidiaries are companies over which the parent company can exercise a controlling influence on business policy. This is the case, for example, where the Group parent company directly or indirectly holds the majority of voting rights or has the right to appoint or remove the majority of the members of the Supervisory Board, or where there are contractual rights of control.

Asset liability management

Asset liability management describes the coordination of the maturity structure of assets and liabilities, as well as control of the associated market and liquidity risks.

Associated company

An associated company is a company over which the Group as owner has a decisive influence. It is neither a subsidiary nor a joint venture. Decisive influence typically exists where the Group maintains an ownership of 20-50%.

Black-Scholes Model

Measurement model for ascertaining the fair value of options, which takes into consideration the strike price, the maturity of the option, the current price of the underlying, the risk-free interest rate and the volatility of the underlying.

Building savings contract volume

This is defined when the contract is concluded and normally determines the volume of the home loan savings resources available for allocation.

Cancellation (lapse rate)

Contracts that are terminated or made non-contributory by the policyholder before an insured event occurs. The lapse rate is the proportion of cancellations based on the average insurance portfolio.

Cap

A cap is an agreement between the seller of the cap and the buyer that, when a fixed market interest rate rises above an agreed interest rate limit, the seller will refund to the buyer the amount of the difference as relates to an agreed nominal amount.

Capital investments

Premium income from the operations of insurance companies is typically allocated to provisions and reserves. Pursuant to statutory provisions, the assigned amounts must be invested in such a way as to achieve the greatest possible security and profitability while maintaining the insurance company‘s liquidity at all times. This is done by ensuring an appropriate mix and spread with respect to investment types. By capital investments, we mean:

- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Senior debenture bonds and registered bonds at amortised cost
- Subordinated securities and receivables at amortised cost
- Senior claims to institutional investors at amortised cost
- Financial assets accounted for under the equity method
- Investment property
- Non-current assets classified as held for sale, if included in one of the above categories

Capital investments for the account and risk of life insurance policyholders

These mainly include capital investments in unit-linked life insurance and additional capital investments designed to cover liabilities under contracts where the benefit is index-linked. Policyholders are entitled to the income earned from these capital investments, but they also have to bear any losses themselves.

Cash reserve

The cash reserve consists of cash in hand, deposits with the German Bundesbank and central bank that are payable on demand, balances with foreign postal giro offices, and debt instruments issued by public sector entities.

Combined ratio

Actuarial profitability indicator used by property/casualty insurance companies, total of the loss ratio and the operating expense ratio.

Compliance

Compliance refers to all measures that are taken to ensure the legally and ethically correct behaviour of companies, governing bodies and employees. Compliance is designed to protect the company against misconduct, which can lead to pecuniary losses, damage to image and the failure to meet corporate objectives. It is also designed to protect the interests of employees, customers and business partners.

Contingent liabilities

Unrecognised liabilities that are unlikely to occur, for example contingent liabilities arising from guaranty obligations.

Corporate Governance Code

The German Corporate Governance Code contains nationally and internationally recognised standards of good and responsible corporate governance. Apart from conditions that have to be observed by companies as applicable statutory law, the Code also contains recommendations and suggestions. Companies can deviate from recommendations, but they are obligated to disclose this annually. Suggestions can be deviated from without disclosure.

Credit provision ratio

The credit provision ratio means the ratio of the individual and portfolio impairment provisions to the associated credit volume.

D&O insurance

Directors & officers insurance is a type of liability insurance for managers. It covers executive board members, supervisory board members and senior executives against claims that may be brought against them as a result of a professional error.

Deferred taxes

Deferred taxes must be created for temporary differences resulting from the different valuation methods applied to assets and liabilities in the tax and IFRS balance sheets, where the tax effects arise in future periods.

Derivative financial instruments

Derivative financial instruments are forward transactions structured as a fixed or option transaction whose value depends on one or more underlying variables. Important examples of derivative financial instruments are options, futures, forwards and swaps.

Direct credit

The part of the surplus earned by the insurance company that is credited directly to customers during the financial year.

Earnings per share

Earnings per share are calculated by dividing the consolidated net profit attributable to the common shareholders of the parent company by the weighted average number of common shares outstanding during the reporting period.

Effective interest rate method

Pursuant to IFRS 9, the effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability. It is also used to allocate interest receivable or interest payable over the relevant period. Using the effective interest rate, for example, a discount is spread over the maturity of the financial instrument and reduced to zero.

Equalisation reserve

Reserve to be created in accordance with officially established, actuarial-based methods in order to compensate for fluctuations in claims development in various years. In years with a relatively low/relatively high number of claims, additions/withdrawals are made.

Equity method

Units or shares in associated companies and joint ventures are recognised in accordance with this method. In doing so, the valuation corresponds to the Group‘s share of equity of these companies.

Expenditure for insurance Business (administrative costs)

Commissions, salaries, materials costs and other expenditure for the sale and ongoing management of insurance contracts.

Fair value

The amount at which an asset is exchanged between knowledgeable, willing and unrelated business partners. The fair value is the current market value, insofar as there is an active market. If an active market does not exist, fair value is determined using recognised valuation methods.

Financial assets at fair value through profit or loss

Recognised here are financial assets that are assigned to the business model "Other/trading" or are assigned to the business models "Hold to collect" or "Hold to collect and sell" and do not pass the SPPI test. Changes in fair value are recognised in the income statement. Initial recognition and subsequent measurement take place at fair value.

Financial assets at fair value through other comprehensive income

Financial assets that are assigned to the business model "Hold to collect and sell" and pass the SPPI test are initially recognised at fair value. In the case of subsequent measurement, changes in fair value are recognised through other comprehensive income. In the case of a disposal of the debt instrument, the changes in fair value that had previously been recognised in equity are recycled through profit or loss.

Financial assets at amortised cost

Financial assets that are assigned to the business model "Hold to collect" and pass the SPPI test are recognised at amortised cost. Costs at the time of acquisition correspond to fair value. In subsequent measurement, the carrying amount is amortised through profit or loss by depreciating transaction costs, premiums and discounts at a constant effective interest rate.

Financial holding group

A financial holding group is defined as a group of undertakings consisting of a superordinate undertaking and its consolidated undertakings in the banking sector. The supervisory authority thus has the ability to examine the financial situation from the standpoint of the group.

Financial liabilities at fair value through profit or loss

Recognised here are the negative market values of derivative financial instruments that are not accounted for as a hedging instrument in connection with hedge accounting. Changes in fair value are recognised in the income statement.

Financial liabilities

These are recognised at amortised cost. Costs at the time of acquisition correspond to fair value. In subsequent measurement, the carrying amount is amortised through profit or loss by depreciating transaction costs, premiums and discounts at a constant effective interest rate.

For own account

In insurance terminology, "for own account" (f.o.a.) means after deduction of the reinsurance component.

Futures

Standardised forward transactions under which a commodity available on a cash, capital, precious-metal or foreign exchange market is to be delivered or purchased at the exchange price at a particular time in the future.

Genuine securities repurchase transaction (repo)

A genuine securities repurchase transaction (repo) is a contract in which the buyer assumes the obligation to retransfer the securities acquired under a repurchase agreement at a predetermined time or at a time determined by the seller.

German covered bonds

German covered bonds are:

- covered bonds based on acquired mortgages (German covered mortgage bonds)
- covered bonds based on acquired loans and advances due from governmental agencies (public German covered bonds)
- covered bonds based on acquired ship mortgages (German covered ship mortgage bonds)

Gross/net

In underwriting, gross/net means the respective position or ratio before or after deducting reinsurance.

Gross new business

For home loan and savings banks, gross new business describes new business as the sum of all building savings contracts applied for and accepted during a certain period of time.

Guarantee assets

Separate assets to be set aside by insurance companies in order to guarantee the claims of policyholders.

Guarantee needs

Guarantee needs have to do with the interest rate obligation under insurance contracts measured by taking into account a current market interest rate, less the provision for future policy benefits. Valuation reserves for fixed-income securities are to be taken into account with regard to the participation of policyholders in valuation reserves only to the extent that they exceed guarantee needs. Net profit may be distributed only to the extent that it exceeds the guarantee needs. The legal basis is Section 56a (2) et seq. of the Insurance Supervision Act (VAG) in conjunction with Section 8 of the German Regulation on the Minimum Premium Refund in Life Insurance (MindZV).

Hedge accounting

Hedge accounting is an accounting procedure for depicting how the value of a hedge (e.g. an interest rate swap) and the value of an underlying (e.g. a loan) trend in opposite directions. The object of hedging is to minimise the impact on the income statement that results from the measurement of derivatives and recognition of the results in profit or loss.

Hedging

Coverage against price risks through an adequate counter-position, particularly through derivative financial instruments. There are two basic models, depending on the risk to be secured: fair value hedges are used to secure assets or liabilities against risks of changes in value, and cash flow hedges mitigate the risk of fluctuations in future cash flows.

IFRS/IAS

The abbreviation IFRS stands for International Financial Reporting Standards and describes the international principles of financial reporting. Since 2002, the designation IFRS applies to the overall concept of the standards enacted by the International Accounting Standards Board (IASB). Standards already enacted continue to be called International Accounting Standards (IAS).

Interest book management

Interest book management means the active management of risks of interest rate changes, particularly with regard to credit institutions. In so doing, regulatory requirements need to be taken into account that aim at limiting potential risks of interest rate changes.

Interest rate swap

An interest rate swap is a contractual agreement between two parties to exchange interest payments in a currency.

Interest reinforcement

An additional provision for future policy benefits required by BaFin for life insurance contracts in the old portfolio (see also additional interest reserve for the new portfolio) in order to cover interest obligations in an environment of low interest rates. The calculation rule is dealt with in connection with the business plan for the old portfolio.

Interim loan

Loan granted against a building savings contract that has reached the minimum savings balance but has not yet been allocated. It is subsequently replaced with the allocated building savings contract volume.

IRBA (Internal Ratings Based Approach)

Banks, banking groups and financial holding groups may rely on their own internal estimates of risk components when determining minimum capital requirements and in providing backing for risk-weighted assets for counterparty risks. The approval of BaFin is required in order to use IRBA.

ISDA (International Swaps and Derivatives Association)

The ISDA is an international trading organisation of participants on the derivatives market. The main purpose of the association is to research and mitigate risks in derivatives trading and in risk management in general. The association has published an ISDA Master Agreement, which is used for the standardised settlement of derivative transactions.

Issuer rating

An issuer rating (for banks and insurance companies) represents the current opinion of a rating agency about a debtor‘s general financial ability to meet its financial obligations. This opinion relates in particular to a debtor‘s ability and willingness to settle its financial liabilities in full and on time.

Loan under a building savings contract

After allocation of a building savings contract, there is a claim to a loan under a building savings contract, which is granted for housing financing activities. The amount of the loan under a building savings contract is typically determined by the difference between the building savings contract volume and the building savings contract balance. Special features of this loan are a fixed low interest rate for the entire term, the ability to subordinate collateral and the right to make unscheduled payments at any time.

Loss ratio

Percentage ratio of loss expenses to premiums attributable to the financial year, i.e. those that are "earned".

Mixed funds

Investment funds that invest both in equities and in fixed-income securities.

Monte Carlo simulation

Simulation of random numbers.

Net interest

When calculating the net interest on capital investments, all realised income and expenses associated with the capital investments are taken into account and compared with the average value of the capital investment portfolio (according to carrying amounts). This also includes profits and losses from the disposal of capital investments, as well as depreciations. Net interest can therefore fluctuate considerably from year to year.

Net new business

For home loan and savings banks, net new business describes the sum of all building-savings contracts paid in during a certain period of time.

New business (annual portfolio contributions)

Annual portfolio contributions in property/casualty business that are added to the total portfolio over the course of the year on account of new contracts or contract amendments with a new business character (new contract or contract change to a different contract group).

New premium

This contains annual premiums from new life insurance business, including one-off premiums.

New premiums

They include the annual portfolio contributions in live business including single premiums

Non-controlling interests in equity

Interests in own funds of consolidated subsidiaries that, in the Group's view, are held by outside third parties.

Non-technical account

The result from those types of income and expenses that are not allocated to direct insurance business.

Options

Forward contracts where the buyer is entitled but not obligated to purchase (call option) or sell (put option) the subject of the option within a certain period at a price agreed to in advance. The seller of the option (writer) is obligated to provide or accept the subject of the option and receives a fee for granting the option.

OTC (over the counter) derivatives

Derivative financial instruments that are not standardised and not traded on a stock exchange but instead are individually negotiated between two contractual partners.

Paid in

A newly concluded building savings contract is deemed paid in after payment in full of the conclusion fee.

Portfolio value from acquired insurance contracts

The value recognised upon acquisition of an insurance company as the countervalue for the acquired insurance contracts.

Premiums, written/earned

The premium is the price for the benefit to be provided by the insurer. It can be paid either continually or as a one-off premium. Written premiums are premium revenues received for the respective financial year. Earned premiums are the amounts attributable to the financial year.

Primary insurance

Primary insurance is established through a direct contractual relationship between the insurance company and the policyholder and is described as direct insurance business.

Provision for future policy benefits

The insurance company creates a provision for future policy benefits in order to be able to guarantee the promised insurance cover at any time.

Provision for outstanding insurance claims

This is a provision for expenses arising from claims that occurred in the respective financial year but have not yet been able to be settled. It also includes provisions for claims that occurred before the reporting date but have not yet been reported.

Provision for premium refunds

The provision for premium refunds comes from that part of gross profit that is not credited directly to policyholders. It therefore includes those shares of the profit that are directly credited to customers in subsequent financial years. Consistent profit participation can thus be granted to policyholders from this provision, irrespective of fluctuating annual results. In addition, a deferred provision for premium funds must be created in IFRS financial statements for valuation differences between HGB and IFRS.

Provision for unearned premiums

These premium revenues are allocated to income from future financial years. They are calculated individually and to the day for each insurance contract.

Public funds

Investment funds whose units can be purchased by anyone. Purchase and sale are possible when stock exchanges are open.

Public German covered bonds

Bonds issued by a mortgage bank to public authorities for the purposes of refinancing loans.

Quoted prices

Quoted prices are characterised by the fact that they are readily and regularly available. Quotes are made via a stock exchange, a broker, an industry group, a pricing service or a supervisory authority. Prices must be accessible to the public. Prices quoted on a stock exchange, as well as pricing on OTC markets, are publicly available if the prices are available to the public, for example via Reuters or Bloomberg.

Reinsurance

An insurance company insures part of its risk with another insurance company (the reinsurer).

Reserve buffer

Includes the valuation reserves and free provisions for premium refunds, plus the amounts attributable to non-tied final profit participation funds.

Reserve for financial assets at fair value through other comprehensive income

In this reserve market value changes to assets belonging to the category "Financial assets available for sale" are recognised directly in equity in the reserve for financial assets available for sale. It is a component of equity.

Result attributable to non-controlling interests

Shares in consolidated net profit that, in the Group's view, are attributable to outside third parties.

Retained earnings

Recognised as retained earnings in individual HGB financial statements are only those amounts that were accrued from net income in the financial year or in previous financial years. They strengthen the company's financial matter.

Retrocession

Assumption of the risks of reinsurance companies by other reinsurers.

Risk provision

The arrangements in IFRS 9 concerning risk provision are applied to financial assets at amortised cost or at fair value through other comprehensive income, as well as to loan commitments and issued finance guarantees. In the case of assets at amortised cost, the risk provision is recognised directly in the risk provision position associated with the respective balance sheet item. In the case of assets at fair value through other comprehensive in-come, the risk provision is recognised in the income statement by adjusting the reserve for financial assets at fair value through other comprehensive income, which is recognised in equity. The risk provision for off-balance-sheet business is recognised as an expense under "Other provisions". This risk provision is essentially calculated the same way as that for financial assets.

RORAC (return on risk-adjusted capital)

Return on risk-adjusted capital is a key performance indicator for measuring income, taking into account the risk capital used.

Solvency II group

A Solvency II group involves a group of insurance undertakings. The participations of the parent undertaking are pooled in an insurance group. The supervisory authority thus has the ability to examine the financial situation from the standpoint of the group.

Solvency ratio

Term from the insurance industry. The solvency ratio indicates the relationship between an insurance company's own funds and the value of its capital investments as weighted according to investment risk. The higher the ratio, the more risks the insurance company may assume pursuant to European investment regulations.

Special funds

Investment funds that are open only to a limited group of investors. These are usually institutional investors, such as insurance companies, pension funds, foundations, etc.

SPPI (solely payments of principal and interest)

If a financial asset is assigned to the business model "Hold to collect" or "Hold to collect and sell", it must be assessed on the basis of contractual agreements whether the cash flows contain only principal and interest payments, known as basic loan features (SPPI test).

Stress test

The stress test simulates the effects that future negative developments on the capital markets – such as a drop in share prices accompanied by a rise in interest rates – can have on the coverage of guaranteed benefits and the solvency of the company.

Structured entity

With a structured entity, voting and comparable rights are not the definitive factors in determining who controls the company. Voting rights merely cover administrative duties, whereas material activities are performed pursuant to contractual arrangements.

Underwriting result

The result from income and expenses from insurance business primarily comprises premiums, claims expenses, premium refunds and expenses for insurance operations. In addition, in life insurance business, the corresponding capital investment result and the change in the provision for future policy benefits form part of it.

Valuation reserves

Difference between the fair value and the carrying amount of certain asset classes. In HGB financial statements, this includes capital investments. In IFRS financial statements, this includes financial instruments that are not recognised at fair value and property held as a financial investment.

Value at risk (VaR)

The VaR is a measure of risk that indicates what value the loss of a certain risk position will not exceed with a stipulated probability of default (confidence level) during a stipulated time interval.

Value-oriented net sales

New and replacement business less portfolio cancellations (in each case, according to annual contributions to the portfolio) of each insurance line in property/casualty insurance, weighted with factors. The factors are determined according to the respective profitability. As a rule, the more profitable the line, the higher the weighting factors. Positive value-oriented net sales means strong in-come growth.

Value-oriented net valuation amount

Total premium from new business by product group, weighted with value-oriented factors. The factors are determined according to the profitability of each product group. As a rule, the more profitable a product group, the higher the weighting factor.

Volatility

The standard deviation, translated to one year, of the logarithmic growth of a risk factor.

Württembergische

The term "Württembergische" includes Württembergische Lebensversicherung AG, Württembergische Versicherung AG and die Württembergische Krankenversicherung AG.

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