

# Annual Report 2008

Württembergische Versicherung AG

The English version of the Annual Report is in accordance with the examined German Annual Report.



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## KEY FIGURES AT A GLANCE

### WÜRTTEMBERGISCHE VERSICHERUNG AG

		2008	2007
<b>Revenue Account</b>			
Premium revenue gross	in € million	1 286,9	1 474,2
Incurring losses for own account (f.o.a.)	in € million	787,7	802,4
Underwriting expenses (f.o.a.)	in € million	315,9	340,1
<b>Portfolio</b>			
Number of insurance contracts	in thousands	7 635	7 671
<b>Claims</b>			
Number of advised claims	in thousands	528	570
<b>Investments</b>			
Result for the year/profit transfer	in € million	50,9	45,1
Number of employees of the Württembergische insurance companies <sup>1</sup>		5 899	6 093

<sup>1</sup> Württembergische Versicherung AG, Württembergische Lebensversicherung AG (office and field staff, including trainees) as at 31 December.

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# WÜRTTEMBERGISCHE VERSICHERUNG AG

## THE ROCK IN THE WAVES

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Established in 1828 as „Württembergische Privat-Feuer-Versicherungs-Gesellschaft“ (Württemberg private fire insurance company), Württembergische Versicherung AG is one of the most traditional insurers in Germany. Today, more than 180 years later, Württembergische Versicherung AG offers tailor-made concepts of general insurance. This is based on a wide spectrum of products – from motor, residential buildings and household insurance to third-party liability, legal protection and personal accident insurance as well as aviation, construction all risks, loss of earnings, marine and engineering insurance.

Württembergische Versicherung AG sees itself as a service insurer which, thanks to 3,000 partners in the field, supports its customers quickly and without complication when claims have to be submitted. The company's quality of service and its focus on the customer are confirmed regularly by best rankings awarded by the well-known KUBUS study of MSR Consulting with regard to overall claims and service. Well thought-out products have also helped to establish Württembergische Lebensversicherung AG as the „Rock in the Waves“ and one of the nine largest general insurers in Germany.

Württembergische Versicherung AG joins Württembergische Lebensversicherung AG, Württembergische Krankenversicherung AG, ARA Pensionskasse AG and Karlsruher Lebensversicherung AG to form the Württembergische Insurance Group. Since 1999, the Group has been a pillar of Wüstenrot & Württembergische, the specialist in provision for the future. From the shared range of insurance and building savings/banking services and products, Wüstenrot & Württembergische can create a personalised insurance package for everyone – from formation of capital wealth, home ownership, financial security and protection against risks. The Württembergische therefore sees its insurance products as part of made-to-measure all-round provisions, thus combining tradition and an orientation to the future.

Ladies and Gentlemen,

In 2008, which was heavily impacted by the international financial crisis, Württembergische Versicherung AG once more proved to a reliable partner. Net sales are above that of the previous year and the written premium revenue in domestic business is just below that of 2007. Business with private as well as corporate customers improved. Due to the cessation of new business from abroad through the London branch office in accordance with the company's strategy, however, total premium revenue decreased. The combined ratio in Germany – i.e. the ratio of incurred insurance losses to costs after claims adjustment – is on the target level dictated by the strategy in spite of loss impacts due to natural perils. Thanks to consistent implementation of the "Württembergische 2009" renewal campaign, which is integrated in the Group-wide "W&W 2009" program, we achieved pleasing cost reductions that exceeded the planned target. The integration of the former Karlsruher Versicherung AG has been completed.

The competitiveness of the products and their profile in the market were improved once again. Examples of this in private-customer business are the tariffs introduced in May for general insurance as well as the new motor tariff introduced in September 2008.

In the "SPRING" sales project, we optimized the transfer of information to the agencies in order to take the pressure off the sales staff in the sales process. The aim is also to gain new brokers and further strengthen the existing general agencies through a better back-up service and positive stimulation of sales.

The high quality of service provided by the office staff and field organisation of Württembergische Versicherung AG again led to an above-average degree of satisfaction among the customers. This is a repeated confirmation of the excellent ratings awarded by the independent KUBUS insurance market study conducted throughout Germany. We were not only said to offer high quality in the areas of "consulting/range of services" and "telephone contact", we were also awarded the seal of quality "very good" in the categories "product portfolio", "price/performance ratio" and "quality of customer service".

In spite of all the efforts made, our company was unable to avoid the effects of the global financial crisis. The decreases in share prices and the substantially augmented risk surcharges on interest-bearing securities led to considerable impairments in respect of our investments. However, we processed all of them completely within the framework of the annual accounts and therefore were not compelled to form hidden burdens in accordance with § 341 Para. 2 HGB. The reduced result on investment was more than compensated for by the withdrawal from the equalisation reserve in connection with the cessation of our foreign business. We were able to transfer a result of €50.9 million to our shareholder, W&W AG. This was an improvement over the preceding year. Württembergische Versicherung AG made its contribution towards the establishment of the W&W Group on the market as the specialist in provision for the future in respect of formation of capital wealth, home ownership, financial security and protection against risk in all phases of life.

Irrespective of the additional challenges presented by the financial crisis, we have an optimistic view of the current year. Our aim is to achieve profitable growth in the highly competitive market for general insurance. We are in a good position, have achieved substantial improvements in efficiency and are continuing to forcefully implement our reform programs. Moreover, we are reinforcing our exclusive organisation and expanding sales through brokers.

Our success is thanks to the dedicated commitment of our office and field staff, our partners who cooperate with us in the area of sales, and all our customers and shareholders who have placed their trust in us. My special thanks go to all of them.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Wolfgang Oehler', written in a cursive style.

Dr. Wolfgang Oehler

## Management Board



Ruth Martin, Dr. Wolfram Gerdes, Dr. Jochen Kriegmeier, Rainer Schlegel, Dr. Michael Gutjahr, Dr. Wolfgang Oehler, Dr. Ralf Kantak (from left to right)

**DR. WOLFGANG OEHLER**

Chairman

**DR. WOLFRAM GERDES**

(from 1 January 2008)

Investments

**DR. MICHAEL GUTJAHR**

Internal matters

**DR. RALF KANTAK**

(from 1 April 2008)

Sales

**DR. JOCHEN KRIEGMEIER**

General insurance

**RUTH MARTIN**

Life

**RAINER SCHLEGEL**

Organization/EDP

## Supervisory Board

### **DR. ALEXANDER ERDLAND** **CHAIRMAN**

Chairman of the Management Board of  
Wüstenrot & Württembergische AG

### **ROLF HENRICH**<sup>1</sup> **DEPUTY CHAIRMAN** (from 29 May 2008)

Managing executive  
Württembergische Versicherung AG  
Overall employees' committee chairman of the  
Württembergische insurance companies

### **PETER ULRICH**<sup>1</sup> **DEPUTY CHAIRMAN** (until 29 May 2008)

Managing Executive of  
Württembergische Lebensversicherung AG

### **KATJA BRONNER**<sup>1</sup> (from 29 May 2008)

Union secretary  
Vereinte Dienstleistungsgewerkschaft

### **DR. CHRISTOPH DORSCHEL** (until 29 May 2009)

Former member of the management of SwissRe

### **GÜNTER DREHER**<sup>1</sup>

District Director of Württembergische Versicherung AG

### **KLAUS PETER FROHMÜLLER**

Member of the Management Board of  
Wüstenrot & Württembergische AG

### **CUNO HÄGELE**<sup>1</sup> (until 29 May 2008)

Union Secretary  
Vereinte Dienstleistungsgewerkschaft

### **JOCHEN HALLER**

Managing Director of the chamber of trade and commerce  
Ludwigsburg chamber of trade and commerce

### **JOCHEN HÖPKEN**<sup>1</sup> (from 29 May 2008)

Secretary with special responsibilities  
Vereinte Dienstleistungsgewerkschaft

### **UWE ILZHÖFER**<sup>1</sup> (until 29 May 2008)

Managing Executive of  
Württembergische Versicherung AG

### **ULRICH KRAFT**

Managing Director of Kraft Malerwerkstätten GmbH

### **DR. JOACHIM LEMPPENAU** (from 29 May 2008)

Former chairman of the management board of  
Volksfürsorge Holding AG, Volksfürsorge Deutsche  
Lebensversicherung AG and Volksfürsorge Deutsche  
Sachversicherung AG

<sup>1</sup> Employees' representative.

**HARTMUT REICHERT<sup>1</sup>**

Chief Inspector of Württembergische Versicherung AG

**FRANZ ROTHENHÄUSLER<sup>1</sup>**

(up to 29 May 2008)

Union Secretary Landesfach 1  
Vereinte Dienstleistungsgewerkschaft

**HUBERT SEBOLD<sup>1</sup>**

(from 29 May 2008)

Deputy chairman of the employees' committee  
Württembergische Versicherung AG  
Location: Karlsruhe

**DR. JAN MARTIN WICKE**

Member of the Management Board  
Wüstenrot & Württembergische AG

# Württembergische und W&W Group in 2008

**AS A “ROCK IN THE WAVES”, THE WÜRTTEMBERGISCHE IS AN INTEGRAL COMPONENT OF THE W&W GROUP. ON ITS WAY TO MORE GROWTH, EFFICIENCY AND PROFITABILITY, THE W&W GROUP MADE GOOD PROGRESS IN 2008. OUR SHORT CHRONICLE SHOWS WHAT WE ALL ACHIEVED TOGETHER:**

## JANUAR

W&W starts the “Living Service Excellence” program. It pools already existing service initiatives and takes greater account of customer requirements and wishes than before.

Dr. Wolfram Gerdes becomes investment chairman of the Württembergische.

The information-provision and consulting phase with the economic committees and the employees’ councils regarding W&W Service GmbH begins. The aim is to bundle services and thus enhance the Group’s efficiency.

## FEBRUARY

The new brand has arrived. Wüstenrot and Württembergische announce Signet, a shared new product. Two Ws connected to each other stand for the new self-image of our financial services group.

At the annual press conference, W&W chairman, Dr. Alexander Erdland, introduces journalists to the new product to be launched on the market.

For managers, the qualification program entitled “W&W General Management for Executives”, which W&W started last year with the St. Galler Business School, continues.

## MARCH

“Enspannt. Wie Sven...” This slogan, which in English signifies something like “Not a care in the world”, marked the start of the Württembergische’s advertising campaign with the new corporate design. For the first time, the message was “Württembergische, partner of Wüstenrot”, and “Wüstenrot, partner of the Württembergische”.

## APRIL

Dr. Ralf Kantak becomes sales chairman of the Württembergische.

Wüstenrot launches the new ideal building savings plan on the market. The names of the five versions are – trans-

lated roughly into English – are Financer, Profitable, Flexible, XXL Financer and Immediate Financer and make it clear that the most important thing is what the customer actually wants.

In order to enhance its selling capacity, Wüstenrot Bausparkasse AG cooperates with AWD, Europe’s leading independent provider of financial services.

## MAY

Wüstenrot and Württembergische introduce a new back-up support structure for more cross-selling in the two exclusive sales organisations. It envisages the deployment and tie-in of business acquirers in the respective sales organisation as well as specialist support through the provision of back-up from the other respective area of business.

The new property and personal accident insurance tariffs of the Württembergische give a boost to sales with individual extra protection, lower premiums and greater benefits. Another plus: in addition to the basic protection, customers can order individual modules that are tailored to their needs and their situation in life.

## JUNE

Yet another award! Wüstenrot and Württembergische are again among “Germany’s most customer-focussed service providers”. In the general insurance category, Württembergische Versicherung AG is even right at the top. The initiators and organisers of this competition are the Handelsblatt, the Institut für Versicherungswirtschaft of the University of St. Gallen, Service-Rating GmbH and Steria Mummert Consulting.

According to the Map report, Württembergische Lebensversicherung AG is among the best annuity insurers. Immediate-annuity policies against payment of a single premium that were offered by 35 companies and started in 1990, 1995 and 2000 were examined.

Starting shot for the new outdoor advertising campaign. The new logo decorates the facades of W&W buildings in Stuttgart and Ludwigsburg.

## **JULY**

The top day-money account of Wüstenrot Bank AG Pfandbriefbank passes the quarter of a billion euro mark in terms of the volume of deposits.

In the framework of the Front office/Back office project of the Württembergische, the first of seven service areas of the new Customer Service department start work.

W&W carry out the first Group-wide employee survey. According to the results, 75% of the office staff of the W&W Group support the re-profiling of the Wüstenrot & Württembergische as THE specialist in provision for the future. They recognise the necessity of closer and more intensive coordination for the competitiveness of the two areas of business. Out of those questioned, 66% were happy that the W&W Group is now growing more closer together.

Finanztest awards the rating “very good” to the permanent disability insurance of Württembergische Lebensversicherung AG which, as an additional benefit, offers seamless protection during the transition from daily expenses for hospitalisation to the disability annuity.

## **AUGUST**

Sale of the new “flex” term deposit product starts. It guarantees a fixed rate of interest over the entire period of the contract, with special rights of access without advance notice.

152 trainee start work at W&W. With a total of 14 professions and courses of study, the group covers the needs of their departments.

Since being established ten years ago, Württembergische Krankenversicherung AG has established itself successfully in the market. The company offers its 320,000 customers full and supplementary forms of insurance. The tariff “ZahnPlus” (supplementary dental insurance) is new and closes one of the insurance gaps at a low price.

## **SEPTEMBER**

A new team takes over as the Management Board of the four Czech Wüstenrot companies in Prague. The new chairman is Pavel Vanek. Other members are Jan Vlcek,

Anna Petikova, Pavel Pektor, Dr. Harald Mayer-Rönne and Lars Kohler.

“Growing together and harvesting the benefits together” is the motto of the first conference of all managers in the W&W Group when the new image as “THE specialist in provision for the future” is officially introduced. Following this event, the manager workshops start with their employees in order to work on implementation of the new image on the Group level.

## **OCTOBER**

Wüstenrot introduces the eWorld program, which includes digitisation of incoming and outgoing mail and the archive in order to accelerate customer service processes. Württembergische Lebensversicherung AG has transferred the unit-linked contracts of the former Karlsruher Lebensversicherung AG to a joint contract-portfolio management system.

## **NOVEMBER**

From November onwards, they are three: the RiestertPlus (supplementary Riestert-type annuity) of Württembergische Lebensversicherung AG, the W&W Group is now offering the Wüstenrot Wohn-Riestert (Riestert-type building savings contract) and the Wüstenrot Riestert loan.

The union wage agreements for the newly established W&W Service GmbH have been signed. The youngest subsidiary of the W&W Group started in January 2009 with 640 employees.

## **DECEMBER**

For consulting/range of customer services as well as telephone contact, the Württembergische receives the rating “excellent” from the KUBUS study of the insurance market 2008. Quality of advice given, the price/performance ratio and the range of products are awarded a rating of “very good”.

The W&W fund-of-funds, ImmoRent BWI, passes the 100 million euro mark.

The “flex” term deposit product of Wüstenrot Bank AG Pfandbriefbank achieves a volume of deposits amounting to €320 million only five months after it was launched on the market. The top day-money account has deposits of € 450 million.



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# REPORT OF THE MANAGEMENT BOARD

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## WÜRTTEMBERGISCHE VERSICHERUNG AG WITHIN THE W&W GROUP

### Programs for the future

“Württembergische 2009”, a program of renewal that encompasses the Württembergische insurance companies, has been integrated into the Group-wide “W&W 2009” program for more growth, efficiency and profitability, started in 2006. Within this framework, there are plans to achieve cost savings amounting to around € 225 million in the entire W&W Group by the end of 2009. € 90 million will come from the “Württembergische 2009” program alone.

#### THE OVERALL “W&W 2009” PROGRAM

The W&W Group is on schedule in its implementation of “W&W 2009”. All the cost reduction potential that had been planned up to the end of fiscal 2009 was fully exploited. However, the financial crisis last year led to write-down of the investments, high re-financing costs and increased hedging costs.

In all the projects of the “W&W 2009” programs for the future, important milestones were reached in 2008. For example, further progress was made in the restructuring of Wüstenrot and work on securing the future of the Württembergische was intensified. Considerable increases in the share of the building savings and housing finance markets were achieved. Thanks to a restructured accounting system and a risk management apparatus expanded to cover the entire W&W Group, the quality of reporting and risk control has been improved. In the areas of personnel and auditing, powerful units are being created due to the bundling of responsibility for all companies in the W&W Group. Out of the 750 individual measures, 450 had been completed by the end of 2008.

W&W Informatik GmbH is an important partner for the implementation of “W&W 2009” measures. A new IT strategy was ratified in 2008 so that the IT services company can handle projects efficiently and according to plan. Since then, W&W Informatik GmbH has assessed and prioritised projects in such a way that the business-area strategies and the systems are optimally attuned to each other.

#### “WÜRTTEMBERGISCHE 2009”

The integration of the Karlsruher insurance companies has been concluded. The cost effects of the merger of Karlsruher Lebensversicherung AG with Württembergische Lebensversicherung AG and general/personal-accident insurance with Württembergische Versicherung AG occurred earlier than planned and are higher than predicted.

Last year, Württembergische Versicherung AG reduced the number of its administration offices from 15 to 7 as planned. This means that it will be possible to process insurance contracts more efficiently in future. With regard to the settlement of motor insurance claims, productivity was increased. A more effectively controlled claims adjustment system has also meant that the cost savings in this project are higher than foreseen. The new structure of the service areas was introduced at the Stuttgart location in August 2008 with the aim of making clerical processing more effective across the different types of insurance product and improving customer service. This direction will be continued in 2009.

#### “WÜSTENROT 2009”

In 2008, considerable progress was made in the building savings/banking area of business due to the “Housing Finance Reorganisation” project. Automation of the credit-application processing procedure and integration of the process in ongoing business operations were a great challenge and led to a reduction of pressure and greater effectiveness in working procedures.

#### “W&W SPRING” – GROTH PROMOTION

The Group-wide sales project “SPRING”, which is intended to strengthen the sales organisation and promote growth, showed significant successes in the area of cross-selling. In 2008, the exclusive organisation of the Württembergische increased its new building savings business by 67% compared to the preceding year. The Wüstenrot field sales staff acquired almost 18% of the new business of Württembergische Lebensversicherung AG last year.

Other initiatives were started in order to increase the cross-selling quotas. In 2008, for example, W&W deployed specialised business acquirers who were sent out to boost sales staff in the field – for insurance business obtained by the field sales staff of Wüstenrot and for housing finance business obtained by the field sales staff of the Württembergische.

**WürttVers within the W&W Group**

General Economic Conditions

Development of Business

Risk Report

Prognosis Report/Outlook

The aim of this was to exploit customer potential more effectively and ensure that customers were given comprehensive advice. In order to increase productivity, improvements were carried out last year in respect of sales control and support, the provision of information to the sales staff and qualification measures in the framework of "SPRING". Another aim is to expand the sales organisation. New general agents and local consultants are to be gained and existing connections to sales partners intensified.

**W&W SERVICE GMBH**

On January 1, 2009, W&W Service GmbH (WWS) started operating with 640 employees. The aim was to bundle services such as building management, catering, supplies and logistics in order to increase the efficiency of the W&W Group. This move had been preceded by negotiations with the trade unions, Vereinte Dienstleistungsgewerkschaft (ver.di) and Deutscher Handels- und Industriearbeitenden-Verband (DhV), which led to a transfer and wage-tariff agreement in November 2008. On the basis of this agreement, employees of other consolidated companies have transferred to the new service company. For new employees, an in-house wage agreement is applicable.

**NEW CORPORATE IMAGE BEING AIMED AT**

The employees of the Württembergische insurance companies and all companies of the W&W Group are jointly pursuing the shared aim of promoting a specific corporate image:

"We are THE specialist in provision for the future".

The idea is to generate growth from within the W&W Group as an entity and ensure the strength and independence of the consolidated companies over the long term.

In doing so, we are relying on the traditions of the two brands. Wüstenrot and Württembergische have won the trust of nearly six million customers. They are the most important asset for a promising future. For its customers, the W&W Group wants to be the first partner of choice in all questions of financial provision for the future. We provide advice "from a single source" with regard to asset building, home ownership, financial security and protection against risks in all phases of life. This performs the socially important task of assigning a fixed role to private provision for the future in Germany.

A central aspect of these joint efforts is to meet the needs of customers comprehensively on the basis of structures and processes that are more cost-effective, streamlined and efficient. We intend to continue working on these points with consistency and determination.

The corporate image being aimed at was created as part of a process of forming a set of guiding principles for the W&W Group, in which it is anchored. An elementary prerequisite for success in conveying this corporate image is that all employees act according to these principles in their daily work. The results of a survey conducted in June 2008 indicate the ideas and personal goals that the employees associate with the move to profile the W&W Group as THE specialist in provision for the future. With this as a basis, the individual departments of the W&W Group are elaborating what the corporate image being aimed at means in their respective areas of work and what contribution every individual has to make personally towards this goal.

**Customers, products and sales****CUSTOMERS OF THE W&W GROUP**

All parts of the W&W Group are dedicated to the new corporate image of the W&W Group as "THE specialist in provision for the future". It embodies the idea of providing advice to the customer comprehensively in the form of an all-round package. In order to meet this challenge, the W&W customer database was augmented considerably in 2008. It contains data on almost six million customers and serves as the foundation for a specific needs-focused approach to customers by the sales organisation. The special requirements and data protection regulations of the individual sales channels are, of course, observed.

In order to provide the relevant information effectively, the database is equipped with a campaign management system and a customer value model, both of which are uniform throughout the W&W Group. These applications make it possible to detect gaps in customers' provisions for the future, for example, and to address them with advertising directed at their specific needs. Our wish is to strengthen relationships with existing customers in this way. In the current year, the functions of the W&W customer database will be refined even further so that the sales channels will receive the best possible support in their approach to existing and potential customers.

The strict separation of customer data and the respect for affiliated companies are fundamental principles of our co-operation with banking partners, especially in the public-government and cooperative-banking areas. These customers are only handled in the product segment agreed on with the banking partners.

### PRODUCTS

The W&W Group offers products for formation of wealth, home ownership, financial security and protection against risks. Building savings and housing finance are the core business of the Wüstenrot sales organisation in the field whereas general insurance for a wide public are the basic aspects of business done by the field sales organisation of the Württembergische insurance companies. In addition, the two sales channels are intensifying an approach that involves joint processing across all markets, namely cross-selling. The field sales organisations of Wüstenrot and Württembergische are concentrating equally on products that promise high growth and high earnings. These so-called “mid-way” products are especially to be found in the area of provision for old age and asset building. The mid-way products include life insurance, annuity insurance, capital investment products, investment funds and also health insurance.

The product area is being strengthened with innovative developments and newly conceived product combinations. The customer can therefore close several gaps in his provisions for the future simultaneously. Moreover, the sales organisation is able to provide comprehensive and holistic advice. In 2008, several new combined products were launched on the market, for example a form of housing finance linked to an inexpensive endowment insurance without a medical examination, or a building savings contract, combined with a fund investment called “Ideal & Invest”. Since November 2008, the range of Riester products has been rounded off with the new building savings contracts entitled “Wüstenrot Housing Riester” and “Wüstenrot Riester Loan”.

### SALES

A central element of sales activities in 2008 was the definition of a shared sales strategy for the W&W Group as a whole. This involves the commitment of the W&W Group to a strategy of multiple sales channels. There are plans to invest in the field sales organisations and to further build

up and expand complementary sales channels such as brokers, banks and direct approaches. The relationship of the sales channels to each other is being defined, as is the coordination of different sales activities.

The new sales strategy is aimed at an overall view of both areas of business together. Harmonisation of the structures of management, remuneration, control and communication is making it possible to systematically coordinate customer needs, product development, added-value creation and sales channels within the W&W Group. Implementation of the sale strategy is one of the most important prerequisites that have to be met in order to profile the W&W Group as THE specialist in provision for the future and to sustainably expand the cross-selling activities of the exclusive organisation.

In future, the advice provided to customers will be in four areas of need, defined uniformly for the W&W Group as a whole:

- Home ownership – living in one’s own four walls
- Meeting financial goals and building assets
- Protecting assets and property
- Taking steps today to ensure financial independence and well-being in old age

With these four areas of need, a foundation has been laid for the standardised provision of advice to customers

## WürttVers within the W&amp;W Group

General Economic Conditions

Development of Business

Risk Report

Prognosis Report/Outlook

**RANGE OF PRODUCTS OFFERED**

The field sales staff of the Württembergische offer the products of

- Württembergische Versicherung AG,
- Württembergische Lebensversicherung AG,
- Württembergische Krankenversicherung AG,
- Allgemeine Rentenanstalt Pensionskasse AG,
- Karlsruher Lebensversicherung AG,
- Wüstenrot Bausparkasse AG,
- Wüstenrot Bank AG Pfandbriefbank ,
- W&W Asset Management GmbH.

Our product portfolio encompasses a wide range of insurance for private and corporate customers.

**Insurance offered to private clients****LIFE AND ANNUITY INSURANCE**

- Company provision for old age (pension scheme); conversion of remuneration by means of pension fund, direct insurance,
- Financing,
- Endowment and term insurance, educational endowment insurance, funeral benefits insurance, inheritance provision, supplementary permanent health and supplementary personal accident insurance,
- Classical annuity insurance, unit-linked annuity insurance, Riester annuity, unit-linked Riester annuity, basic annuity, unit-linked basic annuity, supplementary permanent health, orphans and surviving dependant's insurance, permanent health insurance for the self-employed.

**HEALTH INSURANCE**

- Full health-costs insurance,
- Supplementary health and daily health allowance insurance,
- Patient daily allowance insurance,
- Nursing insurance, daily nursing allowance insurance,
- Foreign-travel health insurance.

**GENERAL INSURANCE**

- Construction all risks insurance,
- Third-party liability insurance for private persons, house and real estate owners, boat owners, hunters, house builder,
- Glass insurance: construction and furnishing glass, household glass,
- Household insurance,
- Motor insurance: motor third-party liability, motor all risks, motor fire and theft, motor personal accident,
- Aviation insurance: aviation third-party liability, hull, personal accident,
- Legal protection insurance: private, professional and traffic-related legal protection for employed people and the self-employed, legal protection for owners and tenants of dwellings and real estate,
- Marine insurance: luggage, pleasure craft hull insurance, musical instruments, hunting and sports weapons, jewellery and furs in private ownership,
- Personal accident insurance: for singles, partners, children, families, senior citizens, travel,
- Residential buildings insurance.

**Insurance offered to corporate clients****LIFE AND ANNUITY INSURANCE**

All types of corporate pension scheme and provision for old age.

**HEALTH INSURANCE****GENERAL INSURANCE**

- Loss-of-earnings insurance,
- Third-party liability insurance,
- Motor insurance,
- Aviation insurance,
- Legal protection insurance,
- Property insurance,
- Engineering insurance,
- Marine insurance,
- Personal accident insurance.

## Employees

In fiscal 2008, our employees continued to work on the “W&W 2009” and “Württembergische 2009” programs in their usual committed manner. “Growing together and harvesting the benefits together” was the slogan of the first meeting of all managers of the W&W Group, during which the image being aimed at as “THE provisions specialist” was introduced officially. Following the event, managers and their staff took part in workshops so that, on a Group level, they could work together on implementation of the image being aimed at.

A high degree of dedication and willingness to contribute is required by the “W&W 2009” and “Württembergische 2009” program, which will enter their concluding phase in the course of the current fiscal year. The good evaluations achieved during the KUBUS study and in the competition entitled “Germany’s most customer-focussed service provider” are a great encouragement for the employees of the Württembergische insurance companies.

Personnel work in 2008 was characterized by restructuring measures, which are part of the renewal program of the W&W Group and are creating the foundations for more growth, efficiency and profitability. For establishment of the new W&W Service GmbH, for example, an in-house wage agreement and a transfer contract were entered into, on the basis of which employees of other consolidated companies have transferred to the new service company. The basic labour-law foundations for the new administration office structure of the Württembergische were also created. The number of processing locations was then reduced from 15 to seven. Since May 2008, the first specialist consultants in the area of building savings/banking have been working in the main district offices of the Württembergische. They provide intensive specialist support to local consultants with the aim of giving a substantial boost to cross-selling activity. In return, business-acquisition specialists of the Württembergische support the Wüstenrot sales organization in insurance business.

The “Step 2009” project (strategic development personnel) for uniform and efficient realignment of personnel work is going according to plan. Personnel development and personnel management are being centralised in W&W AG.

## NUMBER OF EMPLOYEES

As at 31 December 2008, the Württembergische insurance companies employed 4706 (4864) people (not including trainees), calculated in terms of active employees. The Württembergische insurance companies include Württembergische Lebensversicherung AG, Württembergische Versicherung AG, Württembergische Krankenversicherung AG, ARA Pensionskasse AG and Karlsruher Lebensversicherung AG. 1630 (1739) jobs were accounted for by permanent field sales staff. The total number of personnel - calculated in terms of the number of contracts of employment – was 5653 (5820) people as at 31 December 2008, excluding trainees, and thus decreased by around 3% (reduction of 7% in the preceding year). The reduction was carried out faster than had been planned in the “Württembergische 2009” program.

## BASIC AND FURTHER TRAINING

The 246 (273) trainees of the Württembergische insurance companies mainly work in the commercial area. This level is to be maintained in the coming years as well. In the Württembergische insurance companies, 20 (19) young employees are studying to acquire a Bachelor of Arts degree, mainly in insurance, in collaboration with professional academies in Karlsruhe and Stuttgart. Apart from basic and further specialist training, the W&W Group offers systematic programs for the development and advancement of new potential managers. In 2008, for example, the W&W Premium Talent program was called into being. For advanced training of the top management staff of the W&W Group, there is an understanding with a business school, which provides training for our management staff in the area “General Management for Executives”.

## THANKS TO OUR EMPLOYEES

At this point, we would like to thank our employees for their commitment and exceptional dedication in the completed fiscal year. The performance and competence of our employees are crucial for ensuring the success of our Group in future.

We also thank the employees’ representatives and their committees as well as the spokespersons’ committees of the management staff for their trusting collaboration and constructive support for measures aimed at securing the future of the company.

## WürttVers within the W&amp;W Group

General Economic Conditions

Development of Business

Risk Report

Prognosis Report/Outlook

## Provision for the future and responsibility in the Württembergische insurance companies

The W&W Group – as well as Württembergische Versicherung AG as part of the W&W Group – feels that it has a special responsibility for society. This awareness derives from the history of its subsidiaries, Wüstenrot and Württembergische. After all, they arose out of an interest in helping people in the medium and low income brackets to create, multiply and protect their assets. This basic idea is still alive and topical in the way the W&W Group sees itself as THE provisions specialist. At a time when state provisions are being cut back, the W&W Group is its customers' first partner in all questions of private provision for the future and offers reliable advice in this increasingly complex area. In this way, the W&W Group places its business activities in the service of social responsibility.

Through its contribution to the best possible means of providing financially for the future among the wide population, the W&W Group has, for generations, been enabling people to achieve personal freedom with maximum security and is thus, in effect, promoting peaceful coexistence.

The W&W Group also feels that it is part of its corporate policy to ensure an intact environment by means of environmental protection within the company. The energy saving measures started in 2007 were consolidated in 2008. Environmental guidelines applicable throughout the Group are currently being drawn up. After the Stuttgart location's acquisition of ECOfit certification in 2007, there are plans to introduce the same standard in Karlsruhe and Ludwigsburg in 2009. An important component of corporate environmental protection is to systematically identify potential for the reduction of energy consumption.

Wüstenrot & Württembergische not only assumes responsibility for its customers through its products that enable them to make provisions for the future but is also strongly committed to furthering the interests of society and the environment.

## Ratings

The W&W Group starts fiscal 2009 with a stable outlook for its ratings. In December 2008, the Standard & Poor's rating agency (S&P) confirmed all the ratings of the W&W Group as "outlook stable". The "BBB+" rating of Württembergische Versicherung AG and the "BBB-" rating of the subordinate loan issued by Württembergische Versicherung AG to the value of €60 million therefore continue to be applicable.

In March 2008, FitchRatings (Fitch) confirmed all the ratings of the W&W Group but, in December 2008 in the course of the financial crisis, they lowered each of them by one notch. The reasons given for this by Fitch were not only the current situation in the industry but also the profit warnings announced by Wüstenrot & Württembergische AG and Württembergische Lebensversicherung AG in October 2008, among other things. The outlook of all ratings of the W&W Group remained stable for Fitch as well.

In 2008, the agencies paid tribute to the improved risk management of the W&W Group, its success in cross-selling and the restructuring measures implemented in the

framework of the "W&W 2009" program. Moreover, the strong business position of Württembergische Versicherung AG and its sister company, Württembergische Lebensversicherung AG, was taken into account. The restructuring of the motor portfolio by the general accident insurance company was also highlighted.

### HIGH FINANCIAL STRENGTH CONFIRMED

Like Württembergische Krankenversicherung AG, both companies again received from Fitch the seal of financial strength, which is only awarded to financially strong insurance companies. The financial strength rating is important for Württembergische Versicherung AG, especially in corporate business and business obtained through brokers.

In addition to the two existing interactive ratings of S&P and Fitch, Württembergische Versicherung AG subjected itself to the rating of the internationally recognised rating agency, A.M. Best, for the last time in 2008. In October, A.M. Best confirmed the "A-" financial strength rating as well as the "A-" issuer default rating with stable outlook. The contractual relationship with A.M. Best was dissolved at the end of 2008 in accordance with the wishes of Württembergische Versicherung AG.

## RATINGS

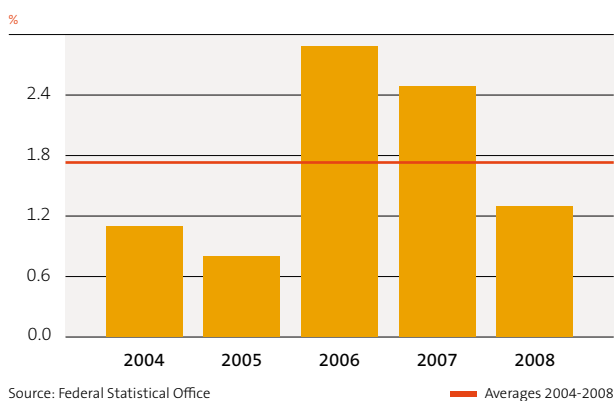
	STANDARD & POOR'S		FITCRATINGS	
	FINANCIAL STRENGTH RATING	ISSUER CREDIT RATING	FINANCIAL STRENGTH RATING	ISSUER DEFAULT RATING
W&W AG	BBB- outlook stable	BBB- outlook stable		BBB+ outlook stable
Württembergische Versicherung AG	BBB+ outlook stable	BBB+ outlook stable	A- outlook stable	BBB+ outlook stable
Württembergische Lebensversicherung AG	BBB+ outlook stable	BBB+ outlook stable	A- outlook stable	BBB+ outlook stable
Württembergische Krankenversicherung AG			A- outlook stable	BBB+ outlook stable
Württembergische Versicherung AG Hybrid capital loan		BBB-		
Württembergische Lebensversicherung AG Hybrid capital loan		BBB-		BBB

## GENERAL ECONOMIC CONDITIONS

### Overall economic environment

In 2008, the German economy experienced only moderate growth. According to the initial calculations of the federal office of statistics, the gross domestic product, after correction for prices, was 1.3% above the preceding year. In 2007, it had grown by 2.5%. One of the main reasons for this drop in economic activity was the global financial crisis with its massive effects on all players in the national economy.

GERMAN GROSS DOMESTIC PRODUCT



The investment volume, which had seen very high levels of growth at the beginning of the year, diminished towards the end of the year. The hope still cherished at the beginning of the year that demand from private consumers would shoot up in 2008 was also disappointed. Unexpectedly high inflation rates due to the rapid increase in energy prices by the middle of the year ensured that the real disposable income of households hardly increased at all in spite of above-average wage rises. Finally, the previously most dynamic growth area of the economy, namely export business, suffered increasingly under the strong euro and especially under the diminishing demand from important buyer countries.

### Development of the industry

Last year, the German insurance industry was less affected by the financial crisis than other sectors in the finance industry. Thanks to the careful investment policy that is usual in this branch, the financial products that had triggered the crisis did not play the same role as they did in banking. In view of low share ratios, the impact of the drop in prices in the share market on insurers was limited.

In many aspects of general insurance, there has been intensive competition in respect of prices for several years now and this continued in 2008. Moreover, a high degree of market penetration has been reached in many classes of insurance and this imposes narrow limits on growth for the suppliers involved. On the claims side, 2008 was impacted by hurricane "Emma" and numerous hailstorms in the summer months.

Premium revenue in general accident insurance in Germany grew by 0.2% and therefore remained practically unchanged at € 54.6 billion according to provisional calculations of the GDV (Totalverband der Deutschen Versicherungswirtschaft e.v. = German insurance industry association). Claims expenses fell by 0.8% to € 41.7 billion. The current-year claims ratio fell by 0.6 percentage points to around 78.0% compared to 2007.

## DEVELOPMENT OF BUSINESS

### Overview of the year under review

#### NET SALES PERFORMANCE OVER THE PREVIOUS YEAR

In 2008, the sales organisations of Württembergische Versicherung AG improved their figures, measured in terms of net sales. Nevertheless, premium revenue decreased. The main reason for this was cessation of business through the London branch, WürtttUK, as of January 2008 in line with the strategy adopted. Total foreign business in 2008 therefore accounted for residual premium revenue of only € 2.8 million after € 177.5 million in the previous year. In Germany, the ongoing price competition in motor insurance, the most important private insurance class of Württembergische Versicherung AG, was noticeable. In the other classes of private customer insurance of Württembergische Versicherung AG and in corporate insurance, premium revenue grew slightly compared to the preceding year. The cancellation rate in the portfolio of Württembergische Versicherung AG decreased by 10.1% compared to the year before.

#### GROSS PREMIUM REVENUE

	2008	2007	Veränderung
	in € million	in € million	in %
<b>Domestic</b>	1 284.1	1 296.7	- 1.0
<b>Abroad</b>	2.8	177.5	- 98.4
<b>TOTAL</b>	<b>1 286.9</b>	<b>1 474.2</b>	<b>- 12.7</b>
For own account	1 042.4	1 163.4	- 10.4
Self-retention in %	81.0	78.9	

#### INSURANCE LOSSES AFFECTED BY CLAIMS FOR NATURAL PERILS

In fiscal 2008, Württembergische Versicherung AG had to cope with numerous claims arising from natural perils that occurred. The gross claims expenses for claims relating to natural perils amounted to € 70.2 million. The gross claims ratio in fiscal 2008 – namely without profits from the run-off of claims reserves – deteriorated from 78.5% to 80.8% due to the claims relating to natural perils. As a consequence of the cessation of business through the English branch office, the claims expenses for own ac-

count went down from € 802.4 million to € 787.7 million. The net claims ratio increased to 72.0 (68.1)% because premium revenue decreased by a greater amount compared to claims expenses in 2008.

#### RESERVES STRENGTHENED

The insurance reserves diminished in the course of the year from € 2165.5 million to € 2074.2 million. The reasons for this decrease were the necessary withdrawal from the claims equalisation reserve in the course of cessation of foreign business done by the branch office in London, on the one hand, and the reduction in unearned premiums, on the other. The claims reserves, in contrast, rose slightly by 0.7% from € 1679.7 million to € 1690.8 million. This benefited the company's situation in respect of reserves.

#### INSURANCE RESERVES F.O.A.

	2008	2007	Change
			in %
<b>Claims reserves</b>			
In € million	1 690.8	1 679.7	0.7
In % of premium revenue	162.2	144.4	
In % of claims payments	222.3	237.2	
<b>Claims equalisation reserves</b>			
In € million	245.5	297.1	- 17.4
In % of premium revenue	23.5	25.5	
<b>Insurance reserves</b>			
Total in € million	2 074.2	2 165.5	- 4.2
In % of written premium revenue	199.0	186.1	

#### COSTS REDUCED AGAIN

The efficiency-enhancement initiatives from the "Württembergische 2009" program had a positive impact on the cost situation of Württembergische Versicherung AG in 2008. Underwriting expenses went down from € 422.1 million to € 378.0 million. Due to the premium revenue which also decreased, however, the cost ratio only fell slightly from 28.1% to 27.9%.

Unless stated otherwise, the figures in brackets refer to the corresponding values in fiscal 2007.

### COMBINED RATIO IN GERMANY IN LINE WITH STRATEGIC TARGET

In spite of high charges due to claims related to natural perils, the combined gross claims/cost ratio (combined ratio) was acceptable on the whole at 100.1 (97.3)%. In domestic business, the combined ratio of Württembergische Versicherung AG improved from 99.4% in the preceding year to 96.0% in 2008. This value corresponds to the strategic target.

### HIGH INSURANCE RESULT

After reduction of the claims equalisation reserve by € 51.7 (12.7) million, Württembergische Versicherung AG again achieved a high insurance result of € 40.4 (46.7) million.

### INVESTMENT RESULT ADVERSELY IMPACTED BY FINANCIAL CRISIS – HIDDEN BURDENS AVOIDED

The considerable price reductions on the share markets and the substantial risk surcharges on interest-bearing securities – so-called spreads – in the course of the financial crisis had an adverse impact on the investments of Württembergische Versicherung AG. In 2008, the result on investments amounted to € 35.2 (76.4) million. The net yield fell from 3.1% to 1.4%. The impairments of investments due to the financial crisis were all processed in the balance sheet accounts so that it was not necessary to form hidden burdens in accordance with § 341 Para. 2 HGB.

### TRANSFER OF RESULT TO W&W AG

Due to the weaker result on investments, the result of normal business activity fell from €84.1 million to € 50.6 million. Württembergische Versicherung AG transferred a result of € 50.9 (45.1) million to the shareholder W&W AG. In 2008, the company therefore achieved a return on equity (ROE) in accordance with HGB amounting to 24.4% before tax.

### THE BUSINESS SEGMENTS OF WÜRTEMBERGISCHE VERSICHERUNG AG

#### GROSS PREMIUM REVENUE ACCORDING TO BUSINESS SEGMENTS

	2008	2008
	in € thousand	in %
Motor	503.9	39.2
Private customers	523.5	40.7
Corporate customers	256.7	19.9
Abroad	2.8	0.2
<b>TOTAL</b>	<b>1 286.9</b>	<b>100.0</b>

#### Motor

The motor business segment includes motor third-party liability, motor all risks and motor fire/theft insurance, motor personal accident insurance and also traffic service insurance of Württembergische Versicherung AG. In 2008, the written premium revenue decreased by 4.9% to € 503.9 (530.2) million. The reason for this, apart from the fall in new and replacement business, was a further decrease in the average premiums per contract, a trend that can be observed on the market as a whole. Due to the high losses arising from hailstorm claims in the all risks and fire/theft classes, the current-year claims ratio rose from 88.9% to 95.5%. The result from the run-off of loss reserves was clearly above the level of the previous year. All in all, the gross insurance result was once again negative in the motor insurance business segments but improved considerably from € –36.6 million to € –18.4 million.

In implementing the strategy adopted in the previous year in order to improve motor insurance, the motor insurance segment of Württembergische Versicherung AG concentrated especially on the optimisation of claims management in 2008. The profitable niche products such as vintage-car and motorcycle insurance were developed further.

### Private customers

The private customer business segment basically includes residential buildings, household, general accident insurance, legal protection and third-party liability business of private households. The written premium revenue improved by 0.9% to € 523.5 (518.7) million. Growth in premium revenue was particularly achieved by the classes residential building insurance with a plus of 5.7% and legal protection insurance with an increase of 2.1%. The conversion of contracts from the portfolio of the former Karlsruher Versicherung AG to the conditions of Württembergische Versicherung AG was continued in 2008. As a result, it was possible to adapt contractual relationships to current customer needs and intensify the bond between customers and Württembergische Versicherung AG.

The net result in the entire private customer area amounted to € 35.7 million, almost the very good level of the previous year (€ 37.0 million). The highest result was again achieved by the general accident insurance class, which recorded a net insurance result of € 31.5 (28.4) million. In residential building insurance, which was adversely impacted by the high claims arising from hurricane "Emma" and other numerous events relating to natural perils, the result was unsatisfactory.

### Corporate customers

The corporate customer business segment includes property and third-party liability insurance. The premium revenue in this segment rose by 3.7% from € 247.6 million to € 256.7 million. In commercial property insurance, growth in premium revenue was especially good with a plus of 4.6%. In the previous year, hurricane "Kyrill" had led to exceptionally high claims expenses. In 2008, hurricane "Emma" and some large single claims exerted a negative influence on the claims situation. Nevertheless, the claims ratio in 2008 fell considerably by 3.3 percentage points from 61.2% to 57.9%. In corporate customer business, a net result amounting to €7.6 (15.3) million was achieved. The largest contribution to the result was delivered by commercial third-party liability insurance at € 8.4 (4.4) million.

### Abroad

The renewal rights of the English branch office, WürttUK, were sold in accordance with strategic planning. Since January 2008, therefore, no more foreign business has been actively underwritten. The written premium revenue fell from € 177.5 million to €2.8 million for this reason.

## Assets, financial situation and earnings

### REPORT ON INSURANCE CLASSES

This report presents the results described in the preceding segment report in a different way. For each individual class, the result across all business segments – motor, private customers, corporate customers and abroad – is summarised.

### Direct business

#### PERSONAL ACCIDENT INSURANCE

Personal accident insurance includes general personal accident insurance, aviation personal accident and motor personal accident insurance. In the year under review, gross premium revenue increased slightly by 0.3% from € 127.3 million to € 127.6 million. The number of advised claims decreased in relation to the previous year again. It fell by 2.7% to 16 273 (16 733) and the claims ratio in the year under review also improved to 36.9 (38.5)%. In the insurance account, personal accident insurance finished with a profit of € 32.3 (29.3) million, once again above the previous year.

#### THIRD-PARTY LIABILITY INSURANCE

The third-party liability class includes the general third-party liability business of private and corporate customers as well as aviation third-party liability business. The gross premium revenue in this class fell by 14.2% to € 175.3 (204.3) million. The main reason for this was the cessation of business through the English branch office. Due to transfers to the reserves in the old portfolio of WürttUK, the claims ratio in third-party liability insurance rose by 2.9 percentage points to 60.7 (57.8)%. The net insurance result before adjustment of the claims equalisation reserve decreased from € 12.0 million to € 3.1 million in the third-party liability class.

### MOTOR INSURANCE

In the entire motor insurance class of business, the drop in premium revenue continued in 2008 and, for Württembergische Versicherung AG, was above the market trend. The reason for this development was the continued decrease in average premiums in motor insurance in Germany. Premium revenue in the motor class in the year under review fell by 5.0% to € 496.3 (522.6) million. The net insurance result decreased from € – 11.2 million to € – 18.6 million. Here, high claims relating to natural perils adversely impacted the classes of motor all risks and motor fire/theft.

### MOTOR THIRD PARTY LIABILITY INSURANCE

The number of risks insured with Württembergische Versicherung AG in the area of motor third-party liability insurance fell by 1.2% from 1 383 589 to 1 367 294. Written premium revenue went down by 6.1% to € 305.6 (325.3) million. The number of advised claims also decreased by 5.5% to 72 785 (76 990). Here, the fruits of the remedial activities taken in the preceding years in motor third-party liability insurance are apparent, as a result of which the quality of the portfolio has improved substantially. The average claim increased slightly to € 3475 (3448). The current-year claims ratio rose by 2.3 percentage points to 98.4 (96.1)%. The profit from the run-off of loss reserves in motor third-party liability insurance was considerably above the preceding year. In the net insurance result, a profit of € 3.5 million was achieved after a loss in the year before (€ –13.9 million). €1.9 million was withdrawn from the equalisation reserve.

### OTHER CLASSES OF MOTOR INSURANCE

The 'Other' classes of motor insurance include all risks insurance and fire/theft insurance. The premium revenue decreased by 3.3% to € 190.7 (197.3) million. Fiscal 2008 was heavily impacted by natural perils that led to numerous motor claims. The current-year claims ratio therefore rose from 77.8% in 2007 to 92.0% in 2008. Altogether, Württembergische Versicherung AG recorded a loss of € – 22.2 million in the 'Other' classes of motor insurance after a profit of € 2.7 million in the year before. In accordance with the legal requirements, € 15.4 million was withdrawn from the claims equalisation reserve. In 2007, €7.4 million was transferred to this reserve.

### FIRE INSURANCE

The class of insurance includes industrial fire insurance, general fire insurance and agricultural fire insurance. Premium revenue fell by 3.5% to € 46.3 (47.9) million. In domestic business, sales of the Company policy continued to be successful and resulted in an 11.9% growth in premium revenue from € 41.5 million to € 46.4 million. Foreign business was stopped as of the beginning of 2008. The current-year claims ratio fell by 1.2 percentage points to 59.9 (61.1)%. The insurance result before adjustment of the claims equalisation reserve was slightly negative at € –0.3 (3.0) million. In 2008, € 4.4 million was withdrawn from the claims equalisation reserve.

### HOUSEHOLD INSURANCE

Premium revenue in household insurance stabilised in 2008 at the same level as the previous year, amounting to € 84.5 (84.5) million. The pressure of claims increased slightly in fiscal 2008. In spite of a further 8.9% drop in the number of claims, the average claim, which increased from € 726 to €832, had a negative impact on the claims situation. As a result, the current-year claims ratio rose by 2.5 percentage points to 39.5 (37.0)%. The net insurance result amounted to € 18.3 million, just under the previous year's level of € 19.5 million.

### RESIDENTIAL BUILDINGS INSURANCE

Premium revenue increased by 5.7% from €102.0 million to € 107.8 million. The gross claims pay-outs due to hurricane "Emma" were substantially below those caused by "Kyrill" in 2007. The number of advised claims went down by 33.2% from 79 241 to 52 944. The claims ratio therefore fell from 107.1% to 90.8%. Nevertheless, the net insurance result in this class amounted to a loss of € –23.0 (–20.3) million, slightly above the loss of the preceding year. In order to improve the result, further consistent remedial action for the portfolios is planned.

### OTHER PROPERTY INSURANCE

'Other' property insurance includes types of insurance such as burglary, water-pipe, glass, storm and natural perils, engineering insurance, extended coverage as well as multi-class products from the commercial and industrial area. For the entire class of other property insurance, Württembergische Versicherung AG recorded premium-income growth of 3.3% to € 123.3 (119.4) million in fiscal 2008. The claims situation in 'Other' property insurance was also affected by hurricane "Emma". Nevertheless, the current-year claims ratio decreased by 3.6 percentage

points to 70.0 (73.6)% in 2008. For the class as a whole, there was a slight insurance loss of € –0.7 million after adjustment of the claims equalisation reserve, following a previous year's profit of € 4.4 million. € 0.7 (0.4) million was withdrawn from the claims equalisation reserve.

#### MARINE AND AVIATION INSURANCE

Written premium revenue in domestic business in marine and aviation insurance remained almost constant. Due to the cessation of foreign business, the total written premium revenue halved from € 23.5 million to € 11.7 million. The claims ratio fell from 78.5% to 60.9%. In 2008, this class achieved a slight insurance profit of € 0.3 million after slight losses in the previous year amounting to € –0.7 million. € 6.3 million was withdrawn from the claims equalisation reserve.

#### LEGAL PROTECTION INSURANCE

In legal protection insurance, premium revenue rose again, increasing by 2.1% to € 94.1 (92.2) million. The number of advised claims also decreased, falling by 2.3% from 86 951 to 84 926. As a result, the claims ratio was considerably lower at 58.6 (61.9)%. In the insurance result before adjustment of the claims equalisation reserve, there was a profit of € 6.3 (1.8) million. € 4.8 (3.8) million was transferred to the claims equalisation reserve.

#### OTHER CLASSES OF INSURANCE

'Other' classes of insurance include fire consequential loss insurance and also multi-class products. This area posted a 50.0% drop in premium revenue to € 16.5 (33.1) million. This was solely the result of the cessation of foreign business. The claims ratio suffered severely due to the formation of follow-up reserves in the foreign portfolio and amounted to 188.9 (23.9)%. Altogether, the Other insurance classes recorded an insurance loss of € –17.2 million after a profit of € 10.7 million in 2007.

#### Assumed reinsurance business

Up to the end of 2007, the assumed reinsurance business was mainly underwritten by the London branch office, WürttUK, but has now been ceased. It basically includes the contracts of the insurance classes marine, fire, third-party liability and aviation as well as 'Other' insurance. In assumed reinsurance business, the gross premium revenue decreased very substantially by 97.2% to € 3.3 (117.3) million. The insurance loss decreased from € –14.5 million in the previous year to € –11.9 million in 2008.

#### INVESTMENTS

##### Impact of the financial crisis

In the course of 2008, the financial crisis impacted developments on the capital markets. The drastic price decreases on the share markets as well as the substantially increased risk surcharges on interest-bearing securities on the bond markets had a negative impact on the value of the investment portfolio of Württembergische Versicherung AG and led to write-downs that increased considerably compared to the previous year. In respect of banks that were to be regarded as critical as a consequence of the financial crisis, Württembergische Versicherung AG had only invested to a minimal extent, particularly in the subordinate area. Württembergische Versicherung AG traditionally pursues an investment policy that combines an awareness of the risks with an insistence on good debtor quality.

In view of the difficult situation on the financial markets, the share commitment in the investment portfolio was reduced. The share ratio of Württembergische Versicherung AG amounted to 5.0 (9.1)% at the end of 2008. At the end of the year, 86.6% of the share portfolio had been hedged by means of derivatives. As in the year before, registered bonds and debentures were the item position in the investment portfolio, accounting for 41.4% of the total.

### Decrease in the investment result

In spite of the incoming flow of liquidity from insurance business and earnings on capital, the book value of the total investment portfolio decreased by 3.2% to €2.4 billion. The balance of realised profits and losses improved considerably in 2008 to €13.7 million after a negative value of -€11.0 million in the year before. The ongoing yield increased by 36.0% to €150.6 million. Nevertheless, the net result on investment as a whole decreased considerably from €76.4 million to €35.2 million. These developments were due to write-downs in the securities area amounting to €132.4 (13.9) million because of the financial crisis. The net yield on investments amounted to 1.4 (3.1)%.

### Slight increase in the valuation reserves as a whole – No hidden burdens

As a consequence of the financial crisis, the total valuation reserves of the investments valued at historical costs amounted to €14.5 (48.5) million. Because all write-downs were processed in the annual accounts, it was not necessary to form hidden burdens in accordance with § 341 b Para. 2 HGB. After €23.1 million in the previous year, the value of the total valuation reserves — including the reserves of the investments valued at nominal value — increased to €30.8 million in 2008. In the case of the investments valued at nominal value, this increase in the valuation reserves resulted from the stark drop in yield on the bond markets. A more detailed picture of the reserves situation is given in the list on page 54 of this report.

### Growth in participations

The book value of the participations and shares in affiliated companies rose to €211.0 million in 2008 from €186.1 million in the year before because Württembergische Versicherung AG added to its existing private equity commitment again in the framework of its capital pledges and expanded one of its real-estate participations. In the fiscal year under review, Württembergische Versicherung AG also entered into obligations to invest totalling €4.5 million for three new private equity participations.

### Real estate

In 2008, no real estate was purchased for the direct portfolio. A profit of €0.4 million was achieved through the sale of two small residential objects from the direct real estate portfolio.

### Stress tests of BaFin passed

Württembergische Versicherung AG passed all the stress tests prescribed by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin = federal institute for financial services).

### Derivative financial instruments

In fiscal 2008, Württembergische Versicherung AG again made use of derivative financial instruments in the form of swaps and forward exchange transactions in direct business. These transactions served to safeguard our portfolios against risks. All the regulations of the Insurance Supervisory Law were observed in these transactions. The necessary organisational structures, in particular the strict internal separation of trading and administration, were guaranteed at all times.

## RELATIONSHIPS TO AFFILIATED COMPANIES

W&W AG, Stuttgart, holds 100 per cent of our share capital. W&W AG, in turn, is in a relationship of dependence with Wüstenrot Holding AG (WH). There are no business relationships between WH and our company.

A contract of control and profit-transfer exists with W&W AG.

There are close relationships to W&W AG, Württembergische Lebensversicherung AG (WürttLeben), Württembergische Krankenversicherung AG (Württ-Kranken), ARA Pensionskasse AG (ARA PK), Karlsruher Lebensversicherung AG (formerly KHK), W&W Asset Management GmbH (W&W AM), Wüstenrot Bausparkasse AG (BSW), W&W Informatik GmbH (IT GmbH), Makler Vertriebsservice GmbH, Altmark, Württfeuer Beteiligungs-GmbH (WürttFeuer), Württembergische Immobilien AG, Württembergische KÖ 43 and Nord-Deutsche AG. These relationships are based on transfer-of-functions-and-services contract.

All these contracts regulate the partly or wholly transferred services, including cost allocation according to cause.

The settlement of claims in the area of legal protection insurance has been transferred to Württembergische Rechtsschutz Schaden-Service GmbH by means of a service contract.

Our annual accounts are included in the annual accounts of W&W AG and in the consolidated annual accounts of WH. Reinsurance of domestic reinsurance business is mainly provided through W&W AG, which cedes some of the assumed risks to external reinsurers in a process of retrocession. Excepted from this is part of the insurance business underwritten in Germany as well as the business ceded to Pharma-Rückversicherungs-Gemeinschaft.

## RISK REPORT

### The aims and underlying principles of risk management

We consider risk management to be the totality of all organizational regulations and measures relating to (early) risk detection and how the risks involved in our business dealings are handled. We define risk as the danger that Württembergische Versicherung AG will not achieve its goals or will not be able to implement its strategy successfully.

Risk controlling is part of risk management and involves the detection, analysis, assessment and communication of risks as well as the monitoring of measures taken in order to control risks.

The risk controlling system of Württembergische Versicherung AG has been incorporated into the W&W Group's overall risk management and risk controlling system, which standardises and combines the systems and methods that are used by the individual companies and that are organised according to the respective business requirements.

Our risk management activities are aimed at securing the financial strength of Württembergische Versicherung AG and helping the decision-makers to control the company effectively. We also regard risk management as involving far more than simply compliance with the legal requirements. We see risk management as an elementary component of corporate culture and pursue the goal of creating added value for our customers and shareholders by means of an efficient risk organisation as well as risk instruments and methods appropriate to actual needs.

In the risk strategy, we have defined the strategic framework for risk management and alignment of the risk policy of Württembergische Versicherung AG. Derived from the higher-level business strategy, the risk strategy describes the nature and extent of the main risks of Württembergische Versicherung AG. It defines objectives, measures and instruments for dealing with risks that have been or will be taken. In the process, the aim is always to achieve a suitable balance between the exploitation of business opportunities and the taking of risks, whereby the prime concern is to ensure the continued existence of

Württembergische Versicherung AG. Risks that endanger the existence of the company or cannot be calculated are avoided. As a supplement to the risk strategy, we have defined fundamental goals and guidelines for risk management as well as standards for their organisational implementation. They are included in the Württ Risk Policy, which contains stipulations for the risk management of all companies that are active in the insurance area of business of the W&W Group.

### Organisation of risk management

The Management Board bears the responsibility for risk management in Württembergische Versicherung AG. It is responsible for compliance with existing regulations relating to risk management that are laid down by law and specified by the Insurance Supervisory Authority and the company itself. This responsibility cannot be delegated. In the year under review, the Württ Risk Board was implemented in the insurance area of business in order to support and strengthen risk management in respect of its processes and structure. Standing members of the Württ Risk Board are management boards and executives who are responsible for risk management and bordering topics in the insurance area of business as well as representatives of the central risk management apparatus. The task of this board is to coordinate the sometimes different risks of the insurance companies in consultation with the Management Board.

The central risk management apparatus is responsible for evaluating the overall risk situation. It also ensures ongoing communication and cross-coordination of the risk situation, the monitoring of general and cumulative risks, regular reporting to the management and supervisory boards of Württembergische Versicherung AG and coordination with the group risk management apparatus of W&W AG.

In the year under review, the areas of controlling and risk management of the German insurance companies belonging to the W&W Group were placed together in one department. All risk-controlling functions, including reporting duties from the area of investments/financial controlling, are bundled together in this department. Due to the re-structuring measures and the functional separation of risk taking and risk controlling, the minimum re-

quirements placed on risk management in insurance companies (MaRisk VA) are complied with.

The functionality, appropriateness and effectiveness of our risk management system are checked regularly by our internal auditing department.

### Risk management process

The risk management process in Württembergische Versicherung AG consists of several main components: risk identification, risk assessment, risk taking, risk monitoring and risk reporting.

In the framework of drawing up an inventory of risks, Württembergische Versicherung AG regularly records, updates and documents any risks taken and potential risks. The significance of risks that are detected is assessed on the basis of probabilities of occurrence and possible negative effects on the assets, financial situation and earnings. This includes an estimation of whether individual risks that are of subordinate importance – considered in isolation – can become significant due to the way they interact with each other or due to accumulation over time. In order to obtain a better overview of our risks, we bundle similar risks together to form so-called risk areas. For Württembergische Versicherung AG, we have identified the following main risk areas:

- Market-price risks
- Default risks
- Insurance risks
- Operational risks
- Strategic risks
- Liquidity risks
- Concentration risks

The individual risk areas have been demarcated from each other and are explained in more detail in the following sections.

For quantitative assessment and evaluation of risks, we use different measuring methods, depending on the type of risk. If possible, risk measurement is carried out by means of stochastic methods. At the moment, we measure market price risks and also the insurance risks with this approach. For the other areas of risk, we use analytical mathematical models or standard procedures of the

Insurance Supervisory Authority. Scenario calculations and stress tests as well as analyses of key data complement the range of instruments. In the year under review, intensive work was also done on further development of an internal risk model that will satisfy the standards in respect of Solvency II.

The risk-taking decisions were made and risks were controlled by the decision-makers in Württembergische Versicherung AG on the basis of the risk strategy.

Apart from return on equity (ROE), key data specific to the various areas of business are used as control variables to evaluate market performance, cost efficiency and the financial situation of the company. In order to create a link between profit control and risk control in future, we will make use of a risk-oriented and value-oriented approach as a supplement to ROE-based corporate control. In order to implement this goal, a project has been initiated in the framework of central risk management.

Adherence to the general stipulations relating to risk strategy and risk organisation as well as the appropriateness and quality of risk control are monitored continuously. Recommendations for action that lead to early corrective intervention and thus to achievement of the objectives formulated in the business and risk strategy are derived from the monitoring activities for quantifiable and non-quantifiable risks. A measures-controlling procedure has been set up in order to keep a check on the recommendations for action.

All significant risks of a company are quickly reported to the Management Board and the Supervisory Board of Württembergische Versicherung AG and to the Management Board of the W&W Group. The central medium of information is the quarterly published risk report for each operative company in Württembergische Versicherung AG. It provides a comprehensive overview of the entire risk situation and risk-bearing capability of each company as well as of important individual risks and how they are being handled.

The Group-wide reporting system for early recognition of the need to take action is supplemented by a procedure that has been implemented for ad-hoc risk communication. Significant new risks or exceptional changes in the risk situation are reported to the Management Board of Württembergische Versicherung AG and the Manage-

ment Board of the W&W Group immediately after they have been detected.

In the following section, the individual risk areas and their significance in the company are explained in more detail.

### MARKET PRICE RISKS

We define market price risks as possible losses arising from uncertainty regarding the future development of market risk factors such as interest, share prices, currency exchange rates or real-estate prices. Market price risks constitute the dominant risk area due to the volume of our investment portfolios.

In our investments, we comply with the requirements of the Insurance Supervisory Authority for individual companies and pursue a safety-oriented investment policy that focuses on the provision of sufficient liquidity and ensuring the necessary minimum yield. We exploit opportunities in the framework of a calculable and appropriate risk-to-profit ratio. The strategic investment goals are monitored continuously and limited by means of limiting and line systems. We make sure that our investments are mixed and widely spread according to type, region and risk class. The opportunities and risks of the future development of earnings are evaluated and analysed in the form of plans and projections made during the year. In the case of significant risks, measures adequate to the risk are initiated and their implementation is monitored.

In order to assess market price risks, we continually perform simulations for our shares and fixed-interest investments. These simulations show us the change in value of our portfolio in relation to market fluctuations. They are carried out in relation to the balance sheet date and take into account transactions concluded as at 31 December 2008 in the framework of the hedging strategy. In doing so, we make the following stress assumptions:

- For our share portfolios (including the hedge instruments to be assigned to them): price fluctuations of +/-10% and +/-20%.

CHANGE IN SHARE PRICE	CHANGE IN MARKET VALUE OF ALL SHARES
	<i>in € million</i>
20% rise	+ 3.6
10% rise	+ 1.8
10% decrease	- 1.8
20% decrease	- 3.6

- For our fixed-interest investments: a change of +/- 50 base points and +/- 100 base points in the respective interest structure curve

CHANGE IN INTEREST	CHANGE IN MARKET VALUE OF ALL SHARES
	<i>in € million</i>
Rise of 100 base points	- 86.9
Rise of 50 base points	- 44.5
Decrease of 50 base points	+ 46.8
Decrease of 100 base points	+ 96.0

Moreover, we regularly carry out the stress tests prescribed by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin = federal institute for financial services supervision). In Württembergische Versicherung AG, all variants of these tests were passed.

The international financial crisis also affected the development in value of our investment portfolio. We counter the risks on the share markets with extensive hedging strategies. There is an ongoing monitoring process with at least monthly reporting on the status of the investments. This makes it possible to observe the effects of current developments on the capital market. If necessary, corresponding measures are defined and implemented, such as changes in the level of share exposure or additional hedging measures.

We use congruent coverage of liability obligations to eliminate most currency risks by means of corresponding currency investments in capital investment.

In fiscal 2008, we also made use of derivative financial instruments such as futures, options, swaps, forward currency exchange transactions in our direct portfolio and in the security funds. These transactions served to hedge our portfolios and control the level of share exposure. In the framework of sub-portfolios, options for generating additional earnings were used.

The share hedges existing at the end of 2008 are part of a holistic hedging strategy that has been adapted and implemented for 2009 accordingly. Here, the aim was to ensure comprehensive risk limitation and the acquisition of future opportunities for profit.

Preemptions on fixed-interest investments were used within the framework of the regulations of the supervisory authority. At the same time, the regulations of the Insurance Supervisory Law and the circulars of BaFin were complied with in all transactions.

#### DEFAULT RISKS

We define default risks as possible losses resulting from the default or deterioration in solvency of borrowers and debtors.

The receivables from public debtors in direct and indirect business amount to approximately 27% of the investments, whereby there are commitments in countries affected by crisis to the amount of €16 million. The receivable from credit institutions in direct and indirect business account for around 45% of its investments and, out of this share, around 26% is accounted for by items covered by law.

The ten largest investments with credit institutions (from a consolidated point of view) in direct business amount to around 30.6% of the entire investments and their ratings are mostly "A".

Due to the financial crisis, there is an increased risk of default in respect of low-ranking commitments and commitments that are not protected. This is due to solvency problems and is mainly apparent in relation to investments in the financial sector. The investments in low-ranking bank capital was around 2% of total investments in terms of the book value. In respect of these investments, there were no shortfalls. A Group-wide project to limit the default risks even further has been started and has made considerable progress. In the framework of this

project, a comprehensive credit-portfolio model will be introduced in the first quarter of 2009 as a regular feature of business transactions.

We limit default risks by spreading the different types of investment widely in compliance with the applicable stipulations of the supervisory law and by selecting issuers carefully. We counter the creation of concentration risks resulting from the clustering of risks with one issuer by means of lines that limit the maximum investment volume permitted for each issuer. We subject the solvency of the important issuers and counterparties to continuous checking.

In order to limit solvency risks, evaluating the soundness of the respective individual investments is of central importance. By far the largest number of bonds (95.0%) have an "A" rating or better. New investments are primarily made in state, federal or government bonds or bonds of local government bodies. In addition, protected securities or receivables from banks which are protected by deposit protection systems are purchased.

We have invested in a fund that invests in asset-backed securities. The individual commitment in this fund is based on bonded corporate finance as collateral, in other words no mortgage, credit cards or leasing agreements. Due to the massive risk surcharges on interest-bearing securities in the case of asset-back securities, the proportional value of certificates has decreased considerably. The fund is monitored continuously and intensively. We have no direct or indirect investments in the US subprime segment.

All in all, the financial crisis influenced our result due to the reclassification of credit risks and the general uncertainty on the investment markets.

We monitor and analyse our investments exactly in order to speedily identify risks that can arise from development of the markets and then take countermeasures.

We counter the risks arising from the default of debtors in insurance business by means of IT-based checks of outstanding amounts and suitable protective mechanisms. For purposes of risk provision, we make necessary value allowances on receivables once a year.

With regard to receivables from insurance policyholders, the proportion of the written premium revenue attributable to value allowances was only 0.2 (0.3)% in the last three years. The proportion of value allowances on receivables from insurance agents amounted to 5.6 (3.4)% on average on the balance-sheet date, seen over the last three years. For purposes of protection against the risk of commission repayment, our agents must provide collateral. Usually, we also take out loss-of-confidence insurance for our sales organisation.

Receivables from reinsurance are not a significant risk for Württembergische Versicherung AG thanks to the high solvency of the reinsurers. Domestic business is only reinsured with the Group through W&W AG, which passes on most of it to external reinsurers.

Our English branch office has accounts receivable from reinsurers amounting to €22.5 (58.1) million, less receivables that are not yet due. A breakdown in accordance with Standard & Poor's rating classes is as follows:

in € million	2008	2007
AAA	0	0
AA	1.2	1.9
A	3.0	47.9
BBB	15.7	0
Non-investment	0	0
Without	2.6	8.3
<b>TOTAL</b>	<b>22.5</b>	<b>58.1</b>

The average proportion of value allowances carried out on the receivables in the past three years was 6.7 (4.7)%.

## INSURANCE RISKS

Insurance risks arise – in the case of premiums calculated in advance – from the uncertainty regarding the future development of benefits and costs arising from concluded insurance contracts.

The unexpected resulting obligations can lead to an adverse situation in terms of earnings and competitiveness. In general insurance, such risks are mainly composed of the premium risk and the reserves risk. Insurance risks cannot be completely calculated. For protection against

natural perils in particular, risk provision according to needs is necessary because such risks can have extremely adverse impacts on the results.

The reserves risk in the property classes of insurance usually exists for only a short time because property claims are normally only subject to a short processing time. In the case of claims relating to insurances of the person in the personal accident and third-party liability classes, the time needed for settlement is considerably longer. Here, the reserves risk of the company continues to exist for a longer time. In these classes, the risks are also subject to exogenous developments such as medical progress and the associated life expectancy. In addition, they are influenced by the development of legal regulations governing compensation and liability. Here, we monitor the long-term development of net claims and net claims adjustment ratios (results from the run-off of loss reserves for insurance claims that have not yet been settled as a percentage of the initial claims reserves). In the context of internal risk analyses, the claims reserves are analysed by means of actuarial methods.

	CLAIMS RATIOS	CLAIMS ADJUSTMENT RATIOS
1999	75.4	7.0
2000	75.9	5.5
2001	79.8	4.7
2002	78.6	1.6
2003	70.6	5.2
2004	67.6	2.3
2005	68.9	5.4
2006	66.8	5.5
2007 <sup>1</sup>	68.1	7.9
2008	<b>72.0</b>	<b>5.9</b>

<sup>1</sup> Values from 2007 onwards, including KV.

Above and beyond careful tariff calculation - which is intended to ensure advance limitation of the classical insurance risks (risks of chance, error and change) - we employ a bundle of measures to counter the risks. These include:

- Customer-loyalty programs, which simultaneously promote the balancing of risks on the customer level,
- Profit-oriented underwriting of risks,
- Limited liability cover,
- Cautious reserves policy,
- Appropriate reinsurance of high individual and cumulative risks by using reinsurers with a good financial standing,
- All-round controlling of portfolios and earnings,
- Earnings-oriented incentive systems.

In order to diminish the increasing risk of natural perils, various measures are applied. These include premium indexation clauses, tariffs matched to claims, modified policy conditions for critical natural-peril zones, the exclusion of specific risks and the purchase of reinsurance protection. In addition, we continuously carry out claims scenario analyses.

The risk of terrorist attacks in the case of industrial or large commercial risks is countered by excluding specific risks or by passing on corresponding risks to the special insurer, Extremus.

The renewal rights of the English branch office of Württembergische Versicherung AG as of 1 January 2008 were sold at the end of 2007. The portfolio underwritten before 31 December 2007 remains with Württembergische Versicherung AG, whereby claims adjustment is being handled by Antares Underwriting Services Ltd. by way of a service contract. Apart from the strategic advantages of this arrangement, there are specific run-off risks. Risk-limiting measures were therefore agreed in the contract and are continually monitored in the framework of risk management.

#### **OPERATIONAL RISKS**

We define operational risks as possible losses arising from the inappropriateness or failure of internal procedures, people and systems or from externally driven events. We also count legal and tax risks as operational risks.

For Württembergische Versicherung AG, a series of behavioural guidelines, corporate directives and company regulations have been agreed. Procedures, systems and checks that are aimed at ensuring a correct, efficient and smooth mode of working have also been set up. Our aim is to sensitise the employees to possible hazards and es-

tablish a suitable risk culture that makes it possible to detect potential weaknesses and gaps at an early stage and then take speedy remedial action.

Last year, we engaged in several Group-wide projects in order to work on optimisation of our internal monitoring system as well as on the establishment of a Business Continuity Management apparatus. We are continuing the work consistently in 2009. Regular quality audits as well as the provision of information to our employees and their ongoing training ensure that the safety level reached is maintained and form the basis for further improvements.

#### **Risks of information technology**

IT development, IT operations and IT service are all bundled together in W&W Informatik GmbH. W&W Informatik GmbH has its own risk management system that also maps the IT risks of the individual companies it looks after and regularly reports on them. Detailed test and back-up procedures for application and computer systems, redundant design of the internal and external telecommunications structure as well as other protective measures minimise the risk of IT failure.

#### **Legal risks**

The general legal situation is continually monitored by the corporate legal department of W&W AG and checked to find out whether any action is necessary. If necessary, this department works to ensure compliance with the legal requirements in the framework of legal consultations, contracts and negotiations.

#### **Tax risks**

The tax department of W&W AG continuously monitors and checks any changes in the general legal situation to see if there is any need to take action. This department also works to ensure that the tax obligations are complied with.

#### **STRATEGIC RISKS**

We define strategic risks as possible losses arising from strategic misalignment of the Group or failure to achieve the set strategic goals, in other words losses arising from the general business risk. Strategic risks include not only hazards arising from changes in the legal, political or social environment but also risks resulting from the market-

ing and procurement markets (sales risks) as well as reputation risks.

In the year under review, the financial crisis left us exposed to greater reputation and sales risks, in our opinion. This is one of the reasons why we pay special attention to all sales channels and their interactions from risk points of view in order to promote optimum sales performance. We counter the sales risks with intensive and practically focussed training measures, extensive support and information as well as with the quality and functionality of locally used IT, among other things. In Württembergische Versicherung AG, therefore, the rulings resulting from the reform of the insurance contract law (VVG) were implemented successfully in the year under review and the new requirements were integrated in business operations.

On top of all this, all projects were bundled and the project portfolio was expanded in the sales area under the management of the new sales board. Within this framework, a new sales strategy was developed and the system of commission was reformed. This means that we can continue to guarantee a high degree of orientation to the customer.

In order to assess the strategic risks, we intensively monitor and analyse exogenous market influences. With the help of sensitivity analyses, we also evaluate risks which are foreseeable in the medium to long-term and judge the options that are available to us to take countermeasures. We strive to detect strategic risks at an early stage so that we can develop and implement suitable strategies and measures to control the risks.

We evaluate strategic risks with the help of event-related scenario calculations and expert assessments. In future, we will take the results into account in our internal risk model by positing an appropriate global amount for these risks on the basis of these analyses.

With regard to legislation and the Insurance Supervisory Authority, we are observing an increasing degree of harmonization and expansion of creditor and consumer rights in Europe, as a consequence of which stricter requirements for transparency, documentation and communication, as well as monitoring of company operations, are being stipulated.

We are happy to take on this challenge and feel that our organisation and the structures that have been created are well positioned to successfully implement these requirements.

#### LIQUIDITY RISKS

For Württembergische Versicherung AG, the liquidity risk primarily consists of not having sufficient liquidity to fulfil its payment obligations arising from insurance business. Due to the permanent flow of liquidity from premium revenue, earnings on capital and repayments of loans, this risk is currently of minor significance.

Württembergische Versicherung AG has a liquidity-planning and liquidity-control system. For operative control of liquidity, there is a standardised method of reporting between cash trading and cash allocation planning. In this way, the necessary liquidity for serving all payment flows arising from insurance business, investments and other obligations is ensured. In order to nevertheless enable a need for liquidity to be covered at short notice, there are sufficient investments that can be easily turned into cash for this purpose. In addition to this, a balanced maturity structure with a corresponding share of short remaining periods is ensured in the case of interest-bearing investments.

#### CONCENTRATION RISKS

We define concentration risks as possible losses that can arise either due to the accumulation of risks of the same kind or due to the accumulation of different risks relating to a single counterparty and that are large enough to endanger the solvability or general financial situation of Württembergische Versicherung AG. Concentration risks typically arise from market price risks, default risks, insurance risks or a combination of these risks.

We limit the concentration risks by spreading our investments, using limit and line systems, applying clearly defined acceptance and underwriting guidelines in insurance business and procuring adequate reinsurance protection.

## Summary of risk management

Württembergische Versicherung AG is integrated in the risk-management and risk-controlling system of the W&W Group, which enables it to detect existing and foreseeable future risks in good time, to assess them appropriately and to control them by means of suitable measures. The risks of Württembergische Versicherung AG must be covered by sufficient equity at all times. Coverage of the solvability requirement by means of balance-sheet equity as stipulated by the insurance supervisory law is regularly checked in the context of risk monitoring. With a solvability ratio of 161 (161)% as at 31 December 2008 in accordance with Solvency I, Württembergische Versicherung AG more than fulfilled the equity requirements of the insurance supervisory law.

Further development of the risk-management and risk-controlling system has not only strengthened risk management organisationally but has particularly served as a reaction to future requirements in respect of insurance supervisory law as a consequence of Solvency II. In addition to the already mentioned further development of an internal risk model, a Group-wide Solvency II project was started at an early stage. In order to implement the minimum requirements for risk management (MaRisk), an analysis of the desired situation compared with the actual situation was carried out by an independent agency. Important areas of action were identified and recommendations for action were drawn up. The project work was continued in the year under review as planned.

In order to achieve a uniform inventory of risks in the W&W Group, another project has been set up and a large part of data has already been acquired in the newly implemented web-based Risk Assessment software tool. Moreover, the Group-wide project for documentation of our internal monitoring system has now been completed successfully.

The modular structure of our re-designed risk reporting system enables a depth of information appropriate to the recipient, a detailed system of key data and improved analysis of the risk situation.

By continually developing and improving our systems, procedures and processes, we do justice to the changes in internal and external general parameters and their effects

on the risk situation of the W&W Group and the individual companies.

## Risk outlook

In the past few years, the criteria for risk management have become considerably stricter within the Group but, externally as well, the requirements placed on insurance companies have increased continually.

The current developments on the finance markets and the growing entrepreneurial need to make provisions for risks and, at the same time, maintain a value-orientation continues to necessitate considerable efforts in the area of risk management. The supervisory authorities and external partners such as rating agencies also contribute to this by means of legal stipulations that are, in part, new and wider-ranging, as well as by means of stricter requirements.

In the context of a world financial summit in the middle of November, heads of state and government from leading industrial and threshold countries ratified a plan of action with measures for better supervision of financial markets. For the next few years, we are therefore expecting further growth of national and international initiatives for the expansion of risk management. Within the European Union, the introduction of Solvency II will fundamentally re-shape state supervision of the insurance business.

We are keeping a close eye on the changes in the internal and external environment in order to be able to react flexibly and at an early stage. In fiscal 2009, we want to further improve the standards we have reached in our risk management system and do so continuously and consistently with the aim of achieving our internal objectives. In developing the risk management system further, we are paying special attention to optimisation of risk measurement and expansion of the internal risk model. The aim is to create the necessary basis for a form of company controlling that is adequate to needs and oriented to both risk and value.

On the whole, we feel that our measures have created solid foundations that will enable us well to meet the internal and external expectations regarding risk management.

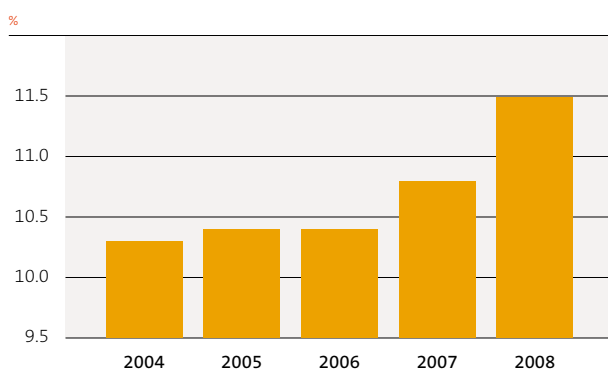
## PROGNOSIS REPORT/OUTLOOK

### Expected overall economic development

The outlook for 2009 is marked by the current economic and financial crisis. According to an estimate of the federal government, Germany is facing the deepest recession since the second world war. This means that, from the point of view of 2009 as a whole, a drop of at least 2.25% in the gross domestic product compared to last year must be assumed. The first important stress factor will be lower company investments. Due to considerably worsened terms of credit and the massive deterioration in business prospects, a substantial decrease is to be expected in this regard. The second important stress factor will be foreign trade, which, in preceding years, was till the strongest engine of growth in the German economy. Due to the drop in demand in important customer countries such as the US and Great Britain as well as in threshold countries such as China, export business is expected to be very weak compared to previous years.

Private consumption will profit from a drop in inflation induced by energy prices and there will therefore be an improvement in real disposable income but it is to be expected that the unemployment rate will be around 8% again in Germany in the first half of 2009. This, in turn, will probably lead to a loss of confidence among consumers and a rise in the savings rate. The latter could rise to around 12% of disposable income. A positive stimulus for economic growth will only come from an expansive monetary and fiscal policy. Here, reductions in the prime rate

SAVINGS RATIOS IN GERMANY



Source: Federal Statistical Office

by the European Central Bank and economic stimulus packages from the European governments can be expected.

Due to the very weak economic start to the year and inflation rates that continue to fall, the yield on long-term German government bonds reached a new historic low in January 2009. Not until the end of the year will there be a moderate rise in interest against a background of slightly improved economic expectations and increasingly long-term inflation worries. The short-term interest rates, in contrast, will probably freeze at a historically low level for the entire year because the European Central Bank will adopt a passive stance until the end of the year after the drops in the prime rate expected for spring.

In view of the financial crisis and the resulting economic downturn, the planned course of our business plans will have to face special challenges. These are explained in the following and in the risk report.

### Expected development of the industry

According to an estimate of the Totalverband der Deutschen Versicherungswirtschaft e.v. (GDV = German insurance industry association), premium revenue will be almost unchanged (+/- 0%) compared to the previous year for the individual classes and sub-classes of general insurance. Business in the coming year, according to statements made by the association, will be impacted by, among other things, factors such as the very intensive price competition among insurers, the high degree of market penetration and the trend towards a moderate claims curve as has been noticeable for some years now. In addition, the recessive economic development will have an effect on growth in general insurance in 2009 because the demand of private households, commerce and industry will be dampened as a result of the economic situation.

### “Württembergische 2009” program for the future

One of the most important stages of the “Württembergische 2009” program for the future, namely the integration of Karlsruher Versicherung AG, has now been completed. Additional challenges for Württembergische Versicherung AG last year were the reduction in the number of administration branch offices from 15 to 7 and the introduction of a new structure in our customer service. In these projects which are intended to make clerical processing more efficient and improve customer service, important milestones were reached in 2008 and numerous measures were completed successfully. In the next few years, this will bear fruit in the form of further cost savings.

### 2008 goals adversely impacted by financial crisis

In spite of net sales that were considerably above the previous year, Württembergische Versicherung AG was unable to stop the fall in premium revenue. The substantial decrease was due to the strategically decided cessation of foreign business and was not compensated by domestic business due to the generally observed erosion of premium revenue of general insurers in Germany. Although many small and medium-sized natural-peril claims bore down on the result, the combined ratio in German reached the level that had been planned.

In its implementation of the “Württembergische 2009” program, Württembergische Versicherung AG is progressing according to plan. The goals and measures of the program were defined in our plans under different general economic conditions than those prevailing today. In 2008, the considerable price decreases on the share markets and the substantial risk surcharges on interest-bearing securities on the bond markets, both the result of the financial crisis, had a significant adverse impact. The planned result on investments was therefore not achieved, with the result that the profits that were transferred to W&W AG did not reach the envisaged level.

Given the volatile financial markets, among other things, a consistently risk-oriented investment policy is essential. We have drawn up extensive hedging strategies and im-

plemented them accordingly. The low yield that can be achieved on new interest-bearing investments will influence the level of the investment result.

Default risks are to be kept low by ensuring a wide spread in respect of debtors, adopting a corresponding line and limit system and by continuous monitoring. Due to the hedging instruments employed, a wide diversification of investments and a strong emphasis on the quality aspects with regard to new investments, fulfilment of the guarantee obligations towards our insurance customers is ensured.

### Expected earnings and financial situation in fiscal 2009

In conjunction with its sister company Württembergische Lebensversicherung AG, Württembergische Versicherung AG will continue with the next steps of the program, which is integrated in the Group-wide “W&W 2009” program for the future. and the “SPRING” sales project that encompasses the whole Group and will do so consistently and according to schedule until the end of 2009. In fiscal 2009 and beyond, the focus will be on the promotion of sustainable growth. To this end, work on strengthening the sales force will be continued, with improved sales support, new products, more efficient processes and a better commission system. In this context, the strategic sales channels of the exclusive organisation and brokers play a central role. Württembergische Versicherung AG mainly wants to grow in the broker market and in new business with corporate customers. In 2009, increasing premium revenue is therefore expected in Germany. There are also good prospects in respect of insurer-changeover business from other providers of motor insurance at the end of 2008/start of 2009, where we achieved a positive overall result for the first time in years.

On the costs side, benefits from the newly established W&W Service GmbH are expected for the first time in 2009 due to the Group-wide bundling of central services. With regard to claims, a combined ratio of planned that is below 100% again. In view of the continued volatility that is expected on the financial markets, it will again be difficult in 2009 to normalise the result on investments. However, this is a prerequisite for Württembergische Versicherung AG being able to transfer a higher profit to the W&W Group and sustainably support the goal of the

overall W&W Group of achieving a return on equity of 9% according to IFRS.

We will continue to consistently contribute to this internally. However, whether we achieve our goal in the context of the financial and economic crisis depends on external factors that are not under our control. This constitutes a considerable risk for achievement of the goal.

In 2009, the result is expected to rise compared to the year before. One important factor for this is the planned increase in the result on investments after the negative effects of 2008.

### Outlook for 2010 and 2011

Prognoses for 2010 and beyond are associated with substantially higher degrees of uncertainty than before the beginning of the financial crisis. In particular, 2010 will depend on the extent to which the overall economic situation recovers and the interest level and share prices rise in 2009. Given that a definite, reliable prognosis is not possible from today's point of view, Württembergische Versicherung AG refrains from making any concrete predictions regarding the consolidated result in 2010 and 2011.

In 2010 and 2011, the newly built-up broker sales channel and the sales projects implemented in order to strengthen the exclusive sales organisation will show their full effect, on the basis of which Württembergische Versicherung AG is expected to grow. Due to W&W Service GmbH, there will be further cost reductions in 2010 and 2011. These will also benefit Württembergische Versicherung AG. All in all, the company has set itself some ambitious goals for these years and is confident that it will be able to maintain the transfer of profit on the high level planned for 2009.

### Opportunities and risks – Reservations regarding statements about the future

Risks for the company arise from the still critical situation on the capital markets. In the expectation that the capital markets will not recover in the short term, Württembergische Versicherung AG has aligned its investment policy accordingly. The volatility of the markets is being countered with efficient risk management that takes into account risk-bearing capacity and ensures timely reactions to severe market fluctuations. It also enables the company to take advantages of opportunities that present themselves.

There are risks due to overall economic development and the continuing fears of a recession in Germany. This can significantly influence the demand for insurance protection and also increase the pressure on prices, among other things. Given these general conditions, the extent to which insurance can be offered at prices appropriate to demand will eventually become apparent. At the same time, there is a growing need for provisions for the future and means of ensuring financial security. Within the W&W Group, that presents itself as THE specialist in provision for the future, the range of products of Württembergische Versicherung AG especially covers the needs for provision for the future and financial security. This alignment and the expected reinforcement of the sales organisation therefore offer good opportunities for the company to profit considerably from growing customer needs.

The way in which risks are dealt with is described in the risk report. The company does not assume any obligation to update its prognoses for the future.

## Performance Over Several Years

		2008	2007 <sup>2</sup>
<b>Revenue Account</b>			
Premium revenue (gross)	in € million	1 286.9	1 474.2
Incurring losses for own account (f.o.a.)	in € million	787.7	802.4
Underwriting expenses (f.o.a.)	in € million	315.9	340.1
Claims reserves in % of premiums (f.o.a.)		162.2	144.4
Total insurance reserves in % of premiums (f.o.a.)		199.0	186.1
<b>Portfolio</b>			
Number of insurance contracts	in thousands	7 635	7 671
<b>Claims</b>			
Number of advised claims	in thousands	528	570
<b>Investments</b>			
	in € million	2 411	2 491
<b>PROFIT FOR THE YEAR/PROFIT TRANSFER <sup>4</sup></b>	in € million	50.9	45.1
<b>Equity</b>			
Subscribed capital	in € million	109.3	109.3
Reserves	in € million	151.6	151.6
Transfer to the retained profit reserves	in € million	—	—
Equity in % of earned premiums (f.o.a.) <sup>3</sup>		23.9	22.1
<b>Employees of the Württembergische insurance companies <sup>1</sup></b>			
		5 899	6 093
<b>Dividends/Profit transfer <sup>4</sup></b>			
Dividend pay-out	in € million	50.93	45.08

1 Württembergische Versicherung AG, Württembergische Lebensversicherung AG (office staff and salaried sales staff, including trainees) as at 31 December.

2 From 2007 Württembergische Versicherung AG after merger with Karlsruher Versicherung AG.

3 Before deduction of unclaimed outstanding contributions.

4 From 2005, transfer-of-profits contract.

	2006	2005	2004	2003	2002	2001	2000	1999
	1 391.9	1 370.7	1 374.7	1 446.0	1 470.8	1 584.8	1 394.3	1 169.0
	692.9	703.0	658.7	699.4	796.6	843.3	703.5	636.2
	295.1	289.5	256.7	264.0	297.3	320.0	285.0	239.5
	138.2	138.6	135.6	133.4	119.2	103.0	98.8	108.8
	180.4	176.3	171.1	165.3	149.1	133.4	128.4	139.9
	6 254	6 267	6 345	6 502	6 798	6 900	6 857	6 588
	446	456	476	514	596	550	598	557
	2 242	2 100	1 904	1 848	1 555	1 487	1 404	1 415
	24.7	21.8	27.0	5.1	—	—2.8	13.4	13.7
	109.3	109.3	109.3	109.3	109.3	109.3	109.2	109.2
	151.6	151.56	151.6	142.0	139.4	139.4	142.1	139.6
	—	—	9.6	2.5	—	—	2.5	2.6
	25.1	25.6	26.8	25.4	24.5	23.5	27.1	29.5
	4 515	4 508	4 533	4 650	4 945	5 208	5 034	4 748
	24.74	21.83	20.02	—	—	—	11.10	11.10



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# FINANCIAL STATEMENT

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## BALANCE SHEET

### ASSETS

<i>in € thousand</i>		31.12.2008	31.12.2008	31.12.2008	31.12.2007
<b>A. Intangible assets</b>	1 <sup>1</sup>			1 034	1 660
<b>B. Investments</b>					
I. Land, leasehold rights and buildings, including buildings on non-owned land	2		107 464		109 332
II. Investments in affiliated companies and participations					
1. Shares in affiliated companies		162 594			142 775
2. Participations		48 430			43 326
			211 024		186 101
III. Other investments					
1. Shares, investment certificates and other non-fixed interest securities		339 675			350 762
2. Bearer bonds and other fixed-interest securities	3	480 565			603 155
3. Mortgages	4	28 722			32 954
4. Other loans	5	1 019 891			1 024 603
5. Deposits with credit institutions		187 699			146 269
6. Other investments		33 185			38 322
			2 089 737		2 196 065
IV. Retained deposits from assumed reinsurance business			2 892		–
				2 411 117	2 491 498
<b>C. Accounts receivable</b>					
I. Accounts receivable on direct business from:					
1. Policyholders	6	21 481			24 543
2. Insurance agents		13 790			9 244
			35 271		33 787
II. Accounts receivable on reinsurance business			52 569		133 583
Including € 28 700 (–) thousand owed by affiliated companies					
III. Other receivables	7		125 356		96 777
Including € 82 345 (62 818) thousand owed by affiliated companies				213 196	264 147
<b>AMOUNT CARRIED FORWARD</b>				<b>2 625 347</b>	<b>2 757 305</b>

1. See numbered notes in the appendix from page 52 onwards.

## ASSETS

<i>in € thousand</i>	31.12.2008	31.12.2008	31.12.2008	31.12.2007
<b>AMOUNT BROUGHT FORWARD</b>			<b>2 625 347</b>	<b>2 757 305</b>
<b>D. Other assets</b>				
I. Equipment and stock <span style="float: right;">8</span>		4 362		3 376
II. Current accounts with credit institutions, cheques and cash in hand		45 105		48 679
Including € 12 595 (32 384) thousand with affiliated companies			49 467	52 055
<b>E. Deferred assets</b>				
I. Deferred interest and rent		29 384		35 132
II. Other deferred assets <span style="float: right;">9</span>		1 511		2 457
			30 895	37 589
<b>TOTAL ASSETS</b>			<b>2 705 709</b>	<b>2 846 949</b>

## BALANCE SHEET

### LIABILITIES AND EQUITY

<i>in € thousand</i>	31.12.2008	31.12.2008	31.12.2008	31.12.2007
<b>A. Equity</b>				
I. Called-up capital <b>10</b>				
a) Capital subscribed	109 312			109 312
b) Less unclaimed outstanding contributions	53 660			53 660
		55 652		55 652
II. Capital reserve <b>11</b>		76 694		76 694
III. Retained profit reserves <b>12</b>				
Other retained profit reserves		74 883		74 883
			207 229	207 229
<b>B. Secondary liabilities</b> <b>13</b>			90 000	90 000
<b>C. Insurance reserves</b> <b>14</b>				
I. Premium reserve				
1. Gross	138 956			205 115
2. Less share ceded to reinsurance	18 639			35 188
		120 317		169 927
II. Premium fund				
1. Gross	357			425
2. Less share ceded to reinsurance	54			64
		303		361
III. Reserve for insurance claims				
1. Gross	2 329 364			2 356 544
2. Less share ceded to reinsurance	638 567			676 824
		1 690 797		1 679 720
IV. Reserve for claims equalisation and similar reserves		245 462		297 134
V. Other insurance reserves				
1. Gross	21 457			22 671
2. Less share ceded to reinsurance	4 109			4 346
		17 348		18 325
			2 074 227	2 165 467
<b>AMOUNT CARRIED FORWARD</b>			<b>2 371 456</b>	<b>2 462 696</b>

## LIABILITIES AND EQUITY

in € thousand	31.12.2008	31.12.2008	31.12.2008	31.12.2007
<b>AMOUNT BROUGHT FORWARD</b>			<b>2 371 456</b>	<b>2 462 696</b>
<b>D. Other accrued liabilities</b>				
I. Tax reserves		40 622		44 196
II. Other reserves <span style="float: right;">15</span>		121 170		103 802
			161 792	147 998
<b>E. Deposits retained by other from ceded reinsurance business</b>			280	—
<b>F. Other liabilities</b>				
I. Accounts payable on direct insurance business to				
1. Policyholders <span style="float: right;">16</span>	39 076			36 306
2. Insurance agents	12 253			12 937
Including € 45 (51) thousand owed to affiliated companies		51 329		49 243
II. Accounts payable on reinsurance business		18 872		96 213
Including € 1 080 (19 960) thousand				
III. Other liabilities <span style="float: right;">17</span>		99 897		89 152
Including € 18 540 (20 043) thousand arising from taxes € 5 (2) thousand arising from social security € 45 925 (47 205) thousand owed to affiliated companies			170 098	234 608
<b>G. Deferred liabilities <span style="float: right;">18</span></b>			2 083	1 647
<b>TOTAL LIABILITIES</b>			<b>2 705 709</b>	<b>2 846 949</b>

**PERSONAL ACCIDENT AND THIRD-PARTY LIABILITY INSURANCE**

It is hereby confirmed that the aggregate reserves posted in the balance-sheet under items C.II.1. and C.III.1 of liabilities amounting to € 57 374 thousand have been calculated in accordance with §§ 341 f and 341 g HGB as well as with the regulations decreed due to § 65 Section 1 VAG. For the old portfolio in the sense of § 11 c VAG, the premium reserves have been calculated in accordance with the tariff submission last approved on 10 July 1992 and calculated in accordance with the supplemented business plan on 21 January 1997.

Stuttgart, 12 February 2009



Actuary responsible  
Dr. Peter Scheefer

## INCOME STATEMENT

in € thousand		1.1.2008 to 31.12.2008	1.1.2008 to 31.12.2008	1.1.2008 to 31.12.2008	1.1.2007 to 31.12.2007
<b>I. Insurance account</b>					
1. Earned premium for own account					
a) Gross written premiums	19	1 286 857			1 474 153
b) Reinsurance premiums ceded		244 464			310 790
			1 042 393		1 163 363
c) Change in gross premium reserve		67 420			25 411
d) Change in the share of reinsurers in the gross premium reserve		– 16 095			– 9 980
			51 325		15 431
				1 093 718	1 178 794
2. Technical interest income for own account	20			1 306	1 246
3. Other income resulting from insurance business for own account				2 428	3 004
4. Incurred losses for own account					
a) Payments for insurance losses					
aa) Gross		978 288			974 970
bb) Share of reinsurers		220 242			241 781
			758 046		733 189
b) Change in the reserve for insurance claims	21				
aa) Gross		– 514			61 598
bb) Share of reinsurers		– 30 191			– 7 581
			29 677		69 179
				787 723	802 368
5. Change in the remaining net insurance reserves					
a) Net premium fund			57		59
b) Other net insurance reserves			978		– 291
				1 035	– 232
6. Underwriting expenses for own account					
a) Gross underwriting expenses	22		377 966		422 077
b) Less commission and profit commission received from ceded reinsurance business			62 080		81 985
				315 886	340 092
7. Other expenses relating to insurance business for own account				6 187	6 363
<b>8. SUBTOTAL</b>				<b>– 11 309</b>	<b>33 989</b>
<b>AMOUNT CARRIED FORWARD</b>				<b>– 11 309</b>	<b>33 989</b>

<i>in € thousand</i>	1.1.2008 to 31.12.2008	1.1.2008 to 31.12.2008	1.1.2008 to 31.12.2008	1.1.2007 to 31.12.2007
<b>AMOUNT BROUGHT FORWARD</b>			<b>- 11 309</b>	<b>33 989</b>
9. Change in the equalisation reserve and similar reserves			51 672	12 712
10. Insurance result for own account			40 363	46 701
<b>II. General account</b>				
1. Income from investments				
a) Income from participations Including € 10 185 (1 313) thousand from affiliated companies		11 494		2 462
b) Income from other investments Including € 1 414 (1 340) thousand from affiliated companies	23			
aa) Income from land, leasehold rights and buildings, including buildings on non-owned land	8 022			7 940
bb) Income from other investments	131 075			100 302
		139 097		108 242
c) Earnings from the increase in the value of investments		9 708		553
d) Profits from the disposal of investments	24	26 444		3 658
		186 743		114 915
2. Expenses related to investments				
a) Investment-management expenses, interest and other expenses related to investments		3 833		5 558
b) Depreciation on investments	25	134 992		18 294
c) Loss on the disposal of investments	26	12 725		14 702
		151 550		38 554
		35 193		76 361
3. Technical interest income		1 306		1 246
			33 887	75 115
4. Other income	27	374 389		302 709
5. Other expenses	28	398 021		340 434
			- 23 632	- 37 725
6. Result of normal business activity			50 618	84 091
7. Extraordinary expenses	29	—		20 829
8. Extraordinary result			—	- 20 829
9. Taxes on income and profits	30	- 375		16 324
10. Other taxes		66		1 859
			- 309	18 183
11. Transferred profits arising from transfer-of-profit agreement			50 927	45 079
12. Profit for the year			—	—

## NOTES

### Explanatory Notes – Financial Statement

#### ACCOUNTING PRINCIPLES ASSETS

Land, leasehold rights and buildings, including buildings on non-owned land are stated at the historical cost of purchase or construction, less depreciation effected with the declining-balance or the straight-line method at the top tax-permissible rates and less extraordinary depreciation of earlier years. Extraordinary depreciation is only carried out if a lasting impairment is foreseen.

Shares in affiliated companies and other participations have been measured at historical cost, less depreciation in accordance with § 341 b Para. 1 HGB in conjunction with § 253 Para. 2 Clause 3 HGB. When measuring private equity engagements in foreign currency, we took into account the potential for value recovery (revalorisation) in order to calculate the fair value for the currency component.

All shares, investment certificates, bearer bonds and other fixed-interest and non-fixed interest securities of the floating assets are measured at historical costs in accordance with the average-value principles for identical investments at their cost of purchase, less depreciation according to the strict lowest-value principle, with account being taken of the revalorisation law.

There are several structured products in the portfolio. The structured products in the form of loans, registered bonds and bearer bonds as well as the derivate components contained therein are posted on the balance sheet uniformly in so far as the requirements for uniform balance-sheet presentation are fulfilled. The structured loans and registered bonds are evaluated at their nominal value in accordance with the regulations of § 341 c HGB.

The structured zero loans are posted at the value of their continued historical costs. The structured bearer bonds are posted according to the strict lowest-value principle.

Purchased option rights are recognised at their historical cost at the time of purchase to the level of the option premium. Option premiums for sold options are stated as "Other" liabilities as long as the obligation to pay arising from the option exists. If a loss is to be expected on the balance-sheet date, this is covered by an imminent future loss reserve.

Other loans and advance payments on insurance policies, registered bonds, debentures and loans have all been recognised at their nominal value.

Redemption premiums and discounts are amortized over the duration of the underlying mortgages, bonds etc. in the form of deferred assets and liabilities respectively. For detectable risks, we form individual value adjustment reserves and deduct them on the assets side.

Mortgages are assessed at their nominal values less repayments. The retained debt discount expenses are individually distributed over the duration of the underlying loans in the form of deferred assets. For detectable default risks, we form individual value allowances and deduct them on the assets side.

Deposits with credit institutions, other investments, other loans, other accounts, receivable on reinsurance business, other assets, current accounts with credit institutions, cheques and cash are recognised at their nominal values.

Accounts receivable on direct insurance business and outstanding interest and rents contained in the "Other accounts receivable" are posted on the balance sheet at their nominal values. We have taken into account current default risks by means of individual value allowances. Global value allowances are formed on the basis of individual surveys and experience gained in the last few years and, like the individual value allowances, are deducted on the assets side. In addition, we formed a reserve for premium cancellations.

Equipment and the other intangible assets are recognised at historical cost, less depreciation effected at the maximum rates allowed by tax legislation. Low-value assets with historical costs or costs of purchase up to €150 were fully recognised in terms of expense in the year of purchase. For medium-value assets between €150 and €1000, a group item was formed which is depreciated over five years according to the linear method.

Stocks are valued at their historical cost of purchase.

The fair values for land, leasehold rights and buildings, including buildings on non-owned land, were re-measured for all land and determined according to the discounted cash flow procedure. For the fair values of the other investments shown on the balance sheet at their historical cost, the stock-exchange value or a market value derived from the general interest level is recognised. If there was no stock-exchange price for affiliated companies and participations, the historical cost or the simplified earnings value was used as the fair value. The fair values of investment certificates were determined from the redemption values after pay-outs were taken into account.

In the case of investments which were not depreciated to the lower fair value on the balance sheet date, an increase in value in an average planning period or until final maturity was assumed.

#### **ACCOUNTING PRINCIPLES LIABILITIES**

Secondary liabilities have been recognised at the value of their repayment amounts.

The premium reserves have been calculated per insurance contract less external costs. In personal accident endowment insurance and in direct foreign business, they have been calculated according to flat rates. In marine and stock-throughput business, the premium reserves are included in the reserve for outstanding claims. The share of the reinsurers is assessed using the same method, based on the individual insurance contracts taking into account their external costs.

The premium funds – posted under the aggregate reserve for direct business - in personal accident endowment insurance have been calculated for each individual contract in accordance with actuarial principles.

The reserves for outstanding insurance claims in direct business are evaluated according to the expected cost of each individual claim. In assumed business, the claims reserves match the tasks of the pre-insurers as closely as possible. For the UK branch office, additional reserves have been formed in accordance with actuarial methods, plus an additional amount for safety.

For claims not yet advised, there is a global IBNR (increased but not reposted) reserve calculated on the basis of levels experienced in the previous years.

For marine insurance, including auxiliary classes and stock-throughput insurance, there is, in direct German business, a global reserve formed on the basis of mathematically determined experiential values for the first four insurance years of an underwriting year, with account being taken of returned premiums. From the fifth year onwards, the claims reserve is determined on the basis of the individual claims reserves, with account being taken of subsequent premiums and subsequent claims.

This annuity reserves are calculated for each individual contract according to actuarial principles.

The reserves for unprocessed surrenders, refunds and withdrawal payments are recognised at the level of the repayments.

Receivables arising from recourse, claim recoveries and distribution agreements have been deducted from the reserve for outstanding insurance claims of the respective insurance class.

The expected settlement expenses for outstanding claims have been taken into account by a reserve created in accordance with the tax ordinance of 22 February 1973. In the classes marine and stock-throughput business, flat rates have been applied for the first four years of an underwriting year. The share of the reinsurers has been determined according to their quota share.

The claims equalisation reserve under item C.IV. was created in accordance with the appendix to § 29 RechVersV.

The amounts under other insurance reserves are recognised as follows:

The reserve for unearned premiums of deregistered vehicles was assessed for each contract; the reserve for premium cancellations was calculated on the basis of statistical data; the reserve for return premiums according to § 9 FBUB (general conditions of insurance for business interruption insurance) was based on the ratio of repayments made in the financial year for the previous year to the premium revenue of the previous year. For obligations arising from membership in the Verkehrsofferhilfe e.V. (association for assisting accident victims), we carry a reserve for outstanding claims of such victims as posted by the association. The shares of the reinsurer in the above-named reserves were reduced according to the contractual agreement.

The clearing accounts payable on reinsurance business and on direct insurance business are recognised at actual amounts.

The reserves for obligations relating to early retirement and payment of long-service bonuses were calculated in accordance with actuarial principles on the basis of the foreseeable requirements.

For the legal obligations which existed on the balance sheet date and which arise from part-time retirement work contracts, a reserve to the amount of the cash value of future stock-up payments is posted as a liability after account has been taken of the employer's expenses for social insurance. The guaranteed interest rate is 4.5%. Biometric factors are taken into account in the form of a global deduction of 2% when the size of the reserve is decided on. Reimbursement claims against the state job agency are posted on the balance sheet at the cash value of the obligation if the job is re-filled.

The Other liabilities are recognised at repayment amounts.

#### **CURRENCY CONVERSION**

During the year, we record the turnover of direct foreign business in foreign currency. The accounts receivable and payable of the previous year and the balance-sheet items as of the balance-sheet date were converted into euros at the average exchange rate ruling on the balance-sheet date. The corresponding expenditure and income were recorded at the same exchange rate in the income statement.

The premium and loss reserves of the previous year were re-assessed on the balance sheet date at the average exchange rate. The resulting differences are shown as exchange-rate profits and losses.

Foreign currency investment items are assessed in euros in line with the rules of individual evaluation and according to the lowest value principle. In addition, we adhere to the principle of congruent coverage for each currency. In so far as securities in foreign currencies are held to cover certain insurance liabilities in foreign currency, they are recognised at the exchange rate on the balance-sheet date.

Expenses and income of the general account are recognised at the exchange rate on the day of the business transaction.

The exchange-rate profits and losses are shown in the general section of the Profit and Loss Account under items II.4 and II.5 respectively, whereby they are balanced per currency.

#### **ALLOCATION OF INCOME AND EXPENSES TO FINANCIAL PERIODS**

A small part of German marine business is not contained in the year under review as the final accounting documents are not available until after the financial statement have been prepared.

Due to this deferred booking procedure, premium revenue for 2007 to the amount of € 613 thousand was recorded in the year under review.

## Explanatory Notes – Assets

### A. INTANGIBLE ASSETS (1) <sup>1</sup>

Under this item, the purchasing costs for EDP software are shown.

The development of intangible assets is shown in a table on page 65.

### B. INVESTMENTS

The development of investments is shown in the table on page 65.

#### I. Land, leasehold rights and buildings, including buildings on non-owned land (2)

As of the balance-sheet date, our land holdings consist of 25 (26) pieces of real estate with a balance-sheet value of € 107 464 (109 332) thousand. The current market value of our land and buildings is € 126 584 thousand due to the revaluation carried out on 31 December 2008.

In the year under review, one complete disposal and a partial disposal amounting to a total of € 60 thousand was recorded.

€ 5 275 (5 427) thousand of our land holdings is apportioned to shares in common properties.

In the framework of our activity, own land and buildings with a balance-sheet value of € 91 569 (92 981) thousand are used.

#### II. Investments in affiliated companies and other long-term equity investments

The list of shareholdings is shown in a table on page 71.

In addition, the details regarding shareholdings in accordance with § 285 No. 11 HGB are lodged with the electronic federal gazette and with the electronic gazette (Bundesanzeiger) of companies register in a list of holdings.

<sup>1</sup> See balance sheet and profit and loss account from page 42 onwards.

### III. Other investments

#### 2. BEARER BONDS AND OTHER FIXED-INTEREST SECURITIES (3)

We have invested in fixed-interest securities in foreign currency which are used for congruent coverage of our liabilities arising from direct foreign insurance business.

In the table on page 65, the exchange-rate profits of €2028 (164) thousand are included in the increases in the value of investments and the exchange-rate losses of €15 014 (16 907) thousand are included in the write-downs.

In the income statement, these exchange-rate fluctuations are entered under the items "Other income" and "Other expenses".

#### 3. MORTGAGES (4)

At the end of the year under review, we were involved in two foreclosures.

#### 4. OTHER LOANS (5)

<i>in € thousand</i>	2008	2007
Non-negotiable bonds	539 000	576 000
Debentures and loans	458 891	432 103
Other loans	22 000	16 500
<b>TOTAL</b>	<b>1 019 891</b>	<b>1 024 603</b>

The "other loans" include non-tradable participating certificates of € 10 000 (10 000) thousand.

## FAIR VALUE OF INVESTMENTS

This item includes the following:

VALUATION RESERVES <sup>1</sup>

	BOOK VALUE	FAIR VALUE	VALUATION RESERVES ACCORDING TO BURDENS	IN % OF THE BOOK VALUE OF ALL INVESTMENTS
<i>in € thousand</i>				
Land, leasehold rights and buildings, including buildings on non-owned land	107 464	126 584	19 120	
Shares in affiliated companies	162 594	166 553	3 959	
Participations	48 430	40 252	- 8 178	
Shares, investment certificates and other non-fixed-interest securities	339 675	340 993	1 318	
Bearer bonds and other fixed-interest securities	480 565	484 098	3 533	
Mortgages	28 722	29 714	992	
Other loans				
a) Registered bonds	539 000	555 192	16 192	
b) Debentures and loans	458 891	464 669	5 778	
c) Remaining loans	22 000	17 120	- 4 880	
Deposits with credit institutions	187 699	187 776	77	
Other investments	33 185	26 064	- 7 121	
Deposits retained arising from assumed reinsurance	2 892	2 892	—	
<b>TOTAL</b>	<b>2 411 117</b>	<b>2 441 907</b>	<b>30 790</b>	<b>1.28</b>

<sup>1</sup> As at 31 December 2008.

The above details include derivative financial instruments in valuation units as follows:

#### NOMINAL VALUES AND FAIR VALUES OF OPEN DERIVATE ITEMS

	NOMINAL VALUES UNDERLYING <sup>1</sup>	FAIR VALUES EVALUATION UNIT <sup>2</sup>	BOOK VALUE EVALUATION UNIT <sup>2</sup>	FAIR VALUE DERIVATE <sup>3</sup>
<i>in € thousand</i>				
Share/index transactions				
Options	13 374	—	—	1 673
Currency transactions				
Forward transactions	110 902	—	—	– 177

<sup>1</sup> The nominal values of hedged investments are listed under Nominal values Underlying

<sup>2</sup> In so far as derivatives are shown in evaluation units with basic business, the value of the evaluation unit is indicated here.

<sup>3</sup> Without valuation unit.

## C. ACCOUNTS RECEIVABLE

### I. Accounts receivable on direct insurance business from:

#### 1. POLICYHOLDERS (6)

A global value adjustment of € 2 324 (2 649) thousand on outstanding amounts was made on the basis of statistical data.

#### III. Other receivables (7)

<i>in € thousand</i>	2008	2007
Loans and advances to employees and agents	1 139	973
Advance payment of settled claims for the account of foreign companies	1 890	1 177
Receivables from transactions for third account	4 558	2 863
Receivables from the acquisition of insurance business for affiliated companies	24	16
Tax reimbursement claims	18 435	21 928
Outstanding interest and rents	116	180
Clearing balances of pension and support funds	269	19
Remaining other receivables	16 580	8 818
From affiliated companies	82 345	60 803
<b>TOTAL</b>	<b>125 356</b>	<b>96 777</b>

**D. OTHER ASSETS****I. Equipment and stock (8)**

Permanent assets were depreciated at tax-permissible rates by € 644 (1 890) thousand and low-value assets acquired in the year under review were fully depreciated to the amount of € 50 (361) thousand.

**E. DEFERRED ASSETS****II. Other deferred assets (9)**

The following are entered here: Redemption premiums from the acquisition of non-negotiable bonds and debentures amounting to € 1 010 (1 617) thousand as well as the discount arising from the secondary liabilities amounting to € 368 (424) thousand.

**Explanatory Notes – Liabilities****A. EQUITY****I. Called-up capital (10)**

The outstanding contributions of €53 660 thousand have not been called up.

**a) SUBSCRIBED CAPITAL**

In accordance with § 5 of the Articles of Association, the breakdown of share capital is now as follows:

	QUANTITY	IN € THOUSAND
a) Registered no-par-value shares, fully paid	72 000	1 843
b) Registered no-par-value shares, 50% paid	4 198 000	107 469
<b>TOTAL</b>	<b>4 270 000</b>	<b>109 312</b>

**II. Capital reserve (11)**

This item relates to the premium from the capital contribution.

**III. Retained profit reserves (12)****OTHER RETAINED PROFIT RESERVES**

The other retained profit reserves remain unchanged at € 74 883 thousand.

**B. SECONDARY LIABILITIES (13)**

The fixed-interest subordinated bond issue was started on 1 December 2001 and is divided into 30 000 bearer bonds at a nominal value of €1000 each.

The annual dividends amount to 5.4% of the nominal value.

Redemption of the subordinated bond will be carried out on 1 December 2011 at its nominal value.

On 14 July 2005, Württembergische Versicherung AG issued subordinated bonds with fixed and non-fixed interest, without a final redemption date but with a debtor's right to terminate after 10 years, the total nominal amount being €60 million euros. The bonds are divided into denominations of €1000, the smallest transferable unit being €50 000.

From the issue date until 27 July 2015, the interest on the bonds will be 5.25%. Except in the case of premature redemption, the quarterly interest on the bonds from 27 July 2015 onwards will be based on the EURIBOR for three-month deposits in euros with retrospective effect plus a margin of 3%. The issuer has the right to postpone the interest in the event that a dividend is not agreed on at the annual general meeting of the issuer directly before this interest payment day for any types of share of the issuer and

- a) the issuer has not transferred any profit according to the rule of the transfer-of-profits agreement and has not formed any voluntary reserves
- b) the issuer has not posted a profit for the year in the sense of German commercial law.

Postponed interest is cumulative.

The subordinated bond is traded on the open market at the Frankfurt stock exchange. The bond conditions of July 2005 are applicable.

**C. INSURANCE RESERVES (14)**

The details of these reserves are given in the table section on page 66.

**D. OTHER ACCRUED LIABILITIES****II. Other reserves (15)**

in € thousand	2008	2007
Early retirement and old-age part-time work	38 177	31 976
Restructuring measures	16 693	20 678
Expenses for annual accounts	1 358	1 424
Holiday obligations and flexitime	6 864	5 688
Staff bonuses and executive commission	16 493	16 521
Profit sharing and competition awards	21 553	11 548
Expenses for preparation of real estate	78	9
Expenses for maintenance of real estate not yet carried out	252	211
Obligations regarding staff anniversaries and compensation payments to insurance agents	11 699	13 794
Legal risks	328	—
Interest expenses according to § 233 a AO	5 000	—
Contributions concerning obligatory personal accident insurance, adjustment levy for the disabled and others	2 675	1 953
<b>TOTAL</b>	<b>121 170</b>	<b>103 802</b>

**F. OTHER LIABILITIES****I. Accounts payable on direct insurance business to:****1. POLICYHOLDERS (16)**

This includes i.a. advance payments for new policy submissions and for premiums which are due at a later date.

**III. Other liabilities (17)**

in € thousand	2008	2007
Taxes	18 540	20 043
Clearing balances for pension and support funds	—	49
Liabilities to suppliers and for services	407	352
Obligations from transactions for third account	542	1 049
Accounts to be paid arising from insurance brokerage	6	6
Accounts payable arising from direct debiting	13 004	—
Other accounts payable	21 473	20 446
Accounts payable to affiliated companies	45 925	47 207
<b>TOTAL</b>	<b>99 897</b>	<b>89 152</b>

**REMAINING PERIODS TO RUN OF LIABILITIES**

Items F.I. to III. contain no liabilities with remaining periods to run of over five years.

**G. DEFERRED LIABILITIES (18)**

G. Deferred liabilities (18)

Of the amount shown, €2042 (1588) thousand represents discount on mortgages and discount on non-negotiable bonds, debentures and non-negotiable participating rights, €42 (49) thousand in prepaid interest.

**Explanatory Notes – Income Statement****I. INSURANCE ACCOUNT****1. Earned premiums f.o.a. (19)**

The premiums are shown in the tables on page 67.

The domestic gross premiums written amount to € 1 284 097 (1 296 466) thousand. The premiums of indirect business amount to € 3321 (117 347) thousand.

The number of insurance policies of at least one year's duration is shown on page 70.

**2. Technical interest income f.o.a. (20)**

This item relates to the interest on capitalised annuities and the premium fund after deduction of the proportional administration expenses and of the reinsurer's share, in accordance with § 38 RechVersV.

**4. Incurred losses f.o.a.**

The gross incurred losses are shown in the table on page 68.

**b) CHANGE IN THE RESERVE FOR OUTSTANDING INSURANCE CLAIMS (21)**

Due to its uncertain nature, the development of the outstanding-claims reserve brought forward from the previous financial year led to profits f.o.a. from the run-off of loss reserves, these profits amounting to €98 575 (129 437) thousand.

**6. Underwriting expenses f.o.a.****a) GROSS UNDERWRITING EXPENSES (22)**

A breakdown is provided in the table on page 68.

The acquisition costs amount to €133 388 (136 053) thousand and the administration expenses amount to €244 578 (286 024) thousand.

## II. GENERAL ACCOUNT

### 1. Income from investments

#### b) INCOME FROM OTHER INVESTMENTS (23)

in € thousand	2008	2007
Land, leasehold rights and buildings	8 022	7 939
Other investments	131 075	100 303
<b>TOTAL</b>	<b>139 097</b>	<b>108 242</b>

#### d) PROFITS FROM THE DISPOSAL OF INVESTMENTS (24)

in € thousand	2008	2007
Land, leasehold rights and buildings, including buildings on non-owned land	375	713
Shares in affiliated companies	5	205
Bearer bonds and other fixed-interest securities	19 154	1 642
Non-negotiable bonds	4 491	710
Deposits with credit institutions	—	388
Other	2 419	—
<b>TOTAL</b>	<b>26 444</b>	<b>3 658</b>

### 2. Expenses related to investments

#### b) LOSSES FROM THE DISPOSAL OF INVESTMENTS (25)

in € thousand	2008	2007
Land, leasehold rights and buildings, including buildings on non-owned land	1 808	1 864
Participations <sup>1</sup>	814	448
Shares, investment certificates and other non-fixed interest securities	119 057	4 676
Bearer bonds and other fixed-interest securities	13 313	9 207
Other investments	—	2 099
<b>TOTAL</b>	<b>134 992</b>	<b>18 294</b>

<sup>1</sup> Extraordinary depreciation in accordance with § 253 Para. 2 Clause 3 HGB.

## c) LOSSES ON THE DISPOSAL OF INVESTMENTS (26)

in € thousand	2008	2007
Share in affiliated companies	—	1
Participations	7	3
Shares, investment certificates and other non-fixed interest securities	12 521	322
Bearer bonds and other fixed-interest securities	197	455
Non-negotiable bonds	—	7 241
Debentures and loans	—	6 311
Deposits with credit institutions	—	369
<b>TOTAL</b>	<b>12 725</b>	<b>14 702</b>

## 4. Other income (27)

The major items are:

Commission for the acquisition of insurance and building-society business for other companies € 93 351 (95 095) thousand, other reimbursements of costs (business activities on behalf of others etc.) € 203 054 (139 264) thousand, exchange-rate profits € 61 192 (35 131) thousand.

## 5. Other expenses (28)

THESE ARE MAINLY APPORTIONED TO THE FOLLOWING ITEMS:

in € thousand	2008	2007
Commission, competition awards and sales expenses resulting from the referral of insurance and building-society business obtained for other companies	98 941	98 141
Costs of other services (e.g. business management)	199 507	136 634
Costs of annual accounts	1 730	1 772
Contributions to trade associations, to chambers of industry and commerce and fees for the insurance supervisory authority	1 204	1 269
Exchange-rate losses	53 262	33 670
Interest on secondary liabilities	4 829	4 818
Other expenditure which affects the company as a whole		
Costs for legal and tax advice	567	721
Expenses for interest change, pension reserves	—	12 115
Projects	8 747	7 171

### 8. Extraordinary expenses (29)

The merger loss arising from the merger of Karlsruher Versicherung AG and WürttVers in 2007 amounts to € 20 829 thousand.

### 10. Taxes on income and profit (30)

The tax amounting to € 375 thousand resulted especially from the increase in interest on corporate tax whereas the income tax expenses of the previous year resulted from the transfer from the active latent taxes.

## Supplementary Information

### COMMISSION AND OTHER PAYMENTS TO INSURANCE AGENTS, PERSONNEL EXPENDITURE

in € thousand	2008	2007
Commissions of all kinds for insurance agents in the sense of § 92 HGB for direct business	184 686	184 927
Other payments to insurance agents in the sense of § 92 HGB	27 774	26 508
Wages and salaries	207 049	205 466
Social contributions and expenditure for support	39 359	38 299
Expenditure for old age provision	23 578	14 627
<b>TOTAL</b>	<b>482 446</b>	<b>469 827</b>

### EMPLOYEES

Number <sup>1</sup>	2008	2007
Office staff	2 925	2 788
Salaried salesmen	1 678	1 766
Blue-collar employees	73	74
Trainees	221	202
<b>TOTAL</b>	<b>4 897</b>	<b>4 830</b>

<sup>1</sup> The figures indicate the average number of employees for the year.

### THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

The names of the members of the Supervisory Board and the Management Board are listed on pages 5, 6 and 7.

Members of the Management Board: Dr. Wolfgang Oehler (Chairman), Dr. Wolfram Gerdes, Dr. Michael Gutjahr, Dr. Ralf Kantak, Dr. Jochen Kriegmeier, Ruth Martin, Rainer Schlegel.

### Emoluments of the Supervisory Board, the Management Board and previous Management Boards as well as advances and credits granted to them

The emoluments of the members of the Supervisory Board amounted to € 244 (190) thousand, those of the members of the Management Board to € 1 091 (920) thousand. Former members of the Management Board received € 1 443 thousand. For obligations to former members of the Management Board, pension reserves have been formed in W&W AG. On the balance-sheet date, these amount to € 12 514 thousand based on an interest rate of 5.0 %.

There were no amounts owed by members of the Supervisory Board or the Management Board.

### RELATIONSHIPS OF LIABILITY AND OTHER FINANCIAL OBLIGATIONS

As a member of the Verkehrsofferhilfe e.V. (association providing aid to accident victims), we are obliged to provide this association with the funds necessary to the pursuance of its aims according to our share in the premium revenue which member companies have achieved from direct motor third-party liability insurance in the calendar year before last.

WürttVers has taken part in the rescue plan of the government and the German financial sector for Hypo Real Estate Bank Aktiengesellschaft. It did so by underwriting a liquidity support package and by means of a partial back-up guarantee in favour of the Federal Republic of Germany to the amount of € 1 825 thousand.

Due to our membership in the Institute of London Underwriters (ILU), there is a possible obligation amounting to a maximum of GBP 557 733 in case the ILU is unable or only partially able to meet its obligations. WürttVers has established a corresponding letter of credit in favour of the ILU.

Remaining obligations to pay on shares which have not been fully called up amounted to € 16 770 thousand on the balance-sheet date. There is also an obligation arising from participating shares.

The pension obligations of WürttVers have been transferred to W&W AG by way of internal contract. In recompense, WürttVers, together with other consolidated companies, assumes the overall liable obligation for the old-age-provision agreements entered into by the parent company in so far as the employees concerned are made use of by WürttVers. The share concerning WürttVers, this amount being the share which the latter has to bear according to the internal contract with the W&W Group, amounts to € 236 789 thousand.

The other financial obligations arising from real-estate leasing agreements amount to about €213 thousand per month at the present time. In addition, there are minor obligations arising from diverse rental and leasing agreements for equipment and vehicles.

In the context of the sale of Württembergische UK Limited in 2007, we entered into financial obligations to the usual extent in business.

Through the sale of a transferable leasehold land interest, we accepted an open-ended, absolute and irrevocable guaranty. The guaranty expires on 28 February 2014.

In accordance with the waiver of recourse and declaration of indemnity which exists in the W&W Group, the company waives its right of recourse against a representative if a claim is made due to incorrect advice given by the representative in connection with the sale of an insurance product offered by the company or in connection with subsequent consultation unless gross negligence is involved or the claim is covered by liability insurance. With regard to the representative's own liability relating to the sale of insurance or financial-service products of an insurance company of the W&W Group, a cooperating partner of one of these insurance companies or in the course of further consultation for one of these companies or cooperating partners, the representative is also indemnified by the company in the case of mistakes made in the advice that given to a customer. The minimum sum assured is limited to € 200 thousand for each claim and a total of € 300 thousand per year. In the case of claims in connection with mistakes made in the provision of advice during the sale of insurance, it is limited to € 1 million per claim or € 1.5 million per year.

Apart from these liabilities and safeguarding payments, there are no further obligations not apparent from the balance sheet or the preceding explanatory notes, nor are there any liens, mortgages of goods, or liabilities arising from the negotiation of bills.

#### GRUOP AFFILIATION

W&W AG, Stuttgart, has informed us that it is the sole shareholder in our company.

WH (Wüstenrot Holding), Ludwigsburg, whose consolidated annual accounts include our company, holds the majority of shares in W&W AG, Stuttgart, in whose consolidated accounts our company is included. The consolidated annual accounts of WH and the annual accounts of W&W AG are published in the electronic federal gazette (Bundesanzeiger).

Stuttgart, 12 February 2009

The Management Board



Dr. Wolfgang Oehler



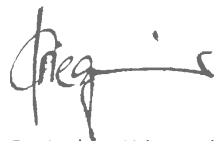
Dr. Wolfram Gerdes



Dr. Michael Gutjahr



Dr. Ralf Kantak



Dr. Jochen Kriegmeier



Ruth Martin



Rainer Schlegel

## Detailed Assets

## DEVELOPMENT OF ASSETS ITEMS A. AND B.I. TO III. IN FISCAL 2008

	BALANCE-SHEET VALUES 2007	ADDITIONS	RECLASSIFI- CATIONS	DISPOSALS	REVALUA- TIONS	DEPRECIA- TION	BALANCE-SHEET VALUE 2008
<i>in € thousand</i>							
<b>A. Intangible assets</b>							
Other intangible assets	1 660					626	1 034
<b>B.I. Land, leasehold rights and buildings, including buildings on non-owned land</b>	109 332			60		1 808	107 464
<b>B.II. Investments in affiliated companies and participations</b>							
1. Participations in affiliated companies	142 775	13 913		13	5 919		162 594
2. Participations	43 326	6 878		1 106	146	814	48 430
3. Total of B.II.	186 101	20 791		1 119	6 065	814	211 024
<b>B.III. Other investments</b>							
1. Shares, investment certificates and other variable-interest securities	350 762	159 539		52 582	1 116	119 160	339 675
2. Bearer bonds and other fixed-interest securities	603 155	351 484		454 199	4 653	24 528	480 565
3. Mortgages	32 954	404		4 636			28 722
4. Other loans							
a) Non-negotiable bonds	576 000	165 000		202 000			539 000
b) Debentures and loans	432 103	61 788		35 000			458 891
c) Loans and advance payments on insurance policies							
d) Other loans	16 500	5 500					22 000
5. Deposits with credit institutions	146 269	45 220				3 790	187 699
6. Other investments	38 322			5 137			33 185
7. Total of B.III.	2 196 065	788 935		753 554	5 769	147 478	2 089 737
<b>TOTAL</b>	<b>2 493 158</b>	<b>809 726</b>		<b>754 733</b>	<b>11 834</b>	<b>150 726</b>	<b>2 409 259</b>
					Including: Exchange- rate profits € 2 028 thousand	Including: Exchange- rate losses € 15 014 thousand	

## Detailed Liabilities

C. INSURANCE RESERVES <sup>1</sup>

	GROSS RESERVES FOR INSURANCE CLAIMS		RESERVE FOR CLAIMS EQUALISATION AND SIMILAR RESERVES		TOTAL GROSS INSURANCE RESERVES	
	2008	2007	2008	2007	2008	2007
<i>in € thousand</i>						
<b>1. Direct insurance business</b>						
Personal accident	162 954	163 672	—	—	181 836	182 481
Third-party liability	484 970	465 726	10 054	15 664	529 179	528 282
Motor third-party liability	1 032 047	1 060 260	65 409	67 343	1 111 010	1 142 509
Other motor insurance	28 889	24 384	64 028	79 466	99 710	111 395
Fire and property						
Fire	32 732	33 194	24 226	28 577	63 745	70 845
Combined household insurance	10 195	8 977	—	—	28 249	27 660
Combined building insurance	38 097	31 546	—	—	60 967	53 906
Other property insurance	41 347	38 322	22 609	23 316	84 029	82 118
	122 371	112 039	46 835	51 893	236 990	234 529
Marine and aviation insurance	32 611	39 197	8 193	14 507	41 729	59 223
Legal protection insurance	118 524	115 165	26 393	21 570	161 499	153 868
Other classes	81 212	63 730	3 833	3 554	86 151	74 544
<b>TOTAL</b>	<b>2 063 578</b>	<b>2 044 173</b>	<b>224 745</b>	<b>253 997</b>	<b>2 448 104</b>	<b>2 486 831</b>
<b>2. Assumed insurance business</b>	265 786	312 371	20 717	43 137	287 492	395 058
<b>3. Total insurance business</b>	<b>2 329 364</b>	<b>2 356 544</b>	<b>245 462</b>	<b>297 134</b>	<b>2 735 596</b>	<b>2 881 889</b>

<sup>1</sup> See page 57 of the appendix.

Detailed Income Statement <sup>1</sup>

	GROSS WRITTEN PREMIUMS		GROSS EARNED PREMIUMSE		NET EARNED PREMIUMS	
	2008	2007	2008	2007	2008	2007
<i>in € thousand</i>						
<b>1. Direct insurance business</b>						
Personal accident	127 620	127 285	128 190	127 749	109 081	108 391
Third-party liability	175 265	204 252	187 106	209 031	155 780	168 556
Motor third-party liability	305 586	325 281	305 920	325 764	259 098	268 674
Other motor insurance	190 744	197 297	190 896	197 546	158 663	161 153
Fire and property						
Fire	46 287	47 943	48 799	48 445	31 283	30 898
Combined household insurance	84 455	84 471	85 055	85 498	71 852	72 133
Combined building insurance	107 809	101 983	107 263	101 343	86 718	81 171
Other property insurance	123 342	119 448	123 835	120 370	90 819	89 323
	361 893	353 845	364 952	355 656	280 672	273 525
Marine and aviation insurance	11 742	23 534	16 330	24 824	12 374	17 396
Legal protection insurance	94 137	92 188	94 648	92 675	80 676	78 691
Other classes	16 548	33 124	22 564	33 781	12 639	22 597
<b>TOTAL</b>	<b>1 283 535</b>	<b>1 356 806</b>	<b>1 310 606</b>	<b>1 367 026</b>	<b>1 068 983</b>	<b>1 098 983</b>
<b>2. Assumed insurance business</b>	3 321	117 347	43 671	132 538	24 735	79 811
<b>3. Total insurance business</b>	<b>1 286 856</b>	<b>1 474 153</b>	<b>1 354 277</b>	<b>1 499 564</b>	<b>1 093 718</b>	<b>1 178 794</b>

<sup>1</sup> See page 59 of the appendix.

	GROSS INCURRED LOSSES		GROSS UNDERWRITING EXPENSES		REINSURANCE BALANCE <sup>1</sup>	
	2008	2007	2008	2007	2008	2007
<i>in € thousand</i>						
<b>1. Direct insurance business</b>						
Personal accident	47 277	49 200	41 964	44 892	- 6 942	- 4 786
Third-party liability	113 621	120 853	61 886	69 259	- 8 840	- 7 614
Motor third-party liability	235 933	307 670	56 672	58 266	- 11 663	24 825
Other motor insurance	173 438	147 957	49 502	46 707	9 074	- 384
Fire and property						
Fire	27 118	25 217	14 613	13 194		
Combined household insurance	32 033	30 667	30 034	31 088		
Combined building insurance	97 378	108 501	34 387	33 101		
Other property insurance	79 915	78 686	43 692	40 739		
	236 444	243 071	122 726	118 122	- 6 632	16 743
Marine and aviation insurance	9 952	19 497	4 315	7 316	- 1 864	1 519
Legal protection insurance	55 427	57 375	31 993	33 818	- 1 142	153
Other classes	42 617	8 081	7 499	9 813	10 662	- 4 775
<b>TOTAL</b>	<b>914 709</b>	<b>953 704</b>	<b>376 557</b>	<b>388 193</b>	<b>- 17 347</b>	<b>25 681</b>
<b>2. Assumed insurance business</b>	63 065	82 864	1 409	33 884	8 920	- 30 267
<b>3. Total insurance business</b>	977 774	1 036 568	377 966	422 077	- 8 427	- 4 586

<sup>1</sup> From the point of view of Württembergische Versicherung AG.

	INSURANCE RESULT F.O.A. (BEFORE ADJUSTMENT OF CLAIMS EQUALISATION RESERVE)		CHANGE IN THE CLAIMS EQUALISATION RESERVE AND SIMILAR RESERVES		INSURANCE RESULT F.O.A. (AFTER ADJUSTMENT OF CLAIMS EQUALISATION RESERVE)	
	2008	2007	2008	2007	2008	2007
<i>in € thousand</i>						
<b>1. Direct insurance business</b>						
Personal accident	32 302	29 272	—	—	32 302	29 272
Third-party liability	3 130	12 029	5 609	3 775	8 739	15 804
Motor third-party liability	3 547	-13 914	1 934	10 117	5 481	-3 797
Other motor insurance	-22 154	2 741	15 439	-7 390	-6 715	-4 649
Fire and property						
Fire	-301	2 997	4 351	-3 674	4 050	-677
Combined household insurance	18 274	19 464	—	3 783	18 274	23 247
Combined building insurance	-22 956	-20 283	—	7 961	-22 956	-12 322
Other property insurance	-693	4 392	707	369	14	4 761
	-5 676	6 570	5 058	8 439	-618	15 009
Marine and aviation insurance	334	-724	6 314	5 518	6 648	4 794
Legal protection insurance	6 309	1 767	-4 823	-3 776	1 486	-2 009
Other classes	-17 217	10 726	-279	-13	-17 496	10 713
<b>TOTAL</b>	<b>575</b>	<b>48 467</b>	<b>29 252</b>	<b>16 670</b>	<b>29 827</b>	<b>65 137</b>
<b>2. Assumed insurance business</b>	-11 884	-14 478	22 420	-3 958	10 536	-18 436
<b>3. Total insurance business</b>	-11 309	33 989	51 672	12 712	40 363	46 701

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**NUMBER OF INSURANCE POLICIES OF AT LEAST ONE-YEAR'S DURATION**


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Number of policies	2008	2007
Personal accident	764 459	780 002
Third-party liability	1 206 294	1 223 224
Motor third-party liability	1 367 294	1 383 589
Other motor insurance	922 230	927 447
Fire and property insurance		
Fire	133 129	126 226
Combined household insurance	803 640	815 751
Combined building insurance	452 422	454 970
Other property insurance	745 493	725 888
	2 134 684	2 122 835
Marine and aviation insurance	15 184	15 209
Legal protection insurance	642 643	644 184
Other classes	582 439	574 073
<b>TOTAL</b>	<b>7 635 227</b>	<b>7 670 563</b>

## LIST OF HOLDINGS

	PARTICIPATION RATIO	EQUITY	RESULT	AS AT
	in %	in € million <sup>1</sup>	in € million <sup>1</sup>	
<b>Financial participations</b>				
Real estate				
Württembergische Immobilien AG, Stuttgart	100	88,7	1,2	31.12.2008
Württembergische France, Strasbourg SARL, Strasbourg	100	68,3	2,4	30.09.2008
<b>Other participations</b>				
Altmark Versicherungsmakler GmbH, Stuttgart	100	0,8	0,1	31.12.2008
Nord-Deutsche AG-Versicherungs- Beteiligungsgesellschaft, Stuttgart	100	9,4	0,3	31.12.2008
Württembergische Rechtsschutz Schaden-Service-GmbH, Stuttgart	100	0,1	0,02	31.12.2008
Württembergische Vertriebsservice GmbH für Makler und freie Vermittler, Stuttgart	100	0,07	0,05	31.12.2008

<sup>1</sup> Equity: according to balance sheet statement on liabilities side; including result for the year.

## Auditors' Opinion<sup>1</sup>

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of the Württembergische Versicherung Aktiengesellschaft, Stuttgart, for the business year from 1 January to 31 December 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary articles of incorporation are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Stuttgart, 9 March 2009

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft



Frank Trauschke  
Wirtschaftsprüfer



ppa. Jörg Brunner  
Wirtschaftsprüfer

## Report of the Supervisory Board

Württembergische Versicherung AG is making good progress in its implementation of the “Württembergische 2009” and “SPRING” strategy programs although the general situation is very difficult. The strategy programs are part of the “W&W 2009” program for the future which was initiated throughout the Group in Spring 2006 in order to boost growth, efficiency and profitability. The first important milestones and progress in implementation for the future development of the financial services group on the way to attainment of a position on the market as THE successful specialist in provision for the future have been achieved.

The Supervisory Board of Württembergische Versicherung AG is composed of twelve members. There are three committees of the Supervisory Board: the audit committee, the personnel committee and the mediation committee. The audit committee, establishment of which is recommended by the German Code of Corporate Governance, performs auditing tasks. In addition, it has taken over the tasks of the former investment committee. The personnel committee performs the tasks of the former management board committee. In 2008, two audit committee meetings and two personnel committee meetings took place in which issues relating to the respective tasks were discussed in detail.

In four meetings which took place in 2008 and were prepared in writing, the Supervisory Board closely examined the development of the company and the Group and was continually informed by the Management Board both verbally and in written form about all matters which were relevant to the company and concerned the strategic alignment, planning, the development of business, the risk situation and risk management as well as the rating of the company, the financial crisis and the associated economic downturn in Germany and abroad. The business strategy and risk strategy were presented to and discussed with the Supervisory Board. The Management Board submitted the internal audit report to the Supervisory Board and the report of the compliance officer to the audit committee and informed the chairman of the Supervisory Board on important measures relating to business policy. The Management Board and completely fulfilled its legal and statutory duties towards the Supervisory Board.

The main theme of the Supervisory Board meetings was continuation of the “Württembergische 2009” and “SPRING” programs. Close consideration was given to how challenges identified throughout the Group were analysed by the Group companies and were being approached with a detailed package of measures. The Supervisory Board was also kept fully informed on these matters by the Management Board without delay and was directly involved in issues of fundamental importance to the company. Thanks to the work done and the considerable efforts made, the company has made significant advances on the way to greater efficiency and improved profitability.

All the measures requiring approval according to the law and the regulations of the company were submitted to the Supervisory Board for approval, whereby they were intended to refer to the following especially important issues:

The activities taking place in the insurance area of business in the framework of the overall “W&W 2009” program were a central topic of the Supervisory Board meetings. In this connection, the project work on the issues of the payment system, strengthening of the sales organization, sales support and sales control were dealt with in particular. The re-alignment of the sales channels was also paid closer attention.

The Supervisory Board discussed cross-selling as a joint responsibility of the two areas of business of the W&W Group and its intensified implementation by means of corresponding sales structures, products and incentives, for example.

The Supervisory Board was informed by the Management Board in detail about how withdrawal from the business of the London branch office of Württembergische Versicherung AG was handled.

The development of investments last year was also an important issue in a Supervisory Board meeting in the context of the financial crisis. The Management Board informed the Supervisory Board about the fact that the planned result for the year was not achieved because the result on investments was considerably below the target that had been planned.

The issue of risk management was also dealt with in detail. For this purpose, a detailed risk report was drawn up and submitted to the Supervisory Board for their attention.

The Supervisory Board closely examined the consolidated annual accounts as well as the Group report of the Management Board dated 31 December 2008. The consolidated annual accounts and the Group report of the Management Board are complete and comply with the assessments of the Management Board in the reports to be submitted to the Supervisory Board in accordance with § 90 AktG.

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Stuttgart, appointed as the auditors for the consolidated annual accounts by the Supervisory Board, has examined the 2008 consolidated annual accounts drawn up by the Management Board and the Group report of the Management Board with reference to the regular accounts and found them to be in order without any reservations.

The auditors reported to the Supervisory Board verbally and in writing on the main results of their audits. The audit report was sent to each member of the Supervisory Board. The auditors were also available for questions in the meeting of the audit committee on 25 March 2009, in the balance-sheet meeting of the Supervisory Board on 27 March 2009 and in the time during which preparations were made for the meetings. The audit report submitted accords with the legal requirements of § 321 HGB and was taken into account by the Supervisory Board in the context of its own examination of the annual accounts.

After the final result of the examination of the consolidated annual accounts and the report of the Management Board, the Supervisory Board raised no objections and, in its meeting on 27 March 2009, endorsed the Group annual report drawn up by the Management Board. The annual accounts are therefore regarded as finalised in accordance with § 172 Clause 1 AktG.

Uwe Ilzhöfer, Peter Ulrich, Cuno Hägele, Franz Rothenhäusler and Dr. Christoph Dorschel withdrew from the Supervisory Board with effect from 29 May 2008. Rolf Henrich, Dr. Joachim

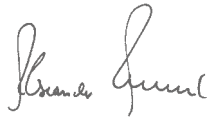
Lemppenau, Katja Bronner, Jochen Höpken and Hubert Sebold have been members of the Supervisory Board since 29 May 2008. Rolf Henrich took over the office of deputy chairman from Peter Ulrich. Two new members were appointed to the Management Board: Dr. Wolfram Gerdes with effect from 1 January 2008 and Dr. Ralf Kantak with effect from 1 April 2008. In the Supervisory Board and Management Board, there were no further personnel changes in the course of fiscal 2008.

In 2008, there were no conflicts of interest which had to be disclosed.

Last year placed severe demands on the management and workforce. The Supervisory Board thanks the Management Board as well as the managers, the employees' committee and the employees for their personal dedication and their contribution towards attainment of the shared goals.

Stuttgart, 27 March 2009

For the Supervisory Board

A handwritten signature in black ink, appearing to read 'Alexander Erdland', written in a cursive style.

Dr. Alexander Erdland  
Chairman

# Glossary

## **AGGREGATE RESERVE (ALSO CALLED ACTUARIAL RESERVE AND, IN NON-LIFE INSURANCE, PREMIUM RESERVE)**

Existing contracts, especially in life, health and personal-accident insurance, result in obligations for which monies have to be reserved. This reserve is calculated according to the recognized rules of actuarial practice.

## **CEDENT**

First insurance company, partner to a reinsurance contract in assumed (indirect) business.

## **CLAIMS EQUALISATION RESERVE**

The claims equalisation reserve is intended to compensate for fluctuations in loss occurrence in future years. It is calculated according to fixed methods based on actuarial practice.

## **CLAIMS EXPENSES**

Payments and reserves for incurred losses, including the costs of claims settlement.

## **CLAIMS FREQUENCY**

The claims frequency is measured in parts per thousand. The claims frequency indicates how many claims occur for every thousand insured risks per year.

## **CLAIMS RATIO**

This refers to that percentage of earned income attributable to expenses for claims.

## **COMBINED RATIO**

This refers to the ratio of underwriting expenses to expenses for incurred losses relating to earned premiums.

## **COST RATIO**

This is the percentage of earned premiums which is attributable to underwriting expenses.

## **DIRECT INSURANCE BUSINESS**

This business involves a direct contractual relationship between the insurance company and policyholder. If the insurance company offers insurance coverage on the basis of a contract with another insurance company, the first insurance company, as cedent of this business, must post this business as assumed reinsurance or indirect insurance.

## **EXPECTED CLAIM**

The expected claim is the average claims expense per risk within a year. The term "expected claim" is also used in premium costing.

## **EXTENDED COVERAGE**

This form of general insurance provides extended insurance coverage in that risks additional to fire insurance, such as strike, lockout, water-pipe damage, storm or flooding are also included.

## **GROSS/NET**

Respective insurance item or ratio before or after deduction of the reinsurance components (→ reinsurance, → for own account).

## **INCURRED LOSSES**

These expenses encompasses all insurance benefits, not only those already paid out but also those which have been reserved. They include not only benefits for claims that have occurred in the fiscal year but also the claims adjustment result of the preceding years.

## **INDIRECT BUSINESS**

The business assumed by an insurance company as reinsurance.

## **INSURANCE RESULT**

This is the result arising from earnings and expenses relating to insurance business and mainly encompasses premiums, expenses for insurance claims and underwriting expenses as well as other insurance expenses and earnings.

## **INVESTMENTS**

The insurers are obliged to safely, profitably and liquidly invest the assets they have accumulated to fulfil their obligation in accordance with the regulations of the Insurance Supervisory Law.

**KONTRAG (LAW ON CORPORATE MONITORING AND TRANSPARENCY)**

KonTraG adapts corporate law and commercial law to international standards and is intended to specifically improve the monitoring system in individual companies. According to § 91 Para. 2 AktG, the Supervisory Board is obliged to take “suitable measures above all in order to set up a monitoring system so that any developments that endanger continuation of the company can be detected at an early stage.”

**LOSS AVERAGE**

The loss average is the average claims expense (paid and reserved) for each claim.

**PREMIUM REVENUE (PREMIUM REVENUE)**

Gross: before deduction of reinsurance. Net: after deduction of reinsurance.

For own account (f.o.a.): after deduction of reinsurance  
Written premium revenue: premium revenue for the respective fiscal year. Earned premium revenue: parts of the written premium revenue attributable to insurance protection in the fiscal year.

**REINSURANCE**

An insurance company insures part of the risk by ceding it to another insurance company (reinsurer).

**RESERVE FOR OUTSTANDING CLAIMS (ALSO CLAIMS RESERVE)**

These are reserves for expenses arising from claims occurring in the respective fiscal year. They also include reserves for insured events which occurred before the balance-sheet date but have not yet been advised (reserve for late claims).

**SELF-RETENTION**

Part of the risk which is not ceded to a reinsurer but is borne by the first insurer – for own account (f.o.a.).

**SELF-RETENTION RATIO**

This is that part of the risk which is not ceded in reinsurance and is borne fully by the first insurer. The self-retention ratio is derived from the ratio of premiums for own account to the gross premium revenue.

**SOLVABILITY**

Solvability is the extent to which a company is in possession of equity. According to § 53 c of VAG (insurance contract law), insurance companies are obliged to possess free and unencumbered equity which at least corresponds to the solvability margin and is sufficient to ensure that insurance contracts can be fulfilled at all times. The solvability margin is measured according to the entire fiscal year and is derived from the annual premium revenue and the average claims expense.

**STRESS TEST**

The stress test simulates the effects of future negative developments of the investment market - such as a drop in share prices and a rise in the interest rate at the same time – on the coverage of guaranteed benefits and the solvency of the company.

**UNDERINSURANCE**

The sum insured is smaller than the (new) value of all items insured; leads to corresponding reductions in compensation, even in the case of partial claims.

**UNDERWRITING EXPENSES (INCLUDING ADMINISTRATION COSTS)**

These are commission, salaries, tangible costs and other expenses involved in selling and in the ongoing administration of insurance contracts.

**UNDERWRITING POLICY**

Basic principles which have been defined by the company management and according to which risks are covered for a specific premium and at specific terms.

**UNEARNED PREMIUMS (PREMIUM RESERVE)**

These constitute premium revenue attributable to the income account of future fiscal years.

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# ABBREVIATIONS

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AktG	Share law
ALM	Asset liability management
AltEink	Law on income in old age
AO	Tax code
ARA PK	Allgemeine Rentenanstalt Pensionskasse AG
BaFin	Federal institute for financial services supervision
BSW	Wüstenrot Bausparkasse AG
DAV	German association of actuaries
DAX	German share index
f.o.a.	for own account
HGB	German commercial law
KonTraG	Law on corporate monitoring and transparency
IT	Information technology
IT GmbH	W&W Informatik GmbH
Karlsruher	Karlsruher insurance companies
KHK	Karlsruher HK AG
KLV	Karlsruher Lebensversicherung AG
KV	Karlsruher Versicherung AG
Makler Vertriebsservice GmbH	Württembergische Vertriebsservice GmbH für Makler und freie Vermittler
MaRisk	Minimum risk management requirements
QIS	Quantitative Impact Study
RechVersV	Directive on the presentation of accounts of insurance companies
RfB	Reserve for bonus payments to clients
ROE	Return on equity
TÜV	Technischer Überwachungsverein (German technical supervisory association)
UK	United Kingdom
ULA	Unit-linked life insurance
VAG	Insurance supervisory law
VVG	Law governing insurance contracts
WH	Wüstenrot Holding AG
Württembergische KÖ43	Württembergische KÖ43 GmbH
Württfeuer	Württfeuer Beteiligungs-GmbH
WürttKranken	Württembergische Krankenversicherung AG
WürttLeben	Württembergische Lebensversicherung AG
WürttVers	Württembergische Versicherung AG
W&W AG	Wüstenrot & Württembergische AG
W&W AM	W&W Asset Management GmbH
W&W AG	Wüstenrot & Württembergische AG
W&W AM	W&W Asset Management GmbH

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