Annual Report 2008

Wüstenrot & Württembergische AG

wüstenrot württembergische

Contents

W&W AG KEY FIGURES AT A GLANCE

W&W Group (in accordance with IFRS)

Balance sheet		31 Dec 2008	31 Dec 2007
Available-for-sale financial assets	€ bn	12.7	13.0
Loans and advances to banks	€ bn	16.7	19.1
Loans and advances to customers	€ bn	28.6	29.3
Liabilities to customers	€ bn	20.9	21.8
Technical provisions	€ bn	28.5	29.7
Shareholders' equity	€ bn	2.3	2.5
Net asset value per share	€	25.87	24.54
Total assets	€ bn	64.5	68.1

Income statement		1 Jan to 31 Dec 2008	1 Jan to 31 Dec 2007
Net financial result (after allowance for credit losses)	€ mn	478.0	1,486.8
Premiums/contributions earned (net)	€ mn	3,684.4	3,835.6
Insurance benefits (net)	€ mn	2,791.9	3,821.5
Earnings before taxes from continued operations	€ mn	102.9	246.5
Consolidated net income	€ mn	65.5	209.5
Earnings per share	€	0.67	2.32

Other information		1 Jan to 31 Dec 2008	1 Jan to 31 Dec 2007
Employees[1]		8,134	8,445
Employees[2]		9,806	10,107
Return on equity after taxes[3]	%	2.8	8.8
Assets under management	€ bn	25.3	24.9
Sales of own and third-party investment funds	€ mn	436.5	422.1
Home loans disbursed	€ mn	5,972.5	4,907.4
Home Loan and Savings Bank Division			
New home loan savings business (paid in)	€ bn	8.7	7.2
New home loan savings business (gross)	€ bn	10.8	8.5
Insurance Division			
Property/Casualty insurance			
New premiums/contributions	€ mn	156.3	165.3
Gross premium/contribution income	€ mn	1,286.5	1,472.6
Life and Health Insurance			
Annual Premium Equivalent (APE)	€ mn	292.4	274.8
Gross premium/contribution income	€ mn	2,350.1	2,413.7

1 Full-time equivalent head count at year-end
2 Number of employment contracts at year-end.
3 Adjusted for non-recurring effects in 2007, RoE was 6.1%.

W&W AG key figures at a glance

W&W (according to the German Commercial Code)

		1 Jan to 31 Dec 2008	1 Jan to 31 Dec 2007
Net income	€ mn	97.5	80.4
Dividend per share[1]	€	0.50	0.50
Share price at year-end	€	18.05	19.75
Market capitalisation at year-end	€ mn	1,556.7	1,703.3

1 Subject to approval by the Annual General Meeting.

Financial Calendar

Press conference

W&W Group Annual Press Conference	Thursday, 5 March 2009

Annual General Meeting

Wüstenrot & Württembergische AG General Meeting	Tuesday, 19 May 2009

Financial reports

Annual Report 2008	Tuesday, 31 March 2009
Interim management statement as at 31 March	Friday, 15 May 2009
Half-yearly financial report as at 30 June	Friday, 14 August 2009
Interim management statement as at 30 September	Friday, 13 November 2009

W&W – We've got it covered

By combining the forces of Wüstenrot and Württembergische, we have been able to create a one-stop shop for all of our clients' financial planning needs. No other financial services provider in Germany can call upon the combined strength of both a home loan savings bank and an insurance provider. Leveraging its common range of services, the W&W Group can offer every individual a personal solution to meet his or her financial needs – encompassing – savings and investment, home loan savings, financial cover and risk protection.

In the age of declining state pensions, we are our customers' closest partner for all questions concerning private pension funds. We provide dependable advisory services in an increasingly complex environment. The business we conduct provides a socially responsible service: by offering the best possible financial planning for a wide range of people, we ensure not only financial freedom, but also the greatest possible degree of security, whilst offering sustainability, transparency and stability.

Having been entrusted with the financial planning concerns of generations, Wüstenrot and Württembergische collectively satisfy every financial planning need. Our advisors are close to our customers. We provide personalized services. It is the basis for the innovative solutions we develop to accommodate an entirely new era of financial planning. This is also the spirit in which we want to our business to grow: in turn, securing our strength, independence and creative potential for the future.

Stay the course and reap the benefits of reform

"The 'W&W 2009' modernisation programme secured a solid boost in revenue for us in 2008 and established a stable foundation for new and valuable opportunities."

Interview with Dr Alexander Erdland, Chairman of the Management Board of Wüstenrot & Württembergische AG.

Dr Erdland, a year ago at this point you spoke of the 'W&W 2009' restructuring and modernisation programme in very glowing terms. Since that time, the financial crisis and its effects have drastically changed the world in unexpected ways. Do you still have the same view of 'W&W 2009' today?

More than ever. The modernisation programme has only confirmed its importance and necessity since the events of 2008. The changes that we've been putting in place since 2007 have already amounted to about € 100 million in cost-savings in the first two years alone. In addition, 'W&W 2009' has brought in more product revenue – with less risk: without this modernisation programme, the W&W Group would have slipped into the red in 2008.

No one predicted that the financial crisis would be so dramatic. But complaining isn't our job. We would much rather continued shaping our modernisation programme, driving it forward with determination. We too felt the consequences of the financial crisis last year, due in large part to the lower valuation of our investments. At the same time, we can look at last year's profit with some satisfaction; at about € 66 million after taxes, we were respectably 'in the black'. Especially in light of the losses and write-downs our competitors have had to take, we can count ourselves lucky.

It is clear that 'W&W 2009' helped us achieve year-on-year growth. Without the distortions brought about by the crisis on financial markets, the programme would have resulted in consolidated operative earnings in excess of both the year before and our budget for 2008.

The financial industry is as turbulent as it has ever been, and yet you do not sound discouraged. How can that be?

The financial crisis has posed much greater challenges to us in reaching our goals than we had initially considered possible when 'W&W 2009' was launched. Yet that does not change anything for us – we are "the experts for savings, investment, and risk protection" – with a stable, distinct and sustainable business model that enables us to take advantage of the possibilities that challenging periods offer to meet people's basic financial needs. Not only does this open up attractive business prospects for us, but the business we conduct can also provide a socially responsible service.

What exactly does the W&W Group have to offer its customers?

Our goal is to be the first point of contact for our customers in all areas of financial protection. By joining the forces of Wüstenrot and Württembergische, we have created "the experts for savings, investment, and risk protection", a singular institution whose constant values and goal-oriented range of services secures it as a trustworthy partner. We are there for our customers throughout all of life's stages – with understandable, secure products to create a personalised, dependable financial planning solution for every individual. We approach the individual needs of our customers' many lifestyles, dreams and goals, as well as their concerns, with four central aspects: financial cover, home ownership, risk protection, and savings and investment. These build the foundation of our classic, tried-and-true financial planning products, as well as the answers to our customers' needs. We combine the comprehensive product range of retirement provision and insurance products offered by a large financial services provider with the innovative power and service of a specialist with local advisors – to the benefit of our customers.

W&W's structure provides customers with better service overall to cover the whole of their financial planning needs, whilst pragmatically bringing them closer to their goals. Given the demographic shifts we have experienced and the fact that the federal government's ability to respond is being further constrained by rising debt, the role of personal responsibility in retirement provision and insurance is more important than ever.

The care we take in our customers' interests is especially apparent in the fact that our financial planning services are not product-driven. "Riester" pension plans are just one example – we offer the full range: Riester private retirement provisions incorporating a life insurance policy, as well as 'residential' Riester plans for acquiring ownership of residential property through a home loan savings contract or building loan. We offer customers choices and secure a clear competitive advantage for ourselves. It is this unique combination that sets us apart from major banks, insurance firms and home loan and savings banks. With a proven financial planning track record spanning more than 175 years, we are an independent services provider and credible partner who values our customers' trust above all else.

That sounds a bit like a renaissance of traditional values?

Yes, having a sense of responsibility, constancy and dependability are all values that are being rediscovered by many people today. For us they are a matter of tradition. Having been entrusted with the financial planning concerns of generations, Wüstenrot and Württembergische have always remained faithful to their values and continue to build upon them for the future.

Our mobile sales force is not "burned out" from having to force the sale of risky, failed, profit-driven products; the credibility of our advisors remains intact. We have stayed true to our values. We serve the needs of six million customers with an extensive range of products that offer enormous capacity for providing solutions. Our business model is showing its mettle more now than ever. We represent stable values, and trust breeds success.

As the second-largest independent financial services provider in Baden-Württemberg with a foundation as majority shareholder, we have a strong sense of social responsibility and our role. We are renowned for the excellent professional development we provide for nearly 550 young apprentices. Our employees and mobile sales representatives earn more than € 900 million annually. Last year we satisfied our policy holders with approximately € 3.5 billion in paid claims. Total disbursements for our customers' investments in housing construction amounted to € 8.4 billion in 2008. The W&W Group collectively made an annual tax revenue of approximately € 450 million, the majority of which resulting from insurance tax. These figures seemed especially important to me in light of the current discussion in Germany about the state and reputation of the private sector.

You just described the advantages of W&W's position from the customer's perspective, how do things look in terms of the capital markets?

That's positive as well, but allow me to elaborate with a few examples. Firstly, our business model makes it possible to diversify risk in an interesting way between business sectors and product divisions. The task of Group Risk Management is to make this transparent and manage it optimally, whilst taking capital requirements into account. Secondly, our Pfandbriefe are among the best on the market. Wüstenrot Bank benefits from an exceptionally good cover assets pool. The quality of our home-builder credit portfolio is solid due to its broad base. Our individual loans are small and are limited to private housing construction in Germany, where there was no real estate bubble. Lastly, our liquidity is excellent. Throughout the crisis, we were able to keep our financing costs relatively low by being able to call upon the liquidity provided by our own customers through their home loan savings and bank deposits, as well as incoming insurance premiums. You can see why W&W Group is a solid institution on the capital market as well.

Despite the challenging environment, you were able to post a solid profit at the close of the 2008 financial year. That is something to be proud of. Were there other achievements last year that the W&W Group is especially pleased about?

Making it to the leader board in the home loan savings market to third place – the feat of strength from our sales team really impressed me. And that sort of success is contagious. In a professional sense, I also found the improved quality of our risk management impressive. I am also grateful that our staff members and sales force are already identifying with our ambition to be "the experts for savings, investment, and risk protection".

'Identifying' is a key term. How is the W&W Group developing itself as one single company?

That is a very important question! The foundation of that connection is in similar roots: the cultures, values, strengths and social financial planning considerations. That puts wind in our sails. Last year we conducted a broad-based employee survey. The results revealed that three quarters of our employees are already completely supportive of our position as "the experts for savings, investment, and risk protection". It is something we are very pleased about. Approximately 80% of our employees have also expressed the view that we can make our goal a reality if we truly act as one company.

Results like these inspire us to keep up the hard work. Last year we began to breathe life into our collective mission of being "the experts for savings, investment, and risk protection", throughout the entire Group at every level of the hierarchy – and to make it a common task. A look at initial results reveals that we can be very pleased with what this has achieved. Our employees realise that everyone is responsible for making a contribution to being the first point of contact for customers in all areas of financial planning.

What do you have planned for 2009?

When we began our restructuring and modernisation programme back in 2006, we had already scheduled 2009 to be the key year to step up our efforts in creating a new beginning. That's why we called the programme 'W&W 2009'. This is the year we want to show that our approach to the challenges presented to us by this 'second chance' has been successful. We want to prove that we have only begun to unleash the potential of combining the forces of Wüstenrot und Württembergische, that we can become the market standard in terms of both service and cost, and that we can achieve growth beyond the individual industry averages in a solid and sustainable way. This is our motivation to continue our hard work and take advantage of our unique opportunities to strive and reach our goals for 2009.

This year we will also be working on expanding our modernisation programme to 2012. The central aspects of this will be to continue taking the long view, being responsible for our customers and our employees, whilst increasing, securing, and attending to the values of Wüstenrot und Württembergische as "the experts for savings, investment, and risk protection".

W&W Group Management Board

The W&W Group Management Board is characterised by short reporting lines, streamlined processes, and effective decision-making. The W&W Group has divided its activities into two business divisions since 1 January 2007: Home Loan and Savings Bank, and Insurance. Matthias Lechner heads up the Home Loan Savings Bank Division. Dr Wolfgang Oehler is in charge of the Insurance Division.

In addition to their duties as Chairmen of the Management Board of subsidiaries, they are also members of the Group holding company Management Board. Collectively, they comprise the W&W Group's key executive body.

W&W AG Management Board

Dr Alexander Erdland
Chairman

Group Development & Communication
Group Legal Services and Management Board Office
Group Audit

Klaus Peter Frohmüller
Chief Human Resources Officer

Group Organisation and Services
Group Finance
Group Human Resources

Dr Jan Martin Wicke

Group Controlling
Group Accounting
Group Risk Management

Division Heads

Matthias Lechner

Head of the Home Loan Savings Bank Division
Chairman of the Management Board of
Wüstenrot Bausparkasse AG

Dr Wolfgang Oehler

Head of Insurance Division
Chairman of the Management Board of
Württembergische Versicherung AG,
Württembergische Lebensversicherung AG

Klaus Peter Frohmüller, Matthias Lechner, Dr Alexander Erdland, Dr Wolfgang Oehler, Dr Jan Martin Wicke (left to right).

W&W AG Supervisory Board

Hans Dietmar Sauer
Chairman

Chairman of the Management Board (ret'd.)
Landesbank Baden-Württemberg

Rolf Henrich[1]
Deputy Chairman

Senior Assistant Manager
Chairman of the Group Works Council
Württembergische Versicherungen

Christian Brand

Chairman of the Management Board
Landeskreditbank Baden-Württemberg
– development bank

Hans-Peter Braun[1]

Head of Department
W&W Service GmbH

Wolfgang Dahlen[1]

Head of Organisation
Deputy Chairman of the Group Works Council
Württembergische Versicherungen

Gunter Ernst

Member of the Divisional Board (ret'd.)
Bayerische Hypo- und Vereinsbank AG

Dr Reiner Hagemann

Chairman of the Management Board (ret'd.)
Allianz Versicherungs-AG

Kirsten Hermann[1]

Customer Service Specialist
Wüstenrot Bausparkasse AG

Ulrich Ruetz

Chairman of the Management Board of BERU AG (ret'd.)

Matthias Schell[1]

Head of Department
Group Accounting
Wüstenrot & Württembergische AG

Helmut Schieber

President (ret'd.)
Landeszentralbank in Baden-Württemberg

1 Employee representative.

Joachim E. Schielke

Chairman of the Management Board
Baden-Württembergische Bank, Member of the
Management Board of Landesbank Baden-Württemberg

Walter Specht[1]

Process measurement and control engineer
W&W Service GmbH

Prof Dr Adolf Wagner

Dean of the Economics Chair at the
University of Leipzig (ret'd.)
Prorector, University of Leipzig

Frank Weber[1]

Chairman of the Works Council
Württembergische Versicherungen,
Karlsruhe operations

Christian Zahn

ver.di Trade Union
Head Office

W&W Group 2008

The W&W Group achieved quite a number of things in its drive for stronger growth, improved efficiency and profitability during 2008. This short timeline shows what we have been able to accomplish together.

January

W&W begins the 'living service excellence' programme. The programme combines our existing service initiatives, whilst taking our customers' needs and requests into account more than ever.

Dr Wolfram Gerdes becomes Head of Investment at Württembergische.

The informational and advisory phases with the Economic Committees and Works Councils for W&W Service GmbH begin. The goal is to increase the Group's efficiency by combining services.

February

The new brand arrives. Wüstenrot and Württembergische appear under one insignia, two connected 'W's representing the new image of our financial services provider group. The Chairman of the W&W Management Board, Dr Alexander Erdland, presents the new brand umbrella to journalists.

The qualification programme 'W&W General Management for Executives' – initiated in 2007 in cooperation with the St Gallen Business School – continues for top-level managers.

March

"Rest easy like Sven..." This slogan launches the new advertising campaign for Württembergische in its new corporate design. For the first time, a campaign refers to "Württembergische. Partner of Wüstenrot." – and similarly: "Wüstenrot. Partner of Württembergische."

April

Dr Ralf Kantak is appointed Head of Sales at Württembergische.

Wüstenrot brings the new "Ideal" range of home loan and savings products to the market. "Finanzierer" (finance provider), "Rentabel" (profitable), "Flexibel" (flexible), "Finanzierer XXL" (XXL financing), and "Sofort-Finanzierer" (fast-track financing) – the names of the five rate plans alone clearly demonstrate the focus on the customer's needs.

In order to expand its sales power, Wüstenrot Bausparkasse AG commences working together with AWD, Europe's leading independent financial services provider.

May

Wüstenrot and Württembergische instigate a new advisory structure, designed to enhance cross-selling in both exclusive sales forces. It involves employing and assigning account executives in each division as well as providing for professional support from advisors from the other business division.

Sales are boosted by the new Württembergische property and accident insurance rates with individual extra cover, lower premiums and greater benefits. As an added bonus, customers are able to individually augment their basic cover according to their individual needs and lifestyle.

June

We receive an award! Wüstenrot and Württem bergische is once again ranked in the list of Germany's most customer-oriented services providers. Württembergische Versicherung even takes the top spot amongst composite insurance providers. The competition is initiated and organised by Handelsblatt, the Insurance Sector Institute at St Gallen University, Service-Rating GmbH, and Steria Mummert Consulting.

Map-Report identifies Württembergische Lebensversicherung AG as one of the best providers of private pension plans.
Immediate annuity policies with one-time premiums from 35 different providers taken out in 1990, 1995 and 2000 were evaluated.

New advertising launch. The new logo adorns the facades of the W&W offices in Stuttgart und Ludwigsburg.

July

Wüstenrot Bank AG Pfandbriefbank's "Top Tagesgeldkonto" overnight deposit account breaks the threshold of a quarter billion euros in deposits.

Within the scope of Württembergische's front/back office project, the first of a total of seven service divisions of the new customer service department commences operations in Stuttgart.

W&W conducts its first Group-wide employee survey. The results show that 75% of the W&W Group's internal employees identify with Wüstenrot & Württembergische's new position as the experts for savings, investment, and risk protection. They recognise the necessity of integrating the two businesses more closely to increase each division's ability to compete. 66% of those surveyed are pleased that the W&W Group is continuing to grow together.

Finanztest magazine rates Württembergischen Lebensversicherung AG's disability insurance policy as "very good" for offering added cover in transitioning from per diem illness indemnities to disability pension plans.

August

The new "Top Termingeld flex" product is introduced. It offers a guaranteed interest rate over the entire term with flexible access and no notice periods.

152 apprentices begin their professional lives at W&W. Between themselves, they participate in 14 different professional tracks and study areas, covering the needs of the respective departments they are to join.

Since its inception ten years ago, Württembergische Krankenversicherung AG has been holding its ground successfully on the market. The company provides its 320,000 customers comprehensive and supplementary insurance. A new rate plan is introduced called "ZahnPlus" to fill in insurance gaps at an affordable price.

September

The four Czech Wüstenrot companies are headed up by a new Management Board in Prague. Pavel Vaněk assumes the position of Chairman. Jan Vlček, Anna Petikova, Pavel Pektor, Dr Harald Mayer-Rönne and Lars Kohler now make up the additional members.

The motto "Sew together, grow together" sets the tone for the first meeting of all the W&W Group's top-level managers when the mission of being "the experts for savings, investment, and risk protection" is officially introduced. Upon conclusion of the event, workshops begin for top-level managers to work with their staff in implementing the mission throughout the Group.

October

Wüstenrot introduces the 'eWorld' programme that digitalises incoming and outgoing post as well as records, to speed up customer service processes.
Württembergische Lebensversicherung AG transfers the fund-linked policies from former Karlsruher Lebensversicherung AG to an integrated management system.

November

A third Riester product joins the ranks in November: In addition to Württembergische Lebensversicherung AG's "RiesterRente Plus" plan, the W&W Group is now also offering the "Wüstenrot Wohn-Riester" (a home loan savings plan) and the "Wüstenrot Riester" building loan.

The collective wage agreements are signed for the newly-formed W&W Service GmbH. The newest W&W Group subsidiary commences business with 640 employees in January 2009.

December

The KUBUS 2008 insurance market survey awards an "excellent" grade to Württembergische in the advisory/services ranking. The areas of customer service quality, cost/benefit ratio and product range are rated as "very good".

W&W's ImmoRent BWI fund of funds exceeds € 100 million.

The Wüstenrot Bank AG Pfandbriefbank's "Top Termingeld flex" product reaches an investment volume of € 320 million, just five months after launch.
The "Top Tagesgeld" overnight deposit account product reaches a total volume of € 450 million.

Group Management Report

The W&W Group in profile

Modernisation programmes

In 2006 the W&W Group launched its "W&W 2009" modernisation programme for greater growth, efficiency and profitability. The central aim of the programme is to achieve a 9% return on equity after taxes in 2009, an aim that was again consistently pursued during 2008. Implementation of the "W&W 2009" programme is progressing according to schedule, and by the end of the financial year the Group had tapped all of the identified potential for cutting costs. Nevertheless, the financial crisis during the past year did lead to a fall in the value of capital investments, higher refinancing costs and greater hedging costs.

The W&W Group reached important milestones in all of the projects included in the "W&W 2009" programme in 2008. By way of example, progress has been made on the restructuring of Wüstenrot, and greater efforts have been made to secure the future of Württembergische. Major increases in market share were achieved in the areas of home loan saving and home loans. A newly structured accounting system and the expansion of risk management across the Group as a whole have improved the quality of reporting and risk controlling. With regard to human relations and the audit department, the pooling of responsibility for all of the companies in the W&W Group has created strong and dynamic units. Of the 750 individual measures contained within the programme, 450 had been completed by the end of 2008.

W&W Informatik GmbH is an important partner with regard to implementing the measures associated with "W&W 2009". To ensure that this IT services company continues to be able to handle projects efficiently and according to schedule in the future, a new IT strategy was adopted in 2008. Since then, projects have been assessed and prioritised by W&W Informatik GmbH in such a way that the divisional strategies and systems are optimally coordinated with each other.

"Wüstenrot 2009"

Essential improvements were made at Wüstenrot Bausparkasse AG in 2008 as a result of the "NeOBau" project designed to reorganise home loan business. The tasks of automating loan processing and integrating the process into ongoing operations, as well as the further development of the process used for the valuation of real estate, posed a major challenge and should significantly ease and optimise workflows.

Technical adjustments to the electronic mailbox and the redevelopment of the electronic file were further important measures to be tackled during the past financial year. Since the end of the year, the entire Home Loan and Savings Bank division, and thus also Wüstenrot Bausparkasse AG, has had access to a uniform platform for electronic file management and mail delivery. Looking to the future, this means that the efficiency and quality of the systems in place will be improved for the long term.

The "Top Tagesgeld" product and the new "Top Termingeld flex" product were very well received by W&W Group customers. Deposits held in the Top Tagesgeld account rose during 2008 from just under € 100 million to around the € 450 million mark. Customer deposits in Top Termingeld flex increased within the space of a few months to more than € 300 million. The new Wüstenrot "Riester" home loan savings plan and the Wüstenrot "Riester" loan scheme also got off to a successful start in terms of sales at the end of 2008. With the range of "Riester" products already established on the market by Württembergische Lebensversicherung AG, W&W is in a position to offer its customers attractive options for a switch between a Riester pension and a Riester home loan savings plan, thereby standing out in a positive fashion from its competitors.

"Württembergische 2009"

The integration of the Karlsruher Insurance group has been successfully completed. The cost benefits of the merger of life insurance business with Württembergische Lebensversicherung AG and of property/casualty insurance with Württembergische Versicherung AG emerged earlier (and were higher) than expected.

As planned, Württembergische Versicherung AG cut its number of administrative branches from 15 to seven, which means that contracts can be processed more efficiently in future. A rise in productivity was recorded with regard to the settlement of motor vehicle claims. As a result of better managed claim processing, the cost savings generated by this project have turned out to be higher than forecast.

The new structure of the service areas was introduced in Stuttgart in August 2008, with the aim of making processing functions and customer service more effective across all areas of activity.

"W&W SPRING" – Promoting growth

The Group-wide "SPRING" sales project, designed to boost sales and growth, has had a tangible impact on cross-selling results. During the year under review, cross-selling activity was greatly expanded. The cross-selling set-up at Württembergische meant that new home loan savings business grew by 67% year-on-year. The Wüstenrot mobile sales force acquired almost 18% of the total new business recorded by Württembergische Lebensversicherung AG.

Further initiatives were also launched to increase cross-selling rates. Since 2008, W&W has been using specialist account executives to support the mobile sales forces on the ground. This relates to the insurance business handled by the mobile sales team at Wüstenrot and the home loan business handled by the Württembergische mobile sales team. The aim is to tap into existing customer potential more effectively, and to ensure that the customer is provided with the full advisory service. To raise productivity, sales management and support, the provision of information to sales advisors and training measures as part of the "SPRING" programme were all optimised over the course of last year. A further aim lies in the expansion of the sales organisation. The plan is to acquire new general agents and advisors on the ground, and to deepen existing links with sales partners.

In 2008 Wüstenrot successfully intensified its cooperation with sales units outside the Group itself. Bausparkasse agreed a premium partnership arrangement with the financial services provider AWD relating to the sale of home loan savings plans, and launched its sales cooperation with the pension scheme of Deutscher Beamtenbund (dbb), the Association of German Civil Servants. Looking to the long term, these partnerships will secure access to the customer potential of the leading European financial sales operation and to the target group of public servants, a financially strong group.
The company Württembergische Vertriebsservice GmbH für Makler und freie Vermittler, dealing with brokers and freelance agents, once again extended its sales network during 2008. This means that the broker market can now be handled even more effectively, as a result of which insurance business is picking up significantly. In terms of banking, sales cooperation with small and medium-sized banks in southern Germany was stepped up during 2008. Wüstenrot Bank's online banking is another component of the multi-channel strategy.

W&W Service GmbH

The company W&W Service GmbH (WWS), with its staff of 640, commenced operations on 1 January 2009. The aim, by pooling such services as building management, catering, utilities and logistics, is to improve Group efficiency. Prior to this, negotiations were concluded with the trade unions Vereinte Dienstleistungs-Gewerkschaft (ver.di) and Deutscher Handels- und Industrieangestellten-Verband (DHV) in November 2008. Based on the collective wage agreement negotiated for the transfer of staff, employees from other Group companies are being moved to the new service company. A separate internal wage agreement will apply to new employees not previously employed within the Group. The uniform management of services through WWS is expected to generate savings of around € 28 million in 2009 and 2010.

"We've got it covered" – A new mission for W&W

Together, all of the employees in the W&W Group are pursuing one major aim:

to be THE expert in savings, investment and risk protection.

The plan is for growth in the divisions to be driven from within the Group itself, with the aim of securing its strength and independence over the long term.

As part of this process, W&W can draw on the traditions of its two brands. Wüstenrot and Württembergische are established brands that enjoy the confidence of nearly six million customers. They are a crucially important asset, the capital for a prosperous future. The W&W Group's aim is to be its customers' first point of contact in all areas of financial protection. As an expert in savings and investment, home loan savings, financial security and risk protection for every life stage, the Group can provide a 'one-stop shop' service. This fulfils the important social task of strengthening private financial provision in Germany.

Our joint efforts are focused on meeting the customers' needs, based on cost-efficient, streamlined structures and workflows.

This mission was incorporated into a Group-wide mission in 2008, and has been enshrined in the W&W Group. Crucial to its success is that the guiding principles are adhered to by all employees as they go about their daily work. The results of a survey carried out in June 2008 revealed the views and personal aims that employees associated with the positioning of the Group as "THE" expert in savings, investment and risk protection. The individual departments of the W&W Group subsequently used these results to derive a mission for each field of activity, and to define the contribution required from each and every individual.

Customers, products and sales channels

W&W Group customers

Every single part of the W&W Group feels a sense of commitment to the new mission, adhering to its aim of providing customers with full and comprehensive advice. To meet this challenge head on, the W&W customer database was the subject of intensive development in 2008. This database contains information on almost six million customers and provides the basis for a targeted and individual approach to customers with sales advice. The particular requirements and data protection rules applicable to individual distribution channels are taken into account during this process.

The strict separation of customer data and respect for corporate ties are the essential foundation for cooperation with banking partners, particularly those from the public and cooperative sectors.

To ensure that information is provided effectively, the database's features include a Group-wide campaign management system and a customer value model. These applications can be used, for example, to detect any gaps in customers' financial provision arrangements, so that they can be targeted with the most appropriate advertising measures. In this way, the success rates of selling activities are increasingly and significantly compared with the conventional selection procedures used for marketing campaigns. It is very important to us that we can use this approach to strengthen relationships with our existing customers. The functionalities of the W&W customer database will be fine-tuned over the coming year, so that the distribution channels are given the best possible support in terms of how we approach customers.

Products

The W&W Group provides a "one-stop shop" service in the areas of home loan savings, savings and investment, financial security and risk protection. Home loan savings business – and home loans – are the core businesses handled by the Wüstenrot mobile sales force, whilst the sales team at Württembergische focus on property and casualty insurance. Additionally, both sales channels are increasingly stepping up their cross-selling efforts. In this regard, both sales teams are focusing to an equal extent on products that offer high growth and income prospects. These "midway products" can be found in the areas of retirement provision and savings and investment in particular. They include life and pension insurance products, investment products, investment funds and also health insurance.

The product area is being strengthened by innovative developments and newly designed product combinations. These enable the customer to fill several gaps in their financial provision arrangements at one time. The sales team, meanwhile, is able to provide full and comprehensive advice. New combination products were launched on the market in 2008, including a home loan product linked to a favourable term life insurance policy without the need for a medical examination, and a home loan savings plan known as "Ideal & Invest" linked to a fund investment. Since November 2008 the range of products eligible for Riester subsidies has been complete, following the addition of the new "Wüstenrot Wohn-Riester" home loan savings plan and the "Wüstenrot Riester-Darlehen" loan product.

Overview of the W&W Group product range

Home loan savings

Home loan savings
Bridging loans
Riester home loan savings plan

Banking

Saving and investment products
Current accounts, overnight deposit accounts
Maestro and credit cards
Bank loans
Mortgages
Riester loans

Investment products

Investment funds

Life and health insurance

Life assurance

- Classic and unit-linked life and pension insurance
- Term life assurance
- Classic and unit-linked "Riester" pension plans, and basic pension plans
- Occupational disability insurance
- Company pension schemes

Health insurance

- Full health costs insurance
- Supplementary health insurance
- Private nursing care insurance

Composite Insurance

- Third-party liability insurance
- House contents insurance
- Residential building insurance
- Motor insurance
- Legal protection insurance
- Accident insurance
- Technical Insurance
- Transport insurance
- Insurance products for corporate customers

Sales

The key element of selling activity in 2008 lay in determining a joint sales strategy for the W&W Group, thereby tying in with the multi-channel strategy. The plan is to invest in the mobile sales forces and to further extend the additional distribution channels such as brokers, banks and direct activities. The priority is both to define the relationship between the different sales channels and to coordinate the different sales activities.

The new sales strategy aims to provide a comprehensive view of both divisions. By harmonising management, remuneration, controlling and communication structures, it will be possible to ensure that customer requirements, product development, value creation and sales channels within the W&W Group are coordinated in a systematic manner. Implementing the sales strategy is one of the most important prerequisites in order to position the W&W Group as THE expert in financial provision and in order to expand cross-selling over the long term.

Customers will be advised in future on the basis of four areas of need, defined uniformly across the Group as a whole:

- Home loan savings – living in your own four walls,
- Meeting financial aims and building up assets,
- Protecting assets and property,
- Securing financial independence and wellbeing, both now and in old age.

These four areas of need provide the foundation for a standardised advisory process.

Employees

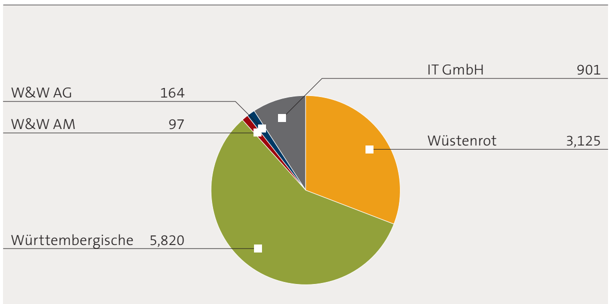
With its 9,806 employees (2007: 10,107), calculated in terms of the number of contracts, the W&W Group is the second-largest financial employer in the state of Baden-Württemberg.

The companies in the W&W Group are involved in training a large number of young people. Great importance is attached to a high level of qualifications and skills. The 515 trainees (2007: 545) are primarily based in the commercial professions – in the areas of banking, insurance, financial and real estate, as well as in office communications. The aim is to maintain the training rate over the coming years with approximately 200 new trainees coming on board annually. Various different courses of study at the "Berufsakademie" in Stuttgart, Karlsruhe and Mannheim round off the range of training opportunities offered by the W&W Group.

In addition to training and continuing professional development, one of the core tasks of our human relations work lies in the systematic development and promotion of young up-and-coming managers. For the purposes of supporting these particular individuals, the W&W Premium Talent Programme was set up. In order to provide its managerial staff with continuing professional development, the W&W Group cooperates with the St. Galler Business School in the area of General Management for Executives.

W&W Group Employees

as at 31 December 2008



Mastering change

The modernisation programme being pursued by the W&W Group requires successful change management from both Group management and every individual manager. Primarily, this means developing the abilities and willingness of the workforce to perform, whilst also acquiring new and dedicated employees.

In the name of increasing efficiency, growth and profitability in the W&W Group, our employees committed themselves to our restructuring and modernisation programme during the 2008 financial year.

The Group's mission of making W&W THE expert in savings, investment and risk protection, as adopted by management, has been fleshed out from one managerial level to the next, and transposed into day-to-day operations during employee workshops. The convergence of the Insurance and Home Loan and Savings Bank divisions is thus in keeping with the premise of being able to use the joint range of services to offer every customer an individual solution for their financial needs – comprising investment and savings, home loan savings, financial security and risk protection.

Moreover, this process of growing into ONE single company requires uniform HR processes across the Group as a whole. With this in mind, a Group HR function was established in 2008. In 2009, HR work, which has been overhauled across the Group, will be underpinned by a new division of labour, consisting of the "Personnel Direct" service centre, dealing with all Group employees, "HR advice" for managers with the need for complex support services, and a new HR portal with numerous self-service functions accessible to all employees – irrespective of whether they hold executive responsibilities.

Renewing structures

The modernisation process at the W&W Group led to many instances of restructuring in 2008. With regard to the creation of the new company W&W Service GmbH, for example, an in-house collective agreement and a transfer agreement were concluded, on the basis of which employees were able to transfer from other Group companies to the new service company.

Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank, in the context of the "Wüstenrot 2009" programme, have achieved further progress in improving efficiency and regaining competitiveness. In 2008, as planned, the decentralised processing units were closed. All of the employees affected were offered the opportunity to work at the corporate headquarters in Ludwigsburg. Those who did not wish to take up this offer received support in the form of outplacement advice. They were also able to benefit from the social plan agreed in this regard. In this way it was possible to arrive at socially acceptable solutions for all of the employees concerned.

At Württembergische, measures were implemented in 2008 to meet the requirements under labour law for a new administrative office structure. As a result the number of office locations was reduced from 15 to seven.

Additionally, since May 2008, the first expert advisors in home loans and savings have been working at the Württembergische regional offices. These advisors provide the sales staff on the ground with intensive expert support, the aim being to provide a significant boost to cross-selling. Conversely, specialists from Württembergische are helping the Wüstenrot sales team to expand insurance business.

The company Württembergische Vertriebsservice GmbH, dealing with brokers and freelance agents, was able to commence operations on schedule on 1 January 2008.

Thanks to our employees

Our thanks go to our employees at this point for their dedication and extraordinary level of commitment displayed over the past financial year. Their skills and dedication are crucial to the future success of the W&W Group.

Our thanks also go to the employee representatives and their committees – as well as to the executive staff' representative committees – for the good working relationship enjoyed over the year, and for their constructive contribution to the measures being introduced to secure our future.

Financial provision and responsibility

The W&W Group feels a particular sense of social responsibility. This awareness has grown out of the history of its subsidiaries Wüstenrot and Württem bergische, as these companies grew out of a wish to help people on middle and lower incomes to create, increase and protect their personal wealth. This fundamental idea is alive and well today in the W&W Group and is a fundamental aspect of the Group's mission to be THE expert in savings, investment and risk protection. As levels of state financial provision fall, the W&W Group is steadily becoming its customers' first point of contact in all areas of private financial provision, providing reliable advice in what is an increasingly complex area. In this way, the W&W Group places its entrepreneurial actions in the context of social responsibility. By contributing to the best possible financial provision for the population at large, W&W has, for generations now, been providing people with personal freedom and the ultimate security, thereby contributing to social cohesion.

At the same time, the company is committed to its social and cultural surroundings and to the further development of these. The distribution of income to the majority shareholder Wüstenrot Holding is ultimately financed by the Wüstenrot Foundation in its capacity as the owner of the holding. The Wüstenrot Foundation uses this annual funding exclusively and directly for charitable ends. The focus of its work lies in the area of "planning, building and living", with activities in these areas being divided up into "science and research", "art and culture", "training and education" and "conservation/listed buildings". Among other projects, the Wüstenrot Foundation has initiated a research project designed to demonstrate how towns can be designed in a child-friendly and family-friendly way. The Foundation's eighth design prize was awarded in recognition of energy-efficient architecture, recognising exemplary solutions for construction and design options that conserve resources.

The W&W Group also supports the Stifterverband für die Deutsche Wissenschaft (the business community's innovation agency of the German science system), the Friedrich August von Hayek Foundation, and various renowned concert and festival events.

As part of its corporate philosophy, W&W also aims to help conserve the environment by means of corporate environmental protection measures. The energy-saving measures launched in 2007 were consolidated in 2008. Group-wide environmental guidelines are currently being drawn up. After the company's Stuttgart base received ECOfit certification back in 2007, the plan for 2009 is for Karlsruhe and Ludwigsburg to be awarded the same level of certification. A key component of the company's environmental measures lies in the systematic identification of potential savings.

Wüstenrot & Württembergische therefore assumes responsibility for its customers, not just through its financial provision products but also by means of its strong sense of commitment to society and the environment.

W&W Group ratings

The W&W Group enters the 2009 financial year with a stable outlook for its ratings. In December 2008 the rating agency Standard & Poor's (S&P) confirmed all of the Group's ratings with a stable outlook.

FitchRatings (Fitch), having confirmed all of the Group's ratings in March 2008, subsequently downgraded these by one level in December 2008 in response to the financial crisis. Fitch justified its decision on the grounds of the current situation facing the sector, as well as on the grounds of the profit warnings issued in October 2008 by Wüstenrot & Württembergische AG and Württembergische Lebensversicherung AG. The outlook of all W&W Group ratings also remains stable in this regard.

Both agencies paid tribute to the improvements made to the W&W Group's risk management during 2008, as well as to the success notched up with regard to cross-selling and the restructuring measures implemented as part of the W&W 2009 programme. Emphasis was also placed on the very good level of growth in new business recorded by Wüstenrot Bausparkasse AG in the home loan savings segment.

In addition to the two existing interactive ratings awarded by S&P and FitchRatings, Württembergische Versicherung AG was also awarded a rating in 2008 by the internationally recognised agency A.M. Best. In October, A.M. Best confirmed the "A" rating for financial strength and the "A" issuer default rating with stable outlook of Württembergische Versicherung AG.

Ratings

	Standard & Poor's		FitchRatings	
	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
Wüstenrot Bausparkasse AG		BBB+ outlook stable		BBB+ outlook stable
Wüstenrot Bank AG Pfandbriefbank		BBB+ outlook stable		BBB+ outlook stable
Wüstenrot Bank AG Pfandbriefbank Public Pfandbriefe		AAA		AAA
Wüstenrot Bank AG Pfandbriefbank Mortgage Pfandbriefe				AAA
Württembergische Versicherung AG Hybrid bond		BBB–		
Württembergische Lebensversicherung AG Hybrid bond		BBB–		BBB

W&W on the capital markets

With prices on the DAX falling by 40.4%, 2008 went down as the second-worst year in stock exchange history. The Dow Jones EURO STOXX 50, meanwhile,recorded an even greater fall, shedding 44.3% of its value. This downward trend was sparked by the real estate and financial crisis in the USA, which grew worse as the year progressed. The resulting need for write-downs of billions of euros posed a threat to the continued existence of banks worldwide and brought entire segments of the financial market, among them the interbank market, to almost complete standstill. The economic outlook subsequently clouded over – and with it expectations surrounding company profits – and the mood darkened further as the year went on. Share prices also reflected the emerging recession in the leading industrialised nations. Moreover, growing risk aversion on the part of investors was a key factor in the major collapse in prices.

Against the background of the financial crisis, it comes as no surprise that bank stocks in particular ranked among the biggest losers on the world's stock markets in 2008. German bank stocks – measured in terms of the prime sector index for banking stocks – lost 70.9% of their value compared with the previous year due to the need for high write-downs on security portfolios.

Based on the insurance prime sector index, insurance stocks fell by 36.5% compared with the previous year, a slightly less dramatic fall than that experienced by bank stocks. This meant that insurance stocks recorded a slightly better performance than the market as a whole. To date, the German insurance sector has only been affected by the financial crisis to a relatively minor extent. Developments on the share market appear to have paid tribute to this.

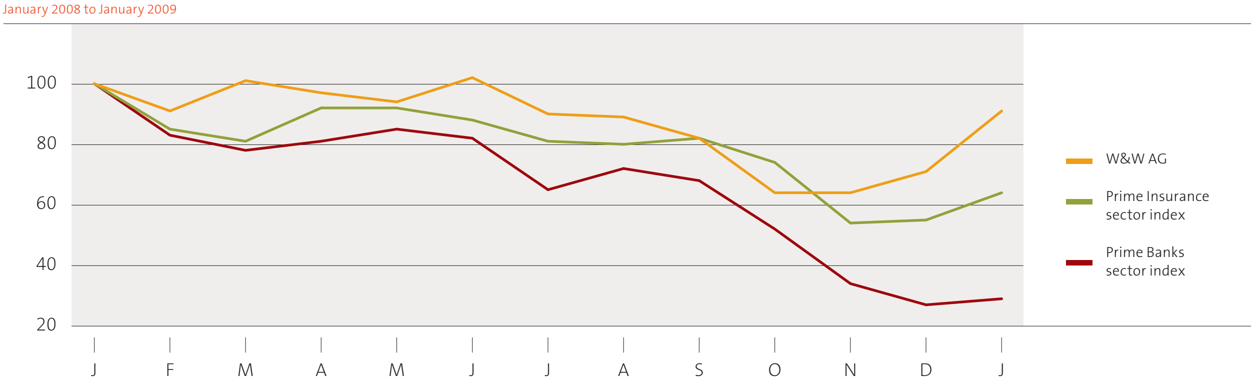
The W&W share

The W&W share was unable to escape the very negative stock market trend altogether, but only recorded a price fall of approximately 8.6% for the year as a whole, thus proving to be very robust compared with the sector indices and the DAX. Nevertheless, the share price of the W&W share also fluctuated unusually strongly. Having ended 2007 at a price of € 19.75, it quickly fell to € 17.11 at the beginning of 2008 as the global stock markets experienced their first massive price collapse in January. Throughout the rest of the first half of the year the W&W share proved to be relatively stable, moving within a band of around € 17.50 to € 20.

As the market as a whole remained weak, the share subsequently dropped to a level of around € 16 by the middle of September. Following the collapse of the US bank Lehman Brothers in September, the W&W share – like other financial stocks – came under massive pressure due to the loss of confidence. This led to a major collapse in price, culminating in a low of € 7.90 by mid-October. By the year-end, the share had, however, put in a strong recovery again, ending the year at € 18.05.

Relative performance of the W&W share (indexed), compared to the Prime Banks and Prime Insurance sector indices

January 2008 to January 2009



This positive share performance, compared against the sector and the market as a whole, shows the stock market's recognition of the fact that the W&W Group was only affected to a minor extent by the financial crisis and has a proven track record as a solid and stability-oriented expert in financial provision products. Given the excellent market positioning of the W&W Group in the home loan saving and insurance businesses, not to mention the restructuring measures introduced by the Group's management for a clear improvement in the company's financial strength, the W&W share has significant price potential.

Shareholder structure

The majority shareholder of W&W AG is Wüstenrot Holding, with 69.7% of the shares. Landesbank Baden-Württemberg holds 9.9% of the shares, with Unicredit holding 7.5% and Schweizerische Rückversicherungsgesellschaft 4.9%. The free float amounts to 8.0%. The shareholder structure thus remained stable again during the 2008 financial year.

The W&W share – An overview

Basic data	
Security ID	WKN 805100, ISIN DE0008051004
Bloomberg code	WUW GR
Reuters code	WUWGn.SG
Type of issue	Registered share
Type of security	Unit share with no par value
Stock exchanges	Stuttgart (Regulated Market), Frankfurt (Regulated Market), Düsseldorf (unofficial), Berlin (unofficial), XETRA
Share capital	€ 451,001,045.88
Number of shares	86,243,084 units

Key figures	*2008*	*2007*
Lowest share price during the year under review [1]	€ 7.90	€ 17.80
Highest share price during the year under review [1]	€ 20.25	€ 26.65
Year-end price [1]	€ 18.05	€ 19.75
Market capitalisation	€ 1,556.6 million	€ 1,703.3 million
IFRS earnings per share	€ 0.67	€ 2.32
Dividend [2]	€ 0.50	€ 0.50

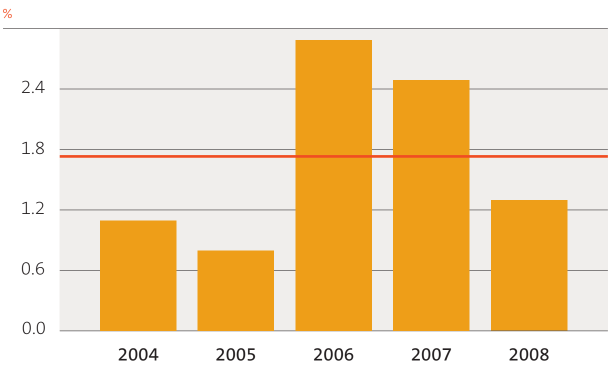
1 XETRA.
2 Subject to approval by the Annual General Meeting

Economic situation

Developments in the economy as a whole

The German economy recorded only moderate growth in 2008. According to the first calculations from the Federal Statistical Office, the price-adjusted figure for GDP was 1.3% up on the previous year. The rise in 2007 was 2.5%. A central factor responsible for this collapse in economic activity was the global financial crisis, with its massive impact on all players in the national economy.

German Gross Domestic Product



Source: Federal Statistical Office
Averages 2004-2008

Investment levels, which were still recording very high increases at the beginning of the year, trended downwards towards the year-end. The hope still held at the beginning of the year that private consumer demand would rise was subsequently dashed: unexpectedly high rates of inflation, following the rapid rise in energy prices until the middle of the year, meant that household real disposable incomes were barely able to increase, despite above-average gross wage increases. Ultimately, the export sector – the most dynamic area of the economy until that point – increasingly began to suffer from the high value of the euro and, in particular, from the waning demand in key target markets abroad.

Sector performance

Home loan savings and home loans

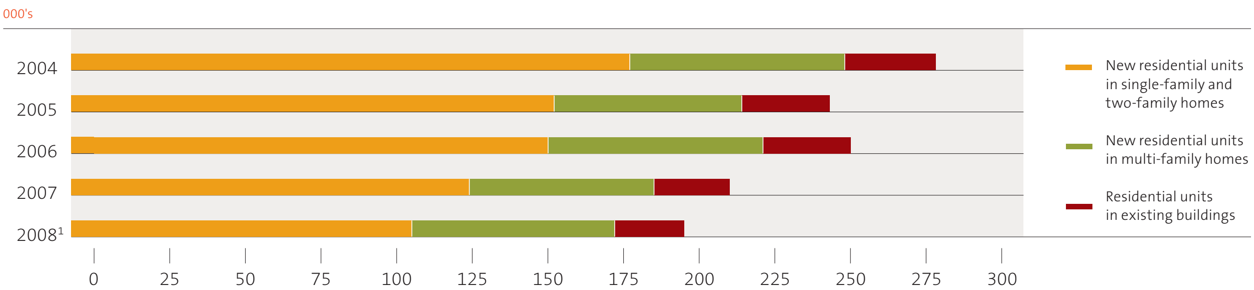
German building societies were able to grow new business significantly in 2008. In total, 4.4 million contracts accounting for home loan and savings business grossing € 111.4 billion, were concluded during that period. This represents an increase of 21.7% in terms of the number of contracts (and of 13.3% in the value of home loan and savings business) compared with the previous year. The sector benefited from advance sales in conjunction with the new rules on housing subsidies (the "Wohnungsbauprämie"), which entered into force on 1 January 2009. This change was part of the new Home Owner Pension Act, adopted in July 2008. The old rules will continue to apply to contracts signed prior to the end of 2008, whereby funds from home loan and savings contracts for which housing subsidies were disbursed may be used freely after the end of a seven-year blocking period. In future, contracts will be subject to a designation of purpose and any funds disbursed under such contracts will have to be invested solely for residential purposes. The sector was also boosted by the fact that home loan and savings plans have been included in the range of products eligible for "Riester" subsidies. The building societies began launching their certified products with effect from November 2008. Meanwhile, the financial crisis and resulting uncertainty among consumers also lent momentum to home loan and savings business. Savers and investors have increasingly turned towards safer and more reliable forms of saving and investment. This includes collective home loan savings plans, which combine savings with a loan element in a unique way and are therefore independent of the capital market.

There was a clear rise in the volume of home loans disbursed by the building societies in 2008. A total amount of in excess of € 40.9 billion was paid out. This represents a year-on-year increase of 16.6%. The building societies were able to benefit in particular from the consistently high level of demand for renovation and modernisation measures to upgrade existing properties.

New business in the home financing sector fell during 2008, but remained at a respectable level. Households availed themselves of € 176.4 billion of home loans during the year as whole, a drop of 3.0% compared with the previous year.

A slight increase in investment in house building was recorded in 2008. At € 123.2 billion, the figure rose by 0.8% year-on-year. Growth of 0.3% was recorded during 2007. Positive factors are likely to have been the improved job and income prospects of consumers during the first half of the year in particular, increasing demand for residential

Number of residential units in residential and non-residential buildings



Sources: Federal Statistical Office, ifo   1 2008 figures estimated

construction services, primarily modernisation and renovation work. According to a calculation by the Deutsches Institut für Wirtschaftsforschung (DIW), measures to renovate existing property now account for well over 60% of all residential construction work.

In contrast, there was a further fall – to what the ifo Institute believes to be a new all-time low – in the number of house-building projects being completed in 2008. Overall, only 195,000 units were completed, 7.0% down on the previous year. This is the lowest number of completed projects since the post-war years.

The number of newly completed homes in detached and two-family houses fell during the same period, down 15.0% to 105,400 units. In contrast, there was a rise of 10.2% in the number of multi-family homes being completed, although completions were still at an exceptionally low level by long-term comparisons.

Wüstenrot Bausparkasse AG is Germany's third-largest building society in terms of gross new business. Based on financing volume, the W&W Group ranks among the top ten providers of private home loan products.

Investment

The total volume of assets under management in investment funds fell to € 1,218 billion at the 2008 year-end, having risen to € 1,423 billion in 2007. With a fall of € 155 billion, retail funds accounted for about three-quarters of the decline. This means that retail fund assets are slightly down on their 2005 level. Since then, the assets held in special funds have exceeded those in retail funds again for the first time. € 19,928 million of new money was invested in special funds during the past year, whilst investors withdrew € 27,784 million from retail funds.

Funds of funds were particularly popular among investors in 2008 with a new inflow of investments of € 9.3 billion. Mixed funds also proved popular, with a net inflow of investment of € 2.4 billion.

Insurance

The German insurance industry was less strongly affected by the financial crisis last year than other areas of the financial sector. Thanks to the usually cautious investment policy pursued in this segment, the financial products that sparked off the crisis played a comparatively minor role.

Additionally, the reform of the Insurance Contract Act resulted in numerous changes. Core areas of the reform, affecting the way insurance is sold, had to be implemented in practice following the necessary preparatory work. These changes included the abolition of the "policy model" (under which the insured party only received documentation when the insurance policy was sent out), the modified provisions on pre-contractual disclosure obligations, the abolished "all or nothing" principle, and new further-reaching information obligations.

Life

The life assurance sector in Germany proved to be robust on the whole during 2008. According to provisional information from the General Association of the German Insurance Industry (GDV), there was a slight rise in premium growth in 2008 of 0.9% (2007: 0.7%).

The fact that Riester subsidies were increased by a further level in 2008 boosted the number of new life assurance policies with regular contributions being taken out.

New premiums/contributions improved by 7.0%, after a fall of 1.7% during the previous year. Excluding the increase attributable to the Riester effect, there would have been a fall in new business of 6.9% with regard to policies involving regular contributions.

To secure their pension income on a lifelong basis, customers made use of the particularly suitable form of single-premium insurance contracts. New policies reached a provisional level of € 12.3 billion (2007: € 11.9 billion), a year-on-year increase of 3.3%. Annuity insurance policies have become more attractive, thanks to the more flexible options with regard to contributions, the new flexibility opened up by the Retirement Income Act, and growing shortfalls in financial provision for retirement. This area of business therefore offers growth potential for the near future. Accordingly, customers again increasingly met their need for old-age provision in 2008 by taking out insurance policies that offered benefits in the form of an annuity payment. Annuity policies, as a share of all insurance policies with regular contributions, increased once again to reach approximately 59% (2007: 54%). New business, in the form of contributions to unit-linked annuity policies in particular, rose by 19% compared with 2007 (2007: 28.9%). This type of policy accounted for 27.2% (2007: 24.6%) of all new business.

According to initial information from the GDV, the sector sold a total of 1.6 million (2007: 2.1 million) new Riester pension plans during 2008. The maximum amounts eligible for subsidies were increased in 2008. The maximum state subsidy is now paid to those policyholders who pay at least 4% of their income – subject to a maximum of € 2,100 p.a. – into a Riester plan. Given that this meant that the last of four increments was reached, the segment cannot expect any further growth impetus from the adjustment of existing Riester plans. Once again in 2008, numerous basic pensions were fixed. With 288,360 new plans, the figures were down compared with 2007, when 320,000 new basic pension plans were taken out.

Composite

Large parts of the property and casualty insurance sector have been hit by intensive price competition for many years now, and this continued to be the case during 2008. Additionally, a high degree of market penetration has been achieved in numerous insurance categories, with the result that providers are operating within narrow confines when it comes to generating new growth. In terms of claims, 2008 was dominated by Hurricane Emma and numerous instances of hailstorms during the summer months.

Premium income in property and casualty insurance in Germany totalled € 54.6 billion during the year under review. This represented a year-on-year increase of 0.2% across the sector. Claim expenses fell by 0.8% to € 41.7 billion. The claim rate for the year fell by 0.6 percentage points compared with 2007, to around 78.0%.

Health

The year under review was dominated by the Statutory Health Insurance Competition Strengthening Act (WSG), which, due to diverse and far-reaching changes, resulted in a deterioration in the basic parameters governing private health insurance. As a result, thirty private health insurance companies, accounting for approximately 95% of private insurance customers, submitted a constitutional complaint against essential elements of the WSG of relevance to private medical insurance. The main focus was on the key regulations in the basic rate on the transferability of ageing provisions and the introduction of optional rates in statutory health insurance. In parallel to this, the requirements of the WSG had to be implemented from a technical point of view, and the product range needed to be brought into line with the new basic parameters.

As a result of the changes to the basic conditions introduced by the legislators and the resulting uncertainty among potential customers, the level of willingness to switch from statutory health insurance to a private scheme continued to fall. During the first half of 2008 there was a further clear fall to 23,400 in the number of new private health insurance customers (net) compared with what had already been a weak period during the first half of 2007 (37,700). Overall, the number of people with full private insurance as at the middle of the year was 8.57 million.

All in all, the Württembergische insurance companies fared well against the competition. The purchase of the Karlsruher Insurance group by Württembergische Lebensversicherung AG resulted in a clear strengthening of the W&W Group's position in the insurance industry. With the successful implementation of their growth projects, Württembergischen insurance companies are maintaining their position in the German insurance industry's top ten.

Business development

Overview of the year under review

Solid consolidated net income

Transparency, stability and sustainability – these are the three principles behind the structural realignment of the W&W Group. They form the core of the "W&W 2009" modernisation programme launched in 2006. Ambitious levels of growth, and attaining the necessary financial strength in the midst of this competition, require the pooling of all resources to position W&W as an expert in its field. "W&W 2009" is paving the way for stable performance for the Group. Costs have been cut by € 100 million across all divisions as a result of this programme. Despite the intensification of the financial crisis during 2008, the W&W Group was able to generate a solid consolidated net income of € 65.5 million for the financial year.

The equivalent figure for the previous year, adjusted for extraordinary items, was € 145.9 million (€ 209.5 million including extraordinary items). The financial crisis impacted on the Group's result to the extent that the value of investments fell, additional hedging costs were incurred, and refinancing costs increased. Without these effects, the consolidated net income for the year under review would have been higher than the previous year's figure of € 145.9 million and in excess of the target amount of € 166 million, corresponding to a ROE target of 6.7%. With a result of € 65.5 million, the ROE for 2008 was 2.8%.

The Group's result in detail

Net financial result

The net financial result fell in 2008 by € 1,008.8 million to € 478.0 million (2007: € 1,486.8 million). This fall was offset by the drop in insurance benefits paid, which decreased by € 1,029.6 million to € 2,791.9 million (2007: € 3,821.5 million).

The development in the net financial result can be seen from the individual items in the income statement. Net income from available-for-sale financial assets fell by € 1,179.9 million, as a result of impairments with regard to shares and losses made on the disposal of securities. Any assessment of the net income from available-for-sale financial assets must take account of income from hedging transactions, which is reported under net income from financial assets and liabilities at fair value through profit or loss.

Net income from investments accounted for using the equity method improved by € 9.3 million from – € 25.0 million to – € 15.7 million. Impairments were not required on the same scale as in 2007.

Net income from financial assets and liabilities at fair value through profit or loss rose by € 131.7 million, from € 186.8 million to € 318.5 million. Whilst income from hedges had a positive impact, the fair values of derivatives and structured products, as well as the result from the capital investments of unit-linked life insurance, had a negative effect on the result.

Net income from receivables, liabilities and subordinated capital rose by € 20.9 million to € 911.0 million (2007: € 890.1 million). This rise is primarily attributable to the opposite developments in net interest income and net gains/losses from disposal. Whilst net interest income slipped by € 78.8 million from € 960.2 to € 881.4 million, net gains/losses from disposal rose by € 107.1 million from – € 41.7 to + € 65.4 million.

In October 2008 the European Union approved amendments to IAS 39 and IFRS 7 (Reclassification of Financial Assets), on the basis of which securities may be moved from the category "available-for-sale financial assets" and reclassified as "loans and receivables". This is subject to the condition that the company intends (and is able) to hold the assets for the foreseeable future or until such time as they mature. In accordance with these changes, certain financial assets with a carrying amount of € 325.5 million were reclassified in October 2008 with retrospective effect from 1 July 2008. There was no active market for these assets and the W&W Group intends holding them for the time being. This reclassification resulting in some shifting of items between net income from available-for-sale financial assets, net income from receivables and allowance for credit losses. It also contributed to a slight improvement in shareholders' equity in the amount of € 20.7 million and an increase in deferred provisions created for premium refunds in the amount of € 118.9 million.

HOME LOAN SAVINGS: LIVING IN YOUR OWN FOUR WALLS

What could offer a greater feeling of protection and security than your own home? We help our customers to get the financing of their home on a sound footing – individually tailored, based on their lifestyle and needs.

Net result from investment property

Net income on investment property fell by € 17.1 million from € 26.8 million to € 9.7 million, primarily due to lower income from disposals.

Net fee and commission result

The net fee and commission result was – € 376.5 million compared with – € 332.4 million during the previous year. There were two main reasons for this. Firstly, higher fee and commission expenses as a result of higher sales, particularly in the home loan savings segment, had an impact. Secondly, the net fee and commission result for life and health insurance was down due to lower fee and commission income from reinsurance and a higher level of new business in health insurance.

Premiums and contributions earned

Premiums and contributions earned in insurance fell by € 151.2 million from € 3,835.6 million to € 3,684.4 million. In terms of life and health insurance, the rise in contribution income in the area of health insurance was not enough to counter the high number of policies maturing and the lower level of one-off contributions to life insurance policies. With regard to composite insurance, the fall in premiums was due to the sale of the insurance business of the UK business WürttUK.

Insurance benefits

The fall in the net financial result was offset by the drop in insurance benefits paid, which decreased by € 1,029.6 million to € 2,791.9 million (2007: € 3,821.5 million). Of the drop in benefits paid, € 934.3 million related to life and health insurance, with the composite segment accounting for € 93.0 million and reinsurance accounting for only a small share.

In the case of life and health insurance, the fall in the net financial result also influenced the change in the provision for future policy benefits in the case of unit-linked life insurance policies and the provision for premium refunds. As these are part of the insurance benefits, the lower net financial result also resulted in lower provisioning levels in both cases. The fall in the net financial result therefore only had a partial impact on consolidated net income.

With regard to the composite insurance segment, the fact that the UK business WürttUK ceased to take on new business had a positive impact on claims expenses. Additionally, the previous year's result had been burdened by expensive claims relating to Hurricane Cyril.

General administrative expenses

General administrative expenses fell in 2008 by € 21.0 million to € 1,007.7 million (2007: € 1,028.7 million). The renewed improvement in cost structure is primarily attributable to the fall in personnel expenses. The figure of € 1,074.1 million published in the last annual report still contained the interest expenses for pension provisions. These are now reported under the net financial result. To make it easier to compare, the previous year's figure has been adjusted accordingly. Operating expenditure rose by € 13.1 million, from € 367.7 million to € 380.8 million, due to higher advertising costs.

Net other income/expense

Net other income/expense improved by € 24.5 million from € 84.1 million to € 108.6 million, although the reversal of the provisions for the judicial award procedure was included in the previous year's figure. There were two main reasons for this. Due to a change in the law, acquisition costs in the case of hybrid rates and unit-linked rates in the amount of € 41.9 million (2007: 0) were posted as assets. Additionally, the improvement in net income from currency transactions, which rose to – € 8.3 million (2007: – € 42.6 million) also had a positive impact.

The fall of € 19.9 million in tax expense from € 57.2 million to € 37.3 million can be attributed to the lower profit before taxes, and to the reduction in taxation rates as part of the business tax reforms.

Segment overview

The five segments referred to in the Annual Report – home loan savings, banking, investment products, life and health insurance and composite insurance – have been combined to form the two Group-wide divisions of Home Loan and Savings Bank and Insurance since 2007. The first-time adoption of IFRS 8 also means a change to external reporting with effect from the 2009 financial year. The annual financial statements for 2008 will be the last statements to be based on the current segment structure.

The following section provides a brief overview of the most important segment figures. Detailed information on business performance and on the profit situation of the individual segments is contained on page 33.

Home Loan and Savings Bank

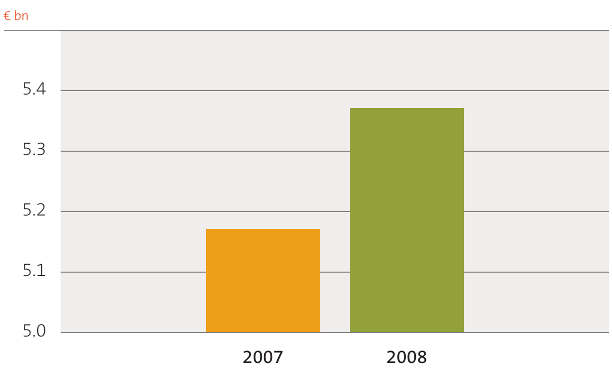
New business once again developed positively in the home loan savings and banking segments.

In terms of new domestic home loan and saving business alone, the W&W Group increased the volume of home loan and savings contracts by 24% to around the € 10 billion mark. Including the Czech Wüstenrot home loan and savings institution, gross new business rose even further, to reach € 10.8 billion, representing a year-on-year increase of 27.5%.

With regard to private home loan products, the W&W Group was able to grow despite the trend otherwise in evidence in the sector, and succeeded in regaining market share from its competitors after several years of decline. Overall, new W&W Group business in the area of private home loans in 2008 reached € 5.4 billion (2007: € 5.2 billion). This equates to an increase of 3.9%, whilst the sector as a whole in Germany recorded a fall of around 3%. Consequently, the W&W Group has further consolidated its mid-table position in the ranking of Germany's ten largest private providers of home loans.

On the income side, the home loan savings and banking segments must be considered together due to the division-based management of stand-alone derivatives. If the two results are added together, the result is a slight year-on-year increase of € 3.1 million despite the financial crisis, with income of € 38.2 million (2007: € 35.1 million). The home loan and savings segment, considered on its own, reported a net profit of € 110. 6 million (2007: € 12.4 million), whilst the result recorded by banking business was down from € 22.7 million to – € 72.4 million.

New home loans



Investment Products

The Investment Products segment, despite the financial crisis, recorded an increase of € 14.4 million or 3.4% in fund sales in 2008. Net profit fell, particularly as a result of the rise in general administrative expenses, down by € 5.5 million from € 13.9 million to € 8.4 million. This rise in expenses was due in part to one-off costs associated with the task of focusing the activities of W&W Asset Management GmbH at the Group's Ludwigsburg base.

Life and health insurance

New insurance business, measured in terms of the Annual Premium Equivalent (APE) rose to € 292.4 million (2007: € 274.8 million). The increase in Riester subsidies by a further level had a particularly positive impact in 2008.

Net profit totalled € 13.3 million compared with € 18.8 million in 2007. The fall is mainly due to the drop in the net financial result, which could not quite be offset by what were also lower benefits paid out under insurance policies. These included additions to the provisions for premium refunds.

Composite insurance

The development of new composite insurance business was determined by two factors. Firstly, the W&W Group has given up its active underwriting of foreign business since the beginning of the year. Secondly, the tense situation with regard to competition continued on the composite market. As a result, domestic new business (measured in terms of annual contributions to the portfolio), at € 156.3 million, was € 9.0 million down on the previous year's figure of € 165.3 million.

Net profit in the composite insurance segment fell from € 53.9 million to € 16.1 million. Lower claim and commission expenses were not enough to offset the fall in the net financial result and in premium income in the composite insurance segment.

Material events after the end of the financial year

There have been no material events since the balance sheet date.

Financial position and assets and liabilities of the Group

Principles and objectives of financial management

Strategic and tactical asset allocation has been carried out on an entirely decentralised basis to date, with the individual companies taking responsibility for their own situation. The different companies coordinate their approach at market meetings.

The overriding aim is to invest the assets in such a way as to generate the ultimate in security and profitability, combined with liquidity and flexibility at all times. This means that the investments must be appropriately mixed and diversified, thereby guaranteeing the Group's financial strength and increasing the value of the investments.

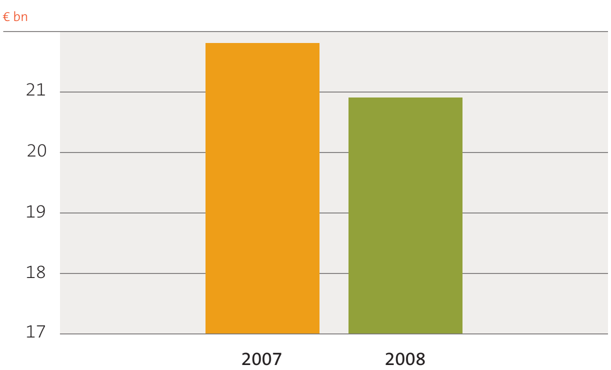
Liquidity

The liquidity of W&W AG and its subsidiaries was guaranteed at all times during the reporting year. Cash flow from operating activities in 2008 was € 2,260.2 million (2007: € 552.8 million). On balance, cash flow from investment was – € 2,082.2 million (2007: – € 607.7 million). Cash flow from financing activities totalled – € 115.7 million (2007: – € 68.6 million). For further information please refer to the cash flow statement in the Notes. Detailed information on guaranteeing the liquidity of the W&W Group is provided in the Risk Report.

Refinancing

The total volume of customer deposits held by the W&W Group fell by 4.2% during the year under review to € 20,865.8 million (2007: € 21,790.0 million). The rise in customer deposits, mainly due to the launch of new products, was not enough to offset the rise in disbursements that was also recorded with regard to home loans and savings. Issued bonds fell by € 1,272.5 million to € 2,043.3 million (2007: € 3,315.8 million) due to the fact that the financial crisis made the conditions for new issues more difficult.

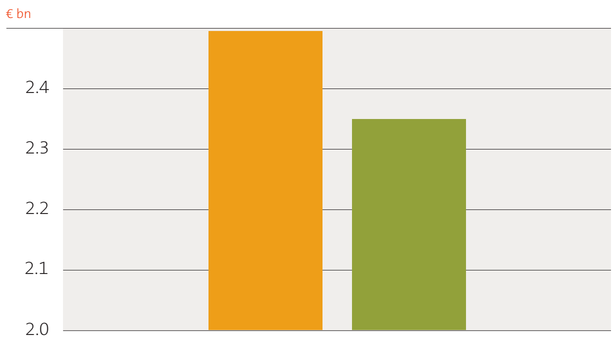
Total customer deposits



Equity

W&W AG, in the capacity of a holding company, controls the Group's equity. Basically, the equity situation of the subsidiaries is based on at least meeting the stipulated regulatory requirements.

Reported equity



As at 31 December 2008, the W&W Group's equity as reported in accordance with IFRS, amounted to € 2,348.4 million. Equity at the previous year-end was € 2,493.6 million. The main changes to equity related to the earned capital before minority interests. The principal reason for the fall was the reduction in the revaluation surplus as a result of the financial crisis. The opposite effect was generated by the actuarial gains on pension provisions of employees, which were set off against the equity capital without any effect on earnings. Further details on how equity developed over the year can be found in the equity capital statement in the Notes.

Valuation reserves

The major fall in the yield curve across all maturities resulted in higher valuation reserves for long-term assets and lower valuation reserves for long-term liabilities. Detailed information on the reserves can be found in the individual explanations relating to the respective asset and liability items in the Notes.

Assets and liabilities, and capital structure

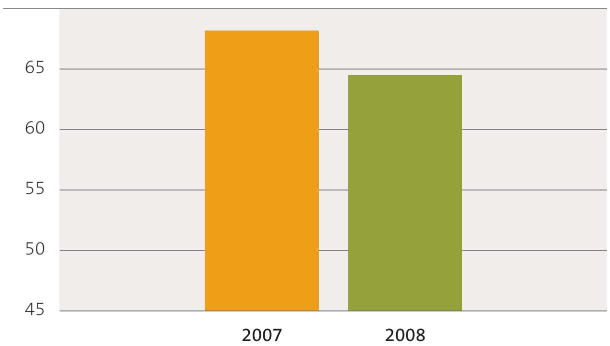
Balance sheet structure

in € mn	31 Dec 2008	31 Dec 2007
Assets		
Claims from reinsurance business, due from customers, and other claims minus allowance for credit losses	28,649	29,498
Investments[1]	32,371	35,254
Reinsurance share of technical provisions	1,898	1,989
Other assets	1,544	1,390
Total assets	**64,462**	**68,131**
Shareholders' equity and liabilities		
Liabilities	30,196	32,807
Technical provisions	28,478	29,720
Other liabilities	3,440	3,110
Equity	2,348	2,494
Total shareholders' equity and liabilities	**64,462**	**68,131**

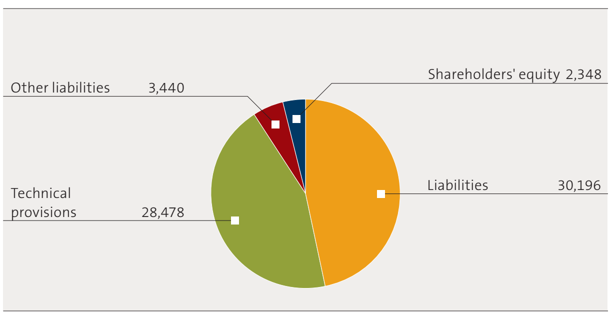
1 Investments include financial assets at fair value through profit or loss, loans and advances to banks, available-for-sale financial assets, investments accounted for using the equity method, and investment property.

The consolidated total assets of the W&W Group during the past financial year fell by € 3.6 billion to € 64.5 billion (2007: € 68.1 billion). They are dominated on the assets side by available-for-sale financial assets, loans and advances to banks, and loans and advances to customers. The available-for-sale financial assets primarily include shares and fixed-income securities. Liabilities are dominated by technical provisions and liabilities to customers. The fall on the assets side is attributable to lower loans and advances to banks and to customers. On the liabilities side, it is particularly certificated liabilities, liabilities to customers and technical provisions that have fallen.

Consolidated total assets



Capital structure 2008



As at 31 December 2008, the subordinated capital of the W&W Group was € 468.2 million (2007: € 507.5 million). Of this total, € 79.8 million related to participatory capital (2007: € 112.3 million) issued by Wüstenrot Bank AG Pfandbriefbank, with € 388.4 million relating to subordinated liabilities (2007: € 395.1 million) also issued by Wüstenrot Bank AG Pfandbriefbank, as well as by Württembergische Lebensversicherung AG, Württembergische Versicherung AG and Wüstenrot stavební spořitelna a.s., Prague. Further information on subordinated capital is provided in the Notes.

Provisions for pensions and other long-term liabilities amounted to € 1,060.0 million (2007: € 1,049.6 million).

Detailed information on the structure of claims and liabilities, as well as residual maturities, is provided in the Notes to the consolidated financial statements.

Investments

The process of reorganising the Group has also encompassed the strategic realignment of our investments. In this regard, W&W defined Wüstenrot Prague as its strategic foreign commitment during the year under review and, in January 2008, increased its holding in the Czech life insurance company Wüstenrot životní pojišťovna a.s., Prague, from 50% to 74%. In contrast, the Group's entire shareholding in Wüstenrot poisťovňa a.s, Bratislava, was sold. Additionally, the Czech property insurance company Wüstenrot pojišťovňa a.s., Prague, was also founded in 2008. W&W AG holds a stake of 74% in this company.

The shares held in W&W Informatik GmbH and in Wüstenrot Bausparkasse AG were reallocated within the Group. Both companies are now wholly-owned subsidiaries of W&W AG.

Some of the properties of Württembergische Lebensversicherung AG and the former Karlsruher Lebensversicherung AG were transferred to a real estate company. This company is a wholly-owned subsidiary of Württembergische Lebensversicherung AG.

Numerous relatively small companies, and companies that no longer fit in with the Group's overall strategy, were wound up during the reporting year.

Furthermore, the Group's strategic investment programme is focused on sales, products, IT and HR development.

Additional disclosures in accordance with DRS 15 a

The subscribed capital of € 451,001,046 is divided into 86,243,084 registered unit shares. There are no restrictions affecting voting rights or the transfer of shares. Similarly, there are no shares with special rights and there is no management of voting rights. The majority shareholder is Wüstenrot Holding AG, with 69.7% of the shares. There are no further shareholders with more than 10% of the voting rights.

Members of the Management Board are appointed and removed from office in accordance with Section 84 of the German Joint Stock Companies Act (AktG). The German Federal Financial Supervisory Authority (BaFin) is also entitled pursuant to Section 87, paragraph 6 of the Insurance Supervision Act (VAG) to demand that a member be removed from office. The Articles of Association are revised in accordance with Section 179 et seq. of AktG and Section 13 of VAG. There are no special provisions set out in the Articles of Association.

The Management Board has no rights over and above the general statutory remit and powers of a management board under German company law. In particular, it has no specific power to issue or repurchase shares. The purchase of own shares is only permitted subject to the limits defined in Section 71 of AktG.

A change-of-control clause is in place with regard to one member of the Management Board, including a compensation agreement on the part of the parent company in the event of a takeover.

Reference is made to the Notes with regard to the basic information required under Section 315, paragraph 2, no. 4 of HGB on the remuneration system for the Management Board and Supervisory Board.

Income situation of the individual segments

A table showing the performance of the segments is found in the Notes from page 102 onwards.

Home loan savings

Home loan savings and banking form one single division within the Group and are managed jointly. The first-time adoption of IFRS 8 also means a change to external reporting with effect from the 2009 financial year. The 2008 financial statements will therefore be the last statements to report on the two segments separately.

The home loan savings segment encompasses Wüstenrot Bausparkasse AG, the Czech building society Wüstenrot stavební spořitelna a.s., Prague, and Wüstenrot GmbH & Co. Grundstücks-KG.

Of the total assets in the amount of € 64.5 billion, € 18.7 billion (2007: € 19.4 billion) relates to the home loan and savings segment. The segment assets primarily comprise home loans and bridging loans.

Business development

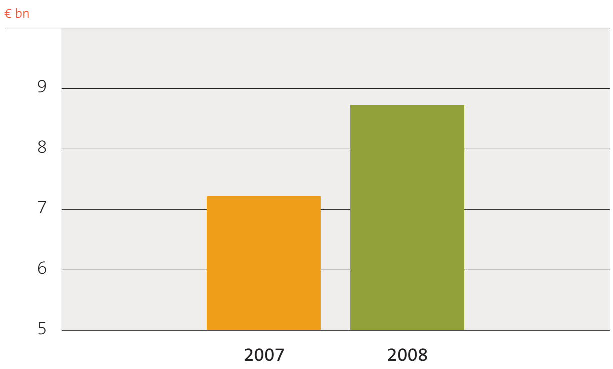
The home loan and savings segment achieved a clear increase in its gross new business compared with the previous year, with a 27.5% rise in the total volume to reach € 10.8 billion and a 22.3% rise in the number of new contracts, which totalled 397,551. The growth path on which the Group has embarked has therefore been strengthened in a sustainable way. Given that Wüstenrot is currently the fastest growing building society on the German market, it was able to win market share for the second year in succession. Compared with the previous year, the share of the domestic market in 2008, according to gross new business, was expanded by 0.8 percentage points to 9.0%.

The ongoing positive development in the gross number of contracts concluded is also reflected in the volume of new business paid in, but with delayed effect. Compared with the previous year, the amount of new business paid in rose by € 1.5 billion or 21.2% in terms of volume to reach € 8.7 billion – and also by 21.2% in terms of the number of contracts, which reached 60,833 units. Market share in Germany increased by 0.8 percentage points year-on-year, to reach 8.1%.

With regard to home loans, € 4.4 billion (2007: € 3.5 billion) was disbursed in the home loan and saving segments during the year under review, an increase of 25.7% compared with the previous year. A rise was recorded in terms of both disbursements from allotted funds and new disbursements from bridging loans and other home loans.

The volume of home loan and savings deposits was slightly down on the previous year, at € 13.5 billion (2007: € 14.8 billion). The fall in the total portfolio is due in particular to the conscious effort to reduce the portfolio of business based on legacy tariffs in order to lower the bonus risk.

New home loan savings business (paid in)



Income situation in the segment

On the income side, the home loan and savings segment developed positively mainly due to the division-based management of stand-alone derivatives. Segment net income rose by € 98.2 million to € 110.6 million (2007: € 12.4 million). Lower general administrative expenses also contributed to the improvement in the result.

The net financial result rose by € 150.4 million to € 418.2 million (2007: € 267.8 million). The € 44.7 million increase in net income from available-for-sale financial assets, to € 110.3 million (2007: € 65.6 million), reflected higher interest income on a larger portfolio. Net income from financial assets and liabilities at fair value through profit or loss rose by € 111.8 million, from € 8.8 million to € 120.6 million. The figure is defined by a better result based on the fair value of derivatives that were held to hedge against interest rate exposure. This improvement coincided with a corresponding fall in the banking segment. Net income from receivables, liabilities and subordinated capital declined by € 24.5 million to € 191.7 million (2007: € 216.2 million). A one-off effect from repayment gains was more than offset by another non-recurring charge from legacy tariffs and by the fall in interest income due to both lower volume and margins. Net expense for allowances for credit losses fell by € 14.2 million to € 8.2 million, due to the lower home loan and savings portfolios and their improved risk structure.

The negative net fee and commission result deteriorated by € 13.4 million compared with the previous year to – € 29.8 million (2007: – € 16.4 million). The clear rise in new home loan and savings business resulted in higher fee and commission expenses.

The impact of the "Wüstenrot 2009" efficiency programme was evident from the general administrative expenses. These fell by € 16.7 million from € 319.5 million to € 302.8 million during the 2008 financial year. The lower average number of staff resulted in a lower level of personnel expenses. In contrast, there was a rise in operating expenditure due to higher marketing and advertising costs.

Net other income fell by € 16.9 million during the year under review, down from € 86.3 million to € 69.4 million, due among other factors to lower service revenues.

Banking

This segment comprises Wüstenrot Bank AG Pfandbriefbank and our Czech mortgage bank Wüstenrot hypoteční banka a.s. in Prague.

The segment's total assets fell to € 14.0 billion (2007: € 14.7 billion), dominated on the assets side by loans and advances to customers totalling € 10.5 billion (2007: € 11.2 billion).

Business development

New lending business – approvals including loan extensions – remained constant in the segment at the 2008 year-end, at € 1.9 billion. Loan extensions included in this figure rose to 967.5 (2007: 590.0). These lower-risk financings with customers that the Group has already known for many years are increasingly forming the basis of the profit and risk situation in the banking segment.

Disbursements of home loans rose from € 1.33 billion to € 1.41 billion.

Particularly as a result of new products, customer deposits with regard to German business climbed by € 464.9 million from € 1,252.0 million to € 1,716.9 million. This figure includes both saving deposits and sight deposits.

Income situation in the segment

Due to the division-based management of stand-alone derivatives, the banking segment ended the 2008 financial year with a loss of – € 72.4 million. A profit of € 22.7 million was recorded in 2007. The main reason for this development was the lower net financial result, which fell by € 137.1 million to – € 44.7 million (2007: € 92.4 million). The reason lay in the lower net income from financial assets and liabilities at fair value through profit or loss, which totalled – € 111.5 million (2007: € 13.6 million). This reduction of € 125.1 million is primarily due to the much poorer result from the valuation at fair value of the stand-alone derivatives. As mentioned in reference to the home loan and savings business, this downward development contrasts with a correspondingly improved result in the Home Loan and Savings segment.

Net income from receivables, liabilities and subordinated capital fell by € 52.2 million from € 44.6 million to – € 7.6 million. Given a slight increase in refinancing costs due to the financial crisis, a fall in net interest income was recorded since greater amounts were invested in bonds, which are classified as available-for-sale financial assets. As a result of the larger bond portfolio held, interest income rose and with it the net income from available-for-sale financial assets, up by € 32.4 million from € 60.0 million to € 92.4 million.

The fall of € 3.3 million in the net fee and commission result, down from € 12.2 to € 8.9 million can be primarily attributed to the higher fee and commission expense associated with arrangement fees in conjunction with the launch of new products.

Personnel expenses also fell in the banking segment, down by € 1.6 million from € 35.9 million to € 34.3 million. Operating expenditure, in contrast, rose by € 7.8 million from € 47.1 million to € 54.9 million, mainly as a result of higher advertising costs. General administrative expenses therefore rose by a total of € 6.6 million from € 86.6 million to € 93.2 million.

Net other income/expenses improved by € 4.8 million to € 14.5 million (2007: € 9.7 million), mainly due to a rise in service revenues.

Tax income in the Banking segment, totalling € 42.1 million (2007: – € 5.0 million), is primarily the result of deferred tax income of € 37.8 million. The deferred tax income is therefore particularly attributable to the fair values of stand-alone derivatives.

Investment Products

This segment comprises W&W Asset Management GmbH and our fund management companies in Luxembourg and Ireland.

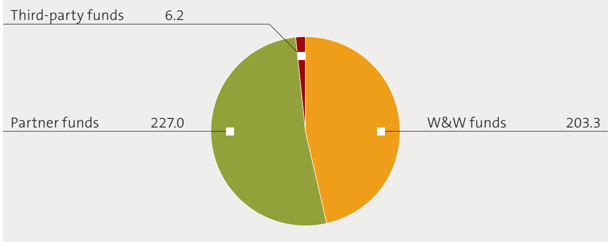
The segment contributed € 51.4 million to the consolidated total assets (2007: € 49.8 million), resulting from the services and advisory activity carried out in this area of business.

Business development

In the wake of major price falls, the financial markets continue to be dogged by a high degree of uncertainty, which has also affected the investment behaviour of our investors. Nevertheless, total sales achieved in all the funds distributed by the W&W Group – including W&W's own funds, as well as third-party products – stood at € 436.5 million, which is a 3.4% improvement on the € 422.1 million recorded during 2007. W&W funds account for 46.6% of total sales (2007: 58.0%).

Fund sales 2008

€ mn



The volume of assets under management of the companies operating in the Investment Products segment amounted to € 25.3 billion (2007: € 24.9 billion) as at the year-end. Capital investments by the W&W Group accounted for the greatest share of this figure, at € 24.2 billion (2007: € 23.8 billion). Customer deposits and third-party accounts are also managed in this segment.

Income situation in the segment

The net income generated by the Investment Products segment as at 31 December 2008 was down by € 5.5 million to € 8.4 million.

The net fee and commission result improved by € 1.3 million, due to the rise in income from portfolio payments and issue charges, rising from € 32.7 million to € 34.0 million. This rise was, however, more than offset by the rise of € 3.3 million in general administrative expenses, which grew from € 17.3 million to € 20.6 million. One factor responsible for this rise was the costs associated with the task of focusing the activities of W&W Asset Management GmbH at the Group's Ludwigsburg base.

Net other income fell by € 1.1 million to – € 0.6 million (2007: + € 0.5 million). This was due in particular to the rise in other expenses as a result of considerably higher refunds.

Life and Health Insurance

This segment mainly comprises Württembergische Lebensversicherung AG, ARA Pensionskasse AG, Württembergische Krankenversicherung AG and our Czech life insurance company Wüstenrot životní pojišťovna a.s., Prague.

The segment accounted for € 29.3 billion (2007: € 30.3 billion) of the Group's total assets. €18.3 billion (2007: € 18.0 billion) on the assets side relates to claims, with a further € 6.7 billion (2007: € 7.5 billion) relating to available-for-sale financial assets. The liabilities side is dominated by technical provisions in the amount of € 26.0 billion (2007: € 27.0 billion).

Business development

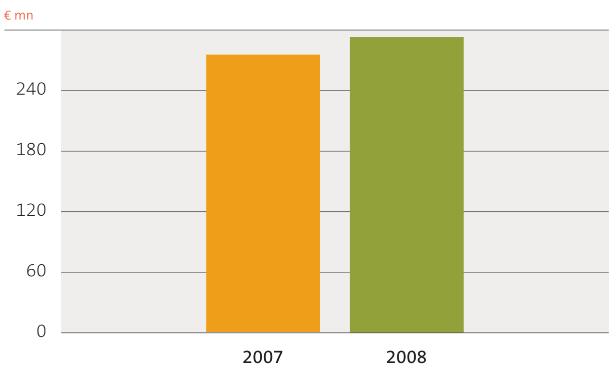
New insurance business in the Life and Health Insurance segment, measured in terms of the Annual Premium Equivalent (APE), rose to € 292.4 million (2007: € 274.8 million) by the year-end. The fact that Riester subsidies were increased by a further level in 2008 had a positive impact on the number of new policies with regular contributions being taken out.
The total new business, in terms of total premiums generated by our domestic life assurance companies, reached € 3.9 billion at the year-end, up by 3.1% on the previous year.

The total domestic life assurance portfolio at the financial year-end encompassed some 3.0 million policies (2007: 3.1 million), with regular premiums in the amount of approximately € 1.9 billion (2007: € 2.0 billion).

New health insurance business rose by 32% despite the difficult market environment. The number of insured persons (excluding special insurance forms) rose during the reporting year to 148,337 (2007: 117,582), of which 20,887 (2007: 19,557) were insured under full health costs insurance plans.

Premiums and contributions written in the Life and Health insurance segment fell by € 63.6 million, down from € 2,413.7 million to € 2,350.1 million. The fall in one-off contributions and regular payments had a clear effect on life insurance. The rise in regular premiums and contributions in the area of health insurance was not enough to make up for this decline.

Annual Premium Equivalent (APE)



Income situation in the segment

Net profit totalled € 13.3 million as at 31 December 2008 compared with € 18.8 million in 2007. The Life and Health Insurance segment was dominated by a major fall of € 932.0 million in its net financial result, which reached € 125.1 million (2007: € 1,057.1 million). This fall can be attributed to impairments recognised in income and disposal losses, primarily with regard to equities, as well as to a poorer result from the capital investments made in relation to unit-linked life insurance. The net financial result was largely offset by the lower provisions for premium refunds and future policy benefits related to unit-linked insurance policies.

The negative net fee and commission result was down by € 23.9 million from – € 130.7 million to – € 154.6 million due to lower fee and commission income from reinsurance, and a higher level of new health insurance business.

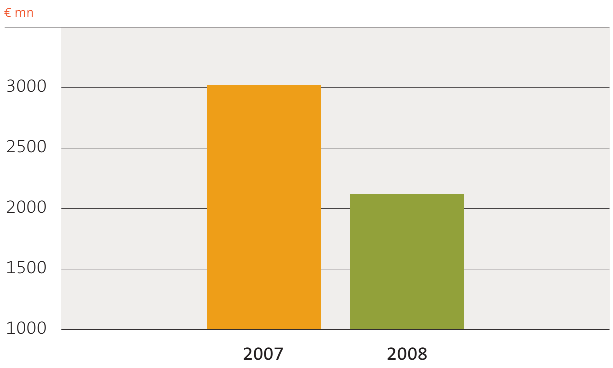
Taking into consideration contributions transferred, reinsurance premiums, and contributions from the provisions created for premium rebates, net premiums and contributions earned amounted to € 2,390.8 million (2007: € 2,437.7 million).

The lower net financial result led to a reduction in the provisions for premium refunds and future policy benefits related to unit-linked insurance policies. Insurance benefits therefore fell by € 900.1 million to € 2,110.1 million (€ 3,010.2 million).

Due to the offsetting arrangements between the Württembergische insurance companies, the Life and Health and Composite Insurance segments experienced an effect on general administrative expenses and net other income that must be viewed across all of the segments. General administrative expenses in the Life and Health Insurance segment alone increased by € 14.7 million, up from € 294.9 million to € 309.6 million. In contrast, there was an improvement of € 13.5 million in service revenues.

These are reported under net other income, which improved by € 133.8 million from – € 57.8 million to € 76.0 million. Further reasons for this rise include higher income from the increase in claims against policyholders that are not yet due, as well as from positive exchange rate effects.

Insurance benefits to Life and Health Insurance customers



Composite Insurance

This segment primarily comprises Württembergische Versicherung AG.

The segment's total assets were € 3.8 billion (2007: € 4.0 billion), and dominated on the liabilities side by technical provisions.

Business development

Premiums were affected by two factors in this segment. Firstly, the W&W Group has given up its active underwriting of foreign business since the beginning of the year. Secondly, the tense situation with regard to competition continued on the composite market. As a result, domestic new business (measured in terms of annual contributions to the portfolio), at € 156.3 million, was € 9.0 million down on the previous year's figure of € 165.3 million.

Mainly due to the sale of the renewal rights of the UK business WürttUK in London, in line with the Group's overall strategy, gross premiums written fell by € 186.1 million from € 1,472.6 million to € 1,286.5 million, with net premiums earned falling by € 83.8 million to € 1,093.4 million (2007: € 1,177.2 million).

Income situation in the segment

Net income as at 31 December 2008 fell by € 37.1 million from € 53.9 million to € 16.1 million. An improvement in the claims situation and lower commission expenses were together insufficient to offset the fall in the net financial result and in premium income in the Composite Insurance segment.

The net financial result dropped by € 29.2 million to € 46.4 million (2007: € 75.6 million). One of the major causes of the fall was the level of net income from available-for-sale financial assets. Due to impairments recognised in income that were required in relation to equities, this income fell by € 56.5 million from € 37.5 million to – € 19.0 million.

The fall was partly offset by income from the sale of derivatives, as a result of which net income from financial assets and liabilities at fair value through profit or loss improved by € 12.3 million from € 1.5 million to € 13.8 million. There was also an increase of € 15.4 million in net interest income under net income from receivables, liabilities and subordinated capital.

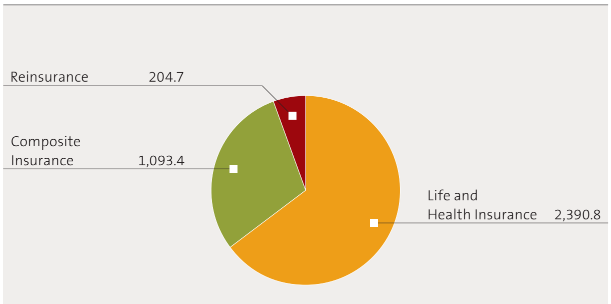
Mainly as a result of the lack of fee and commission expenses in relation to WürttUK, there was an improvement in the net figure, up by € 3.1 million to – € 175.9 million (2007: – € 179.0 million).

The claim situation also developed in a gratifying manner during the reporting period. By the year-end, insurance benefits had fallen by € 72.2 million from € 682.5 million to € 610.3 million. With no more new business in relation to WürttUK, insurance benefits as well as contributions fell in this area. The previous year's figure was also burdened by Hurricane Cyril.

The Composite Insurance segment was hit by the same effects in terms of general administrative expenses and other income as the Life and Health Insurance segment. General administrative expenses grew by € 48.4 million to reach € 527.6 million (2007: € 479.2 million), contrasting with a rise of € 53.8 million to € 204.1 million (2007: € 150.3 million) in other income from higher service revenues.

Particularly as a result of tax additions in the area of impairments, tax expenses for the segment as a whole reached € 16.9 million (2007: € 10.7 million).

Net premiums and contributions earned in 2008



Holding/Reinsurance

In addition to management of participating interests and the management of the Group's own investments, W&W AG, in its capacity as the holding company in this segment, also deals with reinsurance business. The segment's total assets are € 3.5 billion (2007: € 3.5 billion).

Income situation in the segment

The Holding/Reinsurance segment reported a net income of € 32.8 million (2007: € 89.7 million), representing a fall of € 56.9 million. The previous year's figure had been strongly influenced by two one-off effects. Firstly, the sale of the Erasmus insurance group had a positive impact on the financial result. Secondly, the reversal of the provision for the judicial award procedure resulted in an improvement in other income.

Net income on investment property fell by € 4.9 million from € 6.5 million to € 1.6 million, primarily due to lower income from disposals.

The lower volume of W&W AG's reinsurance business meant that insurance benefits fell by € 18.9 million to € 138.2 million (2007: € 157.1 million), whilst premiums earned fell by € 18.4 million from € 223.1 million to € 204.7 million.

With income before taxes of € 36.2 million (2007: € 85.6 million), lower tax-free special items – partially offset by the reduction in the rate of tax following the business tax reform – resulted in a tax expense of € 3.4 million (2007: – € 4.1 million).

Summary of assets, liabilities, financial position, and profit or loss

The "Wüstenrot 2009" and "Württembergische 2009" efficiency programmes had a clear impact in many areas. These programmes have already saved the W&W Group costs of almost € 100 million in the period from 2007 to 2008.

Successful hedging measures across the segments were able to curb the impact of the financial crisis in the Home Loan and Savings Bank Division, which was able to remain in the black overall.

In the area of insurance, the net financial result was severely impeded by developments on the financial markets. Nevertheless, these two segments were also still able to report clearly positive results.

In terms of the Group's operations abroad, W&W has consistently given up any investments that do not fit in to its overall strategy, focusing its business structure on the Czech Republic. This has included the establishment of a Czech property insurance company and the inclusion of the Czech life insurance company in the group of consolidated companies.

Like many of its competitors, the W&W Group has been forced to cope with the negative fallout from the capital market crisis and, against this background, recorded a consolidated net income for the year of € 65.5 million. Without the financial crisis, the consolidated net income for 2008 would have been well above the previous year's adjusted figure of € 145.9 million and would have reached the Group's target of € 166 million. Earnings per share for the Group as a whole, calculated according to IFRS, were € 0.67 (2007: € 2.32).

Research and development

The methods, workflows and products required to fulfil the Group's process are subject to ongoing improvement. Detailed information on the newly developed products can be found in the section entitled "Customers, products and sales channels". Over and above this work, the Group does not engage in any research and development activities.

Risk Report

Under the terms of the German Banking Act, the Wüstenrot & Württembergische Group (W&W Group) constitutes a financial conglomerate. In addition to the industry-specific rules governing our divisions or individual companies in the Group, this means that particular requirements apply to the Group as a whole with regard to risk management and controlling. The parent company in the financial conglomerate is Wüstenrot & Württembergische AG (W&W AG). As such, W&W AG is responsible for the implementation of, adherence to, and control of internal and external risk management standards within the financial conglomerate.

Aims and principles of risk management

A comprehensive risk management and risk controlling system is in place within our Group, standardising and uniting the systems and methods of the individual companies, which have been geared towards the relevant business requirements in each case. In this way, we can meet the requirement of a comprehensive approach to risk, whilst at the same time fulfilling specific company requirements.

Our understanding of risk management is that it encompasses all organisational rules and measures in place for the (early) detection of risks, and for dealing with the risks that arise in association with our commercial activity. A risk is a threat that could prevent W&W Group from achieving its objectives, or from successfully implementing its strategies. Risk controlling is a component of risk management, encompassing the recording, analysis, assessment and communication of risks, as well as monitoring the measures in place to manage risk.

The following is a description of the principles behind, and basic elements of, our approach to risk management, as well as of our general handling of key risks within the Group. Company-specific details with regard to the design and implementation of risk management are contained in the risk reports for the individual Group companies. With regard to the quantitative analysis and portrayal of the risk situation in the W&W Group, please refer to page 166 "Information on risks arising from financial instruments and insurance contracts" contained in the Notes section of our Annual Report. Some specific circumstances and tables included in our Notes will be referred to separately below.

Our risk management is aimed at guaranteeing the financial strength of W&W AG and supporting the decision-makers as they manage the company. Our understanding of the concept of risk management extends far beyond merely complying with the statutory requirements. Rather, we view risk management as an elementary component of our corporate culture and, through effective risk organisation and tailored risk instructions and processes, are aiming to create added value.

The strategic framework for risk management, and the risk policy being pursued by the W&W Group, is defined in the risk strategy. Derived from the overriding business strategy, this describes the type and extent of the key risks facing our Group. It defines the aims, measures and instruments with regard to the handling of risks that have already been assumed, or that will arise in future.

Basically, the aim is to strike an appropriate balance between exploiting business opportunities and assuming risks, with the priority at all times being to secure the continued existence of the Group and its member companies. No risks are assumed that could endanger the future existence of the Group or its companies, or that are incalculable.

In addition to our risk strategy, our Group Risk Policy sets out guidelines for risk management, as well as standards to be applied to its organisational design.

Risk management organisation

Group risks are assessed and managed through the relevant executive bodies: the Division Boards meet on a weekly basis, the Group Board Risk generally convenes once a month, and special ad-hoc meetings are called as and when required. Several special meetings on current issues were convened in response to the financial crisis during the second half of the year. For the purposes of supporting the Management Board in risk issues, the Group Board Risk operates as the central body responsible for risk management and monitoring the W&W Group's risk profile. Group Board Risk permanent members comprise the Chief Risk Officer of the W&W AG Management Board, as well as the senior risk managers from the divisions, and the head of Group Risk Management.

The number of employees in risk-related functions was increased across the divisions during the year under review, and a consistent training programme implemented as a means of strengthening risk management throughout the organisation.

The tasks and responsibilities of all those dealing with risk management issues have been clearly defined. The Management Board of W&W AG, with the involvement of the Home Loan Savings/Banking and Insurance divisions, stipulates the objectives of the commercial and risk strategies, as well as the key parameters with regard to risk management. Operational implementation and control of these are managed centrally by the CRO.

The Group Board Risk monitors the capital situation and risk profile of the W&W Group and its member companies, guaranteeing an appropriate balance between the two elements. Its role is to ensure that there is a comprehensive level of risk awareness in our Group, and to further improve risk control. Additionally, the Group Board Risk advises on Group-wide standards of risk organisation (e.g. risk policy), the use of Group-wide methods and instruments in risk management, and presents the Management Board of W&W AG with proposals in this regard as the basis for its decision-making.

The Group risk management team supports the Group Board Risk in the setting of Group-wide standards. The area of responsibility of the Group Risk Management department, which is part of W&W AG, extends to both the entire W&W Group and the financial conglomerate, as well as W&W AG in its capacity as an individual operational company. The department develops methods and processes for identifying, assessing, managing, monitoring and reporting risks for use across all of the companies in the Group. It also conducts qualitative and quantitative risk analysis, on the basis of a systematic and regular assessment, reporting to the Management Board of W&W AG.

In the context of the stipulated risk strategies and guidelines, the divisions and operational individual companies are responsible for managing and controlling their risks. Like W&W AG, the individual companies have created appropriate organisational structures for this purpose, with risk committees and risk controlling units operating across all of the divisions. To strength the risk management processes and structures in place, the Württ Board Risk was set up for the Insurance division during the reporting year. This manages and monitors risks specific to insurance. By stipulating reporting methods and channels, we guarantee regular and timely communication between the risk control units and management at Group level, division level, and company level.

The principle of the division of functions is adhered to by ensuring strict separation between those units responsible for monitoring risk (controlling, accounting, risk management) and those that take the risks (investments, reinsurance).

During the year under review the Controlling and Risk Management units of Württembergische Lebensversicherung AG and Württembergische Versicherung AG were merged into one department, which now brings together all of the risk controlling functions, including reporting duties, from the area of investments/financial controlling. One of the requirements of MaRisk with regard to insurance undertakings has thus been implemented through the restructuring and separation of those units that take risks and those that control them.

Please also refer to the management reports of our Group companies. The functionality, suitability and effectiveness of our risk management system are all regularly reviewed by the internal audit department.

Risk management process

The risk management process in our Group is based on the risk strategy, and, using an iterative loop, incorporates the key components of risk identification, risk assessment, risk-taking, risk monitoring and risk reporting.

As part of the risk inventory process, the individual Group companies regularly record, update and document existing risks that have been assumed, and also potential risks. The recognised risks are then assessed according to how likely they are to occur and in terms of their potential negative impact on assets, liabilities, financial position and profit or loss. This also includes an assessment of whether individual risks – which might appear to be of secondary importance when considered in isolation – could take on the character of material risks when combined with other risks, or as a result of a cumulative effect over time. To gain a better overview of our risks, similar risks are grouped together across the Group as a whole. The following risk areas have been identified as material for the W&W Group:

- Market price risks
- Counterparty risks
- Concentration risks
- Actuarial risks
- Collective risks
- Operational risks
- Strategic risks
- Liquidity risks

The individual risk areas are used for the systematic recording of potential threats. They are described in more detail below.

Various different processes are used for the quantitative assessment and valuation of risks, depending on the type of risk concerned. Where possible, stochastic processes and the value-at-risk method (VaR) are used to measure risk. These are the methods currently used to measure market price, counterparty and actuarial risks affecting property insurance. Standard analytical methods or the methods set out under supervisory law are applied to the other risk areas. Scenario and stress tests, as well as key figure analysis, round off the range of instruments used.

The decision as to whether to assume a risk is taken in the context of the fields of action defined in the business strategy, as well as on a decentralised basis by the divisions and within W&W AG. The respective departments of our operational companies manage the risk positions on the basis of the Group risk strategy and/or the risk strategies of the individual companies.

In addition to the return on equity (ROE) after taxes, division-specific key figures are also analysed as part of this process. In future, we will link risk/return management by referring to a risk and value-oriented approach that will complement the ROE-based Group management system. To achieve these targets we have initiated a strategic risk management project.

Compliance with the parameters set for risk strategy and risk organisation, and the appropriateness and quality of risk management, are monitored on an ongoing basis. The monitoring activities for quantifiable and non-quantifiable risks are used to derive recommended actions, which in turn lead to corrective measures being taken in good time so that the aims formulated in the business and risk strategy are achieved. Provisions are also in place for the controlling of individual measures as a means of controlling recommended courses of action.

Our internal model for capacity to assume risk is one of the key foundation stones of Group-wide monitoring of our risk situation and capital adequacy, and is consistently being optimised and extended after successful validation. The risks calculated using a uniform approach are aggregated in this internal model to give the risk capital requirement, which is then compared against the financial means available to cover risk. The major companies W&W AG, Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank, Württembergische Lebensversicherung AG und Württembergische Versicherung AG are initially modelled individually and then incorporated into the Group position. Risks relating to the other individual companies that are not modelled separately, as well as strategic risks, are included on a lump-sum basis. The ability of the W&W Group and its main companies to back up the risks assumed with sufficient capital is subject to regular monitoring. In addition, we also monitor and secure our ability to bear risk by means of external risk capital models such as those provided by the financial supervisory authority or independent rating agencies.

All of the essential risks facing our Group are reported to the Management Board and Supervisory Board of W&W AG and to the Group Management Board on a timely and regular basis. The Group-wide reporting system used for early identification of any actions that need to be taken is complemented by a procedure that has been implemented for ad-hoc risk communication. New risks, or exceptional changes in the risk situation that will result in the stipulated internal thresholds being exceeded, are also reported on an ad hoc basis without delay by the operational units concerned – or by the Group Risk Management to the Management Board of W&W AG and to the Group Management Board.

Business environment

The situation on the world's financial markets deteriorated over the course of 2008 as the financial crisis deepened. In September major US commercial, mortgage and investment banks, as well as the world's largest insurance group American International Group, were forced to admit that they faced enormous financial and liquidity problems, with looming insolvency only being avoided as a result of a huge concerted effort on the part of the US government and Federal Reserve. Sparked off by the collapse of the investment bank Lehman Brothers, there followed a domino effect in the globally interwoven financial markets, as a result of which European and German credit institutions, not to mention various nation states, also found themselves in difficulties. Meanwhile, the financial crisis has now spread as far as the real economy and spilled over into other sectors, among them the automotive industry. A worldwide recession in the leading industrialised nations can be expected in 2009.

These developments generated major price falls and a lot of volatility on the equity markets. The EURO STOXX 50, in common with other key indices, lost 44.3% compared with the beginning of the year to end at 2,451 points (as at 31 December 2008). This downward movement has continued in 2009 (index stood at 1,883 as at 2 March 2009).

The interest rate markets have fallen substantially as a result of aggressive interest rate cuts by the central banks. However, these cuts have been made in an attempt to stabilise the interest-sensitive areas of the economy and to inject life back into the struggling financial markets.

In order to support the financial institutions suffering the effects of the crisis, to revive interbank trade and to stabilise national economies in general, all of the world's leading economic nations have launched far-reaching rescue packages, ranging from guarantees for interbank trade and saving deposits through to the privatisation of ailing institutions. On 17 October 2008 the German federal government rushed through its Financial Market Stabilisation Act. The companies in the W&W Group have no current plans to make use of state assistance.

The impact of the financial risk on the individual risk areas of the W&W Group is described below. Information is also provided on the measures taken to alleviate the risks emanating from the financial crisis.

Group risks

The risk position of the W&W Group can be broken down as follows:

Market price risks

We define market price risks as potential losses resulting from uncertainty over the future development of market risk factors such as e.g. interest rates, share and forex prices, and real estate prices.

Given the volume of our investments, market price risks make up the most important risk area. Because our Group companies invest primarily in interest-bearing securities, the risk associated with changing interest levels is the most significant within the category of market price risks. Investments in tangible assets such as shares, real estate and participating interests round off the portfolio.

Our investment policy is geared towards security. The priority is to preserve sufficient liquidity to guarantee the necessary minimum return. Opportunities are exploited within the context of a calculable and appropriate risk/ return ratio.

The impact of potential market price scenarios on the Group's result and equity situation are set out in more detail in the Notes to our Annual Report on page 167 onwards.

With regard to the Group companies incorporated into our internal risk-bearing capacity model, we value the market price risks of securities and liability-side items dependent on interest rates on a net present value basis, i.e. taking into account future payment flows on the basis of a value-at-risk model. Monte Carlo simulations are used to generate loss allocations. Our stochastic modelling is supplemented with sensitivity analysis, which flags up any portfolio value changes due to market fluctuations. Alongside this approach at Group level, the individual companies also use comparable methods to carry out even more precise measurements of their market price risks.

As part of their regularly updated investment strategies, the individual Group companies determine an appropriate mix and diversification of securities according to type, region and risk category. The strategic investment objectives are permanently monitored and restricted using limit systems.

To manage market price risks during 2008, the companies in the W&W Group made use of derivative financial instruments in the form of swaps, options, futures and forward exchange contracts. Further details are provided in the Notes on page 166 onwards. The statutory provisions and rules imposed under supervisory law with regard to such transactions were complied with.

Open net foreign exchange positions in globally oriented investment funds and foreign-currency bonds held by our insurance undertakings can lead to currency risks. Fund managers counter this risk by regularly reviewing expected forex prices and by implementing foreign exchange cover measures or measures designed to reduce the risk.

Insurance-related liabilities in foreign currencies are covered with suitable investments in the same currency, thereby keeping the currency risks from these transactions very limited.

As a result of the financial crisis, falling prices on the equity markets sent valuation reserves falling and required impairments in the case of the insurance undertakings in the W&W Group.

Counterparty risks

Counterparty risks are potential losses arising from the default of (or deterioration in the credit rating of) borrowers or debtors.
Risks in connection with the default of a business partner arise for our Group in connection with the credit institutions' customer lending business. Counterparty risks can also arise if securities default or if there is a change in their credit rating, or from claim default risks in relation to our retrocessionaries (risk transferees in our reinsurance business) and counterparties.

In terms of customer lending business, the strategic focus on home loans practically excludes the possibility of individual loans that could jeopardise the Group's continued existence, which means that any risks are primarily related to collective and structural risks in the lending portfolio. With regard to the recognition of allowance for credit risks in private customer business, there are as yet no signs of escalating default levels due to the financial crisis. Possible knock-on effects can be expected, however, to emerge subsequently.

By applying careful loan review and scoring procedures and clear acceptance guidelines, by securing loans against property, by monitoring and limiting various risk indicators and by using a sophisticated system for the automated calculation of value adjustments, we are able to monitor and manage credit risks. Credit risks are assessed using our loan portfolio model.

With regard to the Group companies incorporated into our internal risk-bearing capacity model at Group level, we value any bonds that we hold at their net present value, i.e. taking into account future payment flows on the basis of a credit value-at-risk model, as commonly used in the sector. Monte Carlo simulations are used to generate loss allocations. The stochastic model is based on market data (e.g. that provided by rating agencies) and takes account of the probability of defaults as well as the likelihood of a switch from one rating class to another.

We limit counterparty risk by achieving a broadly diversified mix of investment categories, taking into account the relevant regulatory provisions governing the area of business concerned, and by carefully selecting issuers and reinsurance partners.

We act to counter the creation of cluster risks due to the concentration of large or different investments with a single issuer, by applying lines which limit the maximum permitted investment volume per issuer. The evaluation of issuers and the determination of limits is based on the assessment of international rating agencies as well as the W&W Group's own risk classifications.

We restrict our selection of contracting parties and securities basically to those parties and instruments with first-class credit ratings in the investment grade range. The lines applied to key issuers and counterparties are subject to ongoing review.

Any threats of default from customer business, investment or reinsurance business are dealt with through appropriate value adjustments and provisions.

Our approach to recognising allowance for credit risks and value adjustments, and how these changed in 2008, is detailed in the Notes to the Annual Report on pages 84 and 112. Page 177 contains a breakdown of our assets by rating category and maturity structure.

As in the past, W&W AG and its subsidiaries do not hold any key investments in the US mortgage market. The Group is however affected, in the form of impairments, by distortions on the markets for securitised transactions as a result of its investments in relation to an ABS fund.

Generally, the turbulence on the financial markets is affecting both our result and our shareholders' equity given the revaluation of credit risks and the uncertainty on the capital markets. In this regard, the financial crisis has created a higher level of default risks due to poorer credit standings in the case of non-covered commitments and commitments with subordinate cover, particularly with regard to investments in the financial sector. Our exposure generally has a good security structure, however. Over 75% of our investments with financial institutions are essentially secured through state or guarantor liability, or through liens. The allocation of other, non-covered commitments and commitments with subordinate cover is subject to our stringent quality requirements (first-class credit ratings, investment grade) when selecting our contractual partners.

Nevertheless, the necessary write-downs with regard to our bond portfolio were made on the required scale. A further direct impact on our fixed-income portfolio resulted from coupon defaults on our uncovered exposures and exposures with subordinate cover in the financial sector (defaults in 2008: € 7.2 million). Nevertheless, the write-downs and coupon defaults, in line with our risk assessment and the security structure of our portfolio, were significantly lower than the market average.

Across the Group as a whole, investments are carefully observed and analysed so that any risks in relation to how the markets develop can be identified at an early stage, and counter-measures can be taken. Additionally, in response to the financial crisis, the ratings of some issuers with whom the W&W Group has business relations were downgraded. The lower the rating, the higher the statistical probability of a default occurring and thus the higher the risk capital requirement.

As a management tool, our loan portfolio model enables credit lines to be adjusted dynamically to take account of changes to ratings.

Concentration risks

Concentration risks are defined as potential losses arising either from the combination of similar risks or as a result of the accumulation of various different risks relating to the same counterparty that, when considered together, are significant enough to jeopardise the solvency or general financial situation of our Group. Typically, concentration risks arise as a result of counterparty risks, market price risks, actuarial risks, liquidity risks or a combination of these.

We have set up a monitoring and reporting system, whereby concentrations with regard to a single counterparty – such as an issuer or concentrations arising from particular claim events above an internally defined threshold – are reported to our Group Risk Management organisational unit. All concentration risk reports from all of the individual companies are forwarded to this unit, so that the aggregated risk for the Group as a whole can be considered in its entirety.

By diversifying our investments, applying limit and line systems and clearly defined acceptance and underwriting guidelines in lending and insurance business, as well as by purchasing appropriate reinsurance cover, we are able to limit concentration risks.
Given the existing supervisory regulations (investment ordinances applicable to insurance undertakings and building societies) and high in-house credit rating requirements, the W&W Group is exposed in terms of its investments in financial institutions. Correspondingly, in addition to the company-specific risk, the W&W Group also assumes the systematic risk associated with the financial sector. As a result of concerted rescue and guarantee measures, further defaults on the part of major

financial institutions with which the W&W Group has business relations appear to have been averted for the time being.

Actuarial risks

Actuarial risks are the risks associated with possible losses arising from the uncertainty over how claims, benefits and costs of concluded insurance policies will develop over time, but where the premiums have been set in advance.

The W&W Group offers life, health and indemnity/accident insurance products, almost exclusively for private and commercial customers on the domestic market. Now that new business activity by its UK branch (WürttUK) has ceased, Württembergische Versicherung AG does not face any major industrial risks and is no longer involved in the reinsurance business. Active reinsurance business with partners outside the Group is only carried out on a very limited scale by W&W AG, in the form of its participatory holding in some German market pools.

As a result of W&W AG giving up its active reinsurance operations for the greater part some years ago, this not being an area that fits in to the Group's strategy, and following the sale of WürttUK during the previous year, the Group's international risk exposure has been significantly reduced. The renewal rights relating to the UK branch of Württembergische Versicherung AG as of 1 January 2008 were sold at the end of 2007. The existing portfolio prior to 31 December 2007 is still held by WürttVers and is being wound up by Antares Underwriting Services Ltd. on the basis of a service agreement. The are specific risks associated with the winding-up process. The contractually agreed measures to limit risk are being monitored on an ongoing basis as part of the risk management process. Appropriate provisions have been made to cover any risks resulting from old transactions.

Due to our business strategy, with its focus on corporate and private customer business, there is no threat to our continued existence resulting from large-scale individual risks. Insurance against terror risks has for the greater part been excluded from our policies, or restricted by transferring the policies to the specialist insurer Extremus. Cumulative risks are most likely in the case of natural disasters (e.g. storms, hail, flooding), which have, certainly, increased over recent years in terms of both frequency and the value of the resulting claims.

In terms of indemnity/accident insurance, actuarial risks are valued at their net present value, i.e. taking into account future payment flows on the basis of a value-at-risk model. Monte Carlo simulations are used to generate loss allocations. Stochastic modelling is supplemented with claim scenarios, in which the occurrence of different large-scale natural disasters is assumed.

To assess the risks arising from catastrophes, natural disasters or cumulative events, the W&W Group also uses the simulation results of external reinsurance undertakings and brokers that specialise in this field. These results are incorporated into our stochastic model.

To limit the actuarial risks on a gross and net basis, i.e. before and after reinsurance, various different instruments and measures are used, combining to provide effective and appropriate cover.

Our rates and underwriting policy is geared towards risk and reward, and is supported by corresponding incentive systems for the field sales teams. Prices are calculated on the basis of actuarial calculations and statistical analysis of the existing portfolios and costs. Risks are assumed on the basis of stipulated guidelines, and with due attention being paid to the maximum underwriting amounts defined for each type of business.

The risk of natural disasters is countered with suitably tailored rates and adjusted contractual conditions for critical areas, as well as with risk exclusions. As well as using our mix of business areas and products to balance out the risk, our efficient claims management and a cautious claim reserves policy means that we can limit our actuarial risk on a gross basis. The adequacy of the Group's reserves is regularly checked, using actuarial reports and sensitivity analysis. The development of claim reserves can be seen from the claim triangles shown in the Notes on page 128 onwards. Overall, this overview shows that an appropriate level of claim reserves has been in place at all times.

The measures taken are rounded off on a net basis with the purchase of adequate reinsurance cover for individual risks and cumulative risks across all of the different business areas. The reinsurance programme is adjusted annually, taking into account the risk-bearing capacity.

Further details on actuarial risks with regard to indemnity/accident insurance and the instruments used to minimise these are provided in the Notes on page 186 onwards.

With regard to life and health insurance, actuarial risks arise in particular from cost risks and biometric risks. The risks are subject to relatively long-term trends and are influenced by such exogenous factors as mortality, life expectancy or medical progress. Short-term fluctuation risks and the risk of errors also come into play.

These risks are controlled on an ongoing basis by means of actuarial analysis, the results of which are incorporated into the actuarial models used to design products and set rates. The calculation basis includes an additional amount, which would be enough to even out relatively small fluctuations in the underlying assumptions on biometry, interest rates and costs incorporated into the policy calculation. Alongside its own findings, the W&W Group also uses industry recommendations and guidelines produced by the German Association of Actuaries to assess its actuarial risks.

To face up to the trend of rising life expectancy, the safety margins in the actuarial reserves to cover the risk of longevity have been increased further. The basis of our calculation is judged to be appropriate by both the supervisory authority and the German Association of Actuaries.

Particular attention is also paid to interest rates, which are relevant both to long-term guaranteed payments and to profit-sharing, the rate of which is set annually. Longer periods of low interest rates in particular pose the threat for life assurance and health insurance that the guaranteed minimum returns for existing policies (or the interest rate used on the investment side to calculate the health insurance rates) will no longer be achievable. Through intensive interaction between investment on the one hand and calculations/actuarial mathematics on the other, assets/liabilities management is aligned accordingly, thereby securing guaranteed payments even in the long term. The risks associated with changes in interest rates, on both the asset and the liability side, are modelled within the framework of market price risks and valued using the described instruments.

In addition to a rate and underwriting policy geared around risk and the cautious and appropriate creation of reserves, we limit our risk on a net basis through reinsurance to cover individual and cumulative risks, selecting reinsurers with high credit ratings. Comprehensive control measures are also in place at risk, product and sales level, and there is a close alignment of investment activity with actuarial mathematics.

Further information on the actuarial risks involved in life assurance business and the instruments used to minimise these, as well as on the structure of our actuarial reserves, is provided in the Notes on page 183 onwards.

Collective risks

The collective risks affecting loan savings business are potential losses that could arise due to changes in customer behaviour that are not due to interest rate levels, and due to use being made of existing product options. These changes could include, for example, the customer deciding to stop payments temporarily or permanently, the use of bonus rates of interest, or the choice or change of rate.

To value collective risks, Wüstenrot Bausparkasse AG and the Czech company Wüstenrot – stavební spořitelna a.s. uses stochastically supported simulations, in which modified customer behaviour is depicted through targeted changes to the relevant collective parameters. The parameters are regularly compared against the actual development so that any deviations can be detected at an early stage. If long-term deviations are noted, the appropriate changes are made to the parameters used in the model. Any impact on the long-term results is analysed and communicated in the event of major deviations. The calculation is made on a net present value basis, taking into account future payment flows on the basis of a value-at-risk model for which the parameters are set on the basis of historical developments and also the forecasts produced by the home loan and savings simulation model.

The results of the simulations are incorporated into rate and product development, so that we are in a position from an early stage to identify disruptions to a balanced

MEETING FINANCIAL AIMS AND BUILDING UP ASSETS

Anyone who wants to do well in life needs a reliable partner by their side. With sound advice and innovative product solutions, we help our customers to reach their financial goals.

relationship between saving and lending, and manage these accordingly.

Operational risks

Operational risks are potential losses for the W&W Group relating to the inappropriateness or failure of internal processes or systems, or to human error, or occurring as a result of externally-driven events. Legal and tax risks are also classified as operational risks.

A range of guidelines on conduct, company rules and operational regulations exist within the W&W Group, as well as processes, systems and controls set up to guarantee that workflows progress properly, efficiently and without disruption. Our aim is raise our employees' awareness of possible risks and to establish an appropriate risk, culture so that potential weaknesses and gaps can be identified as early as possible – and quickly remedied.

During the past year work continued across the Group to optimise internal control systems. The business continuity management system will be consistently expanded in 2009. Regular quality checks, along with information and ongoing staff training, ensure that the security level achieved is maintained and form the basis for further improvements.
IT development, IT operations and IT service are all areas covered by W&W Informatik GmbH. W&W Informatik GmbH has its own risk management system, which also considers the IT risks facing the individual companies and provides regular reports on these. Detailed testing and backup procedures for applications and computer systems, the redundant design of the in-house and the external telecommunications structure and further protective measures, all minimise the risk of IT failure.

Legal and tax risks are dealt with through ongoing monitoring and analysis of legislation and actions by the financial authorities.

Strategic risks

We regard strategic risks as being the potential losses that could result from the Group or individual companies moving in the wrong strategic direction or failing to achieve strategic targets: in other words, general commercial risk. As well as risks associated with changes in the legal, political or social environment, strategic risks also encompass risks arising from the sales and procurement markets, income and cost risks, and risks to reputation.

During the year under review we found ourselves exposed to a higher level of risks to income and our reputation, as well as distribution risks, due to the financial crisis. The organisational measures that have been introduced are already showing signs of improving cross-selling in some sectors. Emphasis will be placed on building on this existing success in order to achieve the ambitious targets that have been set. Detailed information is available in the segment reports and in the Outlook section.

Exogenous market influences are intensively monitored and analysed. Sensitivity analysis is used to assess medium – to long-term risks, and our options for tackling these. Our aim is to identify strategic risks early on, so that appropriate risk management strategies and measures can be developed and introduced in good time.

We value strategic risks using event-related scenario calculations and expert assessments. These results are then incorporated into our internal risk-bearing capacity model applicable to all divisions by means of an appropriate lump sum to cover the risks in question.

In terms of the actions of policymakers and the supervisory authority, we are observing an increasing level of European harmonisation and expansion of creditor and consumer rights, as a result of which greater requirements are being made in terms of transparency, documentation and communication, as well as the control of operational activity. We are keen to accept these challenges, and we also believe that the W&W Group is well prepared to successfully implement the requirements.

Liquidity risks

We define liquidity risks as potential losses arising from a long-term lack of liquid funds (insolvency) or if such funds are more expensive to acquire than expected (refinancing and market liquidity risk) in order for us to honour our payment obligations on time. The ongoing financial crisis continues to have a negative impact on market liquidity, manifesting itself in lower demand for issues, severely restricted offers of unsecured bank loans and higher liquidity premiums on the money market. The downgrading of some of the W&W Group's key ratings by the rating agency Fitch (see "W&W Group in profile" table on page 20) has led to a rise in refinancing costs. Despite these effects, our business model still means that we have a sound and diversified liquidity basis.

Our liquidity management approach is geared towards being able to meet our financial commitments at all times, and on a sustained basis. The focus of our investment policy is based primarily on securing liquidity at all times.

The individual companies are basically responsible for managing their cash and cash equivalents, monitoring and managing liquidity targets by comparing expected payments against the expected inflow and outflow of liquidity in a funding matrix. This is based on standardised liquidity planning, taking into account the maturity structures of the receivables and liabilities. Any excess cover or shortfall is incorporated into investment or financing decision-making accordingly. We use sensitivity analysis to investigate the impact and cover options of particular behaviours by the capital markets and customers. Contingency plans and liquidity buffers are used to ensure that the Group can also cope with this type of exceptional situation. The maturity structure of our financial instruments is set out in the Notes on page 190 onwards. The refinancing volume of our credit institutions is secured via a liquidity plan that is underpinned with appropriate measures. From a longer-term perspective, the liquidity forecast shows an increasing liquidity requirement overall, as well as a high level of utilisation of the available funds. With this in mind, our credit institutions are tapping into new sources of refinancing, and – increasingly – conducting open market transactions with the European Central Bank (ECB) as part of their efforts to diversify the funding base.

Our insurance undertakings generally report a permanently positive liquidity balance based on the properties of the business model, which is characterised by an ongoing flow of premium and contribution income and returns from investments.

Based on weekly reporting by all of the main companies in the W&W Group, we maintain an up-to-date overview of our liquidity situation. The Group Risk Management department is responsible for the ongoing monitoring of the Group companies' liquidity plans.

The systems in place at our companies mean that, thanks to forward planning and operational cash flow planning, liquidity shortages can be detected at an early stage and appropriate measures taken where necessary. Known or foreseeable liquidity risks are reported to W&W AG management without delay within the context of ad-hoc reporting. To the extent that a company is unable to overcome liquidity bottlenecks alone, refinancing options within the Group can be made available in accordance with contingency planning.

As a financial conglomerate we benefit particulary at times when the markets are tense from the diversified nature of our refinancing sources. The option of being able to pool our Group liquidity is a clear competitive advantage.

At Group level there is currently no threat to current payment obligations. In line with the increasing importance of liquidity management at Group level, the further development of our Group-wide system is a top priority.

Further developments in risk management

In addition to the successful expansion of personnel in risk, we also further developed the internal risk-bearing capacity model and quantified diversification effects within our business model more precisely during the period under review. Having anticipated changes in the regulatory environment, we established a Solvency II project at an early stage. An analysis of the current situation will be carried out by an independent assessor, in order to implement the "MaRisk insurances". The corresponding measures have already been launched by the Group units affected. Key areas of action have been identified and recommendations drawn up. Responsibility for implementation lies with the subsidiaries. The responsible bodies are regularly briefed on the progress made. Projects completed during the reporting period include a project on a Group-wide risk inventory process, a Group-wide project on documenting our internal control system and an inventory analysis of the structured investment products.

Risk outlook

Over the past few years the internal and external demands made upon companies' risk management structures have consistently increased. Not least the current developments on the capital markets as a result of the financial crisis require even greater efforts to be invested in the area of risk management. The supervisory authorities, and external partners such as the rating agencies, are responding to this trend with new and further-reaching statutory provisions and/or tighter requirements.

In mid-November the heads of state and government leaders of the leading industrialised nations and newly industrialised countries met, at a global financial summit, where agreement was reached on an action plan of measures designed to ensure better monitoring of the financial markets.

Against this background, we therefore expect to see a further increase in national and international initiatives to extend risk management over the next few years, coupled with efforts to build on monitoring and controlling tools. As far as the European Union is concerned, Basel II and Solvency II are completely changing the face of state supervision of the banking and insurance industries.

We are closely monitoring the changes in the internal and external environment so that we can react flexibly and in good time. By reorganising our risk management on a Group-wide basis, a process that we launched last year, we have created the necessary basic foundation from which to face up to future challenges even more effectively. Our aim is to build on the standards achieved in risk management going forward in 2009, consistently developing these in the interests of our internal targets and with a wider aim. To this end, we have set ourselves a demanding development programme with a series of measures and projects relating to our entire risk management process.

In addition to the ongoing further development and fine-tuning of our existing processes, systems and methods, we are also working on the broadening and harmonisation of our standards on a Group-wide basis, with further efforts to be made in terms of harmonising risk processes. Additionally, in the Group as a whole and at the level of the individual companies, we will be continuing to focus on the further optimisation of risk measurement and the expansion of our internal risk-bearing capacity models. This involves assessing the risk situation both in terms of net present value with regard to the economic result and also at regular intervals with regard to the balance-sheet result, thereby creating the necessary basis for a risk and value-oriented approach to company management. Alongside the individual companies operating independently, greater emphasis is to be placed in future on the central coordination and management of asset allocation.

Overall, we believe that through this development programme the W&W Group is well equipped to successfully implement the internal and external requirements in terms of risk management.

In a capital market environment that remains difficult, we consider the key risks for the W&W Group to be the systemic risk facing the financial sector, and the interest rate risk in the event of a long-lasting phase of low interest rates.

Summary

The W&W Group has a risk management and risk controlling system that enables it to recognise existing and foreseeable risks in good time, to carry out an appropriate valuation of these current and future risks, and to control them by introducing the required measures. The relevant risk management rules are adhered to.

Through the ongoing further development and improvement of our systems, procedures and processes, we take due account of the changing internal and external parameters and their impact on the risk position of the Group and the individual Group companies.

The proper functioning and the suitability of our risk management and risk controlling system are regularly reviewed by the internal audit department.

The Group had sufficient risk-bearing capacity at all times during 2008. Based on our internal model we had access to sufficient financial means at all times in order to cover, with a high degree of security, the risks that had been assumed even if they had occurred simultaneously.

The regulatory requirements with regard to solvency were also fulfilled at all times. An overview of regulatory capital resources is provided under No.10a of the Notes. As at the balance sheet date, there were no discernible risks capable of jeopardising the continued existence of the W&W Group.

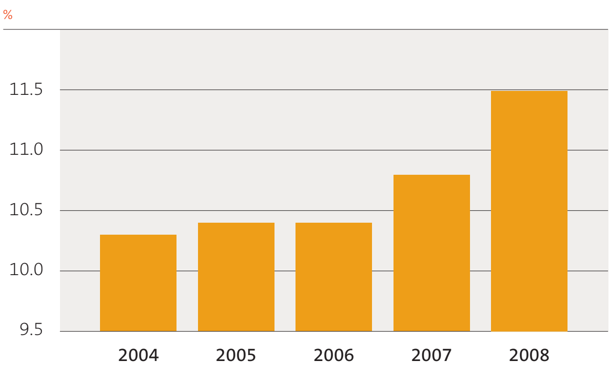
Outlook

Expected developments in the economy as a whole

The outlook for 2009 is dominated by the current economic and financial crisis. The German federal government believes that Germany is about to experience its worst recession since the Second World War. This means that, looking at 2009 as a whole, a fall in GDP of at least 2.25% compared with the previous year must be expected. The first major burden will be the lower level of corporate investment. Given the credit crunch and particularly gloomy economic prospects, a strong fall can be anticipated. The second negative factor placing a burden on the economic situation will be foreign trade, which has been the engine driving German economic growth over the past few years. Given the fall in demand in key countries such as the USA and the UK, but also in newly industrialising countries such as China, a very weak development in export business can be expected compared with earlier years.

Private consumption will be boosted by the fall in inflation due to lower energy prices and the resulting improvement in real disposable incomes. However, unemployment in Germany can be expected to return to around 8% during the first six months of 2009, which will dampen the mood among consumers and is likely to lead to greater saving. The saving ratio could rise to as much as 12% of disposable income. Positive impetus for economic growth can only be expected from the expansionist monetary and fiscal policy being pursued. In this regard the European Central Bank can be expected to cut interest rates, whilst European governments are likely to launch more economic rescue packages.

Savings ratios in Germany



Source: Federal Statistical Office

In light of the very weak start to the year and with inflation continuing to fall, the yields on German government bonds with long maturities had already reached a new historic low by January 2009. A moderate rise in interest rates will only be in evidence towards the end of the year against the background of a slight improvement in growth expectations and increasing long-term inflation worries. Short-term rates, meanwhile, can be expected to stick at a historically low level for the entire year, as the European Central Bank will adopt a passive approach through to the year-end after the cuts in key rates expected for the spring.

In view of the financial crisis and the resulting economic slowdown, there are particular challenges to be faced by the W&W Group with regard to its future business plans. These are described in the sections on the relevant segment, or in the Risk Report.

Financial position, and profit or loss of the W&W Group

With regard to the "W&W 2009" programme launched back in 2006 in the name of greater growth, efficiency and profitability, the W&W Group remains firmly on course – not just meeting the interim targets, but actually exceeding some of them. Nevertheless, events on the financial markets have had a negative impact on the W&W Group's result, with the result that the intended goal of achieving a return on equity (ROE) after taxes of 6.7% in 2008 could not be realised. The financial crisis resulted in the need for write-downs to the Group's investments, whilst there were also increased costs for hedging and refinancing measures. Despite these setbacks caused by the developments on the capital markets we were still able to record a net consolidated net income of € 65.5 million, thanks to the process of realigning the Group that was introduced back in 2006 – and which has been consistently advanced.

The aims and measures contained in the "W&W 2009" modernisation programme were defined in a different overall economic context from the one in which we now find ourselves. However, considering the market and customer potential that is available specifically to the W&W Group, we are continuing to pursue our central aim of achieving an ROE after taxes of 9% in 2009.

We are also firmly adhering to our goal of achieving above-average growth across all of our divisions this year. We will draw on all of our internal resources and work with dedication to meet this target. The reduction in general administrative expenses and the level of growth achieved within the framework of "W&W 2009" provide a good basis from which to proceed.

Despite the stability of our business model we cannot escape from external influences, such as the state of the financial markets and overall economic development. Should the economic and financial crisis continue and if, for example, a major borrower should default or a long-term negative economic trend emerge, the target that we have set ourselves would not be attainable.

Any prediction regarding the extent to which we expect to achieve our target in 2009 is therefore associated with a considerable level of uncertainty in the current climate. Our expectations with regard to the individual segments are described below.

Developments in the year 2010 will depend on the extent to which there is an economic recovery in 2009 and on how interest rates and stock market prices develop over the course of this year. It is not possible to make a reliable forecast at the current time and for this reason the W&W Group is refraining from making a specific prediction with regard to the Group's performance in 2010.

The financial situation is described in the Risk Report in the "Liquidity risks" section.

Development of the segments

With effect from 1 January 2009 the current segment structure in accordance with IAS 14 will be replaced by the new segment structure according to IFRS 8.

As a result, the companies Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank will, as of 2009, be merged into the Home Loan and Savings Bank segment, as both companies will be managed within the W&W Group as one single division.

Home Loan and Savings, and Banking

Germany

We continue to view the market environment for private real estate finance as a challenge. The ifo Institute expects there to be another fall in the number of house-building projects being completed in 2009. The deteriorating job and income prospects can also be expected to make consumers increasingly reticent to spend, with a related postponing of investment decisions. Additionally, the home loan finance market is characterised by increasingly intense competition and ongoing pressure on margins. In contrast, support could be provided in the form of the renovation and modernisation market, which continues to grow, and the energy-saving market, which is increasingly capturing public attention.

The home loan and savings market will benefit in 2009 from the change in consumer investment preferences, as they move towards safer and more reliable investment and finance products. This trend will be boosted further by the fact that home loan and savings plans, in the capacity of a product that can be used to provide for old age, have been incorporated into the range of products eligible for Riester subsidies.

With regard to the market for banking products, alongside the trend towards sound and safer forms of investment, we also see increased demand for simple, standardised, transparent products.

After Wüstenrot Bausparkasse AG succeeded during 2008 in generating significant growth in new business – and exceeded its targets – the aim is to achieve a further increase in 2009. The newly introduced range of Riester home loan and savings products constitutes the main source of momentum. However, the strong selling power in evidence in the Group, combined with existing cross-selling potential, will have a positive impact on how business develops.

With new products, and by extending its online presence, Wüstenrot Bank AG Pfandbriefbank is once again looking to achieve clear growth in its deposit business. Bundle products comprising a free current account and attractive overnight deposit/time deposit accounts are ideally placed to meet customers' needs.

For 2009 as a whole we expect the result in the Home Loan and Savings Banking division to be higher than that recorded in 2008.

General administrative expenses will fall thanks to the restructuring measures that have been introduced, the effects of which will be fully in evidence by 2009. We expect the net financial result to rise, one reason being that the bonus risk for 2009 has been reduced as a result of the high burden of bonus payments for home loan and savings contracts experienced in 2008. At the same time, there will be a successive increase in the proportion of new low-interest home loan saving offers. Once again in 2009 we will be utilising our collective income to refinance our non-collective building society transactions. This will offer an important competitive advantage in light of the financial crisis.

In terms of banking, the growing level of deposits and a successive improvement in the refinancing structure will have a positive impact on the net financial result.

We will work to counter the fluctuations in evidence with regard to derivatives in 2008 by expanding our refinancing with matched maturities and by introducing the portfolio fair value hedge into customer lending business.

In terms of lending business, our significantly improved system and processes for risk assessment and risk management will help to ensure that risks are detected and limited at an early stage.

In addition to the risk of a negative economic development and increasingly intense competition, risks to our income situation could emerge if interest rates do not develop in line with our expectations. However, there is also the risk of delayed implementation with regard to the restructuring measures planned for 2009 with a knock-on effect on the realisation of synergistic benefits. In the area of home loan finance and bridging loans, the high pressure of competition and negative economic developments could jeopardise our ability to reach our new business targets, thereby placing a burden on the income situation.

Czech Republic

We also expect the Czech home loan finance market to be a difficult market in 2009 as a result of the financial crisis. We are anticipating a slight increase on the home loan and savings market.

We regard the conclusion of follow-up policies as a particular source of growth opportunities for our business model. With regard to Wüstenrot stavební spořitelna a.s., we are expecting higher results from the rise in new home loan and savings business in 2009. Risks could arise in the domestic context from changes to interest rates, or potential changes in levels of state support.

The financial crisis, together with falling demand on the Czech mortgage market (a development that began in 2008) are having a correspondingly negative effect on the growth potential of Wüstenrot hypoteční banka a.s. Additionally, the financial crisis has made the bank's refinancing options worse. The plan, therefore, by introducing new passive products, is to create a broader refinancing basis. Against this background, we expect our Czech mortgage bank to report a stable result for 2009 compared with the previous year.

The main sources of potential risks are the limited refinancing options and, as a result, rising refinancing costs.

Life and Health Insurance and Composite Insurance

Germany

The private retirement provision market remains an attractive growth market, particularly in view of demographic developments and the increasing need for individuals to take responsibility for their own financial provision in retirement. Additionally, the financial crisis has resulted in greater demand for safer products with guaranteed benefits. The various different forms of state subsidies for private retirement provision, combined with the different ways of implementing company pension schemes, are generating a high level of demand for comprehensive advisory services. The introduction of the new Home Owner Pension Act (Riester home loan and savings plans) marks the addition of a new component of retirement provision that must also be taken into account when advising customers.

The aim is to grow new life insurance business in 2009 compared with 2008, despite the fact that 2008 benefited from the last rise in Riester subsidy levels. We have therefore revised our range of different rates, tailoring these to the market requirements. In consideration of the entry into force of the definitive withholding tax, unit-linked rates have been newly positioned. Furthermore, a dynamic hybrid product (uniting the income prospects of unit-linked products with the security of classic annuity insurance) should further increase our market share in unit-linked pensions. With our revised range of rates to hedge against risk, combination products will be promoted more heavily and cross-selling efforts intensified. Together with Wüstenrot Bausparkasse AG, Württembergische Lebensversicherung AG offers a comprehensive and carefully designed unique selection of Riester products on the market.

As in the previous year, one of the central aims for 2009 lies in further strengthening the exclusivity organisation, as well as banking and broker sales, in order to generate additional new business.

The life insurance result should rise in 2009 compared with the previous year. The life insurance sector is the largest investor in the Group and is therefore highly dependent upon developments in the capital markets. The opportunities that emerge on these markets will be exploited to the full – with due regard for risk-bearing capacity – so that a stable and appropriate investment result can be achieved during this period of low interest rates. The life insurance business's reserve position will be further expanded and secured.

The cost savings made over the past few years continued in 2008 and demonstrate the success of the "Württembergische 2009" efficiency programme. The fact that general administrative costs developed as planned, despite the high level of investment in optimising business processes, underlines the level of success that has been achieved. The measures agreed as part of the "Württembergische 2009" and "SPRING" programmes will be concluded in 2009, with the result that further reductions in costs can be expected.

The fact that our business activities depend on the capital markets means that how these markets develop is a risk factor. A negative development on the equity and bond markets, or any default on the part of a major counterparty, could have a negative impact on our income.

The growth prospects in health insurance hinge on the statutory environment. In the short and medium term the Competition Strengthening Act (WSG) will lead to a worsening in the basic parameters applicable to private insurers providing full health costs insurance. Given the structural problems affecting statutory health insurance, private supplementary insurance offers growth prospects, in the area of additional nursing care insurance for example. The risks are that statutory providers of health insurance can now for the first time offer optional rates, generating greater competition in this market segment.

Württembergische Krankenversicherung AG plans to improve its result in 2009. To do so, it will continue to carefully select risks and use effective instruments to review and manage performance. The aim is for the cost structure to be further improved over the medium term using permanently optimised administrative workflows. It should also be noted that Württembergische Krankenversicherung AG is still in a growth phase, which means that successive increases will be seen in its results.

The difficult legal parameters mean that there are risks associated with further changes to the law, to the detriment of private full health costs insurance. Distortions on the capital market also pose a risk to our investments. Any lasting negative economic development could jeopardise our capacity to reach our new business targets.

Tough competition among predatory rivals is continuing on the composite market. Our business activities are characterised by intensive price competition coupled with increasing demands for high-quality insurance cover. The area of motor vehicle insurance in particular is unable to escape this trend. Despite a difficult overall economic environment, Württembergische Versicherung AG is looking to grow its new business once again in 2009. To achieve this, the company is focusing on its newly created broker channel and the further strengthening of its exclusive sales networks. Various different sales projects have been launched in this regard. Württembergische Versicherung AG is also hoping for positive effects to emerge from the reform of fees and commissions, the full impact of which should be felt in 2009. The product range has been made even more attractive with, for example, the sum assured for particular claims and the period for reinstatement value cover being extended. Moreover, sales potential within the W&W Group is to be expanded further.

The target is to post a higher result in 2009 compared with the previous year. A key factor lies in the planned recovery in the investment result, following the negative effects in 2008. Additionally, we are also expecting cost savings to be generated from the conclusion of measures in relation to the "Württembergische 2009" programme and the pooling of central services in the form of W&W Service GmbH. In terms of claims, we are anticipating the combined ratio to remain below the 100% mark.

Risks could emerge from the ongoing price pressure on the domestic market and also if claims were to develop significantly less favourably than expected. The fact that our business activities are dependent on the capital market means that distortions on the market represent a significant risk, which could have a direct impact on our investment portfolio. Any further weakening of the economy could also jeopardise our ability to reach our targets for new business.

Czech Republic

Ongoing demand for safer financial products is also anticipated in the Czech Republic in response to the financial crisis. It can also be assumed that the state will continue to support retirement provision products in the form of preferential tax treatment. We are therefore expecting a higher level of demand for classic life insurance products, and for unit-linked life insurance products with capital guarantees.

By making structural changes to our own sales team and by means of intensified sales cooperation agreements, we intend participating in this development and expect to increase our levels of new business. We are also planning to improve our result in 2009 by means of further optimisation of our processes. Given the relative size of our Czech life insurance business compared with the German companies, the impact of this rise in income on the consolidated net income will be minor.

Risks to income could however emerge as a result of the state of the Czech economy or developments on the Czech capital market as a result of the financial crisis.

Investment Products and Holding/Reinsurance segments

The investment sector is expecting 2009 to be a difficult year as a result of the ongoing financial crisis.

Nevertheless, we expect fund sales to develop solidly in 2009 as public awareness of the need for comprehensive private financial provision continues to rise. Interest in our newly issued funds of funds will also increase, as these offer an advantage in terms of the definitive withholding tax due to a "deferrment effect". The income earned is only subject to the definitive withholding tax when the units in the fund of funds are sold. Equity funds and mixed (funds of) funds also provide an attractive alternative due to low interest rates, provided the uncertainty on the capital market eases.

The assets under management constitute a key driver of value. Overall we expect to be able to increase the volume of assets under management during 2009. Higher general administrative expenses will, however, be incurred at the same time, resulting from the rise in personnel needed to cope with the greater volume of business and from projects.

In summary, the result for the Investment Products segment for 2009 is expected to exceed that of the previous year.

Whether we meet our target or not will depend to a large extent on how the capital market in general develops. Risks would be presented by an ongoing negative development in capital markets and if we were unable to achieve the planned level of new business.

In addition to its function as the strategic management holding company, W&W AG also operates in the capacity of reinsurer. Reinsurance business outside the Group is currently being wound up, and new external business is no longer being taken on to any significant extent. The business still being taken on relates almost exclusively to reinsurance relationships with Group companies. Assuming that the claim situation is not excessively burdened by major claims over the course of the year, we expect the technical result for 2009 to be positive again.

The profit or loss of W&W AG in the Holding/Reinsurance segment will therefore be crucially determined by the dividends of the subsidiaries, whose performance is described in the respective segments.

Overall view

As part of the realignment of the Group launched in 2006, the W&W Group set itself the target of achieving an ROE after taxes of 9% by 2009. We continue to follow this target, even although the current economic situation has made reaching it considerably more difficult. The target can only be achieved if there is a recovery in the overall economic situation and a clear rise in interest rates and share prices.

Due to the current economic environment and the strong downward trend in the economy, it is exceptionally difficult to make a reliable forecast on the extent to which we will achieve our target during the current year.

We are assuming that, even in a recession, we will be able to achieve a year-on-year increase in the consolidated net income for the year, provided that our borrowers do not default on a major scale. The rise in income will therefore be a development to which all of the divisions will contribute.

We will continue to consistently implement everything that we can contribute internally. The results already achieved and successes notched up in this way, in terms of the development of new business, reduced costs and improved processes, provide a very good basis from which to proceed. The fact that the W&W Group achieved a clearly positive result for the 2008 financial year, despite the distortions on the capital markets, shows that the Group is on the right path.

Whether we can achieve our target against the background of the financial and economic crisis depends, however, on external factors that are beyond our control. This means that there is a substantial risk associated with our efforts to achieve our target.

Forecasts for 2010 are also associated with a much higher level of uncertainty than would have been the case prior to the crisis. Overall, our performance in 2010 will depend on the extent to which there is a recovery in the overall economic situation, and a clear rise in interest rates and share prices in 2009. It is not possible to make a reliable forecast on this at the current time and for this reason the W&W Group is refraining from making a specific prediction with regard to the Group's performance in 2010.

Forward-looking statements

This Annual Report also contains statements and information about future developments. Such statements are based on current expectations and assumptions, and therefore involve a series of uncertain and unknown factors. The number of different factors that influence the business activity of the W&W Group could mean that the actual results recorded in practice differ substantially from what is expected. The company is under no obligation to update forward-looking statements.

Consolidated financial statements

Consolidated balance sheet

Assets

€ 000's	Note #	31 Dec 2008	31 Dec 2007
A. Cash reserve	1[1]	146,484	182,333
B. Non-current assets held for sale and disposal groups	2	14,890	89,505
C. Financial assets at fair value through profit or loss	3	1,525,188	1,706,279
D. Available-for-sale financial assets	4	12,733,841	13,029,552
E. Receivables	5	45,580,411	48,862,777
I. Loans and advances to banks		16,684,549	19,097,928
II. Receivables from reinsurance business		103,732	183,355
III. Loans and advances to customers		28,646,889	29,330,354
IV. Other receivables		145,241	251,140
F. Allowance for credit losses	6	– 246,595	– 266,346
G. Positive market value of hedges	7	10,724	19,099
H. Investments accounted for using the equity method	8	130,173	192,570
I. Investment property	9	1,296,792	1,227,801
J. Reinsurers' share of technical provisions	10	1,898,407	1,988,978
K. Other assets		1,372,073	1,098,828
I. Intangible assets	11	234,108	203,632
II. Property, plant and equipment, and inventories	12	360,074	353,487
III. Current tax assets	13	136,944	131,368
IV. Deferred tax assets	14	565,849	343,774
V. Miscellaneous assets		75,098	66,567
Total assets		**64,462,388**	**68,131,376**

1 See numbered notes to the consolidated financial statements from page 106.

Further information relating to several balance sheet items are summarised in the following notes

- 42 – 47 Notes to financial instruments;
- 48 – 52 Disclosures on risks arising from financial instruments and insurance contracts;
- 56 et seq. Other disclosures.

Shareholders' equity and liabilities

€ 000's	Note #	31 Dec 2008	31 Dec 2007
A. Liabilities directly connected with non-current assets held for sale and disposal groups	15	—	—
B. Financial liabilities at fair value through profit or loss	16	**507,002**	**227,690**
C. Liabilities	17	**30,195,743**	**32,807,055**
I. Certificated liabilities		2,043,322	3,315,831
II. Liabilities to banks		5,210,199	5,542,903
III. Liabilities from reinsurance business		1,602,442	1,710,444
IV. Liabilities to customers		20,865,770	21,789,959
V. Other liabilities		474,010	447,918
D. Negative market value of hedges	18	**141,348**	**85,833**
E. Technical provisions	19	**28,477,505**	**29,719,736**
F. Other provisions	20	**1,589,852**	**1,607,470**
G. Other liabilities		**734,318**	**682,576**
I. Current tax liabilities	21	243,009	301,623
II. Current tax liabilities	22	478,539	337,712
III. Miscellaneous liabilities	23	12,770	43,241
H. Subordinated capital	24	**468,199**	**507,455**
I. Shareholders' equity	25	**2,348,421**	**2,493,561**
I. Share in paid-in capital attributable to shareholders of W&W AG		1,374,105	1,374,105
II. Share in retained earnings attributable to shareholders of W&W AG		917,322	1,045,104
III. Minority interests		56,994	74,352
Total shareholders' equity and liabilities		**64,462,388**	**68,131,376**

Further information relating to several balance sheet items are summarised in the following notes

- 42 – 47 Notes to financial instruments;
- 48 – 52 Disclosures on risks arising from financial instruments and insurance contracts;
- 56 et seq. Other disclosures.

Consolidated income statement

€ 000's	Note #	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Income from available-for-sale financial assets		900,389	847,589
Expenses for available-for-sale financial assets		1,589,839	357,097
1. Net income from/net expense for available-for-sale financial assets	26	**– 689,450**	**490,492**
Income from investments accounted for using the equity method		1,861	3,321
Expenses for investments accounted for using the equity method		17,573	28,352
2. Net expense for investments accounted for using the equity method	27	**– 15,712**	**– 25,031**
Income from financial assets and liabilities at fair value through profit or loss		1,997,946	804,988
Expenses for financial assets and liabilities at fair value through profit or loss		1,679,444	618,222
3. Net income from financial assets and liabilities at fair value through profit or loss	28	**318,502**	**186,766**
Income from hedges		52,681	45,695
Expenses for hedges		46,486	49,143
4. Hedge result	29	**6,195**	**– 3,448**
Income from receivables, liabilities and subordinated capital		2,265,081	2,208,862
Expenses for receivables, liabilities and subordinated capital		1,354,084	1,318,751[1]
5. Net income from receivables, liabilities and subordinated capital	30	**910,997**	**890,111**[1]
Income from allowances for credit losses		67,939	69,419
Expenses for allowances for credit losses		120,422	121,483
6. Net expense for allowances for credit losses	31	**52,483**	**52,064**
7. NET FINANCIAL RESULT		**478,049**	**1,486,826**[1]
Income from investment property		91,457	139,418
Expenses for investment property		81,752	112,645
8. NET INCOME FROM INVESTMENT PROPERTY	32	**9,705**	**26,773**
Fee and commission income		245,772	272,219
Fee and commission expenses		622,296	604,600
9. NET FEE AND COMMISSION RESULT	33	**– 376,524**	**– 332,381**
Premiums/contributions earned (gross)		3,880,760	4,078,348
Premiums ceded to reinsurers		196,389	242,704
10. PREMIUMS/CONTRIBUTIONS EARNED (NET)	34	**3,684,371**	**3,835,644**
Insurance benefits (gross)		2,991,558	4,061,051
Claim recoveries from reinsurers		199,637	239,521
11. INSURANCE BENEFITS (NET)	35	**2,791,921**	**3,821,530**
AMOUNT CARRIED FORWARD		**1,003,680**	**1,195,332**

€ 000's	Note #	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Amount brought forward		**1,003,680**	**1,195,332**
Personnel expenses		571,755	593,593[1]
Other administrative expenses		380,803	367,728
Amortisation, depreciation and impairment		55,112	67,418
12. General administrative expenses	36	**1,007,670**	**1,028,739**[1]
13. Measurement gain/loss for non-current assets and disposal groups classified as held for sale	37	**– 1,740**	**– 4,221**
Other income		645,078	458,553
Other expenses		536,485	374,453
14. Net other income/expense	38	**108,593**	**84,100**
15. Earnings before taxes from continued operations		**102,863**	**246,472**
Taxes on income		32,606	48,203
Other taxes		4,715	8,949
16. Taxes	39	**37,321**	**57,152**
17. Earnings after taxes from discontinued operations	40	**—**	**20,229**
18. Consolidated net income		**65,542**	**209,549**
a) Result attributable to shareholders of W&W AG		58,176	200,444
b) Result attributable to minority interests		7,366	9,105
19. Earnings per share in EUR[2]	41	**0.67**	**2.32**
of which attributable to continued operations		0.67	2.09

1 Previous year's figure adjusted due to a change in presentation of interest cost for pension provisions.
2 Basic earnings per share correspond to diluted earnings per share.

Further information relating to several balance sheet items are summarised in the following notes

- 42 – 47 Notes to financial instruments;
- 48 – 52 Disclosures on risks arising from financial instruments and insurance contracts;
- 56 et seq. Other disclosures.

Statement of recognised income and expense

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Measurement gains and losses from available-for-sale financial assets recognised directly in equity (net)	– 162,242	– 66,827
Measurement gains and losses from cash flow hedges recognised directly in equity (net)	– 18,081	160
Currency translation differences of independent foreign operations	– 294	3,105
Actuarial gains and losses from defined benefit plans	17,060	37,450
Gains/losses recognised directly in equity from investments accounted for using the equity method	– 2,389	– 2,552
Total gains and losses recognised directly in equity	– 165,946	– 28,664
Consolidated net income	65,542	209,549
Total recognised income and expenses	– 100,404	180,885
of which: attributable to shareholders of W&W AG	– 102,217	180,822
of which: attributable to minority interests	1,813	63

Cash flow statement

The consolidated cash flow statement shows the changes in cash and cash equivalents in the W&W Group during the year under review. For this purpose, three types of cash flows are determined: cash flows from operating activities,
investing activities and financing activities. The effects of changes in the scope of consolidation as a result of first-time consolidation or deconsolidation are eliminated.

The cash flows from operating activities are determined using the indirect method. Accordingly, consolidated net income is adjusted by non-cash items such as measurement gains or losses and changes in provisions as well as changes from receivables and liabilities. The item "Other adjustments" includes the reclassification of cash flows from interest and dividends received as well as from interest and taxes paid in the year under review.

Cash flows from investing activities primarily comprise changes in financial assets, in particular available-for-sale financial assets and investment property as well as cash receipts and cash payments in connection with the acquisition and the sale of consolidated companies or of investments accounted for using the equity method.

Cash flows from financing activities include dividend payments as well as interest payments and changes in subordinated capital, i.e. profit-participation certificates and subordinated liabilities.

In the year under review, cash and cash equivalents consist of the balance sheet item "Cash reserve" in the amount of € 146.5 million (2007: € 182.3 million) as well as deposits at banks and savings banks payable on demand totalling € 822.9 million (2007: € 723.9 million) (see Note 1 and Note 5). The cash reserve consists of cash on hand, balances with central banks, balances in foreign postal giro accounts as well as public-sector debt instruments with an original term to maturity of up to three months.

Restricted cash and cash equivalents amount to € 69.3 million (2007: € 48.2 million). The restriction is attributable to minimum reserve requirements of the European Central Bank and the Czech Central Bank.

The cash flows from operating activities is mainly characterised by the decrease of loans and advances to banks. The cash flows from investing activities, in contrast, reflect the increase of the portfolio of available-for-sale financial assets. Dividend payments result in a reduction of net cash flows from financing activities. In aggregate, cash and cash equivalents as at 31 December 2008 amounted to € 969.4 million (2007: € 906.2 million), thus slightly exceeding the previous year's level.

Cash flow statement

€ 000's	2008	2007
Consolidated net income (less minority interests)	58,176	200,444
Non-cash items included in consolidated net income and reconciliation to net cash flows from operating activities:		
Net expense for investments accounted for using the equity method	15,712	25,031
Result attributable to minority interests	7,366	9,105
Amortisation, depreciation, impairment losses and reversals of impairment losses of intangible assets and property, plant and equipment	52,837	67,418
Amortisation, impairment losses and reversals of impairment losses of receivables and financial assets	1,024,397	210,116
Increase/decrease in technical provisions	– 826,799	519,002
Increase/decrease in other provisions	– 1,511	– 157,295
Changes in deferred tax assets and liabilities	– 19,218	– 38,917
Net gain/loss from the disposal of intangible assets and property, plant and equipment	740	– 1,672
Net gain/loss from the disposal of financial assets	354,039	– 94,883
Other non-cash expenses/income	– 20,795	– 3,296
Other adjustments	– 1,330,483	– 1,428,063
Subtotal	**– 685,539**	**– 693,010**
Changes in assets and liabilities from operating activities:		
Increase/decrease in loans and advances to banks	2,617,890	300,334
Increase/decrease in loans and advances to customers	1,028,452	881,874
Increase/decrease in deposits retained by reinsurers on assumed reinsurance and accounts receivable from reinsurance business	79,622	– 22,105
Increase/decrease in other assets	208,531	82,395
Financial assets and liabilities at fair value through profit or loss	392,734	– 44,608
Increase/decrease in liabilities to banks	– 332,704	– 400,346
Increase/decrease in liabilities to customers	– 926,994	– 308,510
Increase/decrease in certificated liabilities	– 1,272,509	– 782,175
Increase/decrease in deposits retained by W&W on ceded business and accounts payable from reinsurance business	– 108,003	1,561
Increase/decrease in other liabilities	– 99,246	80,895
Interest,received	3,124,140	2,763,518
Dividends received	212,047	196,803
Interest paid	– 1,859,948	– 1,457,569
Cash payments/refunds of income taxes	– 118,227	– 46,285
I. Net cash flows from operating activities	**2,260,246**	**552,772**

Cash flow statement (continued)

€ 000's	2008	2007
Cash receipts from the disposal of intangible assets and property, plant and equipment	361	38,674
Cash payments to acquire intangible assets and property, plant and equipment	– 43,965	– 58,623
Cash receipts from the disposal of financial assets	10,369,258	10,118,942
Cash payments to acquire financial assets	– 12,414,240	– 10,737,574
Cash receipts from the disposal of consolidated companies and other business units	—	78,232
Cash and cash equivalents disposed on the sale of consolidated companies	—	– 35,407
Cash payments to acquire consolidated companies and other business units	– 1,099	—
Cash and cash equivalents acquired on the acquisition of consolidated companies	3,517	—
Cash receipts from the disposal of investments accounted for using the equity method	3,970	—
Cash payments to acquire investments accounted for using the equity method	—	– 11,992
II. Net cash flows from investing activities	**– 2,082,198**	**– 607,748**
Dividend payments to owners	– 43,122	—
Dividend payments to other shareholders	– 5,760	– 4,225
Changes from subordinated capital	– 39,256	– 36,013
Interest payments on subordinated capital	– 27,529	– 28,405
III. Net cash flows from financing activities	– 115,667	– 68,643
Cash and cash equivalents at 1 Jan	906,240	1,029,860
Net change in cash and cash equivalents (I.+II.+III.)	62,381	– 123,619
Effects of exchange rate changes on cash and cash equivalents	782	– 1
Cash and cash equivalents at 31 Dec	969,403	906,240
Components of cash and cash equivalents:		
Cash reserve	146,484	182,333
Balances with banks and savings banks payable on demand	822,919	723,907
Cash and cash equivalents at the end of the financial year	**969,403**	**906,240**

Notes

General notes

The Management Board of Wüstenrot & Württembergische AG authorised the consolidated financial statements for publication on 26 February 2009. The consolidated financial statements will be submitted for approval by the shareholders at the Annual General Meeting on 19 May 2009.

Basis of the consolidated financial statements

Financial reporting standards

International Financial Reporting Standards (IFRS) and interpretations (IFRIC) applied
The consolidated financial statements of W&W AG were prepared in accordance with IFRS, as adopted by the European Union, pursuant to Section 315a (1) of the German Commercial Code (HGB, Handelsgesetzbuch) in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

All IFRSs that had been issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission for application in the EU as at the date of preparation of these consolidated financial statements have been complied with, to the extent relevant for the W&W Group. The consolidated financial statements of W&W AG meet all requirements of IFRS.

Our consolidated financial statements consist of:

- the consolidated balance sheet,
- the consolidated income statement,
- the statement of recognised income and expense,
- the consolidated cash flow statement and
- the notes to the consolidated financial statements.

We also prepared a Group management report.

Standards, interpretations and amendments to standards and interpretations required to be applied for the first time in the year under review
The accounting policies and presentation methods are applied based on the principle of consistency. Changes became necessary as a result of new or amended IFRS. We complied with all new and amended IFRS and IFRIC which were required to be applied for the first time as at 1 January 2008.

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures

In October 2008, the IASB published amendments to IAS 39 and IFRS 7, which were endorsed by the European Union in October 2008. The changes to IAS 39 allow for the reclassification of certain non-derivative financial assets measured at fair value to the category "Receivables".

The prerequisite for such a reclassification is that the corresponding financial instruments meet the criteria for allocation to the "Receivables" category and, in addition, W&W has the intention and is able to hold such financial instruments for the foreseeable future or until maturity. The reclassifications are made at the financial instruments' fair value as at the date of reclassification. The fair value as at the date of reclassification then represents the new amortised cost of the relevant financial instrument.

In the case of reclassifications made in accordance with the changes to IAS 39, the amended IFRS 7 sets out additional disclosure requirements. The amendments to IAS 39 and IFRS 7 became effective retrospectively as at 1 July 2008. They are applied prospectively as at the date of reclassification.

W&W applied the amended standards retrospectively as at 1 July 2008. The effects of the application of the amended standards are presented in Note 4.

Published International Financial Reporting Standards (IFRS) and interpretations (IFRIC) not yet required to be applied

In November 2008, the IASB issued the revised version of **IFRS 1 First-time Adoption of International Financial Reporting Standards**. The revised IFRS 1 has not yet been endorsed by the EU. It is required to be applied for financial years beginning on or after 1 July 2009.

In January 2008, the IASB issued the revised version of **IFRS 2 Share-based Payment: Vesting Conditions and Cancellations,** which was endorsed by the EU in December 2008. Significant changes relate to the accounting treatment of vesting conditions and cancellations of share-based payment plans. The revised version is required to be applied for financial years beginning on or after 1 January 2009.

IFRS 8 Operating Segments governs segment reporting, and is required to be applied from 1 January 2009. The adoption of IFRS 8 leads to changes in the segment report.

The most important changes regarding **IAS 1 Presentation of Financial Statements**, which has to be applied not later than 1 January 2009 and which was endorsed by the EU in December 2008, refer to the definition of the components of financial statements, the definition and the presentation of profit or loss for the period, the statement of changes in equity and the presentation of dividends. The adoption of IAS 1 leads to changes in the presentation of financial statements.

As the amendments to IFRS 8 and IAS 1 exclusively affect presentation, no significant impact will result from these changes on the financial position and performance of W&W and its cash flows.

IAS 23 Borrowing Costs, which was endorsed by the EU in December 2008, governs the capitalisation of borrowing costs as part of the cost of qualifying assets. The major change to the standard relates to the fact that borrowing costs have to be capitalised as part of the cost of an asset with effect from 1 January 2009. Previously, borrowing costs were recognised immediately as an expense.

In January 2008, the IASB published the revised standards IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements. The main changes to IFRS 3 compared to the current version are as follows:

- Non-controlling interests may now be accounted for either at fair value or at the pro rata share in identifiable net assets.
- In case of successive share purchases or business combinations achieved in stages, the already existing shares must be remeasured at fair value through profit or loss at the date of acquisition or at the time control is acquired. Goodwill is determined as the difference between the remeasured carrying amount of the equity investment plus purchase price payments for the acquisition of the new shares less net assets acquired.
- Transaction costs are fully expensed in the period in which they are incurred.
- Any potential future adjustments to the consideration given for the acquisition as a result of future events, which have to be accounted for as a liability at the date of acquisition, have to be recognised in subsequent periods as expenses or income in the income statement. Subsequent remeasurement of goodwill is no longer required.
- In addition, rules were introduced for transactions to be accounted for separately from the business combination. For example, relations with an acquired company existing before the business combination are not deemed part of the acquisition.
- Rules for recognition and measurement were introduced for rights reacquired, rights transferred by the acquirer to the acquiree prior to the business combination and returning under the control of the acquirer upon the business combination.

The amended IFRS 3 is required to be applied prospectively for business combinations where the relevant date of acquisition occurred in annual reporting periods beginning on or after 1 July 2009.

The main changes to IAS 27 are as follows:

- In case of a partial disposal of an investment that does not result in loss of control, the transaction between the parent company and the non-controlling shareholders has to be accounted for as an equity transaction only.
- If a parent company loses control over a subsidiary, the assets and liabilities of that subsidiary must be derecognised. Any remaining investment in a former subsidiary has to be recognised at fair value at the time control is lost. Any resulting difference has to be recorded in the income statement.
- In case the share of non-controlling shareholders in losses exceeds the share of non-controlling shareholders in shareholders' equity of the subsidiary, they still have to be allocated to non-controlling interests even if this results in a negative balance.

The revised IAS 27 is required to be applied prospectively for reporting periods beginning on or after 1 July 2009.

On 14 February 2008, the IASB issued changes to **IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements**, which were endorsed by the EU in January 2009. The changes mainly relate to the distinction between equity and debt capital. Under the new version of IAS 32, cancellable financial instruments (currently defined as financial liabilities) may be classified as equity provided certain criteria are met.
The changes to IAS 32 are required to be applied for financial years beginning on or after 1 January 2009.

In July 2008, the IASB issued an amendment to **IAS 39 Financial Instruments: Recognition and Measurement**. The revised IAS 39 has not yet been endorsed by the EU. The clarifying changes stipulate that only cash flow or fair value changes of a hedged item above or below a particular price or another variable can be classified and presented as a hedging instrument. The changes to IAS 39 are required to be applied for financial years beginning on or after 1 July 2009.

As part of its **annual improvements project**, the IASB issued changes to a number of IFRSs in May 2008. The IASB introduced various smaller changes to existing standards. These changes were grouped into to areas:

- Changes in accounting policies, i. e. changes with respect to presentation, recognition and measurement,
- terminology or editorial changes only, which the IASB expects to have no or minimal effect on accounting.

The changes are required to be applied for financial years beginning on or after 1 January 2009, unless stated otherwise in the relevant standard. The changes from the first annual improvements project were endorsed by the EU in January 2009.

In June 2007, the IASB issued **IFRIC 13 Customer Loyalty Programmes**, which was endorsed by the EU in December 2008. IFRIC 13 governs the accounting for customer loyalty programmes where customers receive award credits that may be redeemed for discounted goods or services by the entity itself or a third party. The interpretation is required to be applied for financial years beginning on or after 1 July 2008.

In July 2008, the IASB issued **IFRIC 15 Agreements for the Construction of Real Estate**, which has yet to be endorsed by the EU. IFRIC 15 governs the recognition of revenue in connection with agreements for the construction of real estate at entities undertaking the construction of real estate. IFRIC 15 is required to be applied for financial years beginning on or after 1 January 2009.

In July 2008, the IASB issued **IFRIC 16 Hedges of a Net Investment in a Foreign Operation**, which has yet to be endorsed by the EU. IFRIC 16 relates to hedges in connection with a net investment in a foreign operation and especially specifies eligible risks as well as the accounting treatment of the hedging instrument. IFRIC 16 is required to be applied for financial years beginning on or after 1 January 2009.

In November 2008, the IASB issued **IFRIC 17 Distribution of Non-Cash Assets to Owners**, which has yet to be endorsed by the EU. IFRIC 17 contains rules for recognition and measurement of liabilities resulting from distributing non-cash assets. The interpretation is required to be applied for financial years beginning on or after 1 July 2009.

In January 2009, the IASB issued **IFRIC 18 Transfer of Assets from Customers**, which has yet to be endorsed by the EU. IFRIC 18 clarifies the accounting for transfers of items property, plant and equipment from customers. The interpretation is required to be applied for financial years beginning on or after 1 July 2009.

The W&W Group is currently assessing the effects resulting from the implementation of these standards and interpretations on the presentation of the financial position, financial performance and cash flows.

We did not opt for voluntary application of the IFRS and IFRIC which have been published but which are not yet required to be applied.

Presentation of financial statements

The consolidated financial statements are prepared in euros. The amounts in the financial statements are presented in € thousand. For the sake of transparency, amounts included in the notes to the consolidated financial statements are stated in € million or € billion. Rounding may result in differences to the reported unrounded amounts.

Changes in the notes to the consolidated financial statements.

In order to enhance transparency of the financial statements, we made a number of changes in the presentation of the notes to the consolidated financial statements. In particular, the structure of the notes and the presentation of the changes of individual line items were revised.

Consolidation

Scope of consolidation

The consolidated financial statements include the financial statements of Wüstenrot & Württembergische AG as well as all material subsidiaries, mutual and special funds as well as material associated companies.

A full list of shareholdings of the W&W Group is published in the electronic Federal Gazette (elektronischer Bundesanzeiger). The list of companies included in the consolidated financial statements can be found on pages 210 et seq.

	Germany	Other countries	Mutual and special funds	Total
Subsidiaries				
Included as at 31 December 2007	16	5	23	44
Included as at 31 December 2008	18	6	29	53
Investments in associates accounted for using the equity method				
Included as at 31 December 2007	7	3	–	10
Included as at 31 December 2008	6	2	–	8

Changes to the scope of consolidation

As at 1 January 2008, 3B Boden-Bauten-Beteiligungs-GmbH, Ludwigsburg, was added to the group of consolidated companies as a result of the company's increased significance for the W&W Group's financial position and performance.

On 2 January 2008, the stake held in the voting share capital of Wüstenrot životní pojišťovna a.s., Prague, which is reported in the consolidated financial statements as at 31 December 2007 as an associate, was increased by 24% to 74%, in line with the strategic positioning on the Czech market. Wüstenrot životní pojišťovna a.s. is a life insurance company operating in the Czech Republic. The cost of this successive share purchase, including the costs directly attributable to the business combination, amounts to € 1.1 million and was paid through a transfer of cash.

The following assets and liabilities were acquired/assumed within the framework of the business combination:

€ mn	Fair value	Carrying amount
Financial assets at fair value through profit or loss	0.7	0.7
Available-for-sale financial assets	24.7	24.7
Receivables (including allowance for credit losses)	4	4
Other assets	6.1	1.7
of which: acquired insurance portfolios	4.4	—
Liabilities	2.8	2.8
Technical provisions	23.7	23.7
Shareholders' equity	9	4.6

The excess, which has to be recognised in income, of the fair value of the recognised identifiable assets acquired and liabilities and contingent liabilities assumed over the cost of the business combination in the amount of € 1.0 million results from the acquired insurance portfolios, and was recognised as income in "Net other income/expense".

Wüstenrot životní pojišťovna a.s. is included in the consolidated financial statements as a fully-consolidated subsidiary from the date of the purchase of the additional shares. Accordingly, the consolidated income statement for the period under review includes any revenue, gains and losses of Wüstenrot životní pojišťovna a.s. The share in Wüstenrot životní pojišťovna a.s. in consolidated net income amounts to € 0.2 million.

In addition, the newly established Wohnimmobilien GmbH & Co. KG of Württembergische was included in the group of consolidated companies as at 31 December 2008. Furthermore, W&W Global Strategies US Equity Fund, Dublin, BWK-Fonds 93, Stuttgart, BWK-Fonds 98, Stuttgart, and DEVIF-Fonds Nr. 203, Frankfurt, were newly included in the scope of consolidation as at 1 January 2008. W&W European Equity Value, Dublin, was launched on 25 February 2008 and has been included in the consolidated financial statements since that date. Moreover, the two special funds W&W Emerging Markets Bonds-Fonds 1 and W&W Emerging Markets Bonds-Fonds 2 were added to the scope of consolidation as at 30 September 2008. As at the same date, the BWInvest-54 special fund was dissolved and excluded from the scope of consolidation accordingly.

As a result of the lack of significant influence of VV-Immobilien GmbH & Co. US City KG, Munich, the company has been no longer accounted for using the equity method since 30 June 2008.

On 27 June 2008, the interest held in the home loan savings institution Wüstenrot stavební spořitelna a.s., Prague, which had been already fully consolidated, was increased by 3.46% to 55.92%.

Exemption from the obligation to publish separate financial statements

Wüstenrot GmbH & Co. Grundstücks-KG, Ludwigsburg, elects not to publish its separate financial statements. Wüstenrot & Württembergische AG will publish its consolidated financial statements for 2008 in the electronic Federal Gazette pursuant to Section 264b No. 3 of the HGB.

Consolidation methods

The consolidated financial statements were prepared using accounting policies consistently applied throughout the Group.

Business combinations are accounted for under the purchase method. This involves measurement of the assets, liabilities and contingent liabilities of the acquired company at fair value at the acquisition date or at the date of obtaining control and a comparison with the costs of acquisition (purchase price allocation).

Any remaining excess is carried as goodwill under intangible assets. Any negative goodwill is recognised in the income statement in the period in which it occurs.

The carrying amount of the goodwill is reviewed for impairment at least annually (impairment test). If there are indications of a potential impairment, the impairment test is also performed more frequently. Write-downs for impairment losses are recognised in case goodwill is impaired.

Interests of minority shareholders in the fair values of assets, liabilities and contingent liabilities are reported in equity in the item "Minority interests". The shares of minority shareholders in the profits and losses of the companies included in the consolidated financial statements are reported in the income statement, in the item "Result attributable to minority interests".

Differences from the accounting for business combinations with respect to companies fully consolidated as at 1 January 2004 under HGB were offset in equity against other retained earnings.

Intra-group receivables and liabilities as well as expenses and income, and profits or losses resulting from intra-group transactions, are eliminated during consolidation.

All material associates are included in the consolidated financial statements using the equity method. If accounting policies used at a company which is accounted for using the equity method differ from those applicable for the entire Group, adjustments are made to the IFRS accounting policies used in the Group.

Investments in subsidiaries that are not included in the consolidated financial statements by way of full consolidation due to their minor significance are reported in the item "Available-for-sale financial assets".

Reporting date

The financial statements of the parent company, the consolidated subsidiaries and the associates, are prepared as at 31 December 2008, except for W&W Asset Management AG, Luxembourg, whose financial statements are prepared as at 30 November 2008. Interim financial statements were not prepared for reasons of materiality. Adjustment entries were made to take into account material transactions.

Currency translation

The functional currency and reporting currency of W&W AG is the euro.

Transactions in foreign currencies are translated at the exchange rate applicable at the date of transaction. Monetary assets and liabilities denominated in a currency other than the functional currency are translated into the functional currency using the reference rate of the European Central Bank (ECB) applicable at the balance sheet date. Non-monetary items carried at fair value are also translated into the functional currency using the reference rate of the ECB applicable at the balance sheet date. Non-monetary assets and liabilities are measured using the exchange rate applicable at the date of transaction (historical rate).

Currency translation differences related to equity instruments held in a foreign currency and classified as available-for-sale financial assets are recognised directly in equity. Other currency translation differences are recognised in the income statement.

Subsidiaries' assets and liabilities included in the consolidated financial statements, where the relevant functional currency is not the euro, are translated based on the modified closing rate method using the ECB's reference rate at the balance sheet date. Expenses and income of foreign subsidiaries whose functional currency is not the euro are translated using annual average exchange rates.

Currency translation differences, including differences from financial assets accounted for using the equity method, are recognised directly in equity. These currency translation differences are recognised in the income statement for the period in which the subsidiary concerned is disposed of.

The exchange rates for material currencies changed as follows:

Currency	Closing rate	Annual average rate	Closing rate	Annual average rate
	2008	2008	2007	2007
USD	1.3917	1.4726	1.4721	1.3748
CZK	26.8750	25.1610	26.6280	27.7314
SKK	30.1260	31.3142	33.5830	33.8269
HRK	7.3555	7.2301	7.3308	7.3349
GBP	0.9525	0.7972	0.7334	0.6860
DKK	7.4506	7.4560	7.4583	7.4516

Accounting estimates and assumptions

Estimates and judgments required for recognition and measurement under IFRS are made in line with the relevant standard. These estimates are updated on a continuing basis. They are based on experience and expectations with respect to future events deemed to be reasonable on the basis of the current situation. In case estimates were necessary to a greater extent, we provide relevant information in the notes to the items concerned.

The main estimates relate to fair values and impairment of financial instruments, allowance for credit losses, provisions for loss, and loss adjustment expenses, provisions for future policy benefits, provisions for pensions and similar obligations as well as deferred taxes.

Financial instruments as well as receivables and liabilities from insurance business

Classes of financial instruments

We grouped financial instruments into classes that take into account the characteristics of the financial instruments and the various types of information to be disclosed, as described in the following section. The classes of financial instruments are reflected in the structure of – and the items included in – the balance sheet and the income statement.

(1) Cash reserve
(2) Financial assets at fair value through profit or loss
(3) Available-for-sale financial assets

- Equity investments
- Equities, shares in investment funds and other non-fixed-income securities
- Bonds and other fixed-income securities
- Registered bonds and other receivables
- Other

(4) Receivables
- Loans and advances to banks
- Receivables from reinsurance business
- Loans and advances to customers
- Other receivables

(5) Positive market value of hedges
(6) Financial liabilities at fair value through profit or loss
(7) Liabilities
- Certificated liabilities
- Liabilities to banks
- Liabilities from reinsurance business
- Liabilities to customers
- Other liabilities

(8) Negative market value of hedges
(9) Subordinated capital

Principles for measurement and presentation of financial instruments

All financial assets and financial liabilities, including all derivative financial instruments, are recognised in the balance sheet in accordance with IAS 39.

Additions and disposals of financial instruments are generally recognised at settlement date at the fair value, except derivative financial instruments which are measured at fair value at the inception of the contract. Financial instruments are derecognised as soon as the contractual rights and obligations from the financial instrument expire, or if the financial instrument is transferred and the criteria for derecognition are met.

Cash reserve

This item consists of cash on hand, balances with central banks, balances in foreign postal giro accounts as well as public-sector debt instruments with a term to maturity of less than three months. Items included in the cash reserve are carried at face value.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading

Financial instruments acquired with the objective of generating a profit from short-term fluctuations in prices are classified as held-for-trading financial assets. In addition, this item includes the positive market values of derivatives which are not accounted for as hedges as part of a hedging relationship.

Unrealised and realised measurement gains or losses are recognised in income in "Net income from financial assets and liabilities at fair value through profit or loss". Current income and expenses from financial instruments, as well as fees and commissions from trading transactions, are also reported under this item.

Financial assets designated as at fair value

Under the fair value option, structured products are reported as financial assets measured at fair value if the embedded derivative is required to be separated from the host contract.

In addition, the sub-item "Financial assets designated as at fair value" includes investments for the account and risk of life assurance policyholders that are capitalised in order to avoid accounting mismatches that would otherwise have occurred due to the fact that the changes of the carrying amount of the provisions for unit-linked life insurance contracts are recognised in the income statement.

Financial assets at fair value through profit or loss are measured at fair value. All realised and unrealised gains or losses are recognised in income in "Net income from financial assets and liabilities at fair value through profit or loss". Transaction costs are recognised directly in the income statement at the time of transaction.

Available-for-sale financial assets

This item includes all non-derivative financial instruments that cannot be allocated to one of the other categories.

The W&W Group mainly recognises investments, equities, shares in investment funds, other non-fixed-income securities, bearer bonds and other fixed-income securities in this item.

The instruments are measured at fair value. Changes in the fair value are recognised directly in equity in the revaluation reserve, if applicable taking into account deferred taxes and the provision for deferred premium refunds. A realisation of gains and losses in the income statement is normally made only upon disposal. Directly attributable transaction costs, redemption premiums and discounts, are amortised over the term and recognised in net income from/net expense for available-for-sale financial assets, using the effective interest method.

Interest income is deferred and recognised together with the relevant item.

If there is objective evidence of impairment, the cumulative losses previously recognised directly in equity are transferred to the income statement. In case of an effective hedging relationship with a derivative financial instrument in connection with a fair value hedge, the change in the fair value attributable to the hedged risk is recognised through profit or loss in the hedge result. Reversals of impairment losses of debt instruments are recognised in the income statement, while reversals of impairment losses of equity instruments are recognised directly in equity.

Objective evidence indicating that debt instruments are impaired includes significant financial difficulties, breach of contract, increased probability that bankruptcy proceedings will be initiated, as well as the disappearance of an active market for financial assets because of financial difficulties.

An impairment for equity instruments has also occurred when the fair value of an equity instrument has fallen below its cost, either significantly or for a longer period of time. Available-for-sale assets are deemed impaired when the fair value as at the measurement date has declined by at least 20% below cost. Impairment is also deemed to exist when the fair value has been permanently below cost for a period of twelve months.

Receivables

This item comprises all non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. In the W&W Group, this category primarily includes loans under home loan and savings contracts, building loans, promissory note loans and registered bonds.

Upon initial recognition, receivables are measured at fair value. Subsequent measurement is based on amortised cost as determined using the effective interest method. Transaction costs, redemption premiums and discounts as well as deferred fees, are amortised over the term using the effective interest method and recognised in net income from receivables, liabilities and subordinated capital. Fees that are not part of the effective interest are recognised in net fee and commission income when they are received.

Interest income is deferred and recognised together with the relevant item.

Receivables from the direct insurance business, deposits retained by reinsurers on assumed reinsurance and accounts receivable from reinsurance business are carried at amortised cost. Any credit risks are taken into account through the recognition of specific and general valuation allowances.

The receivables from policyholders from the direct insurance business include claims against policyholders not yet due which were determined by applying a "Zillmer adjustment" (zillmerisation).

Receivables are reviewed for impairment at each balance sheet date or if any indicators of impairment exist. Impairment losses are recognised if necessary. Reversals of impairment losses are recognised in the income statement. The upper limit for such a reversal is the amortised cost that would have resulted had no impairment occurred. Objective evidences of impairment are those mentioned for available-for-sale financial assets.

Positive market value of hedges

This item includes positive market values of derivatives which represent hedging instruments as part of a hedging relationship pursuant to hedge accounting criteria. The instruments are measured at fair value as at the balance sheet date.

Financial liabilities at fair value through profit or loss

Financial liabilities classified as held for trading

The item "Financial liabilities classified as held for trading" includes the negative market values of derivatives which are not accounted for as hedges as part of a hedging relationship.

Unrealised and realised measurement gains or losses are recognised in income in "Net income from financial assets and liabilities at fair value through profit or loss". Current expenses and income from financial instruments as well as fees and commissions from trading transactions are also reported under this item.

Financial liabilities designated as at fair value

Under the fair value option, financial liabilities which are structured products are reported as financial liabilities measured at fair value if the embedded derivative is required to be separated from the host contract.

Financial liabilities at fair value through profit or loss are measured at fair value. All realised and unrealised gains or losses are recognised in income in "Net income from financial assets and liabilities at fair value through profit or loss". Transaction costs incurred are recognised directly in the income statement.

Liabilities

This item primarily includes liabilities to customers and banks, as well as certificated liabilities.

Liabilities are carried at amortised cost. Transaction costs, redemption premiums and discounts are amortised over the term of the transaction using the effective interest method. Fees that are not taken into account in determining the effective interest are recognised in net fee and commission income when they are received. Deferred interest is recognised together with the relevant item.

Liabilities from the direct insurance business include liabilities to policyholders, which are premiums/contributions that were received in advance, but will become due only after the balance sheet date. The item also comprises insurance benefits that have not yet been paid, and policyholders' shares in surpluses – including interest accumulated and unclaimed premium refunds. Liabilities to insurance agents and from reinsurance business are also reported in this item. These liabilities are carried at their repayment amount.

Negative market value of hedges

This item includes negative market values of derivatives which represent hedging instruments as part of a hedging relationship pursuant to hedge accounting criteria. The instruments are measured at fair value as at the balance sheet date.

Subordinated capital

Subordinated capital comprises subordinated liabilities and profit-participation rights. Items of subordinated capital are initially recognised at cost and subsequently measured at amortised cost. Interest expenses are recognised on an accrual basis together with the relevant item.

Measurement at fair value

Financial instruments that are traded in an active market are measured at the relevant stock exchange or market price or at fair values derived from such price. If there are no quotes on active markets, the fair value is determined using generally accepted measurement methods based on parameters observable on the market (e. g. interest rates, exchange rates, volatility).

In exceptional cases, fair values of financial instruments are determined using generally accepted measurement methods based on parameters not observable on the market if neither market prices nor market parameters are available in active markets.

Measurement methods comprise accepted valuation models such as the present value method, where the expected future cash flows are discounted using interest rates applicable to the relevant maturity and markets.

This method is used to measure receivables and liabilities, securities with fixed contractually agreed payments, subordinated capital, interest rate swaps and forward transactions without options.

The fair values of options are calculated using accepted option pricing models (Black 76 for interest rate options, Black-Scholes for stock options) and the related assumptions, depending on the types of options and the relevant underlyings. In particular, the value of options is determined based on the value and volatility of the underlying instrument, the agreed exercise price, reference interest rate or reference index, the risk-free interest rate as well as the remaining lifetime of the contract.

Apart from interest rate structures and market prices, the relevant market and credit risks, liquidity risks, risk structures and, if appropriate, volatilities are taken into account.

In addition, the fair values are determined through a comparison with similar financial instruments for which observable market prices exist.

Compound financial instruments, or structured products, are measured as a whole or by aggregating the measurement results of the individual components.

The fair values of cash and cash equivalents as well as of current receivables and liabilities approximate their carrying amount, which is mainly a result of the short-term nature of these instruments.

Gains or losses from measurement are largely influenced by the underlying assumptions – in particular, the determination of cash flows and the discount factors.

The determination of the credit spread is based on a comparison of the relevant financial instrument with a corresponding financial instrument not exposed to credit risks.

Hedge accounting

A **fair value hedge** is a hedge of the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

Any change in the fair value of the derivative used as a hedging instrument is recognised in the income statement. The carrying amount of the hedged item is adjusted by the measurement gains or losses attributable to the hedged risk, with the relevant amounts from the adjustment being recognised in profit or loss. After the termination of the hedging relationship, the adjustment of the carrying amount of the hedged item is amortised over the remaining term, if appropriate.

The existing fair value hedges are used to reduce interest rate risk exposure. Only interest rate swaps are designated as hedges of interest rate risk exposures resulting from a decline in value due a change in interest rates.

A **cash flow hedge** is used to hedge the risk of variations of future cash flows that could affect profit or loss for the period. The risk of variations of future cash flows may result from recognised assets and recognised liabilities, but also from highly probable forecast transactions. The effective portion of the changes in the fair value of a hedging instrument is recognised in the revaluation reserve for cash flow hedges until the result from the hedged item is recognised. The ineffective portion of the hedge is recognised in the income statement.

Cash flow hedges are used to hedge interest rate risk exposures. Only interest rate swaps are used to hedge interest rate risk exposures resulting from variations of interest rate cash flows (cash flow risk).

Structured products

Structured products are assets or liabilities that are characterised by specific terms and conditions with regard to interest, maturity or repayment. A structured product consists of a non-derivative host contract and one (or more) embedded derivatives that modify the cash flows from the host contract. The host contract and the derivative component(s) are inseparably linked to one another. Generally, structured products are reported in the financial statements in accordance with the presentation and measurement requirements applicable for the host contract.

If certain criteria as defined in IAS 39.11 are met, the host contract and the related embedded derivatives are reported separately in the financial statements in accordance with the recognition and measurement requirements used for the individual instruments.

These criteria are:

- The structured product is not already measured at fair value through profit or loss,
- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Under the fair value option, structured products are reported as financial assets or financial liabilities measured at fair value if the embedded derivative is required to be separated from the host contract.

Impairment

The W&W Group reviews whether financial assets are impaired at each balance sheet date. Only assets that are not measured at fair value through profit or loss are tested for impairment.

The allowance for credit losses is measured using uniform principles throughout the Group. The uniform principles used for the calculation of valuation allowances are described in the disclosures on risks arising from financial instruments and insurance contracts.

In case an impairment is identified, specific and portfolio-based valuation allowances are recognised. Specific valuation allowances are used to cover imminent counterparty credit risks in the case that it is probable that not all interest and principal payments may be made as contractually agreed.

Portfolio-based valuation allowances are recognised for receivables for which specific valuation allowances have not been recognised. Portfolio-based valuation allowances for credit risks are intended to cover impairments in the loan portfolio that have occurred, but that are not yet known.
If further payments are not expected with a high degree of certainty, the receivable concerned is classified as uncollectable. Uncollectable receivables for which valuation allowances have already been recognised are written off against the allowance account.
If no valuation allowances have been recognised for a particular uncollectable receivable, the receivable concerned is directly written off as an expense in the income statement. Recoveries on receivables previously written off are recognised in profit or loss.

After the recognition of specific valuation allowances, the expected recoverable amount of the receivable concerned may increase, and accordingly, the related specific valuation allowances have to be fully or partially reversed.

Allowances for credit losses for receivables recognised in the balance sheet are directly deducted from the carrying amount of the receivables and reported on the asset side of the balance sheet. Provisions for credit losses from off-balance sheet transactions (e.g. irrevocable loan commitments) are recognised to the extent necessary in the item "Other provisions" on the liability side of the balance sheet.

The amount of the specific valuation allowance is generally measured as the difference between the carrying amount of the receivable and the present value of the expected future cash flows, taking into account any collateral.

With respect to receivables subject to specific valuation allowances or portfolio-based valuation allowances, the interest income resulting from the changes in the present value (present value effect, interest effect or unwinding) has to be recognised, rather than recognising and amortising the actual interest payments as interest income. The actually paid interest is continued to be recognised as the interest income for the portfolios with events of default that have occurred, but have not yet been identified. Interest income from changes in present value are included in net income from receivables, liabilities and subordinated capital.

Impairment losses are recognised as expenses in the form of valuation allowances or direct write-offs. Reversals of valuation allowances and recoveries on receivables previously written off are credited to the allowance for credit losses through profit or loss. The relevant items in the income statement are "Income from/Expenses for allowances for credit losses".

An impairment loss is recognised when one or more events have occurred after the initial recognition of an asset, objective evidence of impairment exists and the event(s) has/have an impact on the asset's future cash flows which can be reliably estimated. Objective evidence includes:

- significant financial difficulties of the obligor,
- a breach of contract,
- concessions granted to the borrower due to its financial difficulty,
- increased probability that bankruptcy proceedings will be initiated,
- the disappearance of an active market for financial assets because of financial difficulties,
- verifiable data indicating a reduction of future cash flows.

Other balance sheet items

Non-current assets held for sale and disposal groups

An entity shall classify a non-current asset or a disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.
A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

These assets and disposal groups are shown in the balance sheet item "Non-current assets held for sale and disposal groups", while the related liabilities are reported in the item "Liabilities directly connected with non-current assets held for sale and disposal groups".

Non-current assets or disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. If the asset's carrying amount is higher than its fair value less costs to sell, the difference is recognised in the income statement in the related period. Non-current assets classified as held for sale are no longer depreciated or amortised.

The results from the measurement of non-current assets and disposal groups classified as held for sale are presented in the relevant item of the income statement. The post-tax profits or losses of discontinued operations are reported in the income statement in the item "Earnings after taxes from discontinued operations".

Investments accounted for using the equity method

Investments in associates are recorded at cost in the consolidated balance sheet at the date of acquisition. In subsequent years, the carrying amount as measured by applying the equity method is adjusted by taking into account the pro-rata changes in equity of the company concerned. The pro-rata share in net profit of the company concerned is recognised in the income statement in net income from/net expense for investments accounted for using the equity method.

If there are indications of an impairment of the interests held in a company accounted for using the equity method, an impairment test is performed and, if necessary, an impairment loss is recognised. Impairment losses are reversed if the reasons for an earlier write-down for impairment no longer apply. Impairment losses and reversals of impairment losses are recognised in net income from/net expense for investments accounted for using the equity method.

Gains or losses from the disposal of investments accounted for using the equity method are also shown in net income from/net expense for investments accounted for using the equity method.

Investment property

Investment properties include land and buildings held to earn rentals or for capital appreciation.

Initial measurement of investment property is based on its cost, taking into account transaction costs. External, court-appointed appraisers are engaged to support the measurement process. Recognition and measurement upon acquisition and subsequently is made in accordance with the cost model, as described under the item "Property, plant and equipment, and inventories".

The impairment test for investment property is based on a cash flow analysis. The goal of this impairment test is to determine, at each balance sheet date, whether there are indicators of impairment. If impairment exists, the expected recoverable amount is determined on the basis of a discounted cash flow (DCF) analysis. If the recoverable amount is below amortised cost, a write-down for impairment to such recoverable amount is recognised. Within the scope of the discounted cash flow method, the risks associated with the property and the interest claim is taken into account when determining the discount rate. The discount rate is adjusted at each reporting date to reflect current conditions. The valuations are performed by architects and engineers of the Group's property business. The valuations take into account the assumptions of the management.

Reinsurers' share of technical provisions

The share of reinsurers in technical provisions is carried as an asset.

All reinsurance contracts concluded by W&W Group companies transfer a significant insurance risk, i. e. they are insurance contracts within the meaning of IFRS 4. The share of reinsurers in technical provisions is determined in line with the contractual terms and conditions based on the gross amount of technical provisions (see also the explanations regarding the corresponding liability items).

Intangible assets

Intangible assets comprise goodwill and other intangible assets. Other intangible assets primarily include computer software and the present value of future profits (PVFP) of acquired insurance portfolios.

Goodwill is defined as the excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill has an indefinite useful life and is recognised at cost less any accumulated impairment losses. Impairment losses result from an impairment test which is performed at least annually on the basis of cash-generating units. Cash-generating units in the W&W Group correspond to the legal entities.

Within the scope of the impairment test, the recoverable amount of the relevant cash-generating unit is compared with its carrying amount (including goodwill). The recoverable amount used in the W&W Group for the cash-generating units is the fair value less costs to sell, as calculated based on the quoted market price applicable as at the balance sheet date. In the W&W Group, the carrying amount is the subsidiary's shareholder equity reported under IFRS. If the carrying amount (including goodwill) exceeds the recoverable amount, a corresponding impairment loss is recognised for goodwill. Impairment losses may not be reversed. The portion of the write-down for impairment attributable to goodwill is recognised in the income statement.

Acquired other intangible assets with a definite useful life are measured at amortised cost and amortised on a straight-line basis over the expected useful life. Internally generated intangible assets that are likely to provide a future economic benefit for the Group, and that can be reliably measured, are capitalised at cost and amortised on a straight-line basis over their expected useful life. The cost includes all costs that are directly attributable to the production of the assets and reasonable portions of production-related overheads.

Internally generated or acquired software is generally amortised on a straight-line basis over a useful life of three to eight years. Other intangible assets are tested for impairment annually as at the balance sheet date or whenever there are indications of impairment. In case of impairment, a write-down for impairment to the recoverable amount is recognised.

The carrying amount of acquired life insurance contracts is the present value of the expected net cash flows from the acquired insurance contracts (PVFP – present value of future profits) at the date of acquisition. This amount represents the present value of the expected profits from the acquired portfolio, without taking into account new business or tax effects. The PVFP is amortised on a straight-line basis over a term of 15 years. The PVFP is tested for impairment at each balance sheet date, and an impairment loss is recognised in case an impairment exists.

Borrowing costs are not capitalised as part of the cost of qualifying assets in the W&W Group.

Amortisation and impairment losses of intangible assets are included in general administrative expenses.

Property, plant and equipment, and inventories

The item "Property, plant and equipment, and inventories" includes owner-occupied property, leased assets, operating and office equipment, inventories and other plant. Owner-occupied property represents land and buildings used by Group companies.

Items of property, plant and equipment are carried at cost, taking into account transaction costs (cost model). External, court-appointed appraisers are engaged to support the measurement process.

The costs of purchase include consideration to be given to acquire an asset and to bring such asset to the condition necessary for it to be capable of operating in the manner intended by management, non-deductible value added tax as well as other levies in connection with the purchase, less any trade discounts and rebates.

The costs of production are determined on the basis of individual unit costs as well as directly allocable overheads. The amount of the costs of production is determined on the basis of the costs to be incurred until completion (production-related full costs).

Subsequent measurement is based on cost less any accumulated depreciation and any accumulated impairment (cost model).

Each part of a property with a cost that is significant in relation to the total cost of the property is depreciated separately. A distinction is made at least for the components "structural work" and "interior fittings/technology".

The individual useful life for the components "structural work" and "interior fittings/technology" is determined by architects and engineers of the W&W Group's property business and amounts to up to 80 years for the structural work component for residential properties, and up to 40 years for commercial properties. The maximum useful life for interior fittings/technology is assumed to be 25 years.

Depreciation of both components is made on a straight-line basis over the relevant expected useful lives.

Impairment losses are recognised in case of a permanent impairment, in which case the carrying amount is written down to the asset's recoverable amount (the higher amount of net selling price and value in use). The value in use is determined as the present value of estimated cash flows from the continuing use of the asset and its subsequent disposal. The discount rates take into account the risks and the interest claims associated with the asset. They are adjusted at each balance sheet date to reflect current conditions. The value in use of items of property, plant and equipment is calculated as the present value of the cash flow surpluses generated from the relevant asset. There is an obligation to redetermine the recoverable amount only upon the occurrence of particular events which indicate that an impairment has occurred as at the balance sheet date. Assumptions of the management are taken into account for the determination of the recoverable amount.

Operating and office equipment is measured at amortised cost. The assets are depreciated on a straight-line basis over an expected useful life of up to 23 years. Purchased IT equipment is depreciated on a straight-line basis over an expected useful life of up to eight years. In addition, write-downs are recognised in case of impairment.

The useful life is largely deemed to be unlimited if items of operating and office equipment are works of art. Impairment losses are recognised in case of a permanent impairment, in which case the carrying amount is written down to the asset's recoverable amount.

The economic useful life is reviewed within the context of preparing financial statements. Adjustments required are recognised as corrections of the depreciation over the remaining useful life of the asset.

Depreciation and impairment losses of owner-occupied property, leased assets and operating and office equipment (as well as other plant) are included in general administrative expenses.

Income from owner-occupied property, leased assets and operating and office equipment (as well as other plant) is shown as other income.

Inventories are measured at cost or the lower net realisable value. Cost includes all costs of purchase. The costs of conversion include all costs that are directly attributable to the production of the inventories as well as reasonable portions of production-related overheads. The net realisable value corresponds to the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Borrowing costs are not capitalised as part of the cost of qualifying assets in the W&W Group.

Leases

Under finance leases, all material risks and rewards of leased assets are transferred to the lessee. In contrast, all material risks and rewards of leased assets are retained by the lessor under operating leases. In the financial year 2008, the W&W Group was the lessee under both finance leases and operating leases.

The lease payments from operating leases were amortised on a straight-line basis over the lease term and recognised in general administrative expenses.

In case of a finance lease, the leased asset is capitalised and a liability is reported in the corresponding amount. The capitalised leased assets are depreciated in accordance with the same principles used for other similar assets that are owned by the W&W Group. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability, with borrowing costs being reported in general administrative expenses. Similar to items of property, plant and equipment, leased assets have to be tested for impairment at each balance sheet date.

Current tax assets, deferred tax assets, current tax liabilities and deferred tax liabilities

Current tax assets and liabilities are recognised at the amount expected to be recovered from or paid to the relevant taxation authorities. Deferred tax assets and liabilities are recognised as a result of temporary differences between the carrying amount of the assets and liabilities in the IFRS consolidated balance sheet and the related tax base in accordance with local tax regulations of Group companies. Deferred taxes are generally calculated using relevant country-specific tax rates. Deferred taxes on loss carryforwards are capitalised if these can be utilised in future.

Technical provisions

To the extent permitted under IFRS 4, the presentation of insurance-specific transactions is generally based on local accounting principles applicable for the relevant Group companies. For German Group companies, the provisions to be applied primarily are those of Sections 341 et seqq. of the HGB, as well as of the German Insurance Accounting Directive (Verordnung über die Rechnungslegung von Versicherungsunternehmen, RechVersV).

Technical provisions are shown in their gross amount on the liability side of the balance sheet, i. e. before deduction of the share attributable to reinsurers. The share attributable to reinsurers is determined based on contractual arrangements and shown as a separate item on the asset side. All insurance contracts concluded by W&W Group companies transfer a significant insurance risk, i. e. they are insurance contracts within the meaning of IFRS 4.

The claims equalisation provision and similar provisions required under local law for property-casualty insurance may not be recognised in accordance with IFRS 4.

The provisions for our reinsurance business were calculated in accordance with the information provided by the direct insurer. If such information was not provided, we calculated the provisions based on data available to us. The same methods were followed in the case of co-insurance and pools managed by third parties.

Unearned premiums correspond to the portion of the premiums written which represents income for a particular period after the balance sheet date. Unearned premiums are deferred for each insurance contract on either a daily or monthly basis. Unearned premiums for our reinsurance business were calculated in accordance with the information provided by the direct insurer. Unearned premiums from the transport insurance business are allocated to the item "Provisions for loss and loss adjustment expenses".

The **provision for future policy benefits** is determined prospectively on a per contract basis as the present value of future guaranteed insurance benefits less the present value of the future net premiums, based on actuarial principles and taking into account the year or month of inception.

With respect to the non-contributory period, the provisions for future policy benefits for life insurance include a provision for administrative expenses whose amount is deemed sufficient, taking into account current circumstances. Only any guaranteed amounts are taken into account for unit-linked life and annuity assurance policies.

One-off acquisition costs for life and health insurance policies are taken into account by applying a Zillmer adjustment.

In the life insurance segment, the calculatory interest rate used and the biometrical calculation parameters generally correspond to those used for the calculation of the premium rates. The interest rate corresponds to the highest amount permitted under legal or regulatory provisions. Interest rates used ranged between 2.25% and 4%. The average interest rate for the provision for future policy benefits amounts to 3.5%. The biometrical calculation parameters are based on tables customary in the industry and recommended by Deutsche Aktuarvereinigung (German Association of Actuaries, DAV). In exceptional cases, we used our own tables based on experience.

For annuity assurance policies whose original calculation parameters no longer include sufficient security margins, the calculation parameters published by the German Association of Actuaries are used. These calculation parameters are considered to be sufficient parameters. In the financial year 2008, the confidence level was increased once again, since the task force for biometrical calculation parameters of the German Association of Actuaries recommended an adjustment due to the current trend with respect to the mortality rate of the persons with annuity assurance policies. The increase amounted to one twentieth of the difference between the mortality tables "DAV2004RBestand" and "DAV2004RB20", with probabilities of capital payouts being taken into account as well.

Supplementary permanent health insurance policies are collectively compared with the currently applicable calculation parameters of the German Association of Actuaries and, if necessary, an additional provision for future policy benefits is recognised.

In the area of supplementary nursing insurance, calculation parameters are used which are deemed appropriate in accordance with the regulation "Reservierung von Pflegerenten(zusatz) versicherungen des Bestandes" on the calculation of reserves for the (supplementary) nursing insurance portfolio issued by the German Association of Actuaries in the financial year 2008.

The parameters used for the calculation of the provision for future policy benefits for life insurance policies are reviewed on an annual basis as to the adequacy of safety margins, taking into account the calculation parameters as recommended by the German Association of Actuaries and the German Federal Financial Supervisory Authority as well as considering the trends observed in the portfolio. Sufficient prudence of all calculation parameters pursuant to regulatory provisions and commercial law is verified in the explanatory report of the responsible actuary in accordance with Section 11 a (3) No. 2 of the German Insurance Supervisory Law (Versicherungsaufsichtsgesetz, VAG).

The interest rate for the provision for future policy benefits in connection with health insurance amounts to 3.5%. The mortality tables published by the German Federal Financial Supervisory Authority (BaFin, Bundesanstalt für Finanzdienstleistungsaufsicht) are used as biometrical calculation parameters.
With respect to health insurance, the calculation of the provision for future policy benefits takes into account, among other things, assumptions related to the termination rates as well as to current healthcare costs, which increase as people grow older. These assumptions are based on own experience and industry-specific benchmark values. The calculation parameters are reviewed regularly within the scope of premium adjustments and adjusted if necessary with the consent of the public trustee. New tariffs are only introduced when the adequacy of the calculation parameters to be used is confirmed by the new trustee.

The provision for future policy benefits is subjected to an annual liability adequacy test in accordance with IFRS 4. If necessary, the provision for future policy benefits is adjusted immediately, with the total amount of the adjustment being recognised through profit or loss.

The **Provision for loss and loss adjustment expenses** (claims provision) is recognised for future payment obligations resulting from insured events that have occurred up until the balance sheet date. This includes the expected expenses for loss adjustment. The amount of the insurance benefits and the timing of the payout are uncertain.

The provision for IBNR (incurred but not reported) claims was calculated using the databases of previous financial years as well as based on experience. The calculation of the IBNR provision is based on a procedure recommended by the German Federal Financial Supervisory Authority. In accordance with this procedure, the reported losses of the reporting year are broken down according to number and expense and allocated to the years of occurrence, followed by an analysis in relation to the current year losses in the corresponding years. The expected unit cost rates for losses reported after the reporting period, but incurred in the reporting year are determined by applying these ratios to the average cost per unit for settled current year losses. These unit cost rates are multiplied with the expected unit numbers to determine the IBNR provision. The claims provisions are not discounted, except for capitalised annuities for property insurance.

As far as health insurance is concerned, provisions for loss and loss adjustment expenses are projected based on the current year losses of the reporting year. The basis for this calculation is the average relation of prior year losses to the associated current year losses of the three financial years preceding the balance sheet date.

The provision for loss adjustment expenses was calculated pursuant to the tax regulations in accordance with the coordinated regulation of the German Federal States (koordinierter Ländererlass) dated 22 February 1973.

The capitalised annuities for property insurance are calculated on a per contract basis in accordance with actuarial principles and, by analogy with the provision for future policy benefits, using the prospective method. The mortality tables recommended by the German Association of Actuaries (DAV HUR 2006) were used, which take into account adequate safety margins. The maximum guaranteed interest rate applicable as at 1 January 2007 amounting to 2.25% was used for the liabilities for annuity payments. Future administrative costs are measured at a rate of 2% of the capitalised annuities for property insurance. The rate can be deemed sufficiently prudent.

The provision for loss and loss adjustment expenses is subjected to an adequacy test as at each balance sheet date. If necessary, the provision is adjusted immediately, with the total amount of the adjustment being recognised through profit or loss. A provision for anticipated losses may additionally be recognised if necessary.

The **provision for premium refunds** , both performance-based and non-performance-based, consists of two portions. The first portion (amounts allocated in accordance with national provisions), the actual provision for premium refunds, is allocated to the portion of the profit of the relevant insurance company which is attributable to the policyholder, but is not directly credited. Legal minimum requirements were complied with in the context of this allocation.

The second portion of the provision for premium refunds, the provision for deferred premium refunds, is attributable to the policyholders' interests in the cumulative measurement differences between the financial statements of the individual companies in accordance with local GAAP and the consolidated financial statements in accordance with IFRS. These temporary measurement differences are transferred to the provision for deferred premium refunds in an amount which represents the minimum rate of participation of the policyholders in the event of the realisation.

The technical **provisions in life insurance business, to the extent that the policyholder bears the investment risk**, are determined on a per contract basis using the retrospective method. Premiums received are invested in fund units unless they are used for guarantees. The risk and cost portions – if appropriate, by offsetting the corresponding portions attributable to the share in surpluses – are withdrawn from the fund balance on a monthly basis. Measurement is made at the fair value of the fund units attributable to the insurance contracts as at the balance sheet date, in accordance with Section 341d of the HGB. The carrying amount of this item corresponds to the carrying amount of the investments for the account and risk of life insurance policyholders reported in the item "Financial assets at fair value through profit or loss".

The **other technical provisions** include, among other things, the provision for expected cancellations, the provision for unearned premiums from insurance policies for deregistered vehicles and, if necessary, the provision for anticipated losses. In the area of property-casualty insurance, a provision for expected cancellations was recognised for premiums to be refunded due to the expected full or partial reduction of technical risk. As far as health insurance is concerned, the provision for expected cancellations is calculated on the basis of the negative portions of the aging provision.

Other provisions

Provisions for pensions and other long-term employee benefits

Occupational pension schemes in the W&W Group comprise both defined contribution plans and defined benefit plans. Before the restructuring of the occupational pension schemes in the year 2002, the Wüstenrot companies (Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank, Wüstenrot Immobilien GmbH, Wüstenrot Haus- und Städtebau GmbH and Gesellschaft für Markt- und Absatzforschung mbH) maintained defined benefit plans for all of their employees. Württembergische Versicherung AG, Württembergische Lebensversicherung AG and Württembergische Krankenversicherung AG provided basic pensions in the form of defined contribution plans (pension fund of Württembergische). In addition, officers and members of the Management Board or managing directors were granted pension commitments (benefit commitments). Wüstenrot & Württembergische AG, W&W Informatik GmbH and W&W Asset Management GmbH maintained both defined benefit plans and defined contribution plans. Basic pensions are provided for all employees joining the Group from 2002 through ARA Pensionskasse AG (defined contribution plans). Officers and members of the Management Board or managing directors are granted pension commitments (defined contribution plans), which are reinsured at ARA Pensionskasse AG.

Liabilities for defined benefit plans are measured using the projected unit credit method, taking into account not only the pension obligations and vested pension rights known at the balance sheet date, but also expected future salary and benefit increases. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur directly in equity in the reserve for pension obligations.

Expenses and income from pension obligations are reported in the income statement in the item personnel expenses (service cost) or in net income from receivables, liabilities and subordinated capital.

Past service costs are recognised immediately to the extent that the benefits are vested, otherwise, past service costs are recognised on a straight-line basis over the average remaining vesting period.

With respect to defined contribution plans, a fixed contribution, depending on the salary, is paid to ARA Pensionskasse AG, the pension fund of Württembergische, or to Württembergische Lebensversicherung AG. The beneficiary has a claim against ARA Pensionskasse or Württembergische Lebensversicherung. The obligation of the employer is discharged with payment of the contributions. Therefore, the Group does not recognise pension provisions for such commitments. Provisions for future policy benefits are recognised by the relevant pension fund institution.

The contributions to be paid for defined contribution plans are recognised in the income statement in personnel expenses in the period in which they become due. Prepaid contributions are recognised as an asset, to the extent that these payments will result in a cash refund or a reduction of future payments.

Provisions for other long-term employee benefits

Other long-term employee benefits include commitments for early retirement benefits, partial retirement agreements, jubilee benefits, long-term disability benefits and other social security benefits. Accounting for other long-term employee benefits generally does not result in actuarial gains and losses, so that the reported provisions correspond to the present value of the obligations.

The measurement of other long-term employee benefits is also based on an interest rate that corresponds to the terms of the obligations.

Other provisions

Other provisions are recognised when legal or constructive obligations exist to third parties on the basis of past transactions, or events for which it is probable that they require an outflow of resources to settle, and this outflow can be reliably measured. Other provisions are measured and recognised at the expected settlement amount, taking into account all identifiable risks. The settlement amount is determined on the basis of the best estimate. Other provisions are not offset against reimbursement claims. The calculated obligations are discounted using a discount rate of the matching maturity, if the resulting effects are material.

Restructuring provisions are recognised when a detailed formal restructuring plan has been approved and the restructuring has been communicated to the public or has been initiated. Provisions are not recognised for costs arising in connection with the ongoing business activities of the Group and for future operating expenses.

Home loan and savings banks have undertaken (under home loan and savings contracts) to reimburse acquisition fees and/or pay an interest bonus for certain tariffs if particular contractually agreed criteria are met (e.g. loan renunciations). Under the assumption that all amounts payable for interest bonuses and reimbursements of acquisition fees would have to be paid out as at the balance sheet, a ratio is determined which represents the best estimate of future payments on the basis of experience. The future behaviour of customers represents a factor of uncertainty in the measurement of the related provision.

Shareholders' equity

This item includes paid-in capital, retained earnings and other reserves as well as minority interests in shareholders' equity.

Paid-in capital consists of subscribed capital and the capital reserve. Subscribed capital represents the amount of no-par value registered shares which are fully paid in. The capital reserve is calculated as the premium from the issuance of shares exceeding the notional value.

Retained earnings and other reserves comprise the revaluation reserve, the currency translation reserve, the reserve for pension obligations and other retained earnings.

The revaluation reserve includes the unrealised gains and losses from the measurement of available-for-sale financial assets, investments accounted for using the equity method and derivative financial instruments that are used for cash flow hedges and meet hedge accounting criteria, net of deferred taxes and, as far as life and health insurance is concerned, net of the provision for deferred premium refunds.

Currency translation differences from the inclusion of subsidiaries whose functional currency is not the euro are recognised in the currency translation reserve.

Minority interests in equity represent the proportionate interests of minority shareholders in equity.

Genuine securities repurchase agreements

The W&W Group enters into securities repurchase agreements as borrower. Securities sold under repurchase agreements are continued to be carried in accordance with the previous classification in the balance sheet. Simultaneously, a financial liability is recognised in an amount equivalent to the received amount. Any resulting difference between the amount received upon transfer and the amount to be paid upon subsequent re-transfer is amortised over the term of the liability and recognised in profit or loss using the effective interest method. Current income is reflected in the income statements pursuant to the provisions applicable for the corresponding securities category.

Securities lending

The W&W Group acts as the lender within the context of securities lending transactions. By analogy with genuine securities repurchase agreements, the same accounting policies are applied to securities lending transactions.

Trust activities

Trust assets and trust liabilities are disclosed off the balance sheet.

Contingent liabilities

Contingent liabilities are potential liabilities arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the W&W Group. The outflow of resources embodying economic benefits is not probable or a sufficiently reliable estimate of the amount of the obligation cannot be made. Contingent liabilities are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote.

Notes to selected items of the income statement

Net financial result

The net financial result of the W&W Group comprises several components, being the result from:

- available-for-sale financial assets,
- investments accounted for using the equity method,
- financial assets and financial liabilities at fair value through profit or loss,
- hedging relationships and
- receivables, liabilities and subordinated capital.

The net financial result also includes the income from (and expenses for) allowances for credit losses.

The net income from available-for-sale financial assets includes gains and losses on the disposal and measurement of "Available-for-sale financial assets" as well as current income (interest and dividends). Dividends are recognised on a received basis.

The net income from financial assets and liabilities at fair value through profit or loss includes realised and unrealised gains and losses as well as interest and dividends from financial assets and financial liabilities measured at fair value through profit or loss and other income and expenses.

The hedge result includes the results of hedged items and hedging instruments of fair value hedges. In addition, the effects impacting profit or loss from the ineffective portion of the hedge and from the reversal of the revaluation reserve for cash flow hedges are recognised in the hedge result.

Net income from receivables, liabilities and subordinated capital comprises interest income and interest expenses for the period. Interest income and interest expenses are recognised on an accrual basis of accounting using the effective interest method. Interest income from finance leases is allocated over the basic lease term, on a pattern reflecting a constant periodic rate of return on the net cash investment.

The net expense for allowances for credit losses includes expenses for the recognition of specific and portfolio-based valuation allowances. The net expense for allowances for credit losses takes into account the risks from the lending business, from direct insurance and reinsurance business as well as from other activities.

Net fee and commission result

The net fee and commission result includes fee and commission income from home loan and savings, banking, reinsurance and investment products as well as fee and commission expenses for home loan and savings, direct insurance, reinsurance and investment products, to the extent that these are not taken into account in the calculation of the effective interest rate.

Fee and commission income is recognised in profit or loss at the date of provision of service, while fee and commission expenses are recognised at the date the services are rendered by third parties. Fee or commission income is not recognised for the direct insurance business since the costs associated with the writing of an insurance contract are not billed to the customer.

Premiums/contributions earned (gross)

Any income resulting from contractual relationships with the policyholders with respect to insurance cover is recognised as premiums/contributions earned from the direct insurance business. The amounts are deferred for each insurance contract.

Premiums/contributions earned (net) are determined by deducting the reinsurers' share in premiums/contributions earned (gross).

Insurance benefits (gross)

Benefits from insurance contracts comprise payments related to insured events as well as changes in the provision for future policy benefits and the provision for loss and loss adjustment expenses, in the provision for future policy benefits for unit-linked life assurance contracts as well as in the other technical provisions. In addition, the insurance benefits include the additions to the provision for premium refunds as required under German commercial law. Expenses for loss adjustment are reported under general administrative expenses.

The changes in the provision for performance-based and non-performance-based deferred premium refunds, which are based on changes as a result of measurement differences between local provisions and IFRS to be recognised through profit or loss, are also recognised as insurance benefits. Provisions for deferred premium refunds as a result of participation entitlements of policyholders with respect to the unrealised gains and losses from available-for-sale financial instruments, as well as to the actuarial gains and losses from pension provisions, are recognised and reversed generally without impacting profit or loss.

General administrative expenses

The general administrative expenses in the W&W Group consist of personnel expenses, other administrative expenses and depreciation, amortisation and impairment. The allocation of expenses of the W&W Group to other administrative and personnel expenses is based on the principles of the nature of expense method.

Taxes on income

Income tax expenses or income is reported in the income statement as taxes on income. A distinction is made in the Notes to the Consolidated Financial Statements between current and deferred taxes. Income tax expenses or income relating to the earnings from discontinued operations are included in the item "Earnings after taxes from discontinued operations".

Segment reporting

The measurement principles for the Group's segment reporting correspond to the accounting policies applied to the IFRS consolidated financial statements.

Expenses for loss absorption and income from profit transfer are eliminated since these result from Group affiliation, and otherwise a result from ordinary activities would have to be reported which does not reflect the financial performance of the individual segments in an appropriate way. Accordingly, the earnings contributions of Württembergische Krankenversicherung AG, Württembergische Versicherung AG and Wüstenrot Bank AG Pfandbriefbank were reclassified. As a result, the earnings from operating activities will be reported in the segment in which they were generated.

The companies included in the scope of consolidation were allocated to the individual segments in accordance with their respective business focus.

The Home Loan and Savings segment includes Wüstenrot Bausparkasse AG, the Czech home loan and savings bank Wüstenrot stavební spořitelna a.s. and Wüstenrot GmbH & Co. Grundstücks-KG.

The Banking segment consists of Wüstenrot Bank AG Pfandbriefbank and the Czech mortgage bank Wüstenrot hypoteční banka a.s.

The Investment Products segment comprises W&W Asset Management GmbH, Ludwigsburg, W&W Asset Management AG, Luxembourg, W&W Asset Management Dublin Ltd. and W&W Advisory Dublin Ltd.

The Life and Health Insurance segment includes Württembergische Lebensversicherung AG, Württembergische Krankenversicherung AG, ARA Pensionskasse AG, Karlsruher Lebensversicherung AG (formerly Karlsruher HK AG Lebensversicherung für Beamte und Angestellte der öffentlichen Verwaltung), the Czech life assurance company Wüstenrot životní pojišťovna a.s., Berlin Leipziger Platz Grundbesitz GmbH, LP 1 Beteiligungs-GmbH, Wohnimmobilien GmbH & Co. KG of Württembergische as well as the mutual and special funds AROS-Universal-Fonds I, BWK-Fonds 15, BWInvest-54, BWK-Fonds 69, BWK-Fonds 93, BWInvest-94, BWK-Fonds 97, BWInvest-KF 1, BWInvest-Südinvest 160, BWInvest-WAKAM, Credit Suisse-WV Immofonds, DEVIF-Fonds Nr. 13, DEVIF-Fonds Nr. 130, DEVIF-Fonds Nr. 203, TRIO-Universal-Fonds, UIN-Fonds Nr. 600, W&W Emerging Markets Bonds-Fonds 1, W&W European Equity Value, W&W Global Strategies Asset-backed Securities Fund, W&W Global Strategies Euro Corporate Bond Fund, W&W Global Strategies South East Asian Equity Fund, W&W Global Strategies US Equity Fund, W&W International Europa Aktien Premium II Fonds, W&W International Global Convertibles Fonds, W&W International US Aktien Premium Fonds and WSV-Universal-Fonds.

The Composite Insurance segment consists of Württembergische Versicherung AG and Württembergische Immobilien-AG as well as the special funds BWK-Fonds 98, UIN-Fonds Nr. 567 and W&W Emerging Markets Bonds-Fonds 2 .

The Holding/Reinsurance segment comprises Wüstenrot & Württembergische AG as the controlling Group company. In addition, it operates as a reinsurer. This segment also includes the special fund BWInvest-76.

As part of the reconciliation to the amounts reported for the entire Group, the tables include three smaller companies in the Miscellaneous/Reconciliation column, apart from the inter-segment consolidation adjustments, which cannot be allocated to any one segment.

We do not present a segmentation based on geographical regions (secondary reporting format), since the major share of income is generated in Germany.

Inter-segment revenue and inputs are calculated on the basis of market prices.

Segment balance sheet

€ 000's	Home Loan and Savings 31 Dec 2008	Home Loan and Savings 31 Dec 2007	Banking 31 Dec 2008	Banking 31 Dec 2007	Investment Products 31 Dec 2008	Investment Products 31 Dec 2007
A. Cash reserve	50,903	50,274	95,478	131,915	—	—
B. Non-current assets held for sale and disposal groups	2,392	2,699	—	—	3,500	—
C. Financial assets at fair value through profit or loss	125,123	1,835	296,219	137,329	—	—
D. Available-for-sale financial assets	2,979,331	2,429,069	2,095,412	1,364,529	12,619	6,994
E. Receivables	15,310,506	16,743,534	11,440,537	13,131,820	32,540	34,485
F. Allowance for credit losses	– 88,113	– 109,346	– 110,592	– 125,583	—	—
G. Positive market value of hedges	9,482	14,238	1,242	4,861	—	—
H. Investments accounted for using the equity method	—	—	—	—	—	5,503
I. Investment property	667	684	—	—	—	—
J. Anteil der Rückversicherer an den Technical provisions	—	—	—	—	—	—
K. Other assets	292,816	282,756	174,404	74,966	2,740	2,789
Segment assets	**18,683,107**	**19,415,743**	**13,992,700**	**14,719,837**	**51,399**	**49,771**
A. Liabilities directly connected with non-current assets held for sale and disposal groups	—	—	—	—	—	—
B. Financial liabilities at fair value through profit or loss	4,867	6,862	416,363	76,094	—	—
C. Liabilities	16,506,048	17,342,315	12,842,873	13,800,562	9,761	4,854
D. Negative market value of hedges	1,846	6,156	135,364	77,279	—	—
E. Technical provisions	—	—	—	—	—	—
F. Other provisions	810,622	817,669	40,317	40,937	5,469	5,067
G. Other liabilities	122,276	113,920	100,264	83,060	3,977	4,182
H. Subordinated capital	15,421	15,497	251,726	288,126	—	—
I. Shareholders' equity [1]	1,222,027	1,113,324	205,793	353,779	32,192	35,668
Segment liabilities	**18,683,107**	**19,415,743**	**13,992,700**	**14,719,837**	**51,399**	**49,771**
For information purposes:						
Capital expenditures for property, plant and equipment, and intangible assets	26,673	8,413	9,771	3,450	54	13
1 Including accumulated unrealised gains and losses from non-current assets held for sale and disposal groups	—	—	—	—	2,585	—

Life and Health Insurance		Composite Insurance		Holding/ Reinsurance		Miscellaneous/ Reconciliation		Group	
31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
10	55	86	77	2	4	5	8	146,484	182,333
8,998	75,336	—	—	—	11,470	—	—	14,890	89,505
1,059,221	1,531,428	44,625	31,761	—	3,926	—	—	1,525,188	1,706,279
6,658,023	7,543,406	952,201	1,149,166	1,995,732	2,180,713	– 1,959,477	– 1,644,325	12,733,841	13,029,552
18,271,066	18,004,416	1,745,418	1,723,654	1,197,210	1,059,457	– 2,416,866	– 1,834,589	45,580,411	48,862,777
– 40,935	– 23,810	– 4,773	– 4,726	– 2,182	– 2,881	—	—	– 246,595	– 266,346
—	—	—	—	—	—	—	—	10,724	19,099
61,107	106,392	—	—	57,486	70,242	11,580	10,433	130,173	192,570
1,219,049	1,149,449	70,782	70,731	—	183	6,294	6,754	1,296,792	1,227,801
1,563,300	1,605,218	661,369	716,422	113,875	131,448	– 440,137	– 464,110	1,898,407	1,988,978
457,090	328,581	294,990	276,676	88,269	76,746	61,764	56,314	1,372,073	1,098,828
29,256,929	**30,320,471**	**3,764,698**	**3,963,761**	**3,450,392**	**3,531,308**	**– 4,736,837**	**– 3,869,515**	**64,462,388**	**68,131,376**
—	—	—	—	—	—	—	—	—	—
83,926	25,318	1,653	197	193	119,219	—	—	507,002	227,690
2,528,475	2,618,481	285,259	361,815	789,628	615,458	– 2,766,301	– 1,936,380	30,195,743	32,807,055
4,138	2,398	—	—	—	—	—	—	141,348	85,833
25,992,592	27,024,819	2,499,889	2,612,755	569,305	605,543	– 584,281	– 523,381	28,477,505	29,719,736
88,657	109,070	359,816	324,394	233,157	256,817	51,814	53,516	1,589,852	1,607,470
281,963	223,848	137,434	164,533	13,687	50,003	74,717	43,030	734,318	682,576
133,484	133,429	91,045	90,994	—	—	– 23,477	– 20,591	468,199	507,455
143,694	183,158	389,602	409,073	1,844,422	1,884,268	– 1,489,309	– 1,485,709	2,348,421	2,493,561
29,256,929	**30,320,471**	**3,764,698**	**3,963,761**	**3,450,392**	**3,531,308**	**– 4,736,837**	**– 3,869,515**	**64,462,388**	**68,131,376**
5,248	23,617	2,040	11,280	524	811	31,817	11,040	76,127	58,624
—	1,032	—	—	—	—	—	—	2,585	1,032

Segment income statement

€ 000's	Home Loan and Savings 1 Jan 2008 to 31 Dec 2008	Home Loan and Savings 1 Jan 2007 to 31 Dec 2007	Banking 1 Jan 2008 to 31 Dec 2008	Banking 1 Jan 2007 to 31 Dec 2007	Investment Products 1 Jan 2008 to 31 Dec 2008	Investment Products 1 Jan 2007 to 31 Dec 2007
1. Net income from/net expense for available-for-sale financial assets	110,329	65,639	92,395	59,975	453	50
2. Net expense for investments accounted for using the equity method	—	—	—	—	– 308	734
3. Net income from financial assets and liabilities at fair value through profit or loss	120,563	8,808	– 111,531	13,588	—	—
4. Hedge result	3,806	– 361	2,400	– 2,536	—	—
5. Net income from receivables, liabilities and subordinated capital [1,5]	191,698	216,188	– 7,637	44,637	943	884
6. Net expense for allowances for credit losses	8,243	22,475	20,311	23,231	—	—
7. Net financial result[5]	**418,153**	**267,799**	**– 44,684**	**92,433**	**1,088**	**1,668**
8. Net income from investment property [3,4]	**22**	**26**	**—**	**—**	**—**	**—**
9. Net fee and commission result	**– 29,780**	**– 16,403**	**8,870**	**12,150**	**34,048**	**32,673**
10. Premiums/contributions earned (net)[2]	**—**	**—**	**—**	**—**	**—**	**—**
11. Insurance benefits (net)	**—**	**—**	**—**	**—**	**—**	**—**
Personnel expenses[5]	144,010	165,599	34,257	35,880	10,688	9,987
Other administrative expenses	140,480	132,382	54,874	47,103	9,773	7,160
Amortisation, depreciation and impairment[3]	18,265	21,484	4,100	3,592	141	169
12. General administrative expenses[5]	**302,755**	**319,465**	**93,231**	**86,575**	**20,602**	**17,316**
13. Measurement gain/loss for non-current assets and disposal groups classified as held for sale	**—**	**—**	**—**	**—**	**– 1,740**	**—**
14. Net other income/expense	**69,357**	**86,322**	**14,489**	**9,653**	**– 623**	**545**
15. Segment result from continued operations before taxes	**154,997**	**18,279**	**– 114,556**	**27,661**	**12,171**	**17,570**
16. Taxes	**44,436**	**5,916**	**– 42,118**	**4,960**	**3,728**	**3,624**
17. Result from discontinued operations	**—**	**—**	**—**	**—**	**—**	**—**
18. Segment result after taxes	**110,561**	**12,363**	**– 72,438**	**22,701**	**8,443**	**13,946**
For information purposes:						
1 Including interest income from other segments	21,315	24,087	22,684	8,635	846	807
1 Including interest income from external customers	753,202	804,653	563,529	622,129	207	166
2 Premiums/contributions earned (net) from insurance business with other segments	—	—	—	—	—	—
2 Premiums/contributions earned (net) from insurance business with external customers	—	—	—	—	—	—
3 Including depreciation and amortisation	11,286	8,492	2,364	1,059	28	37
3 Including impairment losses	3,196	7,738	—	386	—	—
4 Including reversals of impairment losses	2,390	—	—	—	—	—

5 Previous year's figure adjusted due to a change in presentation of interest cost for pension provisions.

Life and Health Insurance		Composite Insurance		Holding/ Reinsurance		Miscellaneous/ Reconciliation		Group	
1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
– 819,217	330,899	– 19,012	37,539	58,192	75,268	– 112,590	– 78,878	– 689,450	490,492
– 7,470	– 17,739	—	—	– 5,919	– 5,591	– 2,015	– 2,435	– 15,712	– 25,031
308,646	159,797	13,793	1,452	– 12,969	3,121	—	—	318,502	186,766
– 11	– 55	—	– 496	—	—	—	—	6,195	– 3,448
667,344	591,081	51,933	36,562	2,119	– 4,239	4,597	4,998	910,997	890,111
24,198	6,885	298	– 510	– 697	– 82	130	65	52,483	52,064
125,094	1,057,098	46,416	75,567	42,120	68,641	– 110,138	– 76,380	478,049	1,486,826
4,608	18,905	2,803	456	1,593	6,475	679	911	9,705	26,773
– 154,612	– 130,693	– 175,918	– 178,962	– 54,399	– 49,858	– 4,733	– 1,288	– 376,524	– 332,381
2,390,810	2,437,656	1,093,393	1,177,191	204,674	223,053	– 4,506	– 2,256	3,684,371	3,835,644
2,110,090	3,010,167	610,274	682,494	138,211	157,107	– 66,652	– 28,238	2,791,921	3,821,530
59,573	83,032	293,763	269,725	20,125	21,003	9,339	8,367	571,755	593,593
229,942	188,458	224,002	192,344	25,254	25,900	– 303,522	– 225,619	380,803	367,728
20,096	23,454	9,825	17,088	1,423	1,321	1,262	310	55,112	67,418
309,611	294,944	527,590	479,157	46,802	48,224	– 292,921	– 216,942	1,007,670	1,028,739
—	– 3,748	—	—	—	– 473	—	—	– 1,740	– 4,221
75,957	– 57,759	204,104	150,267	27,236	43,108	– 281,927	– 148,036	108,593	84,100
22,156	16,348	32,934	62,868	36,211	85,615	– 41,050	18,131	102,863	246,472
8,894	– 1,961	16,861	10,736	3,430	– 4,059	2,090	37,936	37,321	57,152
—	501	—	1,719	—	—	—	18,009	—	20,229
13,262	18,810	16,073	53,851	32,781	89,674	– 43,140	– 1,796	65,542	209,549
16,865	10,530	15,109	10,288	11,591	8,541	– 88,410	– 62,888	—	—
752,269	685,159	55,711	60,049	33,351	26,888	– 1,633	– 978	2,156,636	2,198,066
3,324	1,009	– 237,163	– 268,841	238,345	270,088	– 4,506	– 2,256	—	—
2,387,486	2,436,647	1,330,556	1,446,032	– 33,671	– 47,035	—	—	3,684,371	3,835,644
51,967	46,616	6,188	7,370	951	749	14,817	18,091	87,601	82,414
11,100	38,111	—	6,198	4	410	—	—	14,300	52,843
—	—	—	—	—	—	—	—	2,390	—

Notes to the balance sheet

(1) Cash reserve

€ 000's	31 Dec 2008	31 Dec 2007
Cash on hand	3,360	3,381
Balances with central banks	110,350	140,626
Balance in foreign postal giro accounts	207	320
Public-sector debt instruments	32,567	38,006
Cash reserve	**146,484**	**182,333**

Balances with central banks, balances in foreign postal giro accounts and public-sector debt instruments are exclusively held by home loan and savings banks and other banks of the W&W Group in both the year under review and the prior year.

The minimum reserve requirements related to balances held at central banks amounted to € 69.3 million (2007: € 48.2 million) as at 31 December 2008. The companies concerned fulfilled the minimum reserve requirements at all times in the year under review. Public-sector debt instruments refer to government bonds and treasury bills, each with a term of up to three months.

The fair value of the cash reserve is € 146.5 million (2007: € 182.3 million), and corresponds to the carrying amount.

(2) Non-current assets held for sale and disposal groups

€ 000's	31 Dec 2008	31 Dec 2007
Investments in associates	3,500	38,541
Investment property	8,997	48,265
Other assets	2,393	2,699
Non-current assets held for sale and disposal groups	**14,890**	**89,505**

As in the previous year, the sub-item "Investments in associates" includes the shares in PBW Real Estate Fund N.V. held by Württembergische Lebensversicherung AG in the Life and Health Insurance segment as well as an investment in Wüstenrot poistovna a.s. held by Wüstenrot & Württembergische AG in the Holding/Reinsurance segment. The shares were sold during the course of 2008.

In addition, the item "Investments in associates" includes, as at 31 December 2008, the investment in Baden-Württembergische Investmentgesellschaft mbH, Stuttgart, as a disposal of the shares held is probable within the next twelve months. The investment belongs to the portfolio of W&W Asset Management GmbH in the Investment Products segment.

The sales of investments are part of the Group strategy, pursuant to which the W&W Group intends to divest shareholdings which are no longer in line with said strategy.

In the first quarter of 2008, a transfer of ownership occurred with respect to two investment properties which had been classified in the previous year as held for sale. One property belongs to the Holding/Reinsurance segment from the portfolio of Wüstenrot & Württembergische AG. The property is an office building located in Frankfurt/Main and is entirely used by third parties. The second property disposed of relates to the special fund of CS-WV Immofonds from the portfolio of Württembergische Lebensversicherung AG in the Life and Health Insurance segment. The plan resolved in 2007 to dispose of a property in the portfolio of Württembergische Lebensversicherung AG was abandoned in the third quarter of 2008 in view of the crisis on the financial markets and expectations of a resulting decrease in the proceeds from disposal. The property is located in Böblingen and is entirely used by third parties. Abandoning the intention to dispose of the property did not have an impact on profit or loss for the current and the previous reporting periods.

As at 31 December 2008, the sub-item "Investment property" only comprises a property from the special fund of CS-WV Immofonds in the Life and Health Insurance segment.

The amounts reported in the item "Other assets" mainly refer to the planned sale of an administrative building, intended to be abandoned. The disposal is expected to occur in the financial year 2009 after dismantling and reconstruction activities have finished.

Two residential properties belonging to the portfolio of Wüstenrot GmbH & Co. Grundstücks KG are also included in other assets. The properties are used by third parties and are expected to be sold within the next couple of months. In the previous year, other assets comprised a residential property with employee flats as well as a former administrative building belonging to the portfolio of Wüstenrot GmbH & Co. Grundstücks KG. Both properties were sold during the course of 2008.

The objective of the sale of the properties is to further improve the asset portfolio of the W&W Group.

(3) Financial assets at fair value through profit or loss

€ 000's	31 Dec 2008	31 Dec 2007
Assets held for trading	455,705	188,950
Equities, shares in investment funds and other non-fixed-income securities	477	1,212
Fixed-income securities	—	50,448
Derivative financial instruments	455,228	137,290
Financial assets designated as at fair value	1,069,483	1,517,329
Equities, shares in investment funds and other non-fixed-income securities	4,925	—
Investments for the account and risk of life insurance policyholders	518,414	674,000
Interest rate products	321,636	380,646
Currency-related products	78,097	79,767
Structured equity/index products	116,755	352,849
Other structured products	29,656	30,067
Financial assets at fair value through profit or loss	**1,525,188**	**1,706,279**

The changes in the fair value of receivables designated as at fair value through profit or loss are attributable to changes in the credit risk in an amount of € 43.8 million (2007: € 3.3 million).

(4) Available-for-sale financial assets

2008

€ 000's	Amortised cost 31 Dec 2008	Unrealised gains (gross) 31 Dec 2008	Unrealised losses (gross) 31 Dec 2008	Fair value 31 Dec 2008
Equity investments	428,984	21,576	11,507	439,053
Equities, shares in investment funds and other non-fixed-income securities	2,517,178	47,750	93,147	2,471,781
Debt securities and other fixed-income securities	9,591,758	80,795	376,149	9,296,404
Registered bonds and other receivables	564,797	10,598	48,792	526,603
Available-for-sale financial assets	**13,102,717**	**160,719**	**529,595**	**12,733,841**

2007

€ 000's	Amortised cost 31 Dec 2007	Unrealised gains (gross) 31 Dec 2007	Unrealised losses (gross) 31 Dec 2007	Fair value 31 Dec 2007
Equity investments	437,234	39,285	4,329	472,190
Equities, shares in investment funds and other non-fixed-income securities	4,057,079	486,021	110,532	4,432,568
Debt securities and other fixed-income securities	7,859,423	17,969	247,515	7,629,877
Registered bonds and other receivables	504,404	2,335	11,822	494,917
Available-for-sale financial assets	**12,858,140**	**545,610**	**374,198**	**13,029,552**

The shares in the separate guarantee assets of the guarantee scheme of life insurance companies (Sicherungsfonds), which is maintained separately from the assets of Protektor Lebensversicherungs-AG, are reported as a registered profit-participation right in the category "Available-for-sale financial assets". In the financial year 2008, we made contributions amounting to € 5.1 million (2007: € 5.6 million).

As at 31 December 2008, the obligations within the W&W Group associated with capital contributions not yet called up in connection with investments in private equity companies amounted to € 161.5 million. In accordance with the rules of the amended IAS 39, the W&W Group reclassified securities originally classified as available for sale with a carrying amount (corresponding to the fair value) of € 325.5 million to the category "Receivables", effective 1 July 2008, since the Group has the intention and the ability to hold these financial instruments for the foreseeable future. As at 31 December 2008, the carrying amount of these securities was € 344.5 million, whilst fair value of these securities amounted to € 155.1 million.

In the current and previous financial year, the W&W Group recognised the following expenses and income in the income statement for the reclassified instruments.

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Interest income	36,469	26,012
Impairments and additions to allowances for credit losses	26,709	—
Write-ups	700	—
Foreign currency gains	8,678	—
Foreign currency losses	4,927	3,107

In the period between 1 January 2008 until the date of reclassification (1 July 2008), negative changes in value amounting to € 9.9 million were recognised for the reclassified financial instruments in equity in the revaluation reserve. If the W&W Group had not opted for reclassification, further negative changes in value in the amount of € 20.7 million would have had to be recognised in the revaluation reserve in the second half of 2008. In the period from 1 January 2007 to 31 December 2007, the W&W Group recognised negative changes in value amounting to € 6.0 million for these financial instruments in the revaluation reserve. The effective interest rates of the reclassified financial instruments ranged from 1.9% to 12.73%, whilst the expected future undiscounted repayments amounted to € 702.5 million.

(5) Receivables

	Carrying amount		Fair value	
€ 000's	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Loans and advances to banks	16,684,549	19,097,928	16,850,510	18,342,153
Receivables from reinsurance business	103,732	183,355	103,732	183,355
Loans and advances to customers	28,646,889	29,330,354	29,239,214	29,160,386
Other receivables	145,241	251,140	145,241	251,140
Receivables	**45,580,411**	**48,862,777**	**46,338,697**	**47,937,034**

€ 000's	31 Dec 2008	31 Dec 2007
Loans and advances to banks	16,684,549	19,097,928
Registered bonds	11,303,293	10,332,556
Promissory note loans	3,013,014	3,835,574
Other loans and advances to banks	2,368,242	4,929,798
of which: Balances with banks and savings banks payable on demand	822,919	723,907
of which: Term deposits	1,073,654	1,664,349
Receivables from reinsurance business	103,732	183,355
Accounts receivable from reinsurance business	61,108	143,389
Deposits retained by reinsurers on assumed reinsurance	42,624	39,966
Loans and advances to customers	28,646,889	29,330,354
Building loans	24,580,845	25,312,330
Loans under home loan and savings contracts	3,700,626	3,558,872
Loans for prefinancing and interim financing purposes	8,249,916	8,688,767
Other building loans	12,630,303	13,064,691
Loans to local authorities	3,041,384	3,377,763
Other loans and advances to customers	1,024,660	640,261
to insurance agents	33,987	24,991
to policyholders	375,973	391,026
Financial instruments reclassified from available-for-sale financial assets to receivables	344,540	—
Certificated receivables	141,595	126,447
Other loans and advances to customers	128,565	97,797
Other receivables	145,241	251,140
RECEIVABLES	**45,580,411**	**48,862,777**

The item "Other receivables" includes receivables from the disposal of land, lease receivables, advances for insurance benefits, receivables in connection with the administration of mortgages as well as trade receivables.

(6) Allowance for credit losses

Credit risks are taken into account by the recognition of specific valuation allowances and portfolio-based valuation allowances.

Changes during the financial year 2008

€ 000's	Opening balance as at 1 Jan 2008	Additions	Utilisation
Loans and advances to banks	63	2	—
Specific valuation allowances	63	2	—
Portfolio-based valuation allowances	—	—	—
Loans and advances to customers	258,751	110,271	66,247
Specific valuation allowances	189,392	108,542	66,247
Portfolio-based valuation allowances	69,359	1,729	—
Receivables from reinsurance business	2,880	—	—
Specific valuation allowances	—	—	—
Portfolio-based valuation allowances	2,880	—	—
Other receivables	4,652	1,032	226
Specific valuation allowances	3,681	728	226
Portfolio-based valuation allowances	971	304	—
Allowance for credit losses	**266,346**	**111,305**	**66,473**
Specific valuation allowances	193,136	109,272	66,473
Portfolio-based valuation allowances	73,210	2,033	—

	Changes in the scope of consolidation	Reversal	Currency translation effects	Interest effect	Reclassifications	Closing balance at 31 Dec 2008
	—	—	—	—	—	65
	—	—	—	—	—	65
	—	—	—	—	—	—
	277	53,364	– 144	– 9,023	– 107	240,414
	277	48,192	– 144	– 9,023	—	174,605
	—	5,172	—	—	– 107	65,809
	—	698	—	—	—	2,182
	—	—	—	—	—	—
	—	698	—	—	—	2,182
	—	1,625	– 7	—	107	3,933
	—	1,485	– 7	—	—	2,691
	—	140	—	—	107	1,242
	277	**55,686**	**– 151**	**– 9,023**	**—**	**246,595**
	277	49,677	– 151	– 9,023	—	177,361
	—	6,009	—	—	—	69,234

Changes during the financial year 2007

€ 000's	Opening balance as at 1 Jan 2007	Additions	Utilisation
Loans and advances to banks	3,401	—	188
Specific valuation allowances	3,401	—	188
Portfolio-based valuation allowances	—	—	—
Loans and advances to customers	290,943	111,518	82,397
Specific valuation allowances	229,040	101,554	82,397
Portfolio-based valuation allowances	61,903	9,964	—
Receivables from reinsurance business	2,962	—	—
Specific valuation allowances	—	—	—
Portfolio-based valuation allowances	2,962	—	—
Other receivables	4,339	2,180	1,125
Specific valuation allowances	3,801	1,745	1,125
Portfolio-based valuation allowances	538	435	—
Allowance for credit losses	**301,645**	**113,698**	**83,710**
Specific valuation allowances	236,242	103,299	83,710
Portfolio-based valuation allowances	65,403	10,399	—

Changes in the scope of consolidation	Reversal	Currency translation effects	Interest effect	Reclassifications	Closing balance at 31 Dec 2007
—	3,150	—	—	—	63
—	3,150	—	—	—	63
—	—	—	—	—	—
41	53,160	282	– 8,476	—	258,751
41	50,652	282	– 8,476	—	189,392
—	2,508	—	—	—	69,359
—	82	—	—	—	2,880
—	—	—	—	—	—
—	82	—	—	—	2,880
—	760	24	– 6	—	4,652
—	758	24	– 6	—	3,681
41	2	—	—	—	971
41	**57,152**	**306**	**– 8,482**	**—**	**266,346**
—	54,560	306	– 8,482	—	193,136
—	2,592	—	—	—	73,210

(7) Positive market value of hedges

€ 000's	31 Dec 2008	31 Dec 2007
Cash flow hedges	9,482	19,099
Hedge of interest rate risk	9,482	19,099
Fair value hedges	1,242	—
Hedge of interest rate risk	1,242	—
Positive market value of hedges	**10,724**	**19,099**

(8) Investments accounted for using the equity method

€ 000's	2008	2007
Carrying amount at 1 Jan	192,570	148,346
Additions/disposals	– 38,598	78,121
Classified as held for sale	– 5,267	– 4,443
Net profit for the year	– 16,216	– 3,969
Impairment	—	– 21,062
Currency translation	1,686	551
Changes recognised directly in equity	– 4,002	– 4,974
Balance at 31 Dec	130,173	192,570

The following tables present the total amount of assets, liabilities, revenues and net profit for the year of the relevant companies (associates), accounted for using the equity method in the portfolio as at the balance sheet date rather than the share attributable to the W&W Group:

2008

€ 000's	Assets 31 Dec 2008	Liabilities 31 Dec 2008	Revenues 1 Jan 2008 to 31 Dec 2008	Net profit for the year 1 Jan 2008 to 31 Dec 2008	Shareholding in % 31 Dec 2008
BWK GmbH Unternehmensbeteiligungsgesellschaft	512,400	324,548	26,100	– 41,808	35.00
V-Bank AG	119,475	101,290	1,385	– 4,031	49.99
Tertianum Besitzgesellschaft Berlin Passauer Str. 5-7 mbH	25,903	187	1,277	– 3,442	25.00
Tertianum Besitzgesellschaft Konstanz Marktstätte 2-6 und Sigismundstr. 5-9 mbH	38,236	557	2,596	1,110	25.00
Tertianum Besitzgesellschaft München Jahnstr. 45 mbH	43,021	136	3,012	880	33.33
Wüstenrot stambena štedionica d.d.	129,709	122,379	6,874	– 106	25.63
Wüstenrot stavebná spořitelna a.s.	276,356	236,899	10,360	2,049	40.00

2007

€ 000's	Assets 31 Dec 2007	Liabilities 31 Dec 2007	Revenues 1 Jan 2007 to 31 Dec 2007	Net profit for the year 1 Jan 2007 to 31 Dec 2007	Shareholding in % 31 Dec 2007
Baden-Württembergische Investmentgesellschaft mbH	41,813	26,335	81,697	2,041	36.00
BWK GmbH Unternehmensbeteiligungsgesellschaft	581,000	281,000	18,000	1,000	35.00
V-Bank AG	18,689	676	33	– 3,119	49.99
Tertianum Besitzgesellschaft Berlin Passauer Str. 5-7 mbH	29,367	209	1,173	– 6,421	25.00
Tertianum Besitzgesellschaft Konstanz Marktstätte 2-6 und Sigismundstr. 5-9 mbH	37,151	583	2,183	– 15,087	25.00
Tertianum Besitzgesellschaft München Jahnstr. 45 mbH	44,379	274	2,712	800	33.33
VV-Immobilien GmbH & Co. US City KG	288,856	126,677	19,217	1,664	23.10
Wüstenrot stambena štedionica d.d.	148,051	138,351	4,329	– 2,743	25.63
Wüstenrot stavebná spořitelna a.s.	255,791	32,915	9,359	3,499	40.00
Wüstenrot životní pojišt'ovna a.s.	30,738	26,140	9,137	606	50.00

Quoted market prices are not available for associates in the W&W Group accounted for using the equity method.

(9) Investment property

The fair value of investment properties amounts to € 1,574.1 million (2007: € 1,421.9 million). There are no restrictions on the realisability of investment property, or the availability of income and proceeds from disposal.

There are no material contractual obligations to purchase, construct or develop investment property, or for repairs, maintenance or enhancements. If the impairment review was based on the value in use of the investment properties, the discount rates used in the year under review and the previous year ranged between 4.5% and 6.5%.

€ 000's	2008	2007
Gross carrying amounts at 1 Jan	1,474,762	1,426,545
Additions	120,860	38,698
Disposals	– 36,054	– 36,620
Reclassifications	– 10,173	13,853
Classified as held for sale	– 27,134	– 81,188
No longer intended for sale	68,346	—
Changes in the scope of consolidation	—	113,474
Balance at 31 Dec	1,590,607	1,474,762

€ 000's	2008	2007
Accumulated depreciation, impairment and reversals of impairment losses at 1 Jan	– 246,961	– 223,892
Additions (depreciation)	– 35,570	– 36,467
Additions (impairment)	– 11,104	– 31,372
Disposals	6,339	22,124
Reversals of impairment losses	—	—
Reclassifications	4,881	—
Classified as held for sale	5,792	23,586
No longer intended for sale	– 17,192	—
Changes in the scope of consolidation	—	– 940
Balance at 31 Dec	– 293,815	– 246,961
Net carrying amounts at 1 Jan	1,227,801	1,202,653
Net carrying amounts at 31 Dec	1,296,792	1,227,801

The additions to investment property comprise subsequently capitalised amounts totalling € 0.0 million (2007: € 0.2 million).

(10) Share of reinsurers in technical provisions

€ 000's	31 Dec 2008	31 Dec 2007
Unearned premiums	17,889	30,567
Provision for future policy benefits	1,538,242	1,575,383
Provision for loss and loss adjustment expenses	341,383	381,799
Other technical provisions	893	1,229
Reinsurers' share of technical provisions	**1,898,407**	**1,988,978**

Further explanations are included in the notes to the related liability items, beginning with Note 19.

(11) Intangible assets

€ 000's	31 Dec 2008	31 Dec 2007	Remaining amortisation period (years)
Goodwill	57,306	57,306	—
Software	49,872	46,004	0 – 4
Acquired insurance portfolios	89,642	92,522	7 – 19
Other	37,288	7,800	0 – 19
Intangible assets	**234,108**	**203,632**	**—**

The goodwill of € 57.3 million (2007: € 57.3 million) as reported in the consolidated financial statements as at 31 December 2008 is fully attributable to the cash-generating unit Württembergische Lebensversicherung AG.

Neither in prior years nor in the year under review has goodwill been subject to impairment losses.

Changes in intangible assets during 2008

€ 000's	Internally generated intangible assets[1]	Acquired other intangible assets	Acquired goodwill
Gross carrying amounts at 1 Jan	**59,485**	**305,932**	**57,306**
Additions	3,253	53,343	—
Disposals	—	– 368	—
Classified as held for sale	—	—	—
No longer intended for sale	—	—	—
Changes in the scope of consolidation	—	4,321	—
Exchange rate changes	—	– 43	—
Balance at 31 Dec	62,738	363,185	57,306
Accumulated depreciation and impairment at 1 Jan	– 40,295	– 178,796	—
Additions (depreciation)	– 7,740	– 22,383	—
Additions (impairment)	—	—	—
Disposals	—	299	—
Reversals of impairment losses	—	—	—
Classified as held for sale	—	—	—
No longer intended for sale	—	—	—
Changes in the scope of consolidation	—	– 309	—
Exchange rate changes	—	102	—
Balance at 31 Dec	– 48,035	– 201,087	—
Net carrying amounts at 1 Jan	19,190	127,136	57,306
Net carrying amounts at 31 Dec	14,703	162,098	57,306

1 Internally generated intangible assets exclusively consist of internally generated software.

Changes in intangible assets during 2007

€ 000's	Internally generated intangible assets[1]	Acquired other intangible assets	Acquired goodwill
Gross carrying amounts at 1 Jan	48,895	300,292	48,795
Additions	10,590	6,363	8,511
Disposals	—	– 1,073	—
Classified as held for sale	—	—	—
No longer intended for sale	—	—	—
Changes in the scope of consolidation	—	233	—
Exchange rate changes	—	117	—
Balance at 31 Dec	59,485	305,932	57,306
Accumulated depreciation and impairment at 1 Jan	– 35,046	– 157,056	—
Additions (depreciation)	– 4,863	– 14,698	—
Additions (impairment)	– 386	– 7,412	—
Disposals	—	479	—
Reversals of impairment losses	—	—	—
Classified as held for sale	—	—	—
No longer intended for sale	—	—	—
Changes in the scope of consolidation	—	—	—
Exchange rate changes	—	– 109	—
Balance at 31 Dec	– 40,295	– 178,796	—
Net carrying amounts at 1 Jan	13,849	143,236	48,795
Net carrying amounts at 31 Dec	19,190	127,136	57,306

1 Internally generated intangible assets exclusively consist of internally generated software.

Wüstenrot Holding AG and W&W AG concluded an agreement on the assignment and use of trademarks, effective 1 January 2008. W&W AG pays an annual fee of € 2.5 million plus VAT for the use of Wüstenrot trademarks to Wüstenrot Holding AG. The annual fee, as well as the fair value of the trademark rights in the amount of € 32.16 million as at 1 January 2008, was determined based on an external opinion using the relief from royalty method.

The capitalised trademark rights are matched with a financial liability in the same amount to Wüstenrot Holding AG as a result of an agreement on deferred consideration.

The liability is repaid in regular instalments (annuity loan). The trademark right has a finite useful life of 20 years and is amortised on a straight-line basis. The carrying amount of the trademark rights as at 31 December 2008 was € 30.5 million. The remaining useful life is 19 years. The carrying amount of the liability to Wüstenrot Holding AG amounts to € 31.2 million as at 31 December 2008.

There are no commitments for the purchase of intangible assets.

(12) Property, plant and equipment, and inventories

€ 000's	31 Dec 2008	31 Dec 2007
Owner-occupied property	207,986	209,256
Leased assets	31,572	32,086
Operating and office equipment	31,150	28,985
Inventories	84,846	79,179
Miscellaneous	4,520	3,981
Property, plant and equipment, and inventories	**360,074**	**353,487**

There were no restrictions on title with respect to property, plant and equipment, and inventories. Expenses for property, plant and equipment under construction amounted to € 0.2 million (2007: € 0.1 million). There are no commitments for the purchase of property, plant and equipment.

Leased assets include property in the amount of € 31.2 million (2007: € 31.7 million).

Inventories in the amount of € 84.4 million (2007: € 78.9 million) relate to property development business, and primarily include land and buildings intended for sale as well as land with buildings under construction.

Write-downs of inventories recognised in the income statement amounted to € 0.7 million (2007: € 0.1 million).In addition, reversals of write-downs in the amount of € 0,1 million (2007: € 0.0 million) had to be recognised.

If the impairment review for owner-occupied properties was based on their value in use, the discount rates used in the year under review and in the previous year ranged between 4.5% and 6.5%.

Property, plant and equipment 2008

€ 000's	Owner-occupied property	Operating and office equipment	Leased assets
Gross carrying amounts at 1 Jan	319,982	248,794	45,378
Additions	4,300	15,220	—
Disposals	– 22	– 4,781	– 7,070
Reclassifications	10,173	12	—
Classified as held for sale	– 849	—	—
No longer intended for sale	—	—	—
Changes in the scope of consolidation	—	19	—
Exchange rate changes	– 139	– 25	—
Balance at 31 Dec	333,445	259,239	38,308
Accumulated depreciation and impairment at 1 Jan	– 110,726	– 219,809	– 13,292
Additions (depreciation)	– 9,589	– 11,805	– 514
Additions (impairment)	– 3,196	—	—
Disposals	—	3,771	7,070
Reversals of impairment losses	2,390	—	—
Reclassifications	– 4,881	—	—
Classified as held for sale	503	—	—
No longer intended for sale	—	—	—
Changes in the scope of consolidation	—	– 291	—
Exchange rate changes	39	45	—
Balance at 31 Dec	– 125,460	– 228,089	– 6,736
Net carrying amounts at 1 Jan	209,256	28,985	32,086
Net carrying amounts at 31 Dec	207,985	31,150	31,572

Property, plant and equipment 2007

€ 000's	Owner-occupied property	Operating and office equipment	Leased assets
Gross carrying amounts at 1 Jan	396,959	251,193	45,483
Additions	22,492	10,668	—
Disposals	– 57,997	– 13,345	– 108
Reclassifications	– 13,853	—	—
Classified as held for sale	– 28,092	—	—
No longer intended for sale	—	—	—
Changes in the scope of consolidation	—	190	—
Exchange rate changes	473	88	3
Balance at 31 Dec	319,982	248,794	45,378
Accumulated depreciation and impairment at 1 Jan	– 138,767	– 212,419	– 12,863
Additions (depreciation)	– 8,476	– 17,378	– 532
Additions (impairment)	– 12,591	– 1,082	—
Disposals	23,784	11,150	106
Reversals of impairment losses	—	—	—
Reclassifications	—	—	—
Classified as held for sale	25,393	—	—
No longer intended for sale	—	—	—
Changes in the scope of consolidation	—	—	—
Exchange rate changes	– 69	– 80	– 3
Balance at 31 Dec	– 110,726	– 219,809	– 13,292
Net carrying amounts at 1 Jan	258,192	38,774	32,620
Net carrying amounts at 31 Dec	209,256	28,985	32,086

(13) Current tax assets

Current tax assets relate to current tax receivables, and will be realised within twelve months in the amount of € 31.3 million (2007: € 28.5 million).

(14) Deferred tax assets

Deferred tax assets were recognised for the following items:

€ 000's	31 Dec 2008	31 Dec 2007
Financial assets and liabilities at fair value through profit or loss	111,930	10,944
Available-for-sale financial assets	83,403	32,831
Receivables	42,090	34,644
Positive and negative market value of hedges	36,035	27,269
Investments accounted for using the equity method	1,071	432
Tax loss carryforward	45,944	33,128
Liabilities	7,803	5,487
Technical provisions	108,788	88,087
Provisions for pensions and other long-term employee benefits	77,415	74,416
Other balance sheet items	51,370	36,536
Deferred tax assets	**565,849**	**343,774**

Deferred taxes on provisions for pensions and other obligations were recognised directly in equity in the amount of € 21.9 million (2007: € 27.0 million).

Deferred tax assets amounting to € 59.8 million (2007: € 48.9 million) and deferred taxes on tax loss carryforwards of € 36.4 million (2007: € 16.4 million) are expected to be realised within twelve months.

Deferred taxes were not recognised for deductible temporary differences and tax loss carryforwards related to corporation tax and municipal trade tax in the amount of € 51.8 million (2007: € 77.2 million), as they are not expected to be realised in the medium term.

(15) Liabilities directly connected with non-current assets held for sale and disposal groups

No such liabilities had to be recognised in the year under review and the previous year.

(16) Financial liabilities at fair value through profit or loss

€ 000's	31 Dec 2008	31 Dec 2007
Financial liabilities classified as held for trading	507,002	108,468
Derivative financial instruments	507,002	108,468
Financial liabilities designated as at fair value	—	119,222
Structured equity/index products	—	119,219
Other structured products	—	3
Financial liabilities at fair value through profit or loss	**507,002**	**227,690**

(17) Liabilities

	Carrying amount		Fair value	
€ 000's	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Certificated liabilities	2,043,322	3,315,831	2,046,733	3,304,186
Liabilities to banks	5,210,199	5,542,903	5,260,011	5,312,038
Liabilities from reinsurance business	1,602,442	1,710,444	1,602,442	1,710,444
Liabilities to customers	20,865,770	21,789,959	21,013,468	21,755,975
Other liabilities	474,010	447,918	474,010	447,454
Liabilities	**30,195,743**	**32,807,055**	**30,396,664**	**32,530,097**

€ 000's	31 Dec 2008	31 Dec 2007
Certificated liabilities	2,043,322	3,315,831
Mortgage bonds (Hypothekenpfandbriefe)	1,438,022	1,482,312
Public-sector covered bonds (öffentliche Pfandbriefe)	432,686	1,052,156
Other debt securities	172,614	781,363
Liabilities to banks	5,210,199	5,542,903
Home loan and savings deposits	3,904	3,823
Miscellaneous liabilities	5,206,295	5,539,080
Liabilities from reinsurance business	1,602,442	1,710,444
Accounts payable from reinsurance business	34,571	99,979
Deposits retained by reinsurers on ceded business	1,567,871	1,610,465
Liabilities to customers	20,865,770	21,789,959
Deposits from home loan and savings business, and savings deposits	13,999,302	15,460,750
Miscellaneous liabilities	6,169,840	5,554,777
Liabilities from direct insurance business	696,628	774,432
Other liabilities	474,010	447,918
LIABILITIES	**30,195,743**	**32,807,055**

Of the miscellaneous liabilities included in liabilities to customers, an amount of € 854.9 million (2007: € 609.2 million) refers to deposits payable on demand, and deposits in the amount of € 5,315.0 million (2007: € 4,945.6 million) have a fixed term.

Liabilities from direct insurance business include liabilities to policyholders of € 648.4 million (2007: € 728.1 million) and liabilities to insurance agents of € 48.2 million (2007: € 46.3 million).

Other liabilities include among other items advances received in the amount of € 11.7 million (2007: € 17.7 million), trade payables in the amount of € 24.1 million (2007: € 45.9 million) as well as liabilities to employees totalling € 72.3 million (2007: € 80.1 million)..

Liabilities from finance leases amount to € 31.2 million (2007: € 31.7 million).

(18) Negative market value of hedges

€ 000's	31 Dec 2008	31 Dec 2007
Cash flow hedges	46,522	27,367
Hedge of interest rate risk	46,522	27,367
Fair value hedges	94,826	58,466
Hedge of interest rate risk	94,826	58,466
Negative market value of hedges	**141,348**	**85,833**

(19) Technical provisions

	Gross	Gross
€ 000's	31 Dec 2008	31 Dec 2007
Unearned premiums	357,233	451,560
Provision for future policy benefits	24,029,553	24,034,098
Provision for loss and loss adjustment expenses	2,530,807	2,597,717
Provision for premium refunds	1,536,257	2,611,003
Other technical provisions	23,655	25,358
Technical provisions	**28,477,505**	**29,719,736**

Unearned premiums

	Gross	Share of reinsurers	Gross	Share of reinsurers
€ 000's	2008	2008	2007	2007
Balance at 1 Jan	451,560	30,567	502,565	41,912
Additions	223,041	16,730	278,698	20,189
Utilisation	320,486	28,652	321,924	29,820
Changes in the scope of consolidation	1,848	—	—	—
Exchange rate changes	1,270	– 756	– 7,779	– 1,714
Balance at 31 Dec	357,233	17,889	451,560	30,567

Provision for future policy benefits

€ 000's	Gross 31 Dec 2008	Share of reinsurers 31 Dec 2008	Gross 31 Dec 2007	Share of reinsurers 31 Dec 2007
Life insurance	23,900,485	1,538,242	23,934,563	1,575,383
Health insurance	129,068	—	99,535	—
Provision for future policy benefits	**24,029,553**	**1,538,242**	**24,034,098**	**1,575,383**

Provision for future policy benefits by type of life insurance

€ 000's	Gross 2008	Share of reinsurers 2008	Gross 2007	Share of reinsurers 2007
Provision for future policy benefits	23,260,563	—	22,778,185	—
Provision for future policy benefits for unit-linked contracts	674,000	—	584,580	—
Receivables not yet due from policyholders	– 76,347	—	– 83,360	—
Balance at 1 Jan	23,858,216	1,575,383	23,279,405	1,563,893
Additions from premiums/contributions[1]	1,922,397	—	1,964,470	—
Changes due to payments[1]	– 2,090,671	—	– 2,015,541	—
Guaranteed interest[1]	790,694	—	807,753	—
Other changes[1]	– 698,746	– 37,141	– 177,871	11,490
Exchange rate changes	—	—	—	—
Balance at 31 Dec	23,781,890	1,538,242	23,858,216	1,575,383
Provision for future policy benefits	23,382,071	—	23,260,563	—
Provision for future policy benefits for unit-linked contracts	518,414	—	674,000	—
Receivables not yet due from policyholders	– 118,595	—	– 76,347	—

1 The distribution of the changes in the year under review was calculated on the basis of preliminary profit splits. The prior year figures were adjusted based on the final profit split.

Aging provision for health insurance

€ 000's	2008	2007
Balance at 1 Jan	99,535	73,784
Amounts attributable to general tariffs	15,448	12,797
Balance at 1 Jan excl. general tariffs	84,087	60,987
Amounts transferred from the provision for premium refunds	3,690	1,687
Additions from premiums	17,896	18,687
Interest	3,386	2,539
Direct credit	349	187
Exchange rate changes	—	—
Balance at 31 Dec excl. general tariffs	109,408	84,087
Amounts attributable to general tariffs	19,660	15,448
Balance at 31 Dec	129,068	99,535

Provision for loss and loss adjustment expenses

	Gross	Share of reinsurers	Gross	Share of reinsurers
€ 000's	31 Dec 2008	31 Dec 2008	31 Dec 2007	31 Dec 2007
Life/health insurance	101,745	6,443	112,719	8,026
Property-casualty insurance, reinsurance	2,429,062	334,940	2,484,998	373,773
Provision for loss, and loss adjustment expenses	**2,530,807**	**341,383**	**2,597,717**	**381,799**

The provision for loss and loss adjustment expenses for life and health insurance changed as follows:

	Gross	Share of reinsurers	Gross	Share of reinsurers
€ 000's	2008	2008	2007	2007
Balance at 1 Jan	112,719	8,026	101,617	8,933
Changes recognised through profit or loss	– 11,202	– 1,583	11,102	– 907
Changes in the scope of consolidation	228	—	—	—
Balance at 31 Dec	101,745	6,443	112,719	8,026

The provision for loss and loss adjustment expenses for property-casualty insurance and reinsurance changed as follows:

€ 000's	Gross 2008	Share of reinsurers 2008	Gross 2007	Share of reinsurers 2007
Balance at 1 Jan	2,484,998	373,773	2,447,340	437,533
Additions	520,307	26,325	639,283	165,935
Benefits paid	427,013	58,984	417,399	80,056
Reversal	123,165	1,560	133,296	134,552
Exchange rate changes	– 26,065	– 4,614	– 50,930	– 15,087
Balance at 31 Dec	2,429,062	334,940	2,484,998	373,773

The following loss triangles (gross and net) show the settlement of the provision for loss and loss adjustment expenses in the area of property-casualty insurance and reinsurance.

The loss triangles include reconciliations to the gross and net amounts of the relevant provisions, based on the provision for loss and loss adjustment expenses as at the relevant balance sheet date, by disclosing the share attributable to reinsurers and by reducing the provision for loss adjustment expenses (also on a gross or net basis, depending on the presentation method).

Gross loss triangle[1]

€ 000's	31 Dec 2001	31 Dec 2002	31 Dec 2003	31 Dec 2004	31 Dec 2005	31 Dec 2006	31 Dec 2007	31 Dec 2008
Provision for loss, and loss adjustment expenses (gross)	2,108,702	2,216,998	2,180,237	2,233,758	2,440,696	2,447,340	2,484,998	2,429,062
less provision for outstanding claims	142,622	155,009	159,614	159,301	161,274	161,721	172,324	177,773
Provision for loss, and loss adjustment expenses (gross)	1,966,080	2,061,989	2,020,623	2,074,457	2,279,422	2,285,619	2,312,674	2,251,289
Payments, accumulated (gross)								
1 year later	466,710	473,017	396,674	401,017	425,274	371,565	373,623	—
2 years later	666,057	653,144	591,002	588,784	626,304	579,199	—	—
3 years later	775,966	784,598	722,349	720,198	766,984	—	—	—
4 years later	873,251	882,558	821,883	813,951	—	—	—	—
5 years later	948,221	963,225	902,483	—	—	—	—	—
6 years later	1,011,419	1,031,691	—	—	—	—	—	—
7 years later	1,066,964	—	—	—	—	—	—	—
Original provision, reassessed (gross)								
1 year later	1,924,465	1,959,921	1,975,537	2,004,110	2,183,568	2,153,977	2,201,835	—
2 years later	1,845,856	1,960,043	1,919,884	1,975,542	2,092,159	2,050,111	—	—
3 years later	1,816,102	1,921,224	1,893,743	1,933,552	1,998,024	—	—	—
4 years later	1,842,568	1,897,130	1,871,268	1,853,648	—	—	—	—
5 years later	1,822,366	1,885,266	1,812,118	—	—	—	—	—
6 years later	1,822,180	1,840,996	—	—	—	—	—	—
7 years later	1,774,926	—	—	—	—	—	—	—
Accumulated surplus (deficit)								
Accumulated gross surplus (deficit) excluding exchange rate effects	191,154	220,993	208,505	220,809	281,398	235,508	110,839	—
Accumulated gross surplus (deficit) including exchange rate effects	233,939	277,658	231,048	185,733	315,517	272,739	136,882	—

1 Group companies added or disposed of have been taken into account or excluded retrospectively in the loss triangle.

NET LOSS TRIANGLE[1]

€ 000's	31 Dec 2001	31 Dec 2002	31 Dec 2003	31 Dec 2004	31 Dec 2005	31 Dec 2006	31 Dec 2007	31 Dec 2008
Provision for loss, and loss adjustment expenses (gross)	2,108,702	2,216,998	2,180,237	2,233,758	2,440,696	2,447,340	2,484,998	2,429,062
Share of reinsurers	488,799	504,201	408,585	435,516	521,679	437,533	373,773	334,940
Provision for loss, and loss adjustment expenses (net)	1,619,903	1,712,797	1,771,652	1,798,242	1,919,017	2,009,807	2,111,225	2,094,122
less provision for outstanding claims	125,791	137,145	141,022	143,126	147,717	148,511	160,629	182,169
Provision for loss, and loss adjustment expenses (net)	1,494,112	1,575,652	1,630,630	1,655,116	1,771,300	1,861,296	1,950,596	1,911,953
Payments, accumulated (net)								
1 year later	345,846	309,174	318,570	305,735	291,877	281,724	312,607	—
2 years later	446,800	454,161	464,996	428,554	425,631	441,329	—	—
3 years later	531,429	553,024	561,064	516,606	531,659	—	—	—
4 years later	606,803	622,547	625,032	583,875	—	—	—	—
5 years later	659,593	674,666	684,396	—	—	—	—	—
6 years later	701,078	724,619	—	—	—	—	—	—
7 years later	740,689	—	—	—	—	—	—	—
Original provision, reassessed (net)								
1 year later	1,447,013	1,497,262	1,589,585	1,573,632	1,671,776	1,716,714	1,836,515	—
2 years later	1,397,758	1,513,174	1,527,924	1,500,241	1,586,514	1,632,043	—	—
3 years later	1,375,798	1,455,833	1,464,412	1,461,348	1,518,126	—	—	—
4 years later	1,373,081	1,400,798	1,442,597	1,404,687	—	—	—	—
5 years later	1,328,444	1,395,809	1,403,748	—	—	—	—	—
6 years later	1,335,650	1,369,786	—	—	—	—	—	—
7 years later	1,305,367	—	—	—	—	—	—	—
Accumulated surplus (deficit)								
Accumulated surplus (deficit) excluding exchange rate effects	188,745	205,866	226,882	250,429	253,174	229,253	114,081	—
Accumulated net surplus (deficit) including exchange rate effects	223,100	251,968	245,422	225,169	276,574	251,440	135,715	—

1 Group companies added or disposed of have been taken into account or excluded retrospectively in the loss triangle.

Provision for premium refunds

€ 000's	31 Dec 2008	31 Dec 2007
Gross amount	1,536,257	2,611,003
less: Share for reinsurance ceded	—	—

The provision for premium refunds changes as follows:

€ 000's	2008	2007
Balance at 1 Jan	**2,611,003**	**2,758,255**
Actual provision for premium refunds at 1 Jan	2,144,739	2,010,855
Additions	228,078	473,111
Utilisation with an effect on cash	176,604	191,872
Utilisation with no effect on cash	180,830	147,355
Balance at 31 Dec	2,015,383	2,144,739
Provision for deferred premium refunds at 1 Jan	466,264	747,400
Income and expenses recognised through profit or loss	– 506,489	– 210,116
Income and expenses recognised directly in equity	– 438,901	– 71,020
Balance at 31 Dec	– 479,126	466,264
Balance at 31 Dec	**1,536,257**	**2,611,003**

Other technical provisions

	Gross	Share of reinsurers	Gross	Share of reinsurers
€ 000's	31 Dec 2008	31 Dec 2008	31 Dec 2007	31 Dec 2007
Balance at 1 Jan	25,358	1,229	25,428	2,110
Additions	23,493	893	25,487	1,229
Utilisation and reversal	25,358	1,229	25,428	2,110
Exchange rate changes	162	—	– 129	—
Balance at 31 Dec	23,655	893	25,358	1,229

(20) Other provisions

Provisions for pensions and other long-term employee benefits

The item "Provisions for pensions and other long-term employee benefits" totals € 1,060.0 million (2007: € 1,049.6 million), of which an amount of € 948.8 million (2007: € 949.4 million) relates to provisions for pensions and € 111.2 million (2007: € 100.2 million) to provisions for other long-term employee benefits.

The measurement of other long-term employee benefits is based on interest rates that correspond to the shorter terms of the obligations (commitments for early retirement benefits 4.5%, partial retirement agreements 4.5%, and jubilee benefits 5%).

Provisions for pensions

The changes of the defined benefit obligation, plan assets, unrecognised past service cost and of the provision for pensions are shown in the following table:

€ 000's	Defined benefit obligation	Unrecognised past service cost	Pension provision
Balance at 1 Jan 2008	951,994	2,597	949,397
Income and expenses recognised through profit or loss	62,458	866	63,324
Current service cost	13,607	—	13,607
Past service cost	—	866	866
Interest expense	48,851	—	48,851
Measurement gains (–) and losses (+) recognised directly in equity	– 19,994	—	– 19,994
Pension payments (utilisation)	– 44,457	—	– 44,457
Settlements	– 30	—	–,30
Changes in the scope of consolidation	585	—	585
Balance at 31 Dec 2008	950,556	1,731	948,825

€ 000's	Defined benefit obligation	Unrecognised past service cost	Pension provision
Balance at 1 Jan 2007	1,029,252	3,463	1,025,789
Income and expenses recognised through profit or loss	62,802	866	63,668
Current service cost	17,387	—	17,387
Past service cost	—	866	866
Interest expense	45,415	—	45,415
Measurement gains (–) and losses (+) recognised directly in equity	– 98,463	—	– 98,463
Pension payments (utilisation)	– 42,006		– 42,006
Settlements	409	—	409
Changes in the scope of consolidation	—	—	—
Balance at 31 Dec 2007	951,994	2,597	949,397

The following assumptions are used for determining the pension provisions for the defined benefit plans:

in %	2008	2007
Actuarial interest rate	5.75	5.25
Pension increase	2.5	2.0
Benefit increases	3.0	3.0
Salary increases	3.0	3.0
Probability of employee turnover	3.5	3.5
Inflation rate	2.5	2.0

In the financial year 2008, the actuarial assumptions underlying the pension obligations with respect to actuarial interest rate and pension increase were adjusted to take account of the market circumstances and the inflation trend.

As in the prior year, the "Richttafeln 2005G" mortality tables by Prof. Klaus Heubeck were used for biometrical assumptions.

The present value of the benefit obligation, the fair value of the plan assets, the surplus or deficit of the plans and the the relevant experience adjustments changed as follows in the years 2004 to 2008:

		2008	2007	2006	2005	2004
Present value of the defined benefit obligation (DBO)	€ 000's	950,557	951,994	1,029,252	988,966	767,707
Fair value of plan assets	€ 000's	—	—	—	27,957	22,727
Surplus or deficit of the plans	€ 000's	950,557	951,994	1,029,252	961,009	744,980
Experience adjustments of the present value of the defined benefit obligation (DBO)	in %	0.2	– 2.4	1.1	1.9	– 0.4
Experience adjustments of the fair value of plan assets	in %	—	—	—	4.5	5.3

In order to improve the informative value of the financial statements, we changed the presentation of interest on pension provisions in the financial year 2008. Accordingly, they are no longer part of general administrative expenses, but are reported in the income statement in the item "Interest expenses". The previous year's figures have been adjusted.

We expect direct pension payments for the pension plans in the amount of € 45.9 million (2007: € 44.1 million) for the financial year 2009.

Other provisions

2008

€ 000's	For restructuring	For the refund of acquisition fees upon loan renunciation	For interest bonus option	Miscellaneous	Other provisions
Balance at 1 Jan 2008	50,663	55,700	358,071	93,448	557,882
Additions		4,895	119,990	62,761	187,646
Utilisation	34,518	20,173	134,325	36,287	225,303
Reversal	5,897	—	2,600	30,264	38,761
Interest effect	—	3,878	40,609	1,010	45,497
Changes in the scope of consolidation	—	—	—	2,941	2,941
Exchange rate changes	—	—	– 100	—	– 100
Balance at 31 Dec 2008	10,248	44,300	381,645	93,610	529,804

2007

€ 000's	For restructuring	For the refund of acquisition fees upon loan renunciation	For interest bonus option	Miscellaneous	Other provisions
Balance at 1 Jan 2008	71,018	70,216	318,694	168,115	628,043
Additions	14,692	1,344	130,927	77,505	224,468
Utilisation	29,081	17,193	74,621	39,125	160,020
Reversal	8,235	2,732	17,212	113,182	141,361
Interest effect	2,269	4,065		132	6,466
Changes in the scope of consolidation	—	—	—	—	—
Exchange rate changes	—	—	283	3	286
Balance at 31 Dec 2008	50,663	55,700	358,071	93,448	557,882

The restructuring provision mainly includes severance payments to employees.

The expected maturity of the amounts recognised in the balance sheet is as follows:

€ 000's	up to 1 year 2008	1 year to 5 years 2008	more than 5 years 2008	Indefinite term 2008	Total 2008
Provisions for restructuring	869	9,379	—	—	10,248
Provisions for the refund of acquisition fees upon loan renunciation	4,600	17,200	22,500	—	44,300
Provisions for interest bonus option	40,600	146,300	179,900	14,845	381,645
Miscellaneous	83,102	479	3,000	7,030	93,610
Other provisions	**129,171**	**173,358**	**205,400**	**21,875**	**529,804**

€ 000's	up to 1 year 2007	1 year to 5 years 2007	more than 5 years 2007	Indefinite term 2007	Total 2007
Provisions for restructuring	12,592	10,400	27,671	—	50,663
Provisions for the refund of acquisition fees upon loan renunciation	8,900	2,600	44,200	—	55,700
Provisions for interest bonus option	52,510	122,723	182,838	—	358,071
Miscellaneous	73,890	10,465	—	9,093	93,448
Other provisions	**147,892**	**146,188**	**254,709**	**9,093**	**557,882**

(21) Current tax liabilities

Current tax liabilities relate to current tax liabilities for the period and will be realised within twelve months in the amount of € 20.2 million (2007: € 63.7 million).

(22) Deferred tax liabilities

€ 000's	31 Dec 2008	31 Dec 2007
Financial assets and liabilities at fair value through profit or loss	92,646	31,632
Available-for-sale financial assets	18,321	29,704
Receivables	52,020	21,304
Positive and negative market value of hedges	3,101	2,133
Investments accounted for using the equity method	3,814	4,449
Liabilities	19,564	11,052
Technical provisions	86,242	104,577
Other balance sheet items	202,831	132,861
Current tax liabilities	**478,539**	**337,712**

Deferred tax liabilities amounting to € 37.7 million (2007: € 30.6 million) are expected to be realised within twelve months.

(23) Other liabilities

This item includes advance interest payments received in the amount of € 1.7 million (2007: € 2.8 million), as well as bonuses on home loan and savings deposits from the Czech government in the amount of € 2.7 million (2007: € 39.7 million) for the year under review. The total amount of the other liabilities is expected to be realised within twelve months.

(24) Subordinated capital

€ 000's	31 Dec 2008	31 Dec 2007
Subordinated liabilities	388,365	395,124
Profit-participation rights	79,833	112,331
Subordinated capital	**468,198**	**507,455**

The fair value of subordinated capital is € 406.4 million (2007: € 498.5 million).

In the following, we present the issued volumes of subordinated liabilities and profit-participation rights.

Subordinated liabilities

Type	Year of issue	Amount	Interest rate	Maturity
		€ mn	in %	
Registered security	1999	10.2	4.970	22.01.2009
Registered security	2000	10.0	6.650	08.03.2010
Registered security	2000	6.5	6.500	03.05.2010
Registered security	2000	5.0	6.480	21.06.2010
Bearer bond	2001	20.0	4.678	30.05.2011
Bearer bond	2001	30.0	5.400	01.12.2011
Bearer bond	2002	10.2	5.750	29.06.2009
Registered security	2003	4.0	6.160	01.08.2013
Bearer bond	2003	9.0	5.750	05.08.2013
Registered security	2003	3.0	6.190	05.08.2013
Registered security	2003	3.0	6.200	06.08.2013
Registered security	2003	3.0	6.330	03.08.2015
Registered security	2003	5.0	6.500	01.08.2018
Registered security	2003	5.0	6.600	01.08.2018
Registered security	2004	5.0	6.190	05.02.2019
Registered security	2004	5.0	6.150	11.02.2019
Registered security	2004	5.0	5.270	12.11.2019
Registered security	2004	10.0	5.280	12.11.2019
Bearer bond	2005	11.2	4.500	31.01.2015
Bearer bond	2005	3.7	4.500	31.01.2015
Bearer bond	2005	60.0	5.250 until 2015, then 3-month EURIBOR plus 3%	no final maturity
Registered security	2006	50.0	4.570	06.12.2016
Bearer bond	2006	130.0	5.375 until 2016, then variable interest	01.06.2026

The bearer bond issued in 2001 for an amount of € 20.0 million bears variable interest on the basis of 6-month EURIBOR plus 0.75%. The other subordinated liabilities bear fixed interest as at the balance sheet date.

The subordinated liabilities of Wüstenrot Bank AG Pfandbriefbank meet the requirements of Section 10 (5 a) of the German Banking Act (Kreditwesengesetz, KWG). The subordinated liabilities of Württembergische Versicherung AG and of Württembergische Lebensversicherung AG qualify as regulatory own funds pursuant to Section 53 c (3) Number 3 b of the German Insurance Supervisory Law (Versicherungsaufsichtsgesetz, VAG).

Profit-participation rights

Type	Year of issue	Amount	Interest rate	Maturity
		€ mn	in %	
Registered profit-participation certificate	1999	5.1	5.670	30.05.2010
Bearer profit-participation certificate	1999	30.8	6.628	01.07.2009
Bearer profit-participation certificate	2002	10.0	7.000	22.08.2013
Registered profit-participation certificate	2004	10.0	6.620	01.06.2015
Bearer profit-participation certificate	2004	14.0	6.750	01.06.2015
Registered profit-participation certificate	2004	5.0	6.760	01.06.2015
Registered profit-participation certificate	2004	2.0	6.850	01.06.2015
Registered profit-participation certificate	2004	2.0	6.800	01.06.2015
Registered profit-participation certificate	2004	7.0	7.400	01.06.2025
Registered profit-participation certificate	2005	5.0	5.470	01.06.2021
Registered profit-participation certificate	2005	5.0	5.575	01.06.2021
Registered profit-participation certificate	2005	5.0	5.560	01.06.2021
Registered profit-participation certificate	2005	5.0	5.655	01.06.2021

The bearer profit-participation certificate issued in 1999 bears variable interest on the basis of 6-month EURIBOR plus 1.50%. The other profit-participation certificates bear fixed interest as at the balance sheet date. The profit-participation certificates were issued by Wüstenrot Bank AG Pfandbriefbank. The profit-participation rights where repayment is due at least after two years meet the requirements set out in Section 10 (5) of the KWG, and thus qualify for inclusion in liable capital.

(25) Shareholders' equity

€ 000's	31 Dec 2008	31 Dec 2007
Share in paid-in capital attributable to shareholders of W&W AG	1,374,105	1,374,105
Share in retained earnings attributable to shareholders of W&W AG	917,322	1,045,104
Minority interests	56,994	74,352
Shareholders' equity	**2,348,421**	**2,493,561**

A dividend payment of € 0.50 per share will be proposed for the financial year 2008. This corresponds to a payout of € 43.1 million. In the previous year, a dividend of € 0.50 had been paid out.

Subscribed capital

Subscribed capital is divided into 86,243,084 no-par value registered shares, which are fully paid in. From a legal perspective, they are ordinary shares.

This means that they carry voting and dividend rights, a right in a share in the liquidation proceeds, and subscription rights. There are no preferential rights or restrictions.

Changes in the number of shares outstanding

	Number of shares 2008	Number of shares 2007
Balance at 1 Jan	86,243,084	86,243,084
Additions due to capital increase	—	—
Disposals	—	—
Balance at 31 Dec	86,243,084	86,243,084

As in the prior year, there was no authorised capital at the end of the financial year 2008.

Minority interests

Minority interests can be broken down as follows:

€ 000's	31 Dec 2008	31 Dec 2007
Interests in unrealised profits and losses	– 7,328	– 1,386
Interests in consolidated net income for the year	7,366	9,105
Other interests	56,956	66,633
Minority interests	**56,994**	**74,352**

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Statement of changes in shareholders' equity

	Attributable to shareholders of W&W AG		
	Subscribed capital	Capital reserve	Revaluation reserve
€ 000's			
Shareholders' equity as at 1 Jan 2007	451,001	923,104	105,010
Currency translation differences	—	—	—
Changes in the scope of consolidation	—	—	– 7,402
Unrealised gains and losses (net)			
from financial assets available for sale and financial assets accounted for using the equity method	—	—	– 59,599
from cash flow hedges	—	—	664
Actuarial gains and losses	—	—	—
Consolidated net income	—	—	—
Dividends paid to shareholders	—	—	—
Other	—	—	—
Shareholders' equity as at 31 Dec 2007	451,001	923,104	38,673
Shareholders' equity as at 1 Jan 2008	451,001	923,104	38,673
Currency translation differences	—	—	—
Changes in the scope of consolidation	—	—	179
Unrealised gains and losses (net)			
from financial assets available for sale and financial assets accounted for using the equity method	—	—	– 158,426
from cash flow hedges	—	—	– 18,344
Actuarial gains and losses	—	—	—
Consolidated net income	—	—	—
Dividends paid to shareholders	—	—	—
Other	—	—	—
Shareholders' equity as at 31 Dec 2008	451,001	923,104	– 137,918

Reserve from currency translation	Reserve from pension obligations	Retained earnings	Total	Minority interests	Total shareholders' equity
7,095	– 109,195	848,878	2,225,893	80,274	2,306,167
2,395	—	—	2,395	710	3,105
2,675	6,072	9,466	10,811	1,739	12,550
—	—	—	– 59,599	– 9,780	– 69,379
—	—	—	664	– 504	160
—	36,918	—	36,918	532	37,450
—	—	200,444	200,444	9,105	209,549
—	—	—	—	– 4,225	– 4,225
—	—	1,683	1,683	– 3,499	– 1,816
12,165	– 66,205	1,060,471	2,419,209	74,352	2,493,561
12,165	– 66,205	1,060,471	2,419,209	74,352	2,493,561
500	—	—	500	– 794	– 294
– 779	– 6	7,375	6,769	2,327	9,096
—	—	—	– 158,426	– 6,205	– 164,631
—	—	—	– 18,344	263	– 18,081
—	15,877	—	15,877	1,183	17,060
—	—	58,176	58,176	7,366	65,542
—	—	– 43,122	– 43,122	– 5,760	– 48,882
—	—	10,788	10,788	– 15,738	– 4,950
11,886	– 50,334	1,093,688	2,291,427	56,994	2,348,421

Notes to the income statement

(26) Net income from/net expense for available-for-sale financial assets

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Income from available-for-sale financial assets	900,389	847,589
Interest income	419,788	339,822
Dividend income	163,275	188,068
Gains from disposals	315,321	319,668
Income from reversals of impairment losses	2,005	31
Expenses for available-for-sale financial assets	1,589,839	357,097
Losses from disposal	674,847	279, 19
Expenses from impairment losses	914,992	77,978
Net income from/net expense for available-for-sale financial assets	– 689,450	490,492

The impairment losses for financial assets available for sale relate to the following classes of financial instruments:

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Equity investments	41,883	22,644
Equities, shares in investment funds and other non-fixed-income securities	858,876	54,918
Debt securities and other fixed-income securities	11,319	416
Registered bonds and other receivables	2,914	—
Impairment	914,992	77,978

(27) Net income from/net expense for investments accounted for using the equity method

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Income from investments accounted for using the equity method	1,861	3,321
Income from the share in net income	1,357	3,321
Gains from disposals	504	—
Expenses for investments accounted for using the equity method	17,573	28,352
Expenses from the share in net losses	17,573	7,290
Expenses from impairment losses	—	21,062
Net expense for investments accounted for using the equity method	– 15,712	– 25,031

(28) Net income from financial assets and liabilities at fair value through profit or loss

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Income from financial assets and liabilities at fair value through profit or loss	1,997,946	804,988
Income from assets and liabilities held for trading	1,939,110	716,634
Interest income	624,044	395,028
Dividend income	4	61
Income from fair value measurement	446,841	117,908
Gains from disposals	868,221	203,637
Income from financial assets and liabilities designated as at fair value through profit or loss	58,836	88,354
Interest income	10,107	14,909
Dividend income	15	—
Income from fair value measurement	11,762	6,541
Gains from disposals	11,779	20,271
Income from investments for the account and risk of life insurance policyholders	25,173	46,633
Expenses for financial assets and liabilities at fair value through profit or loss	1,679,444	618,222
Expenses from assets and liabilities held for trading	1,281,110	552,370
Interest expense	614,061	418,350
Expenses from fair value measurement	511,745	59,642
Losses from disposal	155,304	74,378
Expenses from financial assets and liabilities designated as at fair value through profit or loss	398,334	65,852
Interest expense	788	2,796
Expenses from fair value measurement	83,012	20,199
Losses from disposal	39,567	8,155
Expenses from investments for the account and risk of life insurance policyholders	274,967	34,702
Net income from financial assets and liabilities at fair value through profit or loss	**318,502**	**186,766**

(29) Hedge result

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Income from hedges	52,681	45,695
Income from fair value hedges	45,881	39,298
Gains from the measurement of hedged items	43,779	16,209
Gains from the measurement of derivative hedging instruments	2,102	23,089
Income from cash flow hedges	6,800	6,397
Income from the transfer from the reserve for cash flow hedges	6,260	4,385
Income from the ineffective portion of cash flow hedges	540	2,012
Expenses for hedges	46,486	49,143
Expenses from fair value hedges	41,007	36,779
Losses from the measurement of hedged items	1,964	27,346
Losses from the measurement of derivative hedging instruments	39,043	9,433
Expenses from cash flow hedges	5,479	12,364
Expenses from the transfer from the reserve for cash flow hedges	4,164	12,003
Expenses from the ineffective portion of cash flow hedges	1,315	361
Hedge result	**6,195**	**– 3,448**

(30) Net income from receivables, liabilities and subordinated capital

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Income from receivables, liabilities and subordinated capital	2,265,081	2,208,862
Interest income from receivables	2,156,636	2,198,066
Gains from the sale of receivables	107,871	10,526
Gains from the disposal of liabilities and subordinated capital	446	270
Gains from the termination of fair value hedges	112	—
Income from the amortisation of the revaluation reserve of reclassified financial instruments	16	—
Expenses for receivables, liabilities and subordinated capital	1,354,084	1,318,751
Interest expenses from liabilities	1,275,264	1,237,882[1]
Interest expenses from subordinated capital	27,529	28,405
Losses from the sale of receivables	42,397	52,222
Losses from the disposal of liabilities and subordinated capital	490	242
Losses from the termination of fair value hedges	4,238	—
Expenses from the amortisation of the revaluation reserve of reclassified financial instruments	4,166	—
Net income from receivables, liabilities and subordinated capital	**910,997**	**890,111**

1 Previous year's figure adjusted due to a change in presentation of interest cost for pension provisions.

Of the refinancing expenses for subordinated capital, an amount of € 6.9 million (2007: € 6.8 million) relates to profit-participation certificates and € 20.7 million (2007: € 21.6 million) to subordinated liabilities.

(31) Net expense for allowances for credit losses

The changes in the net expense for allowances for credit losses are due to specific valuation allowances as well as portfolio-based valuation allowances recognised for existing credit risks with respect to receivables.

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Income from allowances for credit losses	67,939	69,419
Reversal of allowances for credit losses	55,686	57,152
Recoveries on receivables previously written off	12,253	12,267
Expenses for allowances for credit losses	120,422	121,483
Additions to allowances for credit losses	111,305	113,697
Direct write-offs	9,117	7,786
Net expense for allowances for credit losses	**52,483**	**52,064**

The expenses for allowances for credit losses relate to the following classes of financial instruments:

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Loans and advances to banks	2	—
Loans and advances to customers	115,721	119,304
Other receivables	4,699	2,179
Expenses for allowances for credit losses	**120,422**	**121,483**

(32) Net income from investment property

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Income from investment property	91,457	139,418
Income from rental and leases	79,679	84,025
Gains from disposals	11,778	55,393
Income from reversals of impairment losses	—	—
Expenses for investment property	81,752	112,645
Expenses for repairs, maintenance and management	28,787	43,748
Losses from disposal	6,291	1,058
Expenses from depreciation	35,570	36,467
Expenses from impairment losses	11,104	31,372
Net income from investment property	**9,705**	**26,773**

(33) Net fee and commission result

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Fee and commission income	245,772	272,219
from concluding home loan and savings contracts	76,357	68,338
from banking business	30,848	36,831
from reinsurance business	19,055	53,767
from agency business	75,487	64,678
from investment business	41,082	42,161
from other business	2,943	6,444
Fee and commission expenses	622,296	604,600
from insurance business	415,691	399,099
from home loan savings/banking business	145,212	125,544
from reinsurance business	3,401	20,156
from agency business	25,285	29,804
from investment business	24,284	23,104
from other business	8,423	6,893
Net fee and commission result	**– 376,524**	**– 332,381**

Fee and commission income includes income from trustee activities or similar fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions in the amount of € 0.8 million (2007: € 1.0 million).

Fee and commission income includes € 11.0 million (2007: € 28.7 million) and fee and commission expenses include € 7.1 million (2007: € 11.5 million) arising from transactions with financial instruments that are not measured at fair value through profit or loss.

(34) Premiums/contributions earned (net)

Life/health insurance

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Gross premiums written	2,345,583	2,411,433
Changes in unearned premiums	29,297	17,565
Amounts transferred from the provision for premium refunds	141,845	139,867
Premiums/contributions earned (gross)	2,516,725	2,568,865
Premiums ceded to reinsurers	129,239	132,217
Premiums/contributions earned (net)	**2,387,486**	**2,436,648**

Property-casualty insurance, reinsurance

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Gross premiums written	1,295,870	1,483,822
Direct insurance business	1,283,210	1,355,204
Reinsurance assumed	12,660	128,618
Changes in unearned premiums	68,165	25,661
Premiums/contributions earned (gross)	1,364,035	1,509,483
Premiums ceded to reinsurers	67,150	110,487
Premiums/contributions earned (net)	**1,296,885**	**1,398,996**

(35) Insurance benefits (net)

Insurance benefits from direct insurance business are reported excluding loss adjustment expenses, which are recorded in general administrative expenses. Insurance benefits for reinsurance assumed that the share of reinsurers in insurance benefits may consist of both claims payments and claims handling costs.

The item "Changes in the provision for premium refunds" includes additions to provisions for premium refunds to be recognised in accordance with national requirements, as well as the changes in the provision for deferred premium refunds recognised in the income statement.

Life/health insurance

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Payments for insured events	2,263,450	2,067,649
Gross amount	2,454,962	2,214,033
less: Share of reinsurers	191,512	146,384
Change in the provision for loss and loss adjustment expenses	18,479	12,009
Gross amount	16,863	11,102
less: Share of reinsurers	– 1,616	– 907
Change in the provision for future policy benefits	34,757	639,690
Gross amount	– 3,611	645,467
less: Share of reinsurers	– 38,368	5,777
Change in the provision for premium refunds (gross)	– 272,583	262,995
Change in other technical provisions	– 634	72
Gross amount	– 683	72
less: Share of reinsurers	– 49	—
Insurance benefits	**2,043,469**	**2,982,415**
Total gross amount	2,194,948	3,133,670
less: Share of reinsurers	151,479	151,255

Property-casualty insurance, reinsurance

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Payments for insured events	745,785	699,076
Gross amount	828,498	836,896
less: Share of reinsurers	82,713	137,820
Change in the provision for loss and loss adjustment expenses	4,792	137,258
Gross amount	– 29,426	88,585
less: Share of reinsurers	34,218	– 48,673
Change in the provision for premium refunds	—	—
Change in other technical provisions	– 2,125	2,781
Gross amount	– 2,462	1,900
less: Share of reinsurers	– 337	– 881
Insurance benefits	**748,452**	**839,115**
Total gross amount	796,610	927,381
less: Share of reinsurers	48,158	88,266

(36) General administrative expenses

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Personnel expenses	571,755	593,593[1]
Wages and salaries	420,347	444,043
Social security contributions	82,412	86,656
Expenses for pensions and other employee benefits	45,524	47,169[1]
Other	23,472	15,725
Other administrative expenses	380,803	367,728
Amortisation, depreciation and impairment	55,112	67,418
Owner-occupied property	12,785	21,067
Operating and office equipment	11,805	18,460
Intangible assets	30,007	27,359
Other	515	532
General administrative expenses	**1,007,670**	**1,028,739**[1]

1 Previous year's figure adjusted due to a change in presentation of interest cost for pension provisions.

In the year under review, € 19.5 million (2007: € 23.6 million) was contributed to defined contribution plans.

General administrative expenses include € 11.6 million (2007: € 5.3 million) relating to personnel expenses for partial and early retirement.

(37) Measurement gain/loss for non-current assets and disposal groups classified as held for sale

In the year under review, there were no measurement losses for properties held for sale (2007: € 3.7 million). The measurement losses for investments in associates held for sale amount to € 1.7 million (2007: € 0.5 million) in the year under review.

(38) Net other income/expense

Net other income/expense can be broken down as follows:

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Other income	645,078	458,553
Revenue from services (property development business)	50,366	72,461
Reversal of provisions	30,395	131,297
Gains from disposals	360	3,643
Income from currency translation	386,124	125,295
Other technical income	67,939	20,127
Service revenues	31,661	16,432
Miscellaneous income	78,233	89,298
Other expenses	536,485	374,453
Expenses for services (property development business)	40,636	67,565
Additions to provisions	8,727	17,887
Losses from disposals	1,100	1,971
Expenses from currency translation	394,426	167,947
Other technical expenses	67,319	70,057
Miscellaneous expenses	24,277	49,026
Net other income/expense	**108,593**	**84,100**

Miscellaneous expenses include expenses for the recognition of restructuring provisions in the amount of € 0.0 million (2007: € 14.7 million).

(39) Taxes

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Taxes on income	32,606	48,203
Current taxes on income in the financial year	82,947	97,809
Current taxes referring to previous years	– 31,123	– 11,729
Deferred taxes	– 19,218	– 37,876
Other taxes	4,715	8,949
Taxes	**37,321**	**57,152**

An amount of € 60.6 million (2007: € 35.5 million) was charged directly in equity for deferred taxes. Current taxes did not have to be credited or charged directly in equity.

The following reconciliation shows the relationship between expected taxes on income, and the taxes on income actually reported in the consolidated financial statements:

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Earnings before taxes from continued operations	102,862	246,472
Less other taxes	4,715	8,949
Earnings before taxes on income	98,147	237,523
Group tax rate in %	30.58	39.19
Expected taxes on income	30,014	93,085
Tax rate differences at Group companies	– 6,155	– 16,388
Effects of tax-exempt income	– 23,251	– 16,667
Effects of non-deductible expenses	28,102	7,421
Effects attributable to other periods	– 6,170	181
Other	10,066	– 19,429
Taxes on income	**32,606**	**48,203**

The income tax rate of 30.58% used as the basis for the reconciliation consists of the corporate income tax rate of 15% plus solidarity surcharge of 5.5% and an average rate for the municipal trade tax of 14.75%.

In the financial year 2007, only the deferred taxes taking into account the business tax reform 2008 were calculated in accordance with IAS 12.46 et seq.

(40) Earnings after taxes from discontinued operations

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Earnings before taxes	–	21,750
Income	–	131,804
Expenses	–	110,054
Taxes	–	1,521
Earnings after taxes from discontinued operations	**–**	**20,229**

(41) Earnings per share

Basic earnings per share are calculated by dividing consolidated net income for the year by the weighted average number of shares:

	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Result attributable to shareholders of W&W AG in €	58,175,766	200,443,886
Number of shares at the beginning of the financial year	86,243,084	86,243,084
Issue of new shares / conversion of options	–	–
Weighted average of shares	86,243,084	86,243,084
Basic (diluted) earnings per share	**0.67**	**2.32**

Basic earnings per share correspond to diluted earnings per share as there is no conditional capital outstanding.

Basic (and at the same time diluted) earnings per share from discontinued operations amount to € 0.0 (2007: € 0.23).

Notes to financial instruments

(42) Derivative financial instruments

Maturities 2008

€ mn	up to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years
Interest rate derivatives				
Over-the-counter				
Swaps	358.7	4,337.0	2,148.0	1,149.0
Other	200.0	—	—	—
Exchange-traded				
Futures	41.5	89.9	—	—
Currency-related derivatives				
Over-the-counter				
Foreign exchange forward transactions	2,361.4	732.1	0.2	—
Exchange-traded				
Futures	32.4	—	—	—
Equity-/index-related derivatives				
Over-the-counter				
Options – Purchases	—	—	68.1	—
Options – Sales	—	—	85.1	—
Exchange-traded				
Futures	1,494.5	—	—	—
Options	0.7	0.7	—	—
Other derivatives	—	20.0	70.0	—
Derivatives	**4,489.2**	**5,179.7**	**2,371.4**	**1,149.0**

	3 to 4 years	4 to 5 years	more than 5 years	Notional amounts, Total	Positive market values	Negative market values
	1,358.0	1,739.5	7,678.2	18,768.4	400.8	604.6
	—	—	140.0	340.0	1.6	3.2
	—	—	—	131.4	1.6	1.7
	—	21.4	—	3,115.1	36.3	27.0
	—	—	—	32.4	—	0.3
	—	—	—	68.1	11.1	—
	—	—	—	85.1	—	4.2
	—	—	—	1,494.5	14.5	7.3
	—	—	—	1.4	0.1	—
	—	—	—	90.0	—	0.1
	1,358.0	**1,760.9**	**7,818.2**	**24,126.4**	**466.0**	**648.4**

The table shows the notional amounts as well as the positive and negative market values of all derivatives of the W&W Group, i.e. derivative financial instruments that are hedging instruments of accepted hedging relationships in accordance with hedge accounting criteria, as well as those derivative financial instruments reported in the sub-items of held-for-trading financial assets or liabilities.

Maturities 2007

€ mn	up to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years
Interest rate derivatives				
Over-the-counter				
Swaps	611.2	2,336.8	1,775.3	760.0
Options – Purchases			73.0	500.0
Other	208.4	25.0	—	—
Currency-related derivatives				
Over-the-counter				
Foreign exchange forward transactions	1,975.8	370.0	173.5	7.4
Equity-/index-related derivatives	607.4	116.2	5.9	2.5
Other derivatives	107.7	—	—	—
Derivatives	**3,510.5**	**2,848.0**	**2,027.7**	**1,269.9**

3 to 4 years	4 to 5 years	more than 5 years	Notional amounts, Total	Positive market values	Negative market values
729.0	570.0	5,465.6	12,247.9	81.6	168.8
—	—	—	573.0	5.7	—
—	—	153.0	386.4	3.9	4.8
—	—	—	2,526.7	28.3	2.0
—	2.8	1.2	736.0	36.6	17.4
—	—	—	107.7	0.3	1.3
729.0	**572.8**	**5,619.8**	**16,577.7**	**156.4**	**194.3**

The table shows the notional amounts as well as the positive and negative market values of all derivatives of the W&W Group, i.e. derivative financial instruments that are hedging instruments of accepted hedging relationships in accordance with hedge accounting criteria, as well as those derivative financial instruments reported in the sub-items of held-for-trading financial assets or liabilities.

(43) Additional disclosures on hedging relationships

The following table shows the maturities of cash flow hedges:

€ 000's	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Indefinite maturity	Total
Notional amounts as at 31 Dec 2008	77,200	272,500	225,000	678,500	—	1,253,200
Notional amounts as at 31 Dec 2007	105,903	461,164	719,700	1,370,000	—	2,656,767

The time band "1 to 5 years" can be broken down as follows:

€ 000's	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
Notional amounts as at 31 Dec 2008	55,000	30,000	10,000	130,000	225,000
Notional amounts as at 31 Dec 2007	369,700	205,000	145,000	—	719,700

The following effects on the income statement and on shareholders' equity result from cash flow hedges in the year under review:

€ 000's	31 Dec 2008	31 Dec 2007
Income or expense transferred from equity to the income statement	2,096	– 7,618
Income or expense from the ineffective portion of cash flow hedges	– 775	1,651

Unrealised net gains of € 23.3 million (2007: € 8.4 million) resulting from cash flow hedges were recognised in equity.

The expected cash receipts (+) and cash payments (–) related to the hedged items of cash flow hedges can be broken down as follows:

€ 000's	31 Dec 2008	31 Dec 2007
payable on demand	–	–
up to 3 months	– 7,729	– 12,170
3 months to 1 year	– 11,422	– 35,486
1 to 2 years	– 11,549	8,351
2 to 3 years	– 8,682	15,446
3 to 4 years	– 7,677	19,713
4 to 5 years	– 7,352	18,735
more than 5 years	90,953	147,367

The expected gains (+) and losses (–) related to the hedged items of cash flow hedges can be broken down as follows:

€ 000's	31 Dec 2008	31 Dec 2007
payable on demand	–	–
up to 3 months	– 7,729	– 3,114
3 months to 1 year	– 9,893	6,101
1 to 2 years	– 10,571	42,164
2 to 3 years	– 8,294	43,938
3 to 4 years	– 7,567	47,480
4 to 5 years	– 3,316	39,543
more than 5 years	93,883	114,338

(44) Securities lending transactions

Available-for-sale financial assets include securities lent in the amount of € 0.0 million (2007: € 90.0 million).

(45) Securities repurchase agreements

As at 31 December 2008, the carrying amount of securities sold under repurchase agreements of the category "Debt securities and other fixed-income securities" was € 230.2 million (2007: € 208.1 million).

This resulted in liabilities to banks in the amount of € 224.1 million (2007: € 217.6 million) for the W&W Group as borrower.

(46) Trust activities

The following amounts referred to the trust activities, which do not have to be reported in the balance sheet:

€ 000's	31 Dec 2008	31 Dec 2007
Loans and advances to customers	376	492
Receivables from local authorities from property development business	298,904	304,401
Other	1,489	868
Trust assets	300,769	305,761
Liabilities to banks	376	492
Liabilities to local authorities from property development business	298,904	304,401
Other	1,489	868
Trust liabilities	300,769	305,761

(47) Additional disclosures on the effects of financial instruments on the income statement and on shareholders' equity

Net gains and losses per category of financial instruments shown in the following table consist of the following components:

- Net gains include gains from disposals, reversals of impairment losses recognised in profit or loss, subsequent recoveries on financial instruments previously written off, as well as currency translation gains from the measurement of debt instruments denominated in a foreign currency as at the balance sheet date.
- Net losses include losses from disposals, impairment losses recognised in profit or loss, as well as currency translation losses from the measurement of debt instruments denominated in a foreign currency as at the balance sheet date.

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Financial assets and liabilities at fair value through profit or loss		
Held-for-trading assets and liabilities		
Net gains	1,515,735	371,147
Net losses	868,321	182,216
Financial assets and liabilities designated as at fair value		
Net gains	41,595	61,055
Net losses	397,546	63,057
Available-for-sale financial assets		
Net gains	414,236	324,522
Net losses	1,694,134	412,486
Receivables		
Net gains	214,913	90,878
Net losses	217,672	191,657
Liabilities		
Net gains	12,130	10,826
Net losses	14,150	11,920

In the year under review, available-for-sale financial assets had the following effects on shareholders' equity and on the income statement, before deferred taxes and provisions for deferred premium refunds.

€ 000's	1 Jan 2008 to 31 Dec 2008	1 Jan 2007 to 31 Dec 2007
Unrealised gains and losses in the period	– 1,816,326	226,430
Income or expense transferred from equity to the income statement	– 1,274,517	– 49,445

Disclosures on risks arising from financial instruments and insurance contracts

(48) Risk management

The W&W Group maintains a comprehensive risk management system, with a risk management process that is organised in the form of an iterative regular workflow. This risk management and risk controlling system is suitable for identifying and evaluating – as far as possible – existing and foreseeable risks in good time, and is described in detail in the risk report of the management report on page 39.

The risk report also describes strategies, objectives and processes to control risks, and the methods used to measure risks, as well as the further development of the risk management system in the reporting period. Collective risks, operational risks and strategic risks are also presented in the risk report section of the management report. Within the context of risk reporting, we have paid special attention to the implications and effects of the financial crisis on the risk management process as well as the individual risk areas of the W&W Group (pages 39 et seq.). Further qualitative and quantitative disclosures to market price risks, default risks, insurance-specific risks and liquidity risks are included in the following sections.

(49) Market price risks

Interest rate risks

Interest rate risk – as a form of market price risk – is the risk that changes in market interest rates may have negative effects on expected results and the value of assets and liabilities of the W&W Group. Interest rate risk consists of interest spread or market value risk. Effects on the income statement may arise on the one hand from a change in the gross interest spread, and on the other hand from the changes in the market value of assets and liabilities resulting from interest rate changes. The interest spread or income risk – also called cash flow risk – has the effect that a change in market interest rates may impact net interest income, and thus the profit for the period. The interest rate elasticity is of particular importance in this context. The market value of an asset or liability is calculated based on the discounted interest and principal payments. A change in market interest rates leads to a change in discount factors which may in turn reduce the value of an asset or increase the value of a liability. This may have negative effects on earnings and/or equity in the current and the following periods.

Persistently low interest rates may pose a threat in the medium term to the earnings of, in particular, Wüstenrot Bausparkasse AG and Württembergische Lebensversicherung AG, as new investments and reinvestments may only be placed at lower interest rates, while at the same time the interest rates previously agreed – or the interest rate arrangements (guarantee risk) with customers – have to be adhered to. We address guarantee risk through active risk management within the context of duration management, as well as our dynamic product and tariff approach.

The W&W Group enters into financial derivatives in order to control interest rate risks. Derivatives used for risk management purposes especially include interest rate swaps, interest rate caps, floors and collars, interest rate options (swaptions) and futures and forwards. They are reflected as economic hedges within the framework of the risk management and control process.

If these economic hedges meet hedge accounting requirements, they are accounted for as such in the IFRS consolidated financial statements. Receivables with fixed interest rates belonging to the banking and insurance business, as well as fixed-income securities from the banking business belonging to the category "Available-for-sale financial assets", are hedged against losses in value (fair value hedge. In addition, receivables bearing variable interest arising in the banking business, as well as securities of the category "Available-for-sale financial assets" and liabilities bearing variable interest, are hedged against variations in cash flows (cash flow hedge).

Interest rate derivatives are used primarily to hedge interest rate risks, and also to avoid risk concentrations.

The effects of a potential increase or decrease of the interest rate level by 100 and 200 basis points (parallel shift of the yield curve) on Group earnings as well as on shareholders' equity are presented in the following table. Against the backdrop of the crisis on the financial markets and the observed increase in volatilities on the interest rate markets, we additionally considered a potential increase or decrease of the interest rate level by 200 basis points. Within this context, the effects of deferred taxes and, as far as life and health insurance is concerned, also the effects of the provision for deferred premium refunds were taken into account.

The effects from changes of market interest rates on Group earnings and shareholders' equity, which are stronger in terms of absolute figures, are mainly attributable to the cash flow interest rate risk, which has been presented for the first time. There is no asset-based interest rate risk with respect to the profit or loss for the period and shareholders' equity for receivables accounted for at amortised cost. This does not apply to hedged items belonging to a fair value hedge since they are measured at fair value in relation to the hedged risk.

	Group earnings		Shareholders' equity	
€ 000's	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Net effect after deferred taxes and provision for deferred premium refunds				
+ 100 basis points	85,273	23,982	– 134,787	– 82,117
– 100 basis points	– 90,504	– 22,232	150,590	96,975
+ 200 basis points	163,331	—	– 254,411	—
– 200 basis points	– 187,895	—	317,323	—

Price risks of equity instruments

The price risk of equity instruments is on the one hand the general risk that the value of assets and thus earnings and/or equity may be negatively influenced by market movements. On the other hand, price risks also include the specific risk characterised by issuer-specific aspects.

In the W&W Group, the price risk related to equity instruments is mainly characterised by the share price risk. The share price risk is defined as the risk arising from losses resulting from changes in share prices related to open equity positions. Price risks of equity instruments are managed by means of financial derivatives such as share options and futures. Apart from that, financial derivatives, especially share options, are used to implement certain investment strategies for investment funds and to generate additional income.

Market price risks from trading transactions are monitored and managed at the home loan and savings banks and other banks within the meaning of the Minimum Requirements for Risk Management (MaRisk) and on the basis of value-at-risk approaches, stress scenarios and internal limit systems. Company-specific internal limit systems have been established in order to limit market price risks. The individual limits are determined by taking into account the current business development based on the risk cover potential. Compliance with the defined limits is monitored regularly in the individual companies. Scenario analyses and the establishment of limit systems are also intended to avoid risk concentrations.

The insurance companies analyse changes in the value of their investment portfolios on the basis of simulations and stress scenarios.

The following overview shows the effects of an increase or decrease in the market value of equity instruments by 10%, 20% and 30% on Group earnings and/or shareholders' equity. Within this context, the effects after deferred taxes and, as far as life and health insurance are concerned, also the effects of the provision after deferred premium refunds were presented. In addition to the scenarios presented in the last year, we analysed the effects of an increase or a decrease of the market value of equity instruments by 30% in order to account for increased market volatilities in the context of the crisis on the financial markets.

The table shows that negative price risks of equity instruments primarily affect Group earnings, while positive price changes mainly affect shareholders' equity, since they mainly refer to financial assets of the available-for-sale category and therefore are reflected in the revaluation reserve. As a result of the existing impairment rules (permanent impairment), there has been a shift of effects from shareholders' equity to Group earnings compared to the previous year. In aggregate, the effects on shareholders' equity and Group earnings show that an increase in market value results in a smaller positive change in value than in the previous year.

At the same time, the effects from a decrease in market values are mitigated. The effects reflect our effective hedging strategies.

	Group earnings		Shareholders' equity	
€ 000's	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Net effect after deferred taxes and provision for deferred premium refunds				
+ 10 %	– 13,042	– 1,503	53,957	66,760
– 10 %	– 34,633	– 7,182	– 3,408	– 61,578
+ 20 %	– 25,729	– 4,071	107,599	121,473
– 20 %	– 65,535	– 14,968	– 9,087	– 124,076
+ 30 %	– 38,556	—	161,394	—
– 30 %	– 122,345	—	11,551	—

Currency risks

The currency risk is defined as the risk arising from losses resulting from exchange rate changes. The extent of this risk depends on the amount of open positions as well as on the exchange rate change potential of the currency concerned.

The major part of our business is conducted in Germany. The W&W Group operates in foreign countries to a smaller extent via branches and subsidiaries. The latter activities are partially associated with exchange rate risks.

Currency risks related to investments result from open currency positions and mainly refer to globally operating investment funds. Currency risks are systematically recognised and analysed by fund management within the context of continuously reviewed expectations of exchange rates. If appropriate, we initiate measures to mitigate risks.

The effects of an increase or decrease of the material exchange rates on Group earnings and on shareholders' equity are presented in the following table. Within this context, the effects of deferred taxes and, as far as life and health insurance are concerned, also the effects of the provision for deferred premium refunds were taken into account.

The exchange rate risk presented results from both asset and liability items and only takes into account monetary instruments, i.e. cash funds and claims denominated in cash amounts as well as liabilities that have to be settled with a fixed or determinable cash amount. Exchange rate risks from equity instruments (non-monetary assets) are not taken into account.

	Group earnings		Shareholders' equity	
€ 000's	31 Dec 2008	31 Dec 2007	31 Dec 2008	31 Dec 2007
Net effect after deferred taxes and provision for deferred premium refunds				
USD				
+ 10 %	– 52	2,479	564	874
– 10 %	52	– 2,479	– 564	– 874
+ 20 %	– 106	—	1,127	—
– 20 %	106	—	– 1,127	—
GBP				
+ 10 %	679	– 4,274	86	187
– 10 %	– 679	4,274	– 86	– 187
YEN				
+ 10 %	736	326	846	765
– 10 %	– 736	– 326	– 846	– 765
DKK				
+ 1 %	185	1,767	—	—
– 1 %	– 185	– 1,767	—	—

In addition to the scenarios presented in the last year, we also analysed, in the year under review, the effects of an increase or a decrease of €/USD exchange rate by 20% in order to account for the increased volatilities on the foreign currency markets in the context of the crisis on the financial markets.

The foreign currency risk of a strategic foreign currency position denominated in Danish Krone held at insurance companies results from exchange rate fluctuations that affect the income statement, although the Danish Krone is characterised by a small range of fluctuation against the euro. Foreign currency risks are generally largely minimised by a corresponding currency-matching cover of technical liabilities.

In addition, foreign exchange forward transactions are used to hedge foreign currency risks and to avoid risk concentrations. The table shows that we have been able to reduce our currency risk exposure primarily through targeted hedging measures.

(50) Default risks

The default risk is a material risk assumed by the Group companies. It is typical for the industry. Default risk is defined as the risk of a loss or lost profit incurred as a result of the default of a contracting partner. The default risk mainly comprises the following types:

Credit risk: Credit risk is the risk that a contracting party may not fulfil its obligations after such party has received cash funds, securities or services (e.g. the risk of a default of a debtor of a receivable or a bond issuer; realisation risk of collateral provided).

Counterparty risk: Counterparty risk is the risk that unrealised profits from transactions in progress cannot be recognised due to the default of a counterparty (e.g. default of a counterparty to a swap where the swap has a positive market value).

Country risk: The country risk is defined as the credit or counterparty risk that results from the activities of a contracting party in a foreign country, rather than from its individual circumstances. This risk may be caused by a crisis with respect to political or economic developments in such countries, which may lead to transfer problems and, accordingly, to additional default risks.

Default risks mainly result from the lending business of home loan and savings banks and other banks, from investment activities as well as from direct insurance and reinsurance business of insurance companies (bad debt risk).

We also comply with legal and regulatory provisions in the context of managing default risks. We limit default risk through a broad diversification of the types of investments and by a prudent selection of issuers and reinsurance partners. Cluster risks resulting from the concentration of large investments or various investments with one issuer are addressed via limits restricting the maximum investment volume permitted per issuer. Apart from the classifications by international rating agencies, the internal assessment is also a key criterion for the selection of issuers. We restrict our selection of contracting parties and securities mainly to parties and instruments with top credit quality in the investment grade range.

The largest portion of the fixed-income securities held is rated with "A" or higher. In addition, a major part of the fixed-income securities held are secured by state guarantees or deposit protection schemes. As a result of existing regulatory regulations (investment regulations for insurance companies and home loan and savings banks) and high internal requirements for creditworthiness, the W&W Group is exposed to enterprise-specific risks and, in particular, the systemic risk of the financial services sector.

The W&W Group has receivables against customers mainly in the area of residential property financing in the Federal Republic of Germany. The major part of the loans is secured by charges over property. Commercial property financing activities were discontinued in 2004. The W&W Group addresses credit risks in residential property financing through risk analyses and risk management of the operating units on portfolio level by means of a credit application scoring and regular assessments of creditworthiness. The credit application scoring is supplemented by a behaviour scoring for money transmission and clearing operations. Risks from customer credit business are measured using a stochastic loan portfolio model. In addition, credit risks on Group level are analysed, monitored and communicated to the Management Board within the scope of regular credit risk reporting which complies with the Minimum Requirements for Risk Management (MaRisk).

The issuer and counterparty limits from trading transactions within the meaning of the MaRisk are determined for all domestic banks and for Wüstenrot & Württembergische AG on a uniform basis throughout the Group. All business partners are classified into risk categories based on their creditworthiness and are assessed using a corresponding probability of default. Credit lines are granted for securities and trading transactions on that basis. The integration of the methodology existing at the insurance companies is promoted within the scope of the further development of credit risk management. Concentration risks from trading transactions are aggregated and monitored on a Group-wide basis.

The W&W Group monitors risks from the default of receivables from agents, policyholders and reinsurers by means of IT-based controls of outstanding receivables. The average default rate of the last three years as at the balance sheet date for receivables from policyholders amounts to 0.1%. The average default rate of the last three years for receivables from agents amounts to 2.9%. Receivables from reinsurance business are not subject to material risks due to the high creditworthiness of the reinsurance companies.

The allowance for credit losses is calculated using the following uniform principles throughout the Group:

Receivables are reviewed for impairment on an individual basis. If necessary, specific valuation allowances are recognised. An impairment or uncollectability exists when expectations with respect to the future cash flows from a financial asset or a group of financial assets change, i. e. when it has to be assumed that the expected cash flows to be generated from the asset or the portfolio of assets are no longer equivalent to the originally expected cash flows.

Specific valuation allowances are determined for material receivables (significant amount) on an individual basis. Specific valuation allowances for receivables of a minor individual significance are recognised on a portfolio basis. These valuation allowances are determined on the level of receivables portfolios with similar risk characteristics (type of credit, past-due status, probability of default) and are based on a present value analysis. The expected future cash flows are determined for the individual receivables of a portfolio, taking into account probabilities of default.

Specific valuation allowances are recognised to cover imminent default risks in the case that it is probable that not all interest and principal payments may be made as contractually agreed.

Apart from specific valuation allowances for individually significant receivables and groups of receivables of minor significance recognised for loans where the event of default is already known, we also recognise portfolio-based valuation allowances. In order to hedge risks from events of default that have occurred already, but have not yet been identified, appropriate portfolios are established with receivables that have similar risk profiles. For each portfolio established, the present value of future cash flows is determined and compared with the current carrying amount, taking into account historical probabilities of default.

The calculation of the valuation allowances is based on the one hand upon historical probabilities of default, and on the other hand upon current developments in the economic environment. Specific valuation allowances, recognised on a lump-sum basis for receivables not yet due from policyholders within the scope of the direct insurance business, are based on historical experience.

Reversals are made when the objective evidence of impairment ceases to exist, an unexpected repayment is received, or the recoverable amount increases. The latter may take the form of an increase of the repayment amounts, or an earlier maturity of the same.

In addition, we write off receivables when the assessment of credit risk management shows that receivables are uncollectable. A receivable is generally written off when all economically reasonable measures to achieve settlement have been unsuccessful.

Reinsurance contracts are concluded with reinsurers of top credit quality, so that the risk of default is significantly reduced (see "Receivables from reinsurance business classified by rating categories", table on pages 177 et seq.).

The maximum default risk exposure from financial assets measured at fair value through profit or loss amounts to € 460.1 million (2007: € 843.3 million).

Since the business activity of the W&W Group is mainly limited to Germany, the country risk has to be considered low. Foreign transactions primarily refer to countries of the European Union and mainly to countries with a stable political and economic environment. In order to expand and diversify our bond portfolio, we made targeted investments in emerging market bonds within the context of globally biased investment funds. Our methodology employed to control country risks is supplemented by using an independent country risk database that complies with Basel II requirements.

The above-mentioned procedures and management and control measures are employed to avoid or minimise risk concentrations.

As at the balance sheet date, the following financial assets subject to some form of default risk – as well as the following assets resulting from direct insurance and reinsurance contracts and subject to some form of default risk – were reported in the consolidated balance sheet. Existing collateral reducing the default risk are not taken into account in the following table.

2008

€ 000's	Assets that are neither past due nor impaired 31 Dec 2008	Assets that are past due, but not impaired 31 Dec 2008	Assets that are impaired 31 Dec 2008	Portfolio impairment allowance 31 Dec 2008	Total 31 Dec 2008
Cash reserve	143,124	—	—	—	143,124
Financial assets at fair value through profit or loss	1,520,809	4,379	—	—	1,525,188
Available-for-sale financial assets	9,883,369	—	7,239	—	9,890,608
Debt securities and other fixed-income securities	9,293,341	—	3,063	—	9,296,404
Registered bonds and other receivables	526,603	—	—	—	526,603
Other available-for-sale financial assets	63,425	—	4,176	—	67,601
Receivables	43,775,073	1,248,307	379,669	– 69,233	45,333,816
Loans and advances to banks	16,682,945	—	1,539	—	16,684,484
Receivables from reinsurance business	101,707	2,025	—	– 2,182	101,550
Loans and advances to customers	26,850,702	1,243,861	377,720	– 65,809	28,406,474
Building loans	22,869,683	1,242,049	319,868	– 59,391	24,372,209
Loans to private customers secured by charges on real property	21,163,058	1,211,440	301,216	– 57,480	22,618,234
Loans to private customers not secured by charges on real property	1,706,625	30,609	18,652	– 1,911	1,753,975
Loans to local authorities	3,041,384	—	—	—	3,041,384
Other loans and advances to customers	939,635	1,812	57,852	– 6,417	992,882
Other receivables	139,719	2,421	410	– 1,242	141,308
Positive market value of hedges	10,724	—	—	—	10,724
Reinsurers' share of technical provisions	1,898,407	—	—	—	1,898,407
Total	**57,231,506**	**1,252,686**	**386,908**	**– 69,233**	**58,801,867**

2007

€ 000's	Assets that are neither past due nor impaired 31 Dec 2007	Assets that are past due, but not impaired 31 Dec 2007	Assets that are impaired 31 Dec 2007	Portfolio impairment allowance 31 Dec 2007	Total 31 Dec 2007
Cash reserve	178,953	—	—	—	178,953
Financial assets at fair value through profit or loss	1,706,279	—	—	—	1,706,279
Available-for-sale financial assets	8,151,431	—	76,281	—	8,227,712
Debt securities and other fixed-income securities	7,566,936	—	62,941	—	7,629,877
Registered bonds and other receivables	494,917	—	—	—	494,917
Other available-for-sale financial assets	89,578	—	13,340	—	102,918
Receivables	46,888,472	1,441,263	335,112	– 73,211	48,591,636
Loans and advances to banks	19,097,865	—	—	—	19,097,865
Receivables from reinsurance business	177,471	5,883	—	– 2,880	180,474
Loans and advances to customers	27,379,968	1,421,367	334,829	– 69,360	29,066,804
Building loans	23,423,659	1,353,727	325,130	– 61,963	25,040,553
Loans to private customers secured by charges on real property	20,949,239	1,326,550	290,035	– 57,530	22,508,294
Loans to private customers not secured by charges on real property	2,474,420	27,177	35,095	– 4,433	2,532,259
Loans to local authorities	3,377,763	—	—	—	3,377,763
Other loans and advances to customers	578,546	67,640	9,699	– 7,397	648,488
Other receivables	233,168	14,013	283	– 971	246,493
Positive market value of hedges	19,099	—	—	—	19,099
Reinsurers' share of technical provisions	1,988,978	—	—	—	1,988,978
Total	**58,933,212**	**1,441,263**	**411,393**	**– 73,211**	**60,712,657**

Assets that are past due but not impaired include both past due instalments and the underlying total amount of the receivable. Existing risks of default are minimised by accepting collateral – primarily in the property financing business.

Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank and Württembergische Lebensversicherung AG, as well as our Czech banks, operate in the home loan business. Collateralisation leads to a significant reduction of the possible default. The loans granted by Württembergische Lebensversicherung AG are wholly secured by charges over property.

Of the debt securities and other fixed-income securities included in held-for-trading assets and available-for-sale financial assets, an amount of € 2,655 million (2007: € 1,880 million) relate to public issuers.

In addition, Group companies have entered into off-balance sheet transactions which are also associated with default risks. These transactions include irrevocable loan commitments by Group companies in the amount of € 917.3 million (2007: € 870.1 million) as well as guarantees with a maximum exposure to default risks of € 7.2 million (2007: € 9.9 million). The default risk from guarantees is calculated based on the maximum liability less the provisions recognised for default risks.

The W&W Group participates in the stabilisation package for the Hypo Real Estate Group. The W&W Group has granted a back-to-back guarantee in a total amount of € 27.7 million for the guarantee granted by the German government in a total amount of € 35 billion.

The carrying amounts of the building loans where the terms and conditions have been re-negotiated, and which would otherwise be past due or impaired, amount to € 20.8 million (2007: € 11.0 million). These loans are almost completely secured by charges over property.

The following table shows the assets that were neither past due nor impaired as at the balance sheet date, based on external rating categories.

2008

	AAA	AA	A	BBB	BB	B or lower	Not rated	Total
€ 000's	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008
Cash reserve	—	—	47,459	—	—	—	95,665	143,124
Financial assets at fair value through profit or loss	4,414	254,600	678,342	24,719	4,285	10,048	544,401	1,520,809
Available-for-sale financial assets	6,002,533	1,850,186	1,518,222	328,815	128,102	33,633	21,878	9,883,369
Debt securities and other fixed-income securities	5,642,139	1,793,044	1,439,197	302,852	84,847	29,660	1,602	9,293,341
Registered bonds and other receivables	360,394	41,278	51,740	25,963	43,255	3,973	—	526,603
Other available-for-sale financial assets	—	15,864	27,285	—	—	—	20,276	63,425
Receivables	6,382,317	8,375,332	4,559,278	737,510	40,038	—	23,713,834	43,808,309
Loans and advances to banks	6,115,353	5,398,258	4,429,901	518,571	4,253	—	216,609	16,682,945
Receivables from reinsurance business	681	55,113	30,367	142	255	—	15,149	101,707
Loans and advances to customers	266,283	2,921,311	98,120	212,582	35,530	—	23,350,112	26,883,938
Building loans	—	—	—	—	—	—	22,869,683	22,869,683
Loans to private customers secured by charges on real property	—	—	—	—	—	—	21,163,058	21,163,058
Loans to private customers not secured by charges on real property	—	—	—	—	—	—	1,706,625	1,706,625
Loans to local authorities	139,964	2,901,385	—	—	—	—	35	3,041,384
Other loans and advances to customers	126,319	19,926	98,120	212,582	35,530	—	447,158	939,635
Other receivables	—	650	890	6,215	—	—	131,964	139,719
Positive market value of hedges	—	—	10,724	—	—	—	—	10,724
Reinsurers' share of technical provisions	1,543,704	276,253	73,529	994	234	—	3,693	1,898,407
Total	**13,932,968**	**10,756,371**	**6,887,554**	**1,092,038**	**172,659**	**43,681**	**24,346,235**	**57,231,506**

2007

€ 000's	AAA 31 Dec 2007	AA 31 Dec 2007	A 31 Dec 2007	BBB 31 Dec 2007	BB 31 Dec 2007	B or lower 31 Dec 2007	Not rated 31 Dec 2007	Total 31 Dec 2007
Cash reserve	3,381	—	46,916	—	—	—	128,656	178,953
Financial assets at fair value through profit or loss	48,065	513,227	255,171	116,719	20,433	—	752,664	1,706,279
Available-for-sale financial assets	5,239,241	416,639	1,828,080	425,369	52,039	48,635	141,428	8,151,431
Debt securities and other fixed-income securities	4,883,076	356,882	1,771,906	395,603	19,701	23,571	116,197	7,566,936
Registered bonds and other receivables	335,206	35,992	42,467	25,623	30,220	25,064	345	494,917
Other available-for-sale financial assets	20,959	23,765	13,707	4,143	2,118	—	24,886	89,578
Receivables	9,823,440	5,678,990	5,886,582	70,529	229	—	25,428,702	46,888,472
Loans and advances to banks	8,143,829	3,876,584	5,784,958	27,230	—	—	1,265,264	19,097,865
Receivables from reinsurance business	371	60,236	91,168	17,171	229	—	8,296	177,471
Loans and advances to customers	1,678,467	1,742,170	10,456	26,056	—	—	23,922,819	27,379,968
Building loans	—	—	—	—	—	—	23,423,659	23,423,659
Loans to private customers secured by charges on real property	—	—	—	—	—	—	20,949,239	20,949,239
Loans to private customers not secured by charges on real property	—	—	—	—	—	—	2,474,420	2,474,420
Loans to local authorities	1,564,864	1,742,170	10,456	—	—	—	60,273	3,377,763
Other loans and advances to customers	113,603	—	—	26,056	—	—	438,887	578,546
Other receivables	773	—	—	72	—	—	232,323	233,168
Positive market value of hedges	—	823	18,276	—	—	—	—	19,099
Reinsurers' share of technical provisions	1,206	1,821,780	74,493	—	—	154	91,345	1,988,978
Total	**15,115,333**	**8,431,459**	**8,109,518**	**612,617**	**72,701**	**48,789**	**26,542,795**	**58,933,212**

As at the balance sheet date, financial assets in the W&W Group that were past due, but not subject to specific valuation allowances, had a carrying amount of € 1,252.7 million (2007: € 1,441.3 million).

The maturity structure of these financial assets is presented in the table below

2008

€ 000's	Up to 1 month past due	More than 1 month to 2 months past due	More than 2 months to 3 months past due	More than 3 months to 1 year past due	More than 1 year past due	Total	Fair value of the rresponding securities
	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008
Receivables	713,387	187,906	105,216	175,527	66,271	1,248,307	4,464,381
Receivables from reinsurance business	—	241	38	1,746	—	2,025	—
Loans and advances to customers	711,360	187,665	105,151	173,781	65,904	1,243,861	4,464,381
Building loans	710,842	187,656	104,991	172,773	65,787	1,242,049	4,464,237
Loans to private customers secured by charges on real property	686,782	184,476	104,369	170,770	65,043	1,211,440	4,448,529
Loans to private customers not secured by charges on real property	24,060	3,180	622	2,003	744	30,609	15,708
Other loans and advances to customers	518	9	160	1,008	117	1,812	144
Other receivables	2,027	—	27	—	367	2,421	—
Financial assets at fair value through profit or loss	—	—	—	4,379	—	4,379	—
Total	**713,387**	**187,906**	**105,216**	**179,906**	**66,271**	**1,252,686**	**4,464,381**

2007

€ 000's	Up to 1 month past due	More than 1 month to 2 months past due	More than 2 months to 3 months past due	More than 3 months to 1 year past due	More than 1 year past due	Total	Fair value of the rresponding securities
	31 Dec 2007	31 Dec 2007	31 Dec 2007	31 Dec 2007	31 Dec 2007	31 Dec 2007	31 Dec 2007
Receivables	746,546	274,025	115,039	239,907	65,746	1,441,263	3,547,710
Receivables from reinsurance business	5,883	—	—	—	—	5,883	—
Loans and advances to customers	726,650	274,025	115,039	239,907	65,746	1,421,367	3,547,710
Building loans	692,637	260,315	110,228	228,643	61,904	1,353,727	3,547,599
Loans to private customers secured by charges on real property	671,363	257,725	109,647	226,904	60,911	1,326,550	3,519,382
Loans to private customers not secured by charges on real property	21,274	2,590	581	1,739	993	27,177	28,217
Other loans and advances to customers	34,013	13,710	4,811	11,264	3,842	67,640	111
Other receivables	14,013	—	—	—	—	14,013	—
Financial assets at fair value through profit or loss	—	—	—	—	—	—	—
Total	746,546	274,025	115,039	239,907	65,746	1,441,263	3,547,710

Assets subject to specific valuation allowances

€ 000's	Gross amount 31 Dec 2008	Direct write-off 31 Dec 2008	Specific valuation allowances 31 Dec 2008	Total 31 Dec 2008	Fair value of corresponding assets 31 Dec 2008
Available-for-sale financial assets	39,125	– 31,886	—	7,239	—
Debt securities and other fixed-income securities	12,291	– 9,228	—	3,063	—
Registered bonds and other receivables	2,047	– 2,047	—	—	—
Other available-for-sale financial assets	24,787	– 20,611	—	4,176	—
Receivables	591,314	– 34,284	– 177,361	379,668	1,970,618
Loans and advances to banks	5,271	– 3,667	– 65	1,539	—
Loans and advances to customers	582,381	– 30,056	– 174,605	377,719	1,970,618
Building loans	471,719	– 2,606	– 149,245	319,868	1,959,164
Loans to private customers secured by charges on real property	436,755	– 2,500	– 133,039	301,216	1,670,440
Loans to private customers not secured by charges on real property	34,964	– 106	– 16,206	18,652	288,724
Other loans and advances to customers	110,662	– 27,450	– 25,360	57,851	11,454
Other receivables	3,662	– 561	– 2,691	410	—
Total	**630,439**	**– 66,170**	**– 177,361**	**386,908**	**1,970,618**

They major part of the assets past due, but not subject to specific valuation allowances, relates to receivables from building loans which are largely secured by charges over property. As at the balance sheet date, assets subject to specific valuation allowances had a carrying amount of € 353.7 million (2007: € 411.4 million).

The gross carrying amounts of the related assets, the direct write-offs recognised up to the balance sheet date and the specific valuation allowances recognised up to the balance sheet date are shown in the table.

Assets subject to specific valuation allowances

€ 000's	Gross amount 31 Dec 2007	Direct write-off 31 Dec 2007	Specific valuation allowances 31 Dec 2007	Total 31 Dec 2007	Fair value of corresponding assets 31 Dec 2007
Available-for-sale financial assets	96,381	– 20,100	—	76,281	—
Debt securities and other fixed-income securities	68,785	– 5,844	—	62,941	—
Registered bonds and other receivables	—	—	—	—	—
Other available-for-sale financial assets	27,596	– 14,256	—	13,340	—
Receivables	534,096	– 5,848	– 193,136	335,113	701,317
Loans and advances to banks	63	—	–63	—	—
Loans and advances to customers	529,215	– 4,994	– 189,392	334,830	701,317
Building loans	514,465	– 4,271	– 185,064	325,131	692,899
Loans to private customers secured by charges on real property	456,216	– 4,132	– 162,048	290,036	632,445
Loans to private customers not secured by charges on real property	58,249	–139	– 23,016	35,095	60,454
Other loans and advances to customers	14,750	– 723	– 4,328	9,699	8,418
Other receivables	4,818	– 854	– 3,681	283	—
Total	**630,477**	**– 25,948**	**– 193,136**	**411,394**	**701,317**

(51) Insurance risks

Life and health insurance

Presentation of insurance portfolio

The life and health care insurance business in the W&W Group comprises endowment and term assurance, annuity assurance, permanent health insurance, and health care insurance. The insurance portfolio mainly consists of long-term contracts with a discretionary participation feature. Unit-linked life and annuity assurance are covered on a matching basis with the shares in investment funds attributable to the insurance policies.

The active reinsurance business now only accounts for an insignificant portion.

Risks of the insurance portfolio and risk management system

The distinctive feature of life insurance contracts is the long-term nature of the obligations assumed. The calculation of the guaranteed benefits is based on prudent assumptions. The calculation parameters may change significantly over time such that material cash flows may deviate from expectations.

Risks from the life insurance business mainly result from mortality and other biometric risks, interest rate risk and expense risk.

The biometric calculation parameters, such as mortality, life expectancy or invalidity probabilities are subject to fluctuation risks and risk of errors as well as long-term changes. These risks are controlled on an ongoing basis by means of actuarial analyses and reviews. As far as product development is concerned, we take into account potential changes through corresponding actuarial models.

The assessment of longevity risk is of particular significance for the provision for future policy benefits in the annuity assurance business. In addition to the analysis of the Company's own findings, W&W also relies on research, comments and guidelines of the German Association of Actuaries in order to stabilize the information basis. Due to the insufficiently weakened trend in mortality improvement, Württembergische Lebensversicherung AG once again increased the safety margins for longevity risk in the provision for future policy benefits during the financial year 2008. Future findings with respect to mortality trends, or a further increase of the safety margins as recommended by the German Association of Actuaries, may lead to additional transfers to the provision for future policy benefits in future.

The calculation parameters are considered appropriate by both the supervisory authority and the German Association of Actuaries. The internal reporting to the supervisory authority includes an annual comparison with actual results. Smaller changes in the assumptions underlying the calculation with respect to biometry, interest rates and expenses are compensated for by the safety premiums included in the calculation parameters.
In case of a change of the risk, expense and/or interest rate expectations, the associated impact on earnings is significantly reduced by an adjustment of the future profit participation payable to the policyholders.

The risks are limited by suitable passive reinsurance contracts, concluded with top reinsurance companies.

Sensitivity analysis

In the life insurance segment, we use calculation parameters subject to high safety margins for the calculation of guaranteed benefits in order to take into account the long-term nature of life insurance contracts. Discretionary participation features are used to pass on unnecessary safety margins to customers. Short-term fluctuations are compensated for by reducing or increasing the additions to the provision for premium refunds intended for future profit participation. In addition, the amount of the profit participation is adjusted in case of long-term changes.

Biometric risk

An increase in mortality reduces earnings in the case of endowment and term life assurance contracts, but increases earnings in the case of annuity assurance contracts. The expected mortalities are sufficiently taken into account by the existing safety margins, and a change will only have marginal effects in accordance with the mechanism described above, even on a gross basis, when such effects cannot be compensated for completely. The passive reinsurance concluded further reduces this effect.

In the area of permanent health insurance, the invalidity probability is subject to social and economic developments, apart from medical and legal changes. The safety margins embedded in the calculation are sufficiently taken into consideration here as well, so that the underlying expectations will have a positive result. A reasonably assumed change of the invalidity probability does not have more than just marginal effects on the Group's earnings, both on a gross or on a net basis.

In the area of health insurance, the risk resulting from an increase of the per capita losses is provided for by an adjustment of the premium. Accordingly, this risk does not have any significant effects on the Group's earnings.

Cancellation risk

The changes of the cancellation rates in the past do not show significant fluctuations. Accordingly, only minor changes can be reasonably expected, which means that the impact on earnings is negligible.

In addition, negative consequences on earnings only occur in the first years after a contract is concluded, as long as claims against the policyholder are reported that are not yet due and cannot be recovered after cancellation. Cancellations are accounted for by recognising an appropriate valuation allowance. The valuation allowances are based on prudent assumptions according to experience from
prior years.

In case of a surrender in subsequent years, the cancellation discounts have a positive effect on Group earnings as the provisions include at least the surrender value. This means that the payment is simultaneously matched with a corresponding reversal of the provisions.

Unit-linked insurance policies are covered on a matching basis with the relevant funds; additional guarantee commitments are taken into account in the provision for future policy benefits. An increase or reduction of the cancellation rate does not result in any material effect on earnings.

An increased cancellation of contracts by customers may result in larger-than-expected outflows of liquidity.

Risk concentrations

Concentrations of insurance risks in the life and health care insurance business result from regional risk concentrations as well as from individual insurance contracts, in case of a significant level of insured risks. Life and health insurance providers address the emergence of regional risk concentrations by distributing their insurance products on a nationwide basis.

Risk concentrations from individual insurance contracts (cluster risk) are reduced by passive reinsurance contracts with top reinsurance providers.

The remaining risk concentrations result from the insured risks, i.e. the mortality, longevity and invalidity risks, respectively. The following table shows the provision for future policy benefits by insured risks to illustrate the existing risk concentrations.

Provision for future policy benefits by type of risk insured

€ 000's	Gross 31 Dec 2008	Net 31 Dec 2008	Gross 31 Dec 2007	Net 31 Dec 2007
Life assurance	23,865,547	22,338,389	23,898,477	22,337,199
Mainly mortality risk	15,075,172	13,993,151	15,610,821	14,464,422
Mainly endowment risk (annuities)	8,316,577	7,926,429	7,843,263	7,487,437
Mainly invalidity risk	473,798	418,809	444,393	385,340
Health insurance	129,067	129,067	99,535	99,535
Active reinsurance business	34,939	34,935	36,086	36,086
Total	**24,029,553**	**22,502,391**	**24,034,098**	**22,472,820**

Individual insurance contracts are not associated with material risk concentrations, either on a gross or net basis. This becomes apparent in the following overview, in which the gross provision for future policy benefits of the direct insurers is classified by the sum insured (12 times the annuity in case of annuity assurance) of the underlying insurance contracts.

Provision for future policy benefits for insurance contracts with a sum insured of

€ 000's	Gross 31 Dec 2008	Gross 31 Dec 2007
< € 0.5 million	23,381,452	23,345,596
> € 0.5 million – € 1 million	262,612	267,181
> € 1 million – € 5 million	202,905	216,482
> € 5 million – € 15 million	18,578	16,860
> € 15 million – € 50 million	—	52,358
> € 50 million	—	—
Active reinsurance business	34,939	36,086
Total	**23,900,486**	**23,934,563**

Risks from options and guarantees included in insurance contracts

- **Unit-linked life and annuity assurance: Guaranteed minimum benefits**
  The investment risk associated with unit-linked annuity assurance contracts remains with the policyholder. There is no market risk since all contracts are covered on a matching basis. The product design ensures that reserves are established for contribution components necessary to pay any guaranteed minimum benefits.
- **Annuity assurance: lump-sum option**
  The exercise of the lump-sum option is influenced by individual factors of the policyholder.
- **Life insurance: annuitisation option**
  The annuitisation option is carried out on the basis of the tariffs applicable to new insurance contracts concluded. This option has no effect on earnings or the balance sheet.
- **Surrender option and contribution exemption**
  The provision for future policy benefits recognised in the balance sheet for contracts with surrender options is in each case at least equivalent to the surrender value. A contribution exemption with reduced guaranteed benefits represents a partial surrender, and is therefore already accounted for in the balance sheet by analogy.
- **Premium indexation**
  While the option to increase insurance benefits by increasing the premium without additional underwriting is calculated using a fixed calculation rate, previous experience shows that the decision of the policyholders is influenced to a higher degree by the type of insurance contract or by the expectation of higher interest rates from the profit participation. The interest rate risk from this option is negligible.

Property-casualty insurance/reinsurance

Presentation of insurance portfolio

The property-casualty insurance business is carried out in the domestic market by Württembergische Versicherung AG. In its domestic market, Württembergische Versicherung AG insures risks with a focus on the private and commercial sector. Types of insurance include the traditional segments of liability insurance, motor insurance, household insurance, legal protection insurance, casualty insurance and residential building insurance.

After the disposal of its UK branch (WürttUK), Württembergische Versicherung AG has not been exposed to any major industrial risks, and has not been involved in reinsurance business since 2008. Thus, active reinsurance business with partners outside the Group is only carried out on a very limited scale by Wüstenrot & Württembergische AG, in the form of its participatory holding in some German market pools.

As a result of the almost complete discontinuation of the active reinsurance business by Wüstenrot & Württembergische AG a number of years ago, as well as due to the disposal of WürttUK, the international risk exposure of our Group has been reduced considerably. The renewal rights of the UK branch of Württembergische Versicherung AG from 1 January 2008 were sold at the end of 2007. The portfolio underwritten prior to 31 December 2007 remains with Württembergische Versicherung AG and will be settled based on a service contract by Antares Underwriting Services Ltd. Settlement will entail specific risks. The risk-mitigating measures agreed are monitored within the scope of risk management.
Settlement risks from the legacy businesses have been provided for through the recognition of appropriate provisions.

Risks of the insurance portfolio and risk management system

Insurance risks result from uncertainties with respect to the future development of losses and costs from insurance contracts concluded which may result in unexpected loss adjustment and benefit obligations, possibly harming our financial performance.

In the property insurance segment, insurance risks are primarily of a short-term nature as loss adjustment may generally be made on a timely basis. In case of severe bodily injuries in the areas of general liability insurance and motor third party liability insurance as well as casualty insurance, risks are also subject to exogenous trends, such as medical progress and the associated life expectancy. In addition, risks are influenced by legal regulations with regard to compensation for damages and liability.

Württembergische Versicherung AG selects its risks by a risk- and cost-based tariff structure and underwriting policy. The price calculation is based on actuarial calculations and statistical analyses of existing portfolios and costs. The product design is mainly based on normal market conditions and regulations, and excludes – to the extent possible in the contract design – hardly estimable risks for which there is insufficient loss history (e.g. terror acts, asbestos). Risk underwriting is based on specified guidelines, and takes into account defined maximum underwriting amounts. As far as natural hazards are concerned, risk selection and pricing is based on regional classification systems so that objects with a high exposure to loss are not insured at all – or only at appropriate prices. The underwriting guidelines are regularly updated, and compliance with these guidelines is monitored on an ongoing basis.

Loss management is optimised on a continuous basis. Advising customers with respect to precautionary measures reduces the loss probability, and quick and uncomplicated loss adjustment minimises costs. The loss events are processed by qualified and specialised staff.

Furthermore, Württembergische Versicherung AG has a comprehensive and appropriate reinsurance protection for the purpose of limiting negative effects from large, cumulative or long-tail damages. The reinsurance program is reviewed annually taking into consideration the risk-bearing capacity, and adapted to the relevant business development. Passive reinsurance is placed with several highly rated reinsurers with rating in the investment grade range.

In case of identified or expected insurance risks, we recognise provisions in a timely and appropriate manner in the form of specific or general provisions in sufficient amounts.

Sensitivity analysis

Underwriting of risks is exclusively based on actuarial and statistical analyses. This means that Württembergische Versicherung AG has priced in sufficient safety premiums in its tariffs in order to cover risk fluctuations.
In order to review the sufficiency of the provisions, we use actuarial opinions as well as regular simulations and stress analyses. The recognition of provisions for loss events is based on a conservative approach followed by Württembergische Versicherung AG. The objective of this approach is to meet future payment obligations at any time. Provisions are reviewed for each insurance segment on a regular basis as to their appropriateness using the internal risk-bearing capacity model. On the basis of the results of these reviews, we come to the conclusion that the provisions of Württembergische Versicherung AG in the property-casualty segment are sufficient.

The Group's earnings may be negatively affected if actual loss or cost trends deviate from expectations.

The insurance risks are measured using statistical-analytical factor models customary in the industry, or company-specific stochastic models. In addition, loss scenario analyses are performed.

The Group's earnings may be negatively affected if actual loss or cost trends deviate from expectations. These negative effects are accounted for as part of insurance risks. The insurance risks are measured using statistical-analytical factor models customary in the industry or company-specific stochastic models. In addition, loss scenario analyses are performed.

Risk concentrations

Risk concentrations primarily result from the risks insured in the different insurance segments. The following table shows the claims provision by segments to illustrate the existing risk concentrations. The table shows the portfolio, which is characterised by a broadly diversified segment mix and which contributes to a reduction of the risk exposures.

Provision for loss and loss adjustment expenses

€ 000's	Gross 31 Dec 2008	Net 31 Dec 2008	Gross 31 Dec 2007	Net 31 Dec 2007
Liability insurance – corporate customers	465,715	409,826	471,861	453,771
Property insurance – corporate customers	424,487	366,125	448,698	355,297
Liability insurance – private customers	130,378	120,150	121,865	89,091
Other insurance – private customers	4,096	3,853	2,134	1,480
Motor third party liability	1,038,446	856,462	1,081,349	865,252
Other motor insurance	939	890	1,030	870
Household insurance	10,195	9,300	9,084	9,000
Legal protection insurance	118,529	112,317	116,538	116,538
Hull fire/theft	5,054	3,817	4,171	4,127
Casualty	167,332	158,104	170,037	165,482
Hull all risks	24,478	21,007	21,764	18,476
Residential building insurance	38,595	31,452	32,498	27,872
Other	102,563	96,120	116,688	116,688
Total	**2,530,807**	**2,189,423**	**2,597,717**	**2,223,944**

(52) Liquidity risks

Liquidity risk is the risk that an entity will not be able to raise funds necessary to settle its obligations. Liquidity risks may also result from an inability to sell an asset quickly and timely at its fair value, or that cash funds can only be raised at less favourable conditions than expected. Accordingly, liquidity risks consist of the risk of the inability to pay, the market liquidity risk and the funding risk.

A number of Group companies, operating as financial services companies, are subject to specific legal and regulatory requirements which are intended to ensure that the related companies are able to meet their current or future payment obligations at any time. The Group companies complied with these regulatory requirements at any time.

For the purpose of monitoring and controlling liquidity risks, the cash flows expected in future are compared with existing funds in a liquidity run-off profile. As part of a standardised approach to liquidity planning, the individual companies predict future inflows and outflows of funds, This involves taking into account and reconciling maturity structures of receivables and liabilities. The calculated surpluses or deficits then represent the basis for the investment or financing decisions. Sensitivity analyses are used to evaluate the effects and coverage potential of specific behaviours of capital markets and customers. Emergency plans are established to manage exceptional situations. This is to address risk concentrations threatening the Group's liquidity.

Identified or expected liquidity risks are immediately reported to central risk management. Material liquidity risks are notified as part of regular risk reporting. The impact of the crisis on the financial markets on the W&W Group's liquidity situation is described in detail in the risk report section of the Group management report (page 49). The following table shows the maturity analysis with respect to selected financial instruments for the financial year 2008:

Maturity analysis 2008
Assets

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Indefinite term	Total
Loans and advances to banks	2,238.7	835.2	3,688.5	9,766.7	155.4	16,684.5
Receivables from reinsurance business	26.8	76.9	—	—	—	103.7
Loans and advances to customers	2,120.7	2,163.3	9,343.8	11,264.9	3,754.2	28,646.9
Other receivables	138.1	3.2	—	—	3.9	145.2
Allowance for credit losses	– 11.2	– 25.5	– 59.2	– 51.9	– 98.8	– 246.6
Debt securities and other fixed-income securities classified as financial assets designated as at fair value	60.7	20.5	66.2	377.5	539.6	1,064.5
Debt securities and other fixed-income securities as well as derivatives held for trading	120.9	29.0	106.6	198.7	—	455.2
Debt securities and other fixed-income securities, bearer bonds and other receivables as well as other financial assets available for sale	1,031.0	947.9	2,081.7	5,761.6	0.9	9,823.1

Maturity analysis 2008
Liabilities

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Indefinite term	Total
Certificated liabilities	476.7	567.4	431.3	567.9	—	2,043.3
Liabilities to banks	2,673.5	676.0	1,008.6	276.0	576.1	5,210.2
Liabilities from reinsurance business	1,566.8	35.6	—	—	—	1,602.4
Liabilities to customers	3,591.9	680.4	1,766.7	2,445.9	12,380.9	20,865.8
Other liabilities	361.1	13.3	6.1	—	93.5	474.0
Financial liabilities at fair value through profit or loss	95.3	26.1	128.3	257.1	0.4	507.2
Subordinated capital	23.5	9.9	98.0	336.8	—	468.2

As of the balance sheet date 2008, the remaining terms to maturity of financial instruments of more than one year and up to including five years can be broken down for material items into the following time bands:

Maturity analysis 2008
Assets

€ mn	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
Loans and advances to banks					
of which: Building loans	0.3	—	—	—	0.3
of which: Other loans and advances	645.5	770.4	732.4	1,075.3	3,223.6
Loans and advances to customers					
of which: Building loans	2,328.5	2,073.2	1,481.4	2,509.8	8,392.9
of which: Other loans and advances	2.0	3.3	2.6	51.3	59.2
Allowance for credit losses	– 21.8	– 15.5	– 9.5	– 12.4	– 59.2
Debt securities and other fixed-income securities classified as financial assets designated as at fair value	24.1	22.2	12.1	7.8	66.2
Debt securities and other fixed-income securities as well as derivatives held for trading	53.1	7.2	16.0	30.3	106.6
Debt securities and other fixed-income securities, bearer bonds and other receivables as well as other financial assets available for sale	611.5	887.8	318.2	264.2	2,081.7

Maturity analysis 2008
Liabilities

€ mn	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
Certificated liabilities	86.1	139.7	65.6	139.9	431.3
Liabilities to banks					
Miscellaneous liabilities	483.3	226.8	68.5	230.0	1,008.6
Liabilities to customers					
Savings deposits	32.0	—	—	150.2	182.2
Other deposits	349.4	646.4	330.0	258.7	1,584.5
Financial liabilities at fair value through profit or loss	17.5	36.9	35.8	38.1	128.3
Subordinated capital	29.2	40.0	—	28.8	98.0

The following table shows the maturity analysis with respect to selected financial instruments for the financial year 2007:

Maturity analysis 2007
Assets

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Indefinite term	Total
Loans and advances to banks	2,468.8	1,289.8	3,671.1	11,627.7	40.5	19,097.9
Receivables from reinsurance business	105.4	63.3	14.7	—	—	183.4
Loans and advances to customers	2,262.0	3,154.7	8,926.3	11,382.2	3,605.2	29,330.4
Other receivables	246.1	2.0	—	—	3.0	251.1
Allowance for credit losses	– 7.2	– 15.7	– 61.0	– 61.6	– 120.8	– 266.3
Debt securities and other fixed-income securities classified as financial assets designated as at fair value	54.5	102.8	159.2	526.8	674.0	1,517.3
Debt securities and other fixed-income securities as well as derivatives held for trading	53.7	15.7	32.3	86.0	—	187.7
Debt securities and other fixed-income securities, bearer bonds and other receivables as well as other financial assets available for sale	243.8	590.5	2,388.2	4,901.2	1.1	8,124.8

Maturity analysis 2007
Liabilities

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Indefinite term	Total
Certificated liabilities	747.2	892	1,170.1	506.5	—	3,315.8
Liabilities to banks	1,999.9	1,061.8	1,475.8	462.8	542.6	5,542.9
Liabilities from reinsurance business	1,655.8	54.6	—	—	—	1,710.4
Liabilities to customers	2914	731.7	1,967.9	2,414.4	13,761.9	21,789.9
Other liabilities	341.2	17.9	12.1	31.7	45.0	447.9
Financial liabilities at fair value through profit or loss	61.3	119.2	13.2	34.0	—	227.7
Subordinated capital	16.8	2.6	122.6	365.5	—	507.5

As of the balance sheet date 2007, the remaining terms to maturity of financial instruments of more than one year and up to including five years can be broken down for material items into the following time bands:

Maturity analysis 2007 Assets

€ mn	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
Loans and advances to banks					
of which: Building loans	4.7	—	0.2	—	4.9
of which: Other loans and advances	860.6	653.2	401.3	454.2	2,369.3
Loans and advances to customers					
of which: Building loans	2,720.3	2,076.9	1,674.4	1,678.9	8,150.5
of which: Other loans and advances	1.2	1.3	1.3	1.8	5.6
Allowance for credit losses	– 22.4	– 17.0	– 12.5	– 9.1	– 61.0
Debt securities and other fixed-income securities classified as financial assets designated as at fair value	46.8	39.3	45.3	27.8	159.2
Debt securities and other fixed-income securities as well as derivatives held for trading	12.6	10.6	1.8	7.3	32.3
Debt securities and other fixed-income securities, bearer bonds and other receivables as well as other financial assets available for sale	983.5	414.9	634.0	355.8	2,388.2

Maturity analysis 2007 Liabilities

€ mn	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
Certificated liabilities	954.2	100.0	52.7	63.2	1,170.1
Liabilities to banks					
Miscellaneous liabilities	597.2	473.3	207.2	198.1	1,475.8
Liabilities to customers					
Savings deposits	10.9	—	—	106.2	117.1
Other deposits	552.0	362.5	634.0	302.3	1,850.8
Financial liabilities at fair value through profit or loss	5.1	2.2	5.8	0.1	13.2
Subordinated capital	50.5	32.1	40.0	—	122.6

The following overview shows the future contractual gross payments for the financial instruments in the Group's portfolio as of the balance sheet date, as well as the expected maturity structure for the liability items resulting from insurance contracts:

Contractually agreed cash flows 2008

€ 000's	up to 3 months 31 Dec 2008	3 months to 1 year 31 Dec 2008	1 to 5 years 31 Dec 2008	5 to 10 years 31 Dec 2008	10 to 15 years 31 Dec 2008	15 to 20 years 31 Dec 2008	more than 20 years 31 Dec 2008
Liabilities	18,647,743	2,830,688	4,842,854	3,677,105	458,096	171,555	83,057
Certificated liabilities	472,870	623,878	567,156	602,080	16,754	10,526	—
Liabilities to banks	2,764,103	996,421	1,391,955	797,057	31,418	4	—
Liabilities to customers	14,971,913	1,141,063	2,877,279	2,277,968	409,924	161,025	51,121
Deposits from home loan and savings business, and other savings deposits	13,683,990	104,907	659,002	25,659	—	—	—
Other deposits	1,287,923	1,036,156	2,218,277	2,252,309	409,924	161,025	51,121
Other liabilities	438,857	69,326	6,464	—	—	—	31,936
Financial liabilities at fair value through profit or loss	52,544	38,610	109,255	36,537	4,692	– 593	– 527
Negative market value of hedges	2,456	14,070	32,740	28,026	19,361	7,204	4,773
Subordinated capital	48,677	28,996	199,073	344,424	52,798	8,250	—
Irrevocable loan commitments	975,864	—	—	—	—	—	—
Total	**19,727,284**	**2,912,364**	**5,183,922**	**4,086,092**	**534,947**	**186,416**	**87,303**

Expected maturity of amounts recognised in the balance sheet 2008

€ 000's	up to 3 months 31 Dec 2008	3 months to 1 year 31 Dec 2008	1 to 5 years 31 Dec 2008	5 to 10 years 31 Dec 2008	10 to 15 years 31 Dec 2008	15 to 20 years 31 Dec 2008	more than 20 years 31 Dec 2008
Liabilities from reinsurance business	50,011	—	—	—	—	—	—
Liabilities to customers from direct insurance business	70,311	63,053	151,053	126,538	62,403	33,885	44,826
Technical provisions	1,056,923	2,361,003	7,852,814	6,267,995	3,554,434	1,997,344	3,420,613
Provision for future policy benefits for life insurance	464,427	1,674,605	7,107,506	5,950,660	3,357,706	1,824,693	3,068,406
Provision for loss, and loss adjustment expenses	564,547	665,527	656,300	212,817	127,633	127,633	166,596
Provisions for unit-linked life insurance contracts	6,242	18,923	89,008	104,518	69,095	45,018	185,611
Other technical provisions	21,707	1,948	—	—	—	—	—
Total	**1,177,245**	**2,424,056**	**8,003,867**	**6,394,533**	**3,616,837**	**2,031,229**	**3,465,439**

Contractually agreed cash flows 2007

€ 000's	up to 3 months 31 Dec 2007	3 months to 1 year 31 Dec 2007	1 to 5 years 31 Dec 2007	5 to 10 years 31 Dec 2007	10 to 15 years 31 Dec 2007	15 to 20 years 31 Dec 2007	more than 20 years 31 Dec 2007
Liabilities	20,066,893	2,748,577	5,899,907	4,047,721	316,402	359,157	72,796
Certificated liabilities	1,081,713	749,264	1,384,441	547,038	17,890	10,599	—
Liabilities to banks	2,317,168	1,016,057	1,781,879	1,008,278	13,076	54,683	—
Liabilities to customers	16,223,329	946,106	2,721,643	2,492,405	285,436	293,875	72,196
Deposits from home loan and savings business, and other savings deposits	14,892,567	387,642	116,085	128,918	—	—	—
Other deposits	1,330,762	558,464	2,605,558	2,363,487	285,436	293,875	72,196
Other liabilities	444,683	37,150	11,944	—	—	—	600
Financial liabilities at fair value through profit or loss	24,451	136,609	27,991	10,473	312	1,238	1,096
Negative market value of hedges	4,709	11,621	52,488	29,796	21,301	10,470	—
Subordinated capital	5,860	27,869	245,179	254,632	98,894	152,230	—
Irrevocable loan commitments	296,297	610,173	—	—	—	—	—
Total	**20,398,210**	**3,534,849**	**6,225,565**	**4,342,622**	**436,909**	**523,095**	**73,892**

Expected maturity of amounts recognised in the balance sheet 2007

€ 000's	up to 3 months 31 Dec 2007	3 months to 1 year 31 Dec 2007	1 to 5 years 31 Dec 2007	5 to 10 years 31 Dec 2007	10 to 15 years 31 Dec 2007	15 to 20 years 31 Dec 2007	more than 20 years 31 Dec 2007
Liabilities from reinsurance business	104,377	77,150	—	—	—	—	—
Liabilities to customers from direct insurance business	18,751	323,519	150,364	118,907	56,211	30,517	39,760
Technical provisions	784,861	2,377,739	8,080,049	6,438,946	3,654,490	2,042,684	3,231,850
Provision for future policy benefits for life insurance	487,288	1,796,282	7,005,994	5,999,457	3,355,632	1,825,262	2,843,468
Provision for loss, and loss adjustment expenses	287,049	530,892	962,467	307,444	208,770	158,040	143,054
Provisions for unit-linked life insurance contracts	10,284	25,285	111,588	132,045	90,088	59,382	245,328
Other technical provisions	240	25,280	—	—	—	—	—
Total	**907,989**	**2,778,408**	**8,230,413**	**6,557,853**	**3,710,701**	**2,073,201**	**3,271,610**

Equity management

Wüstenrot & Württembergische AG, as the holding company, is responsible for W&W Group's equity base. On the one hand, it receives dividends and profit transfers: and on the other hand, it carries out corporate actions such as capital increases and reductions, and grants loans to Group companies.

The main objective of equity management is an efficient allocation of equity and an adequate return on equity as reported under IFRS. In order to ensure that this objective is reached, return on equity (ROE) targets are set for the W&W Group and the individual subsidiaries, with these targets being derived on the basis of the relevant IFRS equity.

As of 31 December 2008, the W&W Group's equity as reported in accordance with IFRS amounted to € 2,348.4 million (2007: € 2,493.6 million). The changes of the individual components of equity are disclosed in Note 25 (Statement of changes in shareholders' equity).

Further objectives of capital management are ensuring the risk-bearing capacity on the basis of internal risk-bearing capacity models of the W&W Group as well as meeting the regulatory minimum capital requirements, which are defined by the provisions of the German Banking Act (Kreditwesengesetz, KWG), the German Insurance Supervisory Law (Versicherungsaufsichtsgesetz, VAG) and the German Solvability Ordinance for Financial Groups (Finanzkonglomeratesolvabilitätsverordnung, FkSolV).

Another capital requirement is that the W&W Group in aggregate, as well as the individual subsidiaries on a stand-alone basis, must have sufficient equity so that a financial strength rating of at least "A" is possible. Within the scope of an efficient capital management, the W&W Group also employs subordinated capital for the purposes of meeting the regulatory solvability requirements.

(53) Regulatory solvability

The insurance companies and the credit and financial services institutions of the W&W Group are subject to supervision on the level of the individual company by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) and Deutsche Bundesbank pursuant to the VAG, the KWG and the applicable provisions of the country of incorporation of the supervised foreign companies of the W&W Group. This supervision represents the basis for the capital requirements applicable to these companies.

Wüstenrot & Württembergische AG ensures that all supervised subsidiaries comply with the minimum regulatory capital requirements. In this context, equity capital and subordinated capital represent the basis for capital management in accordance with the regulatory standards. The composition of subordinated capital is disclosed in Note 24 (Subordinated capital). Changes in the individual components of equity are disclosed in Note 25 (Statement of changes in shareholders' equity).

In the year under review, all companies of the W&W Group that are subject to supervision have fulfilled the regulatory minimum capital requirements.

The following table shows the regulatory capital ratios of the material companies:

	Available own funds pursuant to VAG/KWG		Solvability requirement pursuant to VAG/KWG		Ratio	
	2008	2007	2008	2007	2008	2007
	€ mn	€ mn	€ mn	€ mn	in %	in %
Wüstenrot & Württembergische AG	1,528.2	1,473.4	40.1	45.8	3,811	3,217
Wüstenrot Bausparkasse AG	711.7	710.9	5,746.3	7,512.3	12.4	9.5
Wüstenrot Bank AG Pfandbriefbank	565.9	586.0	5,887.3	6,646.6	9.6	8.8
Württembergische Versicherung AG[1]	323.0	322.4	200.3	200.3	161	161
Württembergische Lebensversicherung AG[2]	1,751.7	1,840.2	969.8	971.7	181	189
Württembergische Krankenversicherung AG	7.8	7.8	6.1	5.3	128	147

1 Figures for 2007 after the merger with Karlsruher Versicherung AG.
2 Figures for 2007 after the merger with Karlsruher Lebensversicherung AG.

In addition to supervision on individual company level, insurance companies of the W&W Group are subject to additional supervision due to the fact that they together represent an insurance group. In the year under review, the insurance group complied with the regulatory minimum capital requirements.

Based on a letter dated 23 February 2007, the BaFin classified the W&W Group as a financial conglomerate, with Wüstenrot & Württembergische AG being the controlling company. Therefore, Wüstenrot & Württembergische AG has to ensure that the regulatory requirements for financial conglomerates as defined by the provisions of the KWG, the VAG and the FkSolV are complied with. These requirements include, among other things, that the W&W Group as the financial conglomerate must hold regulatory own funds that satisfy the regulatory minimum requirements. Wüstenrot & Württembergische AG has to issue a corresponding notification to the BaFin and Deutsche Bundesbank on an annual basis; said notification has to be made not later than 30 September of the following year for the past financial year.

This notification with respect to the calculation of the solvability in the financial conglomerate had to be prepared for the first time for the financial year 2007 and was submitted in due time to the BaFin and the Deutsche Bundesbank by 30 September 2008. In the financial year 2007, the financial conglomerate W&W Group complied with the regulatory minimum capital requirements.

Internal calculations on the basis of preliminary data for 2008, as well as on the basis of the projections or planning figures for 2008 and 2009, show that the regulatory minimum capital requirements in the W&W Group as a financial conglomerate will be met.

(54) Risk-bearing capacity models

In order to reconcile the risks identified on company level to a quantitative assessment of the overall risk profile, we have developed a Group-wide risk- and present-value-based risk-bearing capacity model, which is continuously optimised and expanded upon validation. This involves aggregating material risks in the W&W Group to a total amount and a comparison with the funds available for risk cover. As at 31 December 2008, our internal model shows, on Group level, that there are sufficient funds available for risk cover in line with the previous years.

The model enables a quantitative evaluation of all material risks and represents the overall risk profile – in the W&W Group, and on individual company level. Management is informed on a timely basis in case action is needed, and details for risk-compensating or risk-reducing measures are provided. The model provides the basis for the definition of risk limits, and serves the purpose of achieving the goal of risk-based corporate management.

Return targets

For the year 2008, the ROE target set for the W&W Group is 6.7% (after taxes). This target was not achieved, since actual ROE was 2.8%. The reason for this was impairments on investments within the context of the current developments on the financial markets, negatively affecting profit or loss. However, the restructuring programme initiated by W&W in 2006 will continue to be implemented rigorously. The targeted improvements in efficiency for the year 2008 were exceeded. Accordingly, we maintain our ROE target (after taxes) of 9% for the year 2009.

By continuous extrapolation and comparison between actual and plan data during the year, we ensure that deviations from the ROE target in the Group and in the business segments are identified, and corresponding measures can be initiated. For this purpose, we break down the ROE target for the entire Group to the operating business segments of the W&W Group.

(55) External rating

The W&W Group's minimum target for the financial strength rating is "A". Therefore, the target for capital management of Wüstenrot & Württembergische AG is to ensure that the overall Group as well as the individual subsidiaries have the required equity capital. We refer to the Group management report for information on the W&W Group's current ratings (page 20).

Other disclosures

(56) Assets pledged as security

The Group has pledged assets as security for the following liabilities:

€ 000's	31 Dec 2008	31 Dec 2007
Liabilities to banks	2,840,014	2,238,713
Total	**2,840,014**	**2,238,713**

The following assets have been pledged as security:

€ 000's	31 Dec 2008	31 Dec 2007
Loans and advances to banks	218,980	60,479
Loans and advances to customers	940,706	1,292,552
Available-for-sale financial assets	2,697,101	2,313,393
Total	**3,856,787**	**3,666,424**

Loans and advances to banks were pledged as security for securities and forward transactions. In addition, securities reported as available-for-sale financial assets were pledged as security for the securities business of the W&W Group.

Furthermore, promissory note loans included in loans and advances to banks were pledged as security for credit balances of the Group's own employees in the context of partial retirement schemes.

Loans and advances to customers mainly comprise refinanced high quality residential building loans. The underlying framework agreements generally provide for an assignment of these loans to the refinancing banks.

In addition, insurance liabilities of the German direct insurers of the W&W Group are covered with assets (financial instruments as well as property) belonging to separate guarantee assets, pursuant to the legal requirements. The assets allocated to the separate guarantee assets are of senior rank and accordingly available to satisfy the claims of policyholders.

(57) Leases

In the financial years 2008 and 2007, the Group entered into finance leases and operating leases only as lessee.

2008	Up to 1 year	1 to 5 years	More than 5 years	Total
€ 000's	31 Dec 2008	31 Dec 2008	31 Dec 2008	31 Dec 2008
Finance leases				
Minimum lease payments	3,615	13,361	17,641	34,617
Interest effects	172	2,036	6,001	8,209
Present value of minimum lease payments	3,443	11,325	11,640	26,408
Operating leases				
Minimum lease payments	17,701	10,463	—	28,164

2007	Up to 1 year	1 to 5 years	More than 5 years	Total
€ 000's	31 Dec 2007	31 Dec 2007	31 Dec 2007	31 Dec 2007
Finance leases				
Minimum lease payments	3,161	14,087	20,530	37,778
Interest effects	151	2,178	7,295	9,624
Present value of minimum lease payments	3,010	11,909	13,235	28,154
Operating leases				
Minimum lease payments	19,202	17,328	—	36,530

Finance leases only exist for properties. The lease agreements for buildings have a term of 22.5 years upon conclusion. Purchase options at the end of the term have been agreed.

There were no non-cancellable sub-leases from finance leases.

Operating leases exist for mainframe computers, mainframe-related hardware and software, printers as well as copiers. The agreements have terms of up to four and a half years, in accordance with the useful life of the devices.

In the year under review, minimum lease payments from operating leases amounted to € 19.0 million (2007: € 17.8 million).

Contingent rents were not recorded in the financial years 2008 and 2007 for finance and operating leases. There were also no restrictions for these transactions imposed by lease agreements.

(58) Financial guarantee contracts, contingent liabilities and other obligations

Financial guarantee contracts

The W&W Group is participating in the bailout of Hypo Real Estate Bank Aktiengesellschaft by the German government and the German financial services sector. The W&W Group's contribution to that bailout programme comprises liquidity assistance measures and a back-to-back guarantee on a several liability basis in the amount of € 27.7 million in favour of the Federal Republic of Germany.

Contingent liabilities

€ 000's	31 Dec 2008	31 Dec 2007
Contingent liabilities from banking business	924,050	876,388
Contingent liabilities from insurance business	280,275	286,715
Other contingent liabilities	20,133	16,485
Contingent liabilities	**1,224,458**	**1,179,588**

Contingent liabilities from banking business

€ 000's	31 Dec 2008	31 Dec 2007
Credit guarantees	6,706	6,266
Irrevocable loan commitments	917,344	870,122
Contingent liabilities from banking business	**924,050**	**876,388**

Credit guarantees primarily include guarantees in favour of borrowers. In addition, guarantees are issued in favour of home owners' associations, to the extent that loans were granted to these associations for capital expenditure reserves.

Irrevocable loan commitments represent remaining obligations from committed loans that were not drawn at all or not drawn in the full amount. Interest rate risks with respect to irrevocable loan commitments only exist to a limited degree due to their short terms.

Wüstenrot Bank AG Pfandbriefbank and Wüstenrot Bausparkasse AG are members of the investor compensation scheme of the Association of German Banks (Entschädigungs einrichtung deutscher Banken GmbH). In addition, Wüstenrot Bank AG Pfandbriefbank is a member of the deposit protection fund of the Association of German Public Sector Banks (Einlagensicherungsfonds des Bundesverbandes deutscher Banken) which covers liabilities to debtors. Wüstenrot Bausparkasse AG is also a member of the deposit protection fund of German home loan and savings banks (Bausparkassen-Einlagensicherungsfonds e.V.). Membership in deposit protection funds and investor companies' schemes may result in additional funding obligations for the members.

As in the prior year, drawdowns from placement and assumption obligations did not exist as at 31 December 2008.

Contingent liabilities from insurance business

Due to the membership of some insurance companies of the W&W Group in the German Association for Road Casualties (Verkehrsopferhilfe e.V.), these companies have obligations to provide the Association with the funds necessary to achieve its purpose. The amount of the contribution corresponds to the premiums earned by the member companies from the direct insurance business in the calendar year before last.

The membership in the Institute of London Underwriters (ILU) results in a maximum contingent liability of GBP 0.6 million (2007: GBP 0.4 million) on the part of the Württembergische Versicherung AG in case that the ILU is not able to meet some or all of its obligations. Therefore, Württembergische Versicherung AG has issued a letter of credit in favour of ILU.

Pursuant to Sections 124 et seqq. of the VAG, German life and health insurance companies are required to be members of an insurance guarantee scheme (Sicherungsfonds).
ARA Pensionskasse AG has become a member of the insurance guarantee scheme on a voluntary basis pursuant to Section 124 (2) of the VAG. The insurance guarantee scheme collects annual contributions in the maximum amount of 0.2 per mil of the sum total of the net technical provisions, based on the funding regulations of the insurance guarantee scheme for the life insurance segment, until the guarantee assets have reached an amount of 1.0 per mil of the sum total of the net technical provisions. The resulting future obligations amount to € 6.9 million (2007: € 11.1 million) for the life and health insurance providers of the W&W Group.

Furthermore, the insurance guarantee scheme may collect special contributions in the amount of an additional 1 per mil of the sum total of net technical provisions; this corresponds to an obligation of € 27.0 million (2007: € 26.1 million)

In addition, the life insurers and the pension fund of the W&W Group have undertaken to provide funds to the insurance guarantee scheme or, alternatively, to the Protektor Lebensversicherungs-AG if the funds of the insurance guarantee scheme are not sufficient in case of financial reorganisation. The obligation amounts to 1% of the sum total of the net technical provisions, taking into account the contributions made to the insurance guarantee scheme up to that date. Taking into account the above-mentioned payment obligations from the contributions to the insurance guarantee scheme, the total obligation amounts to € 249.6 million (2007: € 245.9 million) as at the balance sheet date.

Waiver of recourse and declaration of indemnity

Pursuant to the existing waiver of recourse and declaration of indemnity, the Company waives any potential claims for recourse against agents if a claim is asserted due to an agent's mis-selling in connection with the brokerage of insurance products distributed by the Company or subsequent customer support services, unless it is attributable to wilful intent and the loss is covered by liability insurance. The Company also offers indemnity in the case of mis-selling with respect to the agent's individual liability in connection with the brokerage of insurance or financial services products of the W&W Group, a cooperation partner of one of these insurance companies, or in the course of any further advisory services provided for one of these companies or cooperation partners. The minimum sum insured is limited to € 200 thousand per loss event and to € 300 thousand per year; in the case of losses in connection with mis-selling with regard to the brokerage of insurance policies, to € 1,000 thousand per loss event and to € 1,500 thousand per year.

Other contingent liabilities

In addition, other contingent liabilities existing amounted to € 20.1 million (2007: € 16.5 million). These liabilities mainly represent liabilities from other warranty obligations.

(59) Related party disclosures Controlling Group company

The main shareholder of Wüstenrot & Württembergische AG is Wüstenrot Holding AG, Ludwigsburg, which owns 69.7% (2007: 69.7%) of the share capital of Wüstenrot & Württembergische AG. Other shareholders include Landesbank Baden-Württemberg (2008: 9.9%; 2007: 9.9%), UniCredito Italiano S.p.A. (2008: 7.5%; 2007: 7.5%) as well as Schweizerische Rückversicherungs-Gesellschaft AG, Zurich, (2008: 4.9%; 2007: 4.9%). The remaining 8.0% (2007: 8.0%) of the shares are held in free float.

Disclosures on the remuneration of the Management Board

The remuneration system of the Management Board consists of a basic salary, a fixed allowance and a performance-based bonus.

The performance-based bonus is linked to a target arrangement system. The bonus to be paid out to a Management Board member for any past financial year depends on whether the related company targets and individual targets are achieved.
The company targets correspond to the annual planning as resolved by the Supervisory Board of W&W AG. The individual targets are determined mutually in cooperation with the relevant Management Board member and the Supervisory Board. Generally, the Supervisory Board and its Human Resources Committee have the right to exercise discretion with respect to the final determination of the respective bonus amount. The entire remuneration concept allows a measurement of the variable remuneration components that is more closely related to success factors and based on operational targets, resulting in a more performance-oriented remuneration.

There are no subscription rights or other share-based remuneration components in the W&W Group.

A change-of-control clause is in place with regard to one member of the Management Board, including a compensation agreement on the part of the parent company in the event of a takeover.

Ancillary benefits to members of the Management Board consist of a company car, a Group casualty insurance, as well as baggage insurance.

Retirement benefits for Management Board members have been provided through defined benefit plans since 2007. This relates to one member of the Management Board. For one member of the Management Board appointed earlier, the defined benefit plan common at that time still applies. The benefits take the form of staggered, dynamic fixed amounts which are largely contributed by the former employer. With one member of the Management Board, no retirement benefit plan has been agreed upon. Pensions are generally granted upon completion of the 65th year of age, from the 61st year of age in case of a preliminary redundancy, and in case of a disability of service.

Current service costs for the retirement benefit commitments amounted to € 163 thousand (2007: € 189 thousand) in the year under review. Past service costs were not incurred in the year under review. These benefits represent long-term post-employment benefits. There are no benefits for which a third party has made a commitment in favour of a member of the Management Board to be paid in return for his or her service or which were granted in the year under review or in the prior year.

Based on the resolution of the Annual General Meeting on 14 June 2006, we elect not to disclose the individual remuneration of the members of the Management Board for a period of five years, beginning with the financial year 2006, pursuant to Section 286 (5) of the HGB.

The expense for the total remuneration of the Management Board in the financial year 2008 amounted to € 2,906 thousand (2007: € 3,130 thousand). The breakdown of these short-term benefits into performance-based and non-performance-based remuneration is presented in the table below.

€ 000's	Non-performance-based remuneration	Performance-based remuneration	Other	Total
Active members of the Management Board	1,693	854	359	2,906

In the year under review, provisions for expected remuneration were recognised in the amount of € 1,250 thousand (2007: € 1,215 thousand). An amount of € 312 thousand (2007: € 0 thousand) relates to the remuneration for activities as Supervisory Board members in Group companies.

In the financial year 2008, remuneration payments totalled € 2,072 thousand (2007: € 2,282 thousand), of which € 1,293 thousand (2007: € 1,725 thousand) relate to non-performance-based components, € 731 thousand (2007: € 482 thousand) to performance-based components and € 47 thousand (2007: € 75 thousand) to ancillary benefits. A provision of € 727 thousand had been recognised in the financial year 2007 for performance-based remuneration. In addition, the Company did not grant or pay any other not yet disbursed remuneration, remuneration converted into claims of another type, remuneration used to increase the amount of other claims or other remuneration that has not yet been disclosed in previous annual financial statements.

As before, the Company has not extended advances or loans to members of the Management Board. There were no contingencies.

The total remuneration attributable to former members of the Management Board amounted to € 1,977 thousand (2007: € 4,142 thousand) in the year under review, of which € 225 thousand (2007: € 189 thousand) relate to remuneration to surviving dependents. There were no other obligations of the W&W Group with respect to benefits in favour of former members of the Management Board, members of the Supervisory Board and their surviving dependents in form of severance pay, pensions, remuneration to surviving dependents or other related benefits in the year under review.

An amount of € 19,086 thousand (2007: € 21,617 thousand) was recognised as a provision for retirement benefit obligations to former members of the Management Board and their surviving dependents.

The period of service of Dr. Alexander Erdland, Chairman of the Management Board, ends in February 2011, that of Klaus Peter Frohmüller, Management Board member, in September 2011 and that of Dr. Jan Martin Wicke, Management Board member, in August 2012, unless the contracts are prolonged.

Disclosures on the remuneration of the Supervisory Board

The remuneration of the Supervisory Board is generally paid in form of a fixed remuneration subject to top-up amounts for the Chairman, the Deputy Chairman, and membership in committees as well as a variable, performance-based bonus.

The fixed remuneration payable after the end of the financial year amounts to € 7.5 thousand. The bonus amounts to € 0.8 thousand for each 0.5% of the dividend to be paid out to the shareholders for the past financial year that exceeds 2% of the share capital.

The fixed remuneration and the bonus are twice the amount for the Chairman and 1.5 times the amount for the Deputy Chairman.

The fixed remuneration is increased by one third of the fixed amount for each membership in one or more Supervisory Board committees. The additional remuneration for committee membership is equivalent to twice the above-mentioned top-up amount for the Chairman, and 1.5 times the amount for the Deputy Chairman.

For the financial year 2008, the members of the Supervisory Board of Wüstenrot & Württembergische AG received a total remuneration from the Company in the amount of € 469 thousand (2007: € 460 thousand). Of that amount, € 200 thousand (2007: € 204 thousand) relate to fixed remuneration and € 59 thousand (2007: € 46 thousand) to further offices held in Group companies. In line with the dividend proposal, the Company has recognised a provision in the amount of € 210 thousand (2007: € 210 thousand) for bonuses for the financial year 2008, which are paid in the following year 2009. Former members of the Supervisory Board of Wüstenrot & Württembergische AG received a pro-rata remuneration from the Company in the amount of € 11 thousand for the financial year 2008. These benefits represent short-term benefits.

Expenses incurred and the value-added tax attributable to the Supervisory Board remuneration are additionally reimbursed to the members of the Supervisory Board upon request. However, they are not included in the above-mentioned expenses.

Advances and loans to members of the Supervisory Board of Wüstenrot & Württembergische AG were granted in an amount of € 593 thousand (2007: € 618 thousand). The loans were granted by Group companies at interest rates ranging from 3.8 to 6.4%. Repayments received for loans granted to members of the Supervisory Board amounted to € 83 thousand (2007: € 12 thousand) No contingencies existed in favour of these persons.

There are no subscription rights or other share-based remuneration components for members of the Supervisory Board in the W&W Group. No provisions had to be recognised for current pension payments or benefits for Supervisory Board members or their surviving dependents.

No remuneration was paid or benefits granted by the Company to members of the Supervisory Board in return for services provided individually, such as consulting and arrangement services.

Name	Wüstenrot & Württembergische AG				Group	Total
	Fixed basic remuneration	Remuneration for committee activities	Variable remuneration	Total remuneration		
€ 000's	2008	2008	2008	2008	2008	2008
Hans Dietmar Sauer (Chairman)	15.0	17.5	24.0	56.5	—	56.5
Bernd Steuer (Deputy Chairman)	11.3	7.5	18.0	36.8	30.3	67.1
Christian Brand	7.5	2.5	12.0	22.0	—	22.0
Hans-Peter Braun	7.5	2.5	12.0	22.0	—	22.0
Wolfgang Dahlen	7.5	2.5	12.0	22.0	—	22.0
Gunter Ernst	7.5	0.0	12.0	19.5	—	19.5
Dr Reiner Hagemann	7.5	2.5	12.0	22.0	—	22.0
Rolf Henrich	7.5	5.0	12.0	24.5	16.2	40.7
Dr. Ulrich Ruetz	7.5	7.5	12.0	27.0	—	27.0
Matthias Schell	3.8	0.0	6.0	9.8	—	9.8
Helmut Schieber	7.5	5.0	12.0	24.5	—	24.5
Joachim E. Schielke	7.5	2.5	12.0	22.0	—	22.0
Walter Specht	7.5	5.0	12.0	24.5	—	24.5
Prof Dr Adolf Wagner	7.5	2.5	12.0	22.0	—	22.0
Frank Weber	7.5	2.5	12.0	22.0	12.3	34.3
Christian Zahn	7.5	2.5	12.0	22.0	—	22.0
Subtotal	**127.6**	**67.5**	**204.0**	**399.1**	**58.8**	**457.9**
Jürgen Böhme (former member)	3.7	1.2	6.0	10.9	—	10.9
Total remuneration of the Supervisory Board	**131.3**	**68.7**	**210.0**	**410.0**	**58.8**	**468.8**

Total remuneration of the Management Board and the Supervisory Board of W&W AG

The total remuneration of the Management Board and the Supervisory Board of Wüstenrot & Württembergische AG amounted to € 3,538 thousand (2007: € 5,663 thousand), of which € 3,375 thousand (2007: € 3,590 thousand) related to short-term benefits, € 163 thousand (2007: € 189 thousand) to long-term benefits and € 0 thousand (2007: € 1,884 thousand) to termination benefits.

Other disclosures

Within the course of its ordinary activities of the Group companies, transactions are entered into with members of the Management Board and the Supervisory Board of Wüstenrot & Württembergische AG. The transactions referred to business relationships in the areas of home loan and savings and the banking business as well as life and property casualty insurance. Premiums amounted to € 62 thousand (2007: 76 thousand). The transactions were entered into either on an arm's length basis or, if appropriate, at preference terms and conditions customary in the industry.

Receivables from and liabilities to related companies

The companies of the W&W Group maintain various business relationships with related companies.

Wüstenrot Holding AG and W&W AG concluded an agreement on the assignment and use of trademarks, effective 1 January 2008. W&W AG pays an annual fee of € 2.5 million plus VAT for the use of Wüstenrot trademarks to Wüstenrot Holding AG. The annual fee in the amount of € 2.5 million was determined based on an external opinion using the relief from royalty method. The agreement on the assignment and use of trademarks represents an agreement on deferred consideration which results in a financial liability (annuity loan) to Wüstenrot Holding AG in the amount of € 31.2 million as at 31 December 2008. The average interest rate for the annuity loan amounts to 6.13%.

In addition, the business relationships with Wüstenrot Holding AG entirely relate to banking services rendered by Wüstenrot Bank AG Pfandbriefbank. The transactions were carried out at an arm's length basis.

Receivables from and liabilities to the other related companies are also based on banking services received and, to a lesser extent, other services received, which were also carried out on an arm's length basis.

The balances of receivables and liabilities as at the reporting date are as follows:

€ 000's	31 Dec 2008	31 Dec 2007
Loans and advances to customers	197	188
Wüstenrot Holding AG	4	—
Related companies	193	188
Other receivables	18,492	15,968
Wüstenrot Holding AG	52	49
Related companies	17,444	14,427
Associates	996	1,492
Receivables from related companies	18,689	16,156
Certificated liabilities	—	376
Related companies	—	376
Liabilities to customers	24,609	110,765
Wüstenrot Holding AG	4,233	18,777
Related companies	11,451	79,977
Associates	8,925	12,011
Other liabilities	50,930	16,293
Related companies	31,159	16,293
Associates	19,771	—
Liabilities to related companies	75,539	127,434

Expenses and income from transactions with related companies and other related persons

As is the case with receivables from and liabilities to related companies and other related parties, expenses (–) and income (+) result from banking and other services based on an arm's length basis.

€ 000's	31 Dec 2008	31 Dec 2007
Wüstenrot Holding AG	– 2,715	– 22
Related companies	10,408	10,205
Associates	12,911	– 15,290
Other related parties	22	22

(60) Number of employees

The W&W Group employed 8,134 (2007: 8,445) employees (full-time equivalents). The number of employees as at the balance sheet date was 9,806 (2007: 10,107).

In the year 2008, a number of 8,265 (2007: 8,712) persons were employed on average. This average figure is calculated as the arithmetic mean of the end-of-quarter figures between 31 March 2008 and 31 December 2008 as well as in the relevant prior-year period. The change in the average number of employees is largely attributable to the reduction of full-time equivalents at Wüstenrot Bausparkasse AG and Württembergische Lebensversicherung AG.

As a result of the calculation methodology, the prior-year comparative figures include the employees of the companies of Erasmus Groep B. V. (deconsolidated as at 31 March 2007) pro rata temporis. The first-time consolidation of Wüstenrot životní pojišťovna a.s., Prague, and 3B Boden-Bauten-Beteiligungs-GmbH, Ludwigsburg, had an offsetting effect. The other companies included for the first time in the scope of consolidation do not have own employees.

Of the people employed on average for the year, 2,250 (2007: 2,476) employees were attributable to the Home Loan and Saving segment; 383 (2007: 436) to the Banking Business segment; 109 (2007: 97) to the Investment Products segment; 1,057 (2007: 1,261) to the Life and Health Care segment; 4,166 (2007: 4,177) to the Composite Insurance segment, and 195 (2007: 163) persons were employed in the Holding/Reinsurance segment. The employees of W&W Informatik GmbH were allocated to the above-mentioned segments. A total of 105 (2007: 102) employees of Wüstenrot Haus- und Städtebau GmbH are not allocated to specific segments.

(61) Auditors

The Supervisory Board of Wüstenrot & Württembergische AG has appointed PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft as auditors of the consolidated financial statements. Expenses for services of the auditors in the W&W Group amounted to € 4,807 thousand (2007: € 6,199 thousand) in the year under review. Of that amount, € 3,598 thousand (2007: € 3,755 thousand) related to the audit of financial statements, € 552 thousand (2007: € 722 thousand) to other assurance and valuation services, € 17 thousand (2007: € 0 thousand) to tax advisory services and € 640 thousand (2007: € 1,722 thousand) to other services.

(62) Events after the balance sheet date

No events occurred after the balance sheet date that are required to be disclosed.

(63) Corporate governance code

The members of the Management Board and of the Supervisory Board of our listed companies Wüstenrot & Württembergische AG, Stuttgart, and Württembergische Lebensversicherung AG, Stuttgart, have issued the declaration of compliance with the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz, AktG). The declaration has been made permanently available to the shareholders on the website of the W&W Group.

(64) Group affiliation

The consolidated financial statements of Wüstenrot & Württembergische AG, Stuttgart, represent subgroup consolidated financial statements and are included in the consolidated financial statements of Wüstenrot Holding AG, Ludwigsburg, which holds the majority in Wüstenrot & Württembergische AG, Stuttgart. The consolidated financial statements of Wüstenrot Holding AG, Ludwigsburg, and the sub-group consolidated financial statements of Wüstenrot & Württembergische AG, Stuttgart, are published in the German electronic Federal Gazette.

List of companies included in the consolidated financial statements

The scope of consolidation includes, apart from the parent company Wüstenrot & Württembergische AG, the following subsidiaries as well as mutual and special funds. In addition, the associates shown in the table thereafter are included in the consolidated financial statements using the equity method.

Subsidiaries

Name and registered office

in %	Share in capital[1]	Proportion of voting power held[2]
3B Boden-Bauten-Beteiligungs-GmbH, Ludwigsburg	100.00	100.00
Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart	100.00	100.00
Berlin Leipziger Platz Grundbesitz GmbH, Stuttgart	100.00	100.00
Karlsruher Lebensversicherung AG, Karlsruhe[3]	82.70	82.70
LP 1 Beteiligungs-GmbH & Co. KG, Stuttgart	100.00	100.00
Wohnimmobilien GmbH & Co. KG der Württembergischen, Stuttgart	100.00	100.00
Württembergische Krankenversicherung AG, Stuttgart	100.00	100.00
Württembergische Lebensversicherung AG, Stuttgart	72.37	72.37
Württembergische Immobilien AG, Stuttgart	100.00	100.00
Württembergische Versicherung AG, Stuttgart	100.00	100.00
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg	100.00	100.00
Wüstenrot Bausparkasse AG, Ludwigsburg	100.00	100.00
Wüstenrot GmbH & Co. Grundstücks-KG, Ludwigsburg	100.00	100.00
Wüstenrot Haus- und Städtebau GmbH, Ludwigsburg	100.00	100.00
Wüstenrot stavební spořitelna a.s., Prague	55.92	55.92
Wüstenrot hypoteční banka a.s., Prague	90.00	90.00
Wüstenrot životní pojišťovna a.s., Prague	74.00	74.00
W&W Advisory Dublin Ltd., Dublin	100.00	100.00
W&W Asset Management Dublin Ltd., Dublin	100.00	100.00
W&W Asset Management GmbH, Ludwigsburg	100.00	100.00
W&W Asset Management AG, Luxembourg	100.00	100.00
W&W Gesellschaft für Finanzbeteiligungen mbH, Stuttgart	100.00	100.00
W&W Informatik GmbH, Ludwigsburg	100.00	100.00
W&W Service GmbH, Stuttgart	100.00	100.00

1 Share in capital = shares held directly and indirectly, including indirect minority interests.
2 Proportion of voting power held = ratio of the total nominal value of ordinary shares held and voting share capital.
3 Formerly Karlsruher HK AG Lebensversicherung für Beamte und Angestellte der öffentlichen Verwaltung, Karlsruhe.

Mutual and special funds

Name and registered office	Share in capital
in %	
AROS-Universal-Fonds I, Frankfurt	100.00
BWK-Fonds 15, Stuttgart	100.00
BWK-Fonds 69, Stuttgart	100.00
BWInvest-76, Stuttgart	100.00
BWK-Fonds 93, Stuttgart	100.00
BWInvest-94, Stuttgart	100.00
BWK-Fonds 97, Stuttgart	100.00
BWK-Fonds 98, Stuttgart	89.81
BWInvest-KF 1, Stuttgart	100.00
BWInvest-Südinvest 160, Stuttgart	100.00
BWInvest-WAKAM, Stuttgart	100.00
Credit Suisse-WV Immofonds, Frankfurt	98.95
DEVIF-Fonds Nr. 13, Frankfurt	100.00
DEVIF-Fonds Nr. 130, Frankfurt	100.00
DEVIF-Fonds Nr. 203, Frankfurt	100.00
TRIO-Universal-Fonds, Frankfurt	100.00
UIN-Fonds Nr. 567, Frankfurt	100.00
UIN-Fonds Nr. 600, Frankfurt	100.00
WSV-Universal-Fonds, Frankfurt	100.00
W&W Emerging Markets Bonds-Fonds 1, Frankfurt	100.00
W&W Emerging Markets Bonds-Fonds 2, Frankfurt	100.00
W&W Global Strategies European Equity Value, Dublin	100.00
W&W Global Strategies Asset-backed Securities Fund, Dublin	97.22
W&W Global Strategies Euro Corporate Bond Fund, Dublin	95.06
W&W Global Strategies South East Asian Equity Fund, Dublin	99.58
W&W Global Strategies US Equity Fund, Dublin	98.05
W&W International Europa Aktien Premium II Fonds, Luxembourg	96.74
W&W International Global Convertibles Fonds, Luxembourg	97.88
W&W International US Aktien Premium Fonds, Luxembourg	97.72

Companies included in the consolidated financial statements using the equity method

Name and registered office	Share in capital	Proportion of voting power held
in %		
Baden-Württembergische Investmentgesellschaft mbH, Stuttgart	36.00	36.00
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	35.00
V-Bank AG, Munich	49.99	49.99
Tertianum Besitzgesellschaft Berlin Passauer Str. 5-7 mbH, Munich	25.00	25.00
Tertianum Besitzgesellschaft Konstanz Marktstätte 2-6 u. Sigismundstr. 5-9 mbH, Munich	25.00	25.00
Tertianum Besitzgesellschaft München Jahnstr. 45 mbH, Munich	33.33	33.33
Wüstenrot stambena štedionica d.d., Zagreb	25.63	25.63
Wüstenrot stavebná sporiteľňa a.s., Bratislava	40.00	40.00

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stuttgart, 26 February 2009

Dr Alexander Erdland

Klaus Peter Frohmüller

Dr Jan Martin Wicke

Auditors’ Report

We have audited the consolidated financial statements prepared by Wüstenrot & Württembergische Aktiengesellschaft, Stuttgart, comprising the balance sheet, income statement, statement of recognised income and expense, cash flow statement and notes, together with the Group Management Report, for the financial year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch – “HGB”) are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report, based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB, observing the generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – “IDW”). These standards require that we plan and perform the audit such that mis-statements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework, and in the Group Management Report, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible mis-statements 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting policies and consolidation principles used, and significant estimates made by the Company´s Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a sufficiently sound basis on which to make an assessment.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, gives a true and fair view of the group's position, and suitably presents the opportunities and risks of future development.

Stuttgart, 16 March 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Werner Hölzl
Wirtschaftsprüfer
(German Public Auditor)

Reinhard Knüdeler
Wirtschaftsprüfer
(German Public Auditor)

Corporate Governance

The function of Corporate Governance at Wüstenrot & Württembergische AG, and throughout the W&W Group, stands for responsible management and control of the various entities, together with a focus on long-term value creation. Our aim is to honour and continuously strengthen the trust placed in us by shareholders, financial markets, business partners, staff, and the general public. Key factors in this context include a good relationship with shareholders, transparent and timely reporting, and the efficient cooperation of Management Board and Supervisory Board.

The Management Board is responsible for managing W&W AG, and represents the Company in doing business with third parties. The Management Board's key tasks are to define the strategic positioning of the W&W Group and managing it accordingly, as well as to ensure and monitor an efficient risk management system. Detailed provisions regarding the Management Board's tasks and activities are laid down in internal rules of procedure. The Management Board regularly informs the Supervisory Board, without delay and comprehensively, of all issues important to the enterprise with regard to planning, business development, and risk management, and coordinates W&W Group's strategic direction with the Supervisory Board.

The Supervisory Board appoints the members of the Management Board; it advises and supervises the Management Board in its business management. To ascertain the fundamental independence of the Supervisory Board when exercising control over the Management Board, the parallel appointment to both executive bodies is not permitted; furthermore, there is a strict separation of authorities granted to the Management Board and the Supervisory Board. Detailed provisions regarding the Supervisory Board's tasks and activities are also laid down in internal rules of procedure.

The German Corporate Governance Code, published by the Government commission appointed by the German Federal Ministry of Justice, was first published in 2002, and last amended on 6 June 2008. The purpose of the German Corporate Governance Code (the "Code") is to enhance transparency – firstly regarding the German regime for company management, and secondly regarding monitoring for domestic and international investors – in order to strengthen confidence in German corporate management. The Code contains recommendations and suggestions specifically addressing the relationship with shareholders, the cooperation between Management Board and Supervisory Board, and the avoidance of conflicts of interest, and promoting a high degree of transparency of corporate governance and accounting.

Since the inception of the Code, the Management Board and Supervisory Board have been reviewing its implementation at W&W AG on an annual basis, making adjustments as required. On 24 September 2008, the Board of Managing Directors and the Supervisory Board of W&W AG recognised the German Corporate Governance Code, as amended on 6 June 2008, as binding, and issued a Declaration of Compliance pursuant to section 161 of the AktG. In this Declaration, the Management Board and the Supervisory Board of W&W AG declared that the recommendations of the German Corporate Governance Code, as amended on 14 June 2007, were complied with since the previous Declaration of Compliance dated 26 September 2007, subject to the qualifications contained therein.

The W&W Group complies with the recommendations of the Code, as amended on 6 June 2008, with three exceptions:

(1) If the Company takes out a D&O (directors and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible should be agreed as stipulated under Section 3.8 sentence 4 of the Code. W&W AG does not comply with this recommendation. This is because a material deductible (which, observing the principle of equality, would need to be identical for all Board members), would affect members of the Management and Supervisory Boards to a different extent, depending on their respective remuneration and personal financial circumstances. As a consequence, less affluent members of the Supervisory Board might face serious financial problems in the event of a serious problem; given that identical duties are being performed, this is considered unfair.
(2) Upon the proposal of the committee dealing with Management Board contracts, the plenary meeting of the Supervisory Board shall resolve and regularly review the Management Board compensation system, including the main contractual elements (section 4.2.2, sentence 1 of the Code). W&W AG does not comply with this recommendation since the Supervisory Board has established a Human Resources Committee whose tasks include preparing the Supervisory Board's staff decisions; this Committee's powers include the authority to pass resolutions on contractual issues. This procedure has proven to be adequate.
(3) The Supervisory Board shall form a nomination committee, composed exclusively of shareholder representatives, which proposes suitable candidates to the Supervisory Board for recommendation to the General Meeting. (Section 5.3.3 of the Code) W&W AG does not comply with this recommendation, as no need for an additional committee is perceived against the background of the manageable shareholder structure.

The current Declaration of Compliance was made permanently available to shareholders and the general public, without delay, on the Company's website, (www.ww-ag.com/corporate-governance). The Declarations of Compliance issued in the years 2002 to 2007 are also available on the website. Important company events are regularly communicated to shareholders via a financial calendar published in this annual report, and on the W&W website. All documents and information related to the Annual General Meeting, annual and interim reports, press releases, and ad-hoc disclosures are also available there. In our communications, we strive to provide all information to all target groups at the same time. Current Group developments are communicated to all stakeholders without delay, via the internet.

Compliance

W&W AG ensures that all provisions of law and internal regulations are adhered to, and endeavours to ascertain this adherence through a Group-wide Compliance organisation. A Group Compliance Committee, comprising the Head of Group Legal Services, the Head of Group Risk Management, the Compliance Officer, the Money Laundering Prevention Officer, and the Head of Group Audit, has been established to enhance the efficiency of the Compliance function. The committee will meet on a quarterly basis, with ad-hoc meetings convened if necessary. This intensifies the close cooperation and permanent exchange of information amongst the Compliance-relevant units within the Group.

Subsidiaries

Wüstenrot & Württembergische AG's listed subsidiary, Württembergische Lebensversicherung AG, also issued a Declaration of Compliance on 22 September 2008. Our unlisted domestic subsidiaries also generally observe the recommendations of the German Corporate Governance Code.

Remuneration Report

Please refer to the Notes to the financial statements for details regarding the remuneration of the Management Board and Supervisory Board members.

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Our Annual Report is published in English and German. Both language versions, together with further annual reports published by W&W Group entities are available for download from www.ww-ag.com/finanzberichte.

Please do not hesitate to contact us to discuss any specific financial issues – we look forward to talking with you.

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