

Half-yearly financial report as at 30 June 2008

Wüstenrot & Württembergische AG



Key figures at a glance

W&W Group (in accordance with IFRS)		30 Jun 2008	31 Dec 2007
Balance sheet			
Available-for-sale financial assets	EUR bn	13.1	13.0
Loans and advances to banks	EUR bn	18.7	19.1
Loans and advances to customers	EUR bn	28.9	29.3
Customer deposits	EUR bn	21.5	21.8
Technical provisions	EUR bn	29.1	29.7
Shareholders' equity	EUR bn	2.4	2.5
Net asset value per share	EUR	23.80	24.54
Total assets	EUR bn	67.3	68.1
		1 Jan 2008 to	1 Jan 2007 to
Income statement		30 Jun 2008	30 June 2007
Net financial result (after allowance for credit losses)	EUR mn	326.8	930.6
Premiums/contributions earned (net)	EUR mn	1,830.8	1,924.9
Insurance benefits (net)	EUR mn	1,360.3	2,027.0
Earnings before taxes from continued operations	EUR mn	122.6	209.1
Consolidated net income	EUR mn	85.8	138.5
Earnings per share	EUR	0.95	1.56
		1 Jan 2008 to	1 Jan 2007 to
Other information		30 Jun 2008	30 June 2007
Employees ¹		8,310	8,445
Employees ²		9,985	10,107
Assets under management	EUR bn	24.9	25.0
Sales of own and third-party investment funds	EUR mn	199.8	202.2
Home loans disbursed	EUR mn	2,801.0	2,313.4
Home Loan and Savings Bank Division			
New home loan savings business (paid in)	EUR bn	3.9	3.2
Insurance Division			
<i>Property/Casualty insurance</i>			
New premiums	EUR mn	91.7	97.8
Gross premium income	EUR mn	807.4	917.9
<i>Life and Health Insurance</i>			
APE ³	EUR mn	114.0	109.8
Gross premium/contribution income	EUR mn	1,119.7	1,160.5
		1 Jan 2008 to	1 Jan 2007 to
W&W AG (according to the German Commercial Code)		30 Jun 2008	30 June 2007
Net profit for the period	EUR mn	39.6	107.8
Share price on 30 June	EUR	18.27	26.35
Market capitalisation as at 30 June	EUR mn	1,575.7	2,272.5

¹ Full-time equivalent head count as at 30 June 2008 (previous year's figure as at 31 Dec 2007)

² Number of employment contracts as at 30 June 2008 (previous year's figure as at 31 Dec 2007)

³ Annual Premium Equivalent

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Interim Group Management Report

Overview

Economic environment

Although the economy got off a good start in the early part of the year, there are signs that economic growth momentum is easing in Germany for the time being. Exports, which are the most dynamic sector of the economy, are being hit increasingly by the high euro exchange rate and weaker demand from important buyer countries such as the US. Additionally, many banks have tightened their lending criteria during the first half of the year, in response to the crisis affecting financial markets – burdening investments requiring debt finance in particular. The recent higher wage increases fanned hopes of a recovery in domestic demand at the start of the year. However, the sharp rise in inflation, driven by increases in energy and foodstuff prices, has for the most part eroded the purchasing power gained by the households.

Sector performance

New business generated by the German home loan and savings sector developed favourably in the first half of 2008. On aggregate, more than 1.9 million contracts accounting for home loan and savings business grossing EUR 52.5 billion were concluded in that period. This equates to a 7.1 per cent increase over the same period of the previous year in the number of contracts concluded, and a 5.6 per cent increase in the volume of home loan and savings business. The market appears to be benefiting from pre-emptive effects triggered by changes in the rules for housing subsidies (the 'Wohnungsbauprämie'), which will come into force on 1 January 2009 as part of the Home Owner Pension Act (*Eigenheimrentengesetz*) that has just been passed. The old rules will continue to apply to contracts entered into 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, meaning that funds disbursed under such contracts will have to be invested solely for residential purposes.

New business in the home loan financing sector declined during the first half of the year. Planning applications for detached and two-family homes were at a very low level overall. The consolidation phase, following the wave of orders triggered in advance of the abolition of home-ownership subsidies with effect from 1 January 2006, is therefore still intact. This development is reinforced by the cautious stance adopted by consumers, who are delaying home building or buying plans due to the uncertainty surrounding the general economic situation and the widely reported property crisis in the US. All in all, at EUR 87.6 billion, the new home loan financing business was down 7.3 per cent in the period from January to June 2008 compared with the same period of the previous year.

In the first half of 2008, German life insurers recorded a 4 per cent rise in gross premiums, which exceeded expectations, on a 7.7 per cent drop in the number of policies concluded.

In new business, a significant rise of at least 26 per cent in the Annual Premium Equivalent (the annual total of new policies with ongoing premium payment, plus 10 per cent of new single-premium contracts) was posted on a similarly slight decline in the number of policies concluded. Higher premiums paid on existing Riester pension plans were noticeable here, following the start of stage three of 'Riester' state subsidies in 2008. The importance of annuity insurances for the life insurers' new business was once again evident in the result for the first half of 2008: they accounted for a good 50 per cent of aggregate new business.

Property/Casualty insurance is subject to large-scale market penetration and continued pronounced price competition. Gross premiums earned are expected to have fallen slightly overall. The outlook for the individual segments in 2008 differs somewhat: whilst gross premium written in the property insurance segment is expected to rise by around 2.2 per cent, premium levels in general liability insurance are likely to remain unchanged. Gross premiums in motor insurance are expected to fall by roughly 1.8 per cent.

The investment sector is affected by a high level of net redemptions: during the first half of 2008, guarantee funds and funds of funds in particular succeeded in escaping the negative development burdening other asset classes, as did open-ended property funds and mixed funds. Nonetheless, they were unable to compensate for the substantial net redemptions on the market as a whole.

Financial markets down considerably

The mortgage crisis in the US triggered write-downs on loans and securities. Increasing concerns regarding future economic development worldwide contributed to the disappointing development on international equity markets in the first half of 2008. The EURO STOXX 50 index, for example, had conceded just under 24 per cent of its market value as at 30 June 2008.

The W&W share was unable to escape this negative market trend entirely. Having closed at EUR 19.75 the year before, it ended the second quarter of 2008 at EUR 18.27, representing a price decline of around 7.5 per cent for the first half-year. From our perspective, W&W's share price performance has been considerably more stable by market standards, reflecting the restructuring measures implemented by Group management, which strengthen the company's operative earnings capacity significantly.

Successful reforms implemented by W&W Group

We continue to implement the stages of the "W&W 2009" reform programme – which was launched for the purpose of enhancing growth, efficiency and profitability – successfully, and on schedule. As a key component, the "SPRING" growth project is focused in particular on strengthening both mobile sales forces.

Within the scope of a new advisory structure designed to enhance cross-selling, account executives will be employed across divisions within the two mobile sales forces in the future. Their objective will be to support efforts in developing business potential by offering customers the Group's entire product range. W&W Group is also working on assembling and preparing its customer database, in order to precisely target specific customer groups. In future, we will offer a special investment advisory service to high net worth individuals.

Administrative units were merged within the scope of the "Wüstenrot 2009" programme. The introduction of computerised loan processing is progressing well. Savings made in personnel and non-personnel expenses are in line with the target figures. The momentum of the growth path embarked upon in 2007 has amplified: Wüstenrot increased gross new business (by volume of home loan and savings contracts) in the first year by just short of 30 per cent over the previous year. Growth will be promoted further by the new home loan savings offer, the incorporation of home loan savings within the scope of investment forms eligible for 'Riester' subsidies, the new 'FinCheck Light' sales program to simplify customer advice for home loans, plus product campaigns for bridging loan options.

The integration of Karlsruher Versicherungsgruppe was successfully completed within the scope of the "Württembergische 2009" programme. Processing efficiency was improved in the front/back office project. The service centre located in Stuttgart began operating the restructured processing procedures in July. The new processes will be rolled out in the service units by the end of 2009. Additionally, the structural reduction in the number of administrative locations from 15 to 7 is running to schedule, and will be completed by November 2008. Both initiatives will significantly enhance processing efficiency and improve the service we offer our clients.

Wüstenrot & Württembergische - a joint mission

At the end of last year, the Group Management Board approved a new mission, "Wüstenrot & Württembergische – We've got it covered", portraying the Group as the experts for savings, investment, and risk protection. An initiative was launched to implement the mission, and to gradually absorb and enshrine the contents within the Group.

Business development

W&W increases net income for the first six months

W&W Group posted a sound result for the first half of 2008, with consolidated net income of EUR 85.8 million. Two extraordinary items – the reversal of provisions for the judicial award procedure (EUR 50.8 million) and the disposal of the Erasmus insurance group (EUR 11.4 million) – impacted significantly on the net income figure of EUR 138.5 million for the first six months of 2007. Adjusted for these two extraordinary items, W&W Group net income for the six months ended 30 June 2007 amounted to EUR 76.3 million. On this adjusted basis, net income for the first six months of 2008 was up by EUR 9.5 million or roughly 12 per cent over the same period of the previous year. During the period under review, negative effects from developments on the financial markets – from which W&W Group was not immune either – were offset by the success of the Group's business model.

Additional explanations

Net financial result

The net financial result of W&W Group amounted to EUR 326.8 million in the first half of 2008 (H1 2007: EUR 930.6 million)*; the EUR 603.8 million decline must be seen against the background of the international financial markets crisis. Specifically, it was due to various reasons: the EUR 481.8 million decline in available-for-sale financial assets is attributable to impairments recognised in income, above all affecting equities, as well as to losses realised upon disposals. The general trend on the equity markets and higher interest rates in the period under review led to lower fair values of structured products, some of which was compensated by a better result from derivatives held for trading. In addition, the decline in net income from unit-linked life insurance policies resulted in a EUR 133.7 million decline in net income from financial assets and liabilities at fair value through profit or loss.

Net fee and commission result

The net fee and commission result improved by EUR 34.1 million, from EUR -180.6 million to EUR -146.5 million; this development is accounted for by the Home Loan and Savings and Composite Insurance segments.

Premiums and contributions earned

Premiums and contributions earned fell by EUR 94.1 million, from EUR 1,924.9 million to EUR 1,830.8 million. The decline impacts on both the Life and Health Insurance and Composite Insurance segments. Lower one-off contributions in the Life and Health Insurance segment, and the sale of our UK business WürttUK – in line with company strategy – in our Composite Insurance segment, resulted in declining premiums and contributions.

Insurance benefits

The decline in the net financial result is largely compensated for by a decline in insurance benefits, which were down by EUR 666.7 million, from EUR 2,027.0 million in the same period of the previous year to EUR 1,360.3 million. Claims in the Composite Insurance segment (which was burdened by the impact of Hurricane Cyril in 2007) positively reflected our focus on quality in underwriting risks.

In Life and Health Insurance, changes in the net financial result also resulted in a change in the provision for future policy benefits for unit-linked life insurance policies, and in the provision for premium refunds – which, in turn, are included in insurance benefits. Since both provision items decreased on account of the lower net financial result, the impact of that lower figure on Group results is limited.

General administrative expenses

The success of our efficiency projects and cost-cutting measures within the scope of "W&W 2009" are reflected in general administrative expenses, which fell by an additional EUR 12.5 million, from EUR 527.4 million in the same period of the previous year to EUR 514.9 million.

* Unless specified otherwise, the figures in brackets correspond to the values as at 30 June 2007. Group and segment reporting is in accordance with IFRS.

Net other income/expense

Net other income of EUR -35.1 million (EUR +58.7 million) was defined by foreign currency translation effects on debt securities. These are offset by currency-related profits on derivatives that are carried under net income from financial assets and liabilities at fair value through profit or loss. The previous year's figure included a non-recurring effect from the reversal of the provision for the judicial award procedure. The two figures can therefore only be compared to a limited extent.

Shareholders' equity

Consolidated shareholders' equity of the W&W Group decreased by EUR 55.0 million compared to 31 December 2007, to EUR 2,438.5 million as at 30 June 2008. This was due to the dividends distributed for the 2007 financial year, as well as to the lower revaluation surplus, reflecting current capital market developments. This decline was compensated for in part by the recognition of consolidated net income during the first half-year.

Segment reporting

Home Loan and Savings

The Home Loan and Savings segment performed well in the first half of 2008, both in terms of new business and segment result. Segment net income rose by EUR 7.8 million to EUR 32.4 million (EUR 24.6 million). Increases in the net financial result, and in the net fee and commission result contributed significantly to the positive development.

New business in the segment developed very favourably: gross new business (by volume of home loan and savings business) was up sharply by 29.2 per cent, from EUR 3.9 billion to EUR 5.0 billion. The measures introduced in 2007 to enhance growth are therefore showing positive results. We succeeded in increasing our market share in Germany from 7.3 to 8.7 per cent. The segment achieved an increase of 27.1 per cent in new lending business, which rose from EUR 817.8 million in the same period of the previous year to EUR 1,039.0 million. The positive performance was due especially to the renewal and restructuring processes introduced in sales operations in 2007, within the scope of various "SPRING" projects.

The net financial result rose by EUR 11.7 million to EUR 179.0 million (EUR 167.3 million). The EUR 23.3 million increase in net income from available-for-sale financial assets, to EUR 51.1 million (EUR 27.8 million) reflected higher interest income on a larger portfolio.

Net income from financial assets and liabilities at fair value through profit or loss fell by EUR 32.7 million, from EUR -0.3 million to a loss of EUR 33.0 million. The figure is defined by lower fair values of derivatives that were held to hedge against interest rate exposure. This decline was offset by a corresponding improvement in results from the Banking segment.

Net income from receivables, liabilities and subordinated capital rose by EUR 22.6 million to EUR 172.2 million (EUR 149.6 million). A one-off effect from repayment gains included in this figure was offset by non-recurring charges from legacy tariffs.

The net fee and commission result of this segment rose by EUR 14.1 million to EUR 0.2 million (EUR -13.9 million), mainly due to lower deposit commissions paid.

General administrative expenses posted a temporary increase – mainly due to higher marketing expenses in relation to the launch of the new brand umbrella – rising by EUR 4.9 million, from EUR 160.6 million to EUR 165.5 million.

Net other income/expense in the first six months of the year posted a fall of EUR 18.1 million to EUR 28.4 million (EUR 46.5 million). Last year, changes to agreements permitting the release of provisions for anniversary commitments, bonus payments, transfer and death benefits resulted in non-recurring income of EUR 12.7 million, which makes it difficult to draw a year-on-year comparison.

The EUR 5.0 million reduction in tax expenses, from EUR 14.7 million to EUR 9.7 million, combined with a simultaneous rise in income before taxes from EUR 39.3 million to EUR 42.2 million, is largely due to the reduction in the rate of taxation within the scope of the business tax reform for 2008.

Banking

Notwithstanding the turbulent development on financial markets, the Banking segment was able to build on the turnaround seen in 2007. Net income of EUR 24.7 million almost matches the figure of EUR 25.7 million achieved in the same period of the previous year.

Aggregate lending volume (approvals including loan extensions) amounted to EUR 988.6 million (EUR 885.1 million) during the first six months of 2008. New lending business contributed EUR 471.0 million, whilst loan extensions accounted for EUR 517.6 million.

The net financial result of this segment decreased by EUR 22.8 million to EUR 57.8 million (EUR 80.6 million). The main contributing factor to this development was lower net income from receivables, liabilities and subordinated capital of EUR 6.6 million, compared with EUR 32.1 million the year before. The EUR 25.5 million decline was due partly to the strategic reduction of the public-sector lending business and also to the higher redemption of high-yielding mortgage loans. This was compensated to a certain extent by a EUR 10.2 million increase in net income from available-for-sale financial assets, since the higher volume of bonds held resulted in higher interest income. The fact that the loss shown in net income from financial assets and liabilities at fair value through profit or loss in the first quarter of the year could be made good again is positive: the figure was largely influenced by the considerably higher net income from fair values of stand-alone derivatives as well as from the net interest income they generated.

As mentioned earlier, this improvement in results is offset by a corresponding decline in the Home Loan and Savings segment.

The positive impact of projects launched within the framework of the "Wüstenrot 2009" efficiency programme was reflected in the decline of EUR 3.5 million in general administrative expenses, from EUR 47.5 million to EUR 44.0 million.

Accounting for the reduction in the tax rate within the scope of the 2008 business tax reform and the release of tax provisions, tax expense for the Banking segment was down by EUR 15.8 million over the same period of the previous year.

Investment Products

The Investment Products segment result fell by EUR 2.6 million, from EUR 8.0 million to EUR 5.4 million. The rise in net fee and commission result and net other income/expense was overcompensated by larger general administrative expenses, owing to higher investment for promoting distribution.

Having experienced market declines during the first half of 2008, financial markets continue to be dogged by a high degree of uncertainty, which has also affected the investment behaviour of our customers. Nonetheless, at EUR 199.8 million, total sales achieved by the distributors of funds brokered by W&W Group, which include W&W's own funds as well as funds managed by third parties, were just short of 1.2 per cent lower than the figure of EUR 202.2 million for the same period of the previous year. W&W funds accounted for 48 per cent (61 per cent) of total sales.

The volume of assets under management of the companies operating in the Investment Products segment amounted to EUR 24.9 billion (EUR 25.0 billion) at the half-year point, with the bulk – EUR 23.6 billion (EUR 23.9 billion) – accounted for by investments of the W&W Group. Customer deposits and third-party accounts are also managed by the segment.

Life and Health Insurance

The Life and Health Insurance segment posted a significant decline in the net financial result, which was however largely offset by a reduction in the provisions for premium refunds and future policy benefits related to unit-linked life insurance policies. Net income as at 30 June 2008 reached EUR 4.2 million, after EUR 9.9 million for the same period of the previous year.

New insurance business, measured in terms of APE (Annual Premium Equivalent) amounted to EUR 114.0 million in the first half year (EUR 109.8 million). This was due to the growth in regular new premiums from Riester pension plans. On the other hand, net premiums and contributions earned were down by EUR 30.8 million to EUR 1,188.9 million (EUR 1,219.7 million), due to falling one-off contributions and a higher level of policy maturities.

The EUR 582.5 million decline in the net financial result to EUR 44.7 million (EUR 627.2 million) was attributable to impairments of equities recognised in income and losses realised upon disposal, as well as to lower net income from investment of unit-linked insurance policies.

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 EUR 599.0 million to EUR 1,016.7 million (EUR 1,615.7 million).

General administrative expenses fell by EUR 8.0 million, from EUR 142.3 million to EUR 134.3 million. Cost efficiency forged within the framework of "Württembergische 2009" from the merger with Karlsruher Versicherungsgruppe was evident above all in the reduction of personnel expenses.

Net other income/expense decreased by EUR 14.0 million, from EUR -17.0 million to EUR -31.0 million, reflecting higher currency losses on investments.

Composite Insurance

The lower net financial result in the Composite Insurance segment was offset by lower claims during the first half of 2008: accordingly, net income posted a slight increase of EUR 1.6 million to EUR 29.1 million (EUR 27.5 million) as at 30 June 2008.

At EUR 91.7 million (EUR 97.8 million), domestic new business declined by EUR 6.1 million year-on-year, due to continued competitive pressure.

The net financial result of this segment was down by EUR 27.0 million, to EUR 27.9 million (EUR 54.9 million). This was mainly attributable to net income from available-for-sale financial assets, which declined by EUR 25.1 million (from EUR 20.4 million to EUR -4.7 million) due to impairments recognised in income.

Lower commission expenses incurred for new business improved the net fee and commission result by EUR 18.9 million, to EUR -77.0 million (EUR -95.9 million).

The EUR 52.5 million decrease in premiums earned, from EUR 593.2 million to EUR 540.7 million, was largely on account of the disposal of WürttUK in London.

Claims developments were positive in the first half of 2008, as insurance benefits declined by EUR 64.2 million, from EUR 340.9 million to EUR 276.7 million. After the sale of WürttUK, insurance benefits decreased in line with contributions. The previous year's figure was also burdened by Hurricane Cyril.

Holding/Reinsurance

At EUR 34.8 million, net income in the Holding/Reinsurance segment was down by EUR 49.6 million (EUR 84.4 million). This is because net income for the same period in the previous year was affected significantly by two non-recurring effects: firstly, the sale of the Erasmus insurance group had a positive effect on the net financial result, whilst secondly, the reversal of the provision for the judicial award procedure led to an improvement in net other income/expense.

The lower volume of W&W AG's reinsurance business led to an improvement of EUR 1.8 million in the net fee and commission result, from EUR -31.6 million to EUR -29.8 million. Similarly, insurance benefits fell by EUR 13.2 million, from EUR 84.1 million to EUR 70.9 million, whilst premiums earned were down by EUR 8.8 million, from EUR 113.0 million to EUR 104.2 million.

The rise in general administrative expenses, from EUR 24.6 million to EUR 27.1 million, reflected investments made in improving quality and efficiency within the W&W Group.

Report on major related party transactions

Details on business relationships with related companies can be found in the section Other information of this report.

Risk report

Risk management

Objectives and principles of risk management

A risk is a threat that will prevent W&W Group from achieving its objectives, or from successfully implementing its strategies.

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

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

Risk management organisation

Group risks are also assessed and managed through the relevant executive bodies: the Division Boards meet on a weekly basis and the Group Board Risk once a month. Group Board Risk acts as the central body for the coordination of risk management within W&W Group. 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. Great emphasis was placed on enhancing the organisational strength of the risk management system; this has been achieved by increasing staff numbers and by providing a consistent qualification programme.

Risk management process

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 following risk areas have been identified as material for the W&W Group:

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

Quantifiable risks are assessed and valued using various risk measurement procedures, depending of the type of risk concerned. Where possible, stochastic processes and value-at-risk (VaR) metrics are applied. These are the methods currently used to measure market price, counterparty and actuarial risks. 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 indicator-based analyses round off the range of instruments used.

Risks are assumed on a decentralised basis by the individual business divisions. 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. We have initiated a project to implement strategic risk management. Risk Controlling monitors the measures put in place for managing risk. All of the material risks the Group is

exposed to are reported to the Management Board and Supervisory Board of Wüstenrot & Württembergische AG, and to the Group Management Board, on a timely basis: the central information medium is the quarterly risk report.

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. Clearly-defined risk reporting lines ensure a smooth and steady flow of information.

Business environment

Capital market trends

Financial markets remained volatile in the first half of the year. Economic sentiment indicators support the concerns currently prevailing of a further economic slowdown. The ifo business climate index for example fell to its lowest level since the end of 2005, and the US Conference Board Index of consumer confidence fell from 58.1 points to 50.4 points in June, its lowest level since January 1992.

The confidence crisis amongst banks that emerged from the US sub-prime crisis, together with inflationary risks emanating from the sharp rise in energy prices, are fuelling the scepticism of capital market participants vis-à-vis a lasting improvement in what is currently a strained environment. On the capital markets, share prices have been subject to significant declines as well as to substantial volatility in the course of the current financial year. As with many other major indices, the EURO STOXX 50 has fallen by 23.8 per cent since the start of the year, from 4,400 to 3,353 as at 30 June 2008.

The interest rate markets were characterised by rising yield levels since the end of 2007, with the average yield to maturity rising from 4.3 per cent to 4.7 per cent.

Please refer to the Report on expected developments for details regarding expected overall economic development.

Group risks

Market price risks

W&W Group has no direct exposure to the US sub-prime segment. Nonetheless, the turbulence on financial markets has impacted on the performance of the investment portfolio.

The results submitted by the Impairment Commission that meets on a regular basis showed that impairments recognised in income of EUR 282.2 million (full year 2007: EUR 77.9 million) were posted almost exclusively on investments in the Insurance business division. This situation was driven by the aforementioned development on capital markets. We took the necessary measures for managing risk in relation to further price declines on the capital markets.

Based on our internal model, the Group's risk-bearing capacity remains stable and solid.

Strategic risks

The opportunities and risks associated with the future income development of the individual entities and the Group are analysed and communicated within the scope of binding economic planning sessions with a planning horizon of three years, as well as medium-term calculations.

The restructuring measures are already showing signs of improved cross-selling in some sectors. We pursue these measures across divisions, with a view to confirming the ambitious targets set. For more details, please refer to the Segment reporting and Report on expected developments sections.

Liquidity risks

The Home Loan and Savings Bank division increasingly conducts open market transactions with the European Central Bank (ECB) as part of the Group's efforts to diversify its funding base and the accompanying tapping of new refinancing sources. This approach is in response to the confidence crisis affecting the interbank market.

With regard to the other areas of risk, there are no material changes compared with the risk report in the 2007 Group Management Report.

Key developments in risk management

In addition to the aforementioned organisational enhancement of the risk management system, we have also further developed the internal risk-bearing capacity model, and we have quantified diversification effects.

Having anticipated changes in the regulatory environment, we established a Solvency II project at an early stage. Independent experts are assessing the status quo, comparing it to requirements to implement the Minimum Requirements for Risk Management of Insurance Companies.

Summary

The W&W Group has a risk management and risk controlling system that is suitable for identifying and evaluating existing and foreseeable risks in good time.

Conservative risk assumption, combined with the management and monitoring instruments implemented by W&W Group, allow it to counter existing uncertainties on the markets.

As at the reporting date, there were no discernible risks capable of jeopardising the continued existence of the W&W Group.

Risk management outlook

We continue to refine existing models, further expanding qualitative risk management capabilities.

Based on Group-wide projects, we will continue to strengthen the risk culture throughout the Group as well as harmonising and optimising the systems. Within the scope of value-oriented risk management, we aim to implement a strategic risk management system throughout the Group by the end of 2009. The planned measures highlight the importance of a strong enterprise risk management culture for the W&W Group.

Uncertainty on the financial markets, in conjunction with an economic downturn, may lead to further impairment of investments.

Report on expected developments

Expected development of the overall economy

We continue to forecast worldwide economic growth for 2008. However, it will turn out to be weaker compared with the forecasts made at the start of the year, as the property and financial markets crisis in the US, continued uncertainty on the capital markets, and the sharp rise in commodity prices are increasingly burdening the economy. On top of this, inflation is rising compared to previous years.

We also expect lower growth in Germany than originally expected. Weakening economies around the globe, and the strong euro, are impeding German foreign trade. Private consumption will hardly be able to compensate for this. Although the labour market is performing better relative to the previous year, the high rise in inflation is eroding real household income.

The downward trend on equity markets has continued during the course of the year. We no longer envisage the underlying equity indices used for our projections to outperform their levels seen in 2007. Rather, we expect equity markets to end the year at a EURO STOXX 50 level of 3,800 points.

The interest rate expectations for 2008 that formed the basis for our income forecast in the 2007 Annual Report have also changed on the back of the financial crisis. We have based our view of interest rate developments on the forward curve. We also expect refinancing costs to improve slightly in the latter half of the year.

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

Having exceeded our earnings target in 2007 and notched up the first key successes within the framework of our "W&W 2009" modernisation programme, in 2008 we have stepped up implementation of the measures introduced.

We are focused on expanding our selling power on the basis of an integral distribution and product strategy. We have already launched new products in the current year; for example, a new generation of home loan savings tariffs and Wüstenrot customised loans. Product combinations such as home loan financing plus life insurance at attractive terms, or cheaper auto insurance for home loan savers were also offered. These will be complemented during 2008 by other attractive products such as a home loan and savings contract eligible for Riester subsidies.

We are investing in the expansion of our exclusive sales forces in order to strengthen the selling power and further exploit existing cross-selling potential. We also plan to further develop our customer relationship management and invest in deeper usage of distribution channels (within the scope of a multi-channel approach), plus cross-divisional product management.

We remain convinced that we can achieve our objective of generating a return on equity (ROE) of 6.7 per cent and net income in excess of EUR 160 million for 2008 as a whole. Capital markets should gradually stabilise, which will be reflected in equity prices and refinancing terms.

In the Home Loan and Savings Bank division, current figures and our internal projections confirm the level of planned new business in 2008, significantly outperforming the previous year's figures.

We see risks in the Insurance division (Life and Health / Composite Insurance) that could jeopardise our ability to achieve new business targets. We will counter these risks by strengthening our selling power, and by pursuing specific sales campaigns.

Home Loan and Savings and Banking

The individual entities of the Home Loan and Savings and Banking segments – Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank, both of which are located in Ludwigsburg – are managed in the W&W Group as a division across segments.

All in all, we are well on track within the scope of the measures contained in the "Wüstenrot 2009" and "SPRING" projects and have reported our first partial successes. The Home Loan and Savings segment faces challenges, especially from unprofitable legacy tariffs, for which we had to recognise extraordinary expenditure again in the current year. However, this is offset by one-off repayment gains. By introducing new home loan savings offers, we have been able to correct the weaknesses recognised in the legacy portfolio. However, it will be some years before the positive effects from the new offers are felt in full.

High yield curve volatility might additionally influence the results of the two segments in opposite directions, through the fair values of stand-alone derivatives. Seen on the level of the Home Loan and Savings Bank division, however, these measurement gains and losses compensate each other for the most part – evidence of the effect of our cross-segment divisional management approach.

The current situation on the capital markets, together with a high degree of competitive pressure in home loan financing, has a bearing on the Home Loan and Savings Bank division. Overall, we expect Home Loan and Savings Bank net income to exceed the previous year's level, depending on how interest rates develop.

Life and Health Insurance and Composite Insurance

As the largest equity investors in the Group, the effects upon our life insurance entities of markedly lower price levels are considerable. The performance of the net financial result will therefore depend mainly on further capital market developments, which are currently defined by the uncertainties mentioned above.

On the basis of today's estimates, net income in the Life and Health Insurance for the 2008 financial year will be down slightly on the previous year's level. We expect capital markets to stabilise gradually, which will be reflected in equity prices.

The fall on equity markets also burdens the Composite Insurance segment: this has been offset by positive developments in the results from insurance operations, which are supported by domestic business as well as from the settlement of 'legacy' positions established by the former subsidiary WürttUK. Additionally, the entire Insurance division benefits from lower general administrative expenses, resulting from speedier implementation of the measures provided for within the "Württembergische 2009" programme.

For the year as a whole, we expect net income in the Composite Insurance segment to significantly exceed the figure for the previous year, provided that financial markets stabilise and the assumed recovery of equity markets comes about.

Investment Products and Holding/Reinsurance

We expect the Investment Products segment to post positive net income that will, however, fall short of the figure reported for 2007. Factors influencing results include advertising expenses in relation to the introduction of definitive withholding tax with effect from 1 January 2009. Furthermore, the current developments on the equity markets have a negative effect on our net fee and commission result.

Net income in the Holding/Reinsurance segment will be down on last year's figure, which included non-recurring extraordinary items from the reversal of provisions for the judicial award procedure, plus income from the disposal of the Dutch Erasmus insurance group.

Forward-looking statements and forecasts

The Management 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 expectations. The company is under no obligation to update forward-looking statements.

Consolidated balance sheet as at 30 June 2008

Assets	30 Jun 2008	31 Dec 2007
	EUR 000's	EUR 000's
A. Cash reserve	67,308	182,333
B. Non-current assets held for sale and disposal groups	40,781	89,505
C. Financial assets at fair value through profit or loss	1,601,347	1,706,279
D. Available-for-sale financial assets	13,071,555	13,029,552
E. Receivables	48,187,474	48,862,777
I. Loans and advances to banks	18,739,667	19,097,928
II. Receivables from reinsurance business	324,240	183,355
III. Loans and advances to customers	28,935,408	29,330,354
IV. Other receivables	188,159	251,140
F. Allowance for credit losses	- 268,065	- 266,346
G. Positive market value of hedges	15,204	19,099
H. Investments accounted for using the equity method	182,921	192,570
I. Investment property	1,238,273	1,227,801
J. Share of reinsurance business in technical provisions	1,991,277	1,988,978
K. Other assets	1,136,495	1,098,828
I. Intangible assets	207,422	203,632
II. Property, plant and equipment, and inventories	362,603	353,487
III. Current tax assets	138,988	131,368
IV. Deferred tax assets	390,477	343,774
V. Other assets	37,005	66,567
Total assets	67,264,570	68,131,376

Shareholders' equity and liabilities	30 Jun 2008	31 Dec 2007
	EUR 000's	EUR 000's
A. Liabilities directly connected with non-current assets held for sale and disposal groups	—	—
B. Financial liabilities at fair value through profit or loss	205,315	227,690
C. Liabilities	32,739,638	32,807,055
I. Certificated liabilities	2,785,277	3,315,831
II. Liabilities to banks	6,007,907	5,542,903
III. Liabilities from reinsurance business	1,891,968	1,710,444
IV. Liabilities to customers	21,530,257	21,789,959
V. Sundry liabilities	524,229	447,918
D. Negative market value of hedges	71,900	85,833
E. Technical provisions	29,142,769	29,719,736
F. Other provisions	1,582,512	1,607,470
G. Other liabilities	582,722	682,576
I. Current tax liabilities	231,396	301,623
II. Deferred tax liabilities	345,103	337,712
III. Miscellaneous liabilities	6,223	43,241
H. Subordinated capital	501,165	507,455
I. Shareholders' equity	2,438,549	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	1,001,303	1,045,104
III. Minority interests	63,141	74,352
Total shareholders' equity and liabilities	67,264,570	68,131,376

Consolidated income statement

for the period from 1 January to 30 June 2008

	1 Jan 2008 to 30 Jun 2008 EUR 000's	1.1.2007 to 30 Jun 2007 EUR 000's
Income from available-for-sale financial assets	440,097	405,539
Expenses for available-for-sale financial assets	618,345	101,969
1. Net income from available-for-sale financial assets	- 178,248	303,570
Income from investments accounted for using the equity method	8,419	588
Expenses for investments accounted for using the equity method	1,739	241
2. Net income from/net expense for investments accounted for using the equity method	6,680	347
Income from financial assets and liabilities at fair value through profit or loss	838,961	460,540
Expenses for financial assets and liabilities at fair value through profit or loss	838,161	326,038
3. Net income from financial assets and liabilities at fair value through profit or loss	800	134,502
Income from hedges	15,206	44,499
Expenses for hedges	16,309	43,409
4. Hedge result	- 1,103	1,090
Income from receivables, liabilities and subordinated capital	1,135,223	1,116,758
Expenses for receivables, liabilities and subordinated capital	608,068	608,092
5. Net income from receivables, liabilities and subordinated capital	527,155	508,666
Income from allowances for credit losses	45,769	41,147
Expenses for allowances for credit losses	74,303	58,745
6. Net expense for allowances for credit losses	28,534	17,598
7. Net financial result	326,750	930,577
Income from investment property	49,841	64,993
Expenses for investment property	28,020	35,859
8. Net income from investment property	21,821	29,134
Fee and commission income	137,332	107,878
Fee and commission expenses	283,793	288,437
9. Net fee and commission result	- 146,461	- 180,559
Premiums/contributions earned (gross)	1,918,731	2,054,197
Premiums ceded to reinsurers	87,956	129,316
10. Premiums/contributions earned (net)	1,830,775	1,924,881
Insurance benefits (gross)	1,444,681	2,170,732
Claim recoveries from reinsurers	84,364	143,780
11. Insurance benefits (net)	1,360,317	2,026,952
Personnel expenses	301,473	321,559
Other administrative expenses	185,427	180,130
Amortisation, depreciation and impairment	27,970	25,677
12. General administrative expenses	514,870	527,366
Amount carried forward	157,698	149,715

	1 Jan 2008 to	1 Jan 2007 to
	30 Jun 2008	30 Jun 2007
	EUR 000's	EUR 000's
Amount brought forward	157,698	149,715
13. Measurement gain/loss for non-current assets and disposal groups classified as held for sale	—	688
Other income	176,308	191,925
Other expenses	211,370	133,268
14. Net other income/expense	- 35,062	58,657
15. Earnings before taxes from continued operations	122,636	209,060
Taxes on income	35,531	79,917
Other taxes	1,276	1,580
16. Taxes	36,807	81,497
17. Earnings after taxes from discontinued operations	—	10,965
18. Consolidated net income	85,829	138,528
Result attributable to shareholders of W&W AG	82,128	134,922
Result attributable to minority interests	3,701	3,606
19. Earnings per share in EUR¹	0.95	1.56
of which: attributable to continued operations	0.95	1.43

¹Basic earnings per share correspond to diluted earnings per share.

Statement of recognised income and expense

	1 Jan 2008 to 30 Jun 2008	1 Jan 2007 to 30 June 2007
	EUR 000's	EUR 000's
Measurement gains and losses recognised directly in equity		
from available-for-sale financial assets (net)	- 110,665	- 7,626
Measurement gains and losses from cash-flow hedges recognised directly in equity (net)	- 133	776
Currency translation differences of independent foreign operations	9,939	- 2,045
Actuarial gains and losses from defined benefit plans	- 3,069	- 474
Gains/losses recognised directly in equity from		
investments accounted for using the equity method	7,739	- 5,541
Total gains and losses recognised directly in equity	- 96,189	- 14,910
Consolidated net income	85,829	138,528
Total recognised income and expenses	- 10,360	123,618
of which: attributable to shareholders of W&W AG	- 4,164	126,743
of which: attributable to minority interests	- 6,196	- 3,125

Segment reporting

The measurement principles for the Group's segment reporting correspond to the accounting policies applied to the IFRS half-yearly financial report.

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 institution Wüstenrot stavební spořitelna a.s. and Wüstenrot GmbH & Co. Grundstücks-KG.

The Banking Business 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, Karlsruhe

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 and LP 1 Beteiligungs-GmbH 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 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 UIN-Fonds Nr. 567 and BWK-Fonds 98.

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

As part of the reconciliation to the amounts reported for the entire Group, the tables include five smaller companies in the Miscellaneous/ Reconciliation column, apart from the intersegment consolidation adjustments, which cannot be allocated to any segment. We do not present a segmentation based on geographical regions (secondary reporting format) as the major share of income is generated in Germany.

Intersegment revenue and inputs are calculated on the basis of market prices.

Segment balance sheet	Home Loan and Savings		Banking		Investment Products	
	30 Jun 2008	31 Dec 2007	30 Jun 2008	31 Dec 2007	30 Jun 2008	31 Dec 2007
	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's
A. Cash reserve	49,593	50,274	17,537	131,915	—	—
B. Non-current assets held for sale and disposal groups	2,400	2,699	—	—	—	—
C. Financial assets at fair value through profit or loss	9,071	1,835	143,784	137,329	—	—
D. Available-for-sale financial assets	3,159,470	2,429,069	1,638,985	1,364,529	6,455	6,994
E. Receivables	16,549,691	16,743,534	12,356,199	13,131,820	33,446	34,485
F. Allowance for credit losses	- 106,801	- 109,346	- 123,942	- 125,583	—	—
G. Positive market value of hedges	573	14,238	14,375	4,861	—	—
H. Investments accounted for using the equity method	—	—	—	—	5,441	5,503
I. Investment property	676	684	—	—	—	—
J. Share of reinsurance business in technical provisions	—	—	—	—	—	—
K. Other assets	246,769	282,756	55,040	74,966	3,158	2,789
Segment assets	19,911,442	19,415,743	14,101,978	14,719,837	48,500	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	41,130	6,862	123,468	76,094	—	—
C. Liabilities	17,834,099	17,342,315	13,162,840	13,800,562	6,358	4,854
D. Negative market value of hedges	18,653	6,156	53,247	77,279	—	—
E. Technical provisions	—	—	—	—	—	—
F. Other provisions	812,565	817,669	38,172	40,937	5,065	5,067
G. Other liabilities	67,753	113,920	58,319	83,060	7,828	4,182
H. Subordinated capital	16,928	15,497	284,216	288,126	—	—
I. Shareholders' equity ¹	1,120,314	1,113,324	381,716	353,779	29,249	35,668
Segment liabilities	19,911,442	19,415,743	14,101,978	14,719,837	48,500	49,771
for information purposes:						
Capital expenditures for property, plant and equipment, and intangible assets	2,498	8,413	1,536	3,450	34	13
¹ including accumulated unrealised gains and losses from non-current assets held for sale and disposal groups	—	—	—	—	—	—

Life and Health Insurance		Composite Insurance		Holding/Reinsurance		Miscellaneous/Reconciliation		Group	
30 Jun 2008	31 Dec 2007	30 Jun 2008	31 Dec 2007	30 Jun 2008	31 Dec 2007	30 Jun 2008	31 Dec 2007	30 Jun 2008	31 Dec 2007
EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's
62	55	108	77	4	4	4	8	67,308	182,333
38,207	75,336	—	—	174	11,470	—	—	40,781	89,505
1,394,514	1,531,428	53,634	31,761	344	3,926	—	—	1,601,347	1,706,279
7,018,867	7,543,406	1,046,040	1,149,166	1,937,928	2,180,713	-1,736,190	-1,644,325	13,071,555	13,029,552
17,919,376	18,004,416	2,085,882	1,723,654	1,155,313	1,059,457	-1,912,433	-1,834,589	48,187,474	48,862,777
-22,885	-23,810	-4,726	-4,726	-2,880	-2,881	-6,831	—	-268,065	-266,346
256	—	—	—	—	—	—	—	15,204	19,099
84,688	106,392	—	—	80,820	70,242	11,972	10,433	182,921	192,570
1,159,985	1,149,449	71,211	70,731	—	183	6,401	6,754	1,238,273	1,227,801
1,607,831	1,605,218	733,017	716,422	140,483	131,448	-490,054	-464,110	1,991,277	1,988,978
392,434	328,581	285,962	276,676	91,865	76,746	61,267	56,314	1,136,495	1,098,828
29,593,335	30,320,471	4,271,128	3,963,761	3,404,051	3,531,308	-4,065,864	-3,869,515	67,264,570	68,131,376

—	—	—	—	—	—	—	—	—	—
37,628	25,318	3,089	197	—	119,219	—	—	205,315	227,690
2,617,077	2,618,431	570,310	361,815	636,619	615,458	-2,087,665	-1,936,380	32,739,638	32,807,055
—	2,398	—	—	—	—	—	—	71,900	85,833
26,366,770	27,024,819	2,713,501	2,612,755	630,060	605,543	-567,562	-523,381	29,142,769	29,719,736
80,694	109,070	337,386	324,394	250,799	256,817	57,831	53,516	1,582,512	1,607,470
226,123	223,848	151,105	164,533	23,584	50,003	48,010	43,030	582,722	682,576
130,027	133,429	93,428	90,994	—	—	-23,434	-20,591	501,165	507,455
135,016	183,158	402,309	409,073	1,862,989	1,884,268	-1,493,044	-1,485,709	2,438,549	2,493,561
29,593,335	30,320,471	4,271,128	3,963,761	3,404,051	3,531,308	-4,065,864	-3,869,515	67,264,570	68,131,376

992	23,617	437	11,280	515	811	12,619	11,040	18,631	58,624
—	1,032	—	—	—	—	—	—	—	1,032

Segment income statement	Home Loan and Savings		Banking		Investment Products	
	1 Jan 2008	1 Jan 2007	1 Jan 2008	1 Jan 2007	1 Jan 2008	1 Jan 2007
	to	to	to	to	to	to
	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's
1. Net income from available-for-sale financial assets	51,068	27,757	37,703	27,476	54	984
2. Net income from/net expense for investments accounted for using the equity method	—	—	—	—	-37	—
3. Net income from financial assets and liabilities at fair value through profit or loss	-33,042	-266	31,126	27,106	—	—
4. Hedge result	441	-232	-1,495	1,651	—	—
5. Net income from receivables, liabilities and subordinated capital ¹	172,176	149,575	6,575	32,079	599	404
6. Net expense for allowances for credit losses	11,652	9,547	16,129	7,731	—	—
7. Net financial result	178,991	167,287	57,780	80,581	616	1,388
8. Net income from investment property ^{3,4}	7	20	—	—	—	—
9. Net fee and commission result	256	-13,872	5,137	5,697	16,341	14,694
10. Premiums/contributions earned (net) ²	—	—	—	—	—	—
11. Insurance benefits (net)	—	—	—	—	—	—
Personnel expenses	84,762	89,185	17,305	19,211	5,164	4,717
Other administrative expenses	70,433	64,981	25,114	26,866	9,107	3,752
Amortisation, depreciation and impairment ³	10,274	6,446	1,603	1,447	59	90
12. General administrative expenses	165,469	160,612	44,022	47,524	14,330	8,559
13. Measurement gain/loss for non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
14. Net other income/expense	28,373	46,468	6,370	3,372	3,447	206
15. Segment result from continued operations before taxes	42,158	39,291	25,265	42,126	6,074	7,729
16. Taxes	9,751	14,733	610	16,426	681	-299
17. Result from discontinued operations after taxes	—	—	—	—	—	—
18. Segment result after taxes	32,407	24,558	24,655	25,700	5,393	8,028
for information purposes:						
¹ including interest income from other segments	11,197	11,834	3,926	4,348	474	353
including interest income from external customers	386,557	418,377	290,501	314,654	131	55
² Premiums/contributions earned (net) from insurance business with other segments	—	—	—	—	—	—
Premiums/contributions earned (net) from insurance business with external customers	—	—	—	—	—	—
³ including depreciation and amortisation	4,701	3,736	837	506	10	24
including impairment losses	3,684	—	—	—	—	—
⁴ including reversals of impairment losses	2,390	—	—	—	—	—

Life and Health Insurance		Composite Insurance		Holding/Reinsurance		Miscellaneous/Reconciliation		Group	
1 Jan 2008	1 Jan 2007	1 Jan 2008	1 Jan 2007	1 Jan 2008	1 Jan 2007	1 Jan 2008	1 Jan 2007	1 Jan 2008	1 Jan 2007
to	to	to	to	to	to	to	to	to	to
30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007	30 Jun 2008	30 Jun 2007
EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's
- 277,259	237,832	- 4,658	20,434	59,125	65,995	- 44,281	- 76,908	- 178,248	303,570
3,860	—	—	—	4,411	704	- 1,554	- 357	6,680	347
11,909	101,667	49	2,927	- 9,242	3,068	—	—	800	134,502
- 49	- 21	—	- 308	—	—	—	—	- 1,103	1,090
306,886	288,556	32,597	31,206	5,325	4,531	2,997	2,315	527,155	508,666
602	854	75	- 598	—	—	76	64	28,534	17,598
44,745	627,180	27,913	54,857	59,619	74,298	- 42,914	- 75,014	326,750	930,577
19,629	25,100	1,778	539	167	2,967	240	508	21,821	29,134
- 61,201	- 62,168	- 76,988	- 95,911	- 29,846	- 31,629	- 160	2,630	- 146,461	- 180,559
1,188,891	1,219,675	540,705	593,161	104,222	112,963	- 3,043	- 918	1,830,775	1,924,881
1,016,675	1,615,669	276,686	340,920	70,887	84,053	- 3,931	- 13,690	1,360,317	2,026,952
34,012	45,449	141,496	142,530	15,669	15,220	3,065	5,247	301,473	321,559
90,266	84,712	105,902	83,548	10,652	8,864	- 126,047	- 92,593	185,427	180,130
10,025	12,130	4,693	4,599	754	498	562	467	27,970	25,677
134,303	142,291	252,091	230,677	27,075	24,582	- 122,420	- 86,879	514,870	527,366
—	688	—	—	—	—	—	—	—	688
- 30,956	- 16,966	78,796	57,745	3,784	43,095	- 124,876	- 75,263	- 35,062	58,657
10,130	35,549	43,427	38,794	39,984	93,059	- 44,402	- 47,488	122,636	209,060
5,931	26,101	14,323	12,967	5,148	8,683	363	2,886	36,807	81,497
—	501	—	1,719	—	—	—	8,745	—	10,965
4,199	9,949	29,104	27,546	34,836	84,376	- 44,765	- 41,629	85,829	138,528
7,229	5,154	6,238	4,956	5,472	4,003	- 34,536	- 30,648	—	—
357,545	332,599	29,586	30,346	16,206	11,666	- 715	- 354	1,079,811	1,107,343
2,352	278	- 119,200	- 133,813	119,891	134,453	- 3,043	- 918	—	—
1,186,539	1,219,397	659,905	726,974	- 15,669	- 21,490	—	—	1,830,775	1,924,881
25,733	34,354	3,077	3,209	450	424	7,172	8,979	41,980	51,232
—	—	215	—	4	327	—	—	3,903	327
—	—	—	—	—	—	—	—	2,390	—

Other information

Related party disclosures

Controlling Group company

The main shareholder of Wüstenrot & Württembergische AG is Wüstenrot Holding AG, Ludwigsburg, which owns 69.7 per cent of the share capital of Wüstenrot & Württembergische AG as at the reporting date. Other shareholders include Landesbank Baden-Württemberg (9.9 per cent), UniCredito Italiano S.p.A. (7.5 per cent) as well as Schweizerische Rückversicherungsgesellschaft AG (4.9 per cent). The remaining 8.0 per cent of the shares are held in free float.

Receivables from and liabilities to related companies

The companies of the W&W Group maintain various business relationships with related companies.

The business relationships with Wüstenrot Holding AG largely 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, all of which were carried out at an arm's length basis. The balances of receivables and liabilities as at the reporting date are as follows:

	30 Jun 2008	31 Dec 2007
	EUR 000's	EUR 000's
Loans and advances to customers		
Affiliated companies	188	188
Other receivables		
Wüstenrot Holding AG	44	49
Affiliated companies	7,662	14,427
Associates	1,271	1,492
Receivables from related companies	9,165	16,156
Certificated liabilities		
Affiliated companies	377	376
Customer deposits		
Wüstenrot Holding AG	33,129	18,777
Affiliated companies	19,295	79,977
Associates	5,246	12,011
Other liabilities		
Affiliated companies	9,133	16,293
Liabilities to related companies	67,180	127,434

Contingencies

	30 Jun 2008	31 Dec 2007
	EUR 000's	EUR 000's
Contingent liabilities from banking business	1,014,491	876,388
Contingent liabilities from insurance business	286,669	286,715
Other contingent liabilities	13,077	16,485
Contingencies	1,314,237	1,179,588

The contingent liabilities from banking business relate to irrevocable loan commitments in the amount of EUR 1,008.0 million (2007: EUR 870.1 million).

Number of employees

The W&W Group employed on average 8,440 (2007: 9,218) employees (full-time equivalents). The number of employees is calculated as the arithmetic mean of the end-of-quarter figures between 30 September 2007 and 30 June 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 staff levels 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.

The W&W Group employed 8,310 employees as at 30 June 2008 (31 December 2007: 8,445).

Events after the end of the interim period

No events after the end of the interim period occurred.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group 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 for the remaining months of the financial year.

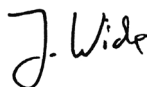
Stuttgart, 8. August 2008



Dr Alexander Erdland



Klaus Peter Frohmüller



Dr Jan Martin Wicke

Review Report¹

To Wüstenrot & Württembergische AG,
Stuttgart

We have reviewed the condensed consolidated interim financial statements - comprising the condensed balance sheet, condensed income statement, condensed cash flow statement, statement of recognized income and expense and selected explanatory notes - and the interim group management report of Wüstenrot & Württembergische AG, Stuttgart, for the period from 1 January to 30 June 2008 which are part of the half-year financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute

of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Stuttgart, 11. August 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Werner Hölzl	Reinhard Knüdeler
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

¹ Translation - the German text is authoritative

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