Interim management statement as at 30 September 2015

Wüstenrot & Württembergische AG

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

W&W wüstenrot württembergische

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Key Figures

W&W Group (According to IFRS)

Consolidated Balance Sheet		9M2015	FY2014
Total assets	€ bn	76.7	78.5
Capital investments	€ bn	48.4	49.7
Financial assets available for sale	€ bn	25.1	25.6
First tier loans and advances to institutional investors	€ bn	15.8	16.5
Building loans	€ bn	24.5	25.1
Liabilities to customers	€ bn	25.3	25.7
Technical provisions	€ bn	33.0	32.9
Equity	€ bn	3.7	3.7
Equity per share	in €	38.86	37.98

Consolidated Income Statement		9M2015	9M2014
Net financial result (after risk provison)	€ mn	1,469.5	1,603.8
Premiums/contributions earned (net)	€ mn	2,863.4	2,847.0
Insurance benefits (net)	€ mn	3,062.7	3,135.5
Earnings before income taxes from continued operations	€ mn	251.0	273.3
Consolidated net profit	€ mn	201.8	194.8
Total comprehensive income	€ mn	115.2	421.6
Earnings per share	in €	2.11	2.02

Other Information	9M2015	FY2014
Employees[1]	7,446	7,670
Employees[2]	8,908	9,140

KEY SALES FIGURES		9M2015	9M2014
Group			
Gross premiums written	€ mn	3,023.0	3,037.6
New construction financing business (including brokering for third parties)	€ mn	4,250.0	3,502.6
Sales of own and third-party investment funds	€ mn	243.2	209.4
Home loan and savings bank			
New home loan savings business (gross)	€ mn	10,305.0	10,242.1
New home loan savings business (net)	€ mn	8,159.2	8,305.5
Life and Health Insurance			
Gross premiums written	€ mn	1,625.0	1,690.2
New premiums	€ mn	405.3	457.4
Property/Casualty Insurance			
Gross premiums written	€ mn	1,379.0	1,329.5
New premiums (measured in terms of annual contributions to the portfolio)	€ mn	170.0	165.9

W&W AG		9M2015	9M2014
Share price	in €	16.00	17.85
Market capitalisation	€ mn	1,500.0	1,673.0

1 Full-time equivalent head count.
2 Number of employment contracts.

Group Interim Management Report

Business report

Business environment

Macroeconomic environment

The German economy continued to grow at a robust pace in the third quarter of 2015. The main driver was dynamic consumer demand on the part of private households, and this benefitted from very good conditions on the German labour market, high income growth and very low inflation. The construction industry saw brisk demand for real estate and a high degree of construction activity. Overall, developments so far this year have underscored the positive economic outlook for Germany, meaning that promising economic growth continues to be likely. From the standpoint of the W&W Group, the historically above-average income trends for private households and the dynamics of the construction industry in particular present a favourable macroeconomic environment.

The economic prospects for Germany remain auspicious. We expect that economic growth will continue to be robust in the coming months. Consumer demand will make the greatest contribution in this respect. The construction industry will benefit from persistently low interest rates and high demand for real estate. The weak euro and significantly rising demand from the U.S. and EMU partner countries will lead to export growth over the course of the year. In addition, very modest corporate investments are showing initial signs of an upturn. The German economy will post gross domestic product growth of 1.5% to 2% in 2015 and 2016. This means that the W&W Group will also meet with a favourable macroeconomic environment going forward.

Capital markets

Bond markets

Yields on European bond markets, which had been trending downward from the start of the year to mid-April, initially continued on this track.

In April, the yield on 10-year German government bonds reached a record low of less than 10 basis points. Speculation increased that the European Central Bank (ECB) would begin buying up bonds on the market, and this proved to be the case. Starting in March 2015, the ECB made bond purchases each month of EUR 60 billion (primarily European government bonds). The downward trend in interest rates was reinforced by very low, sometimes negative inflation rates in the first quarter that were occasioned by oil prices.

In mid-April, interest rates suddenly jumped significantly, which drove yields on 10-year German government bonds to about 1% by June, their high for the year.

With the start of the third quarter, yields again began to trend moderately in the opposite direction. The yield on 10-year German government bonds mostly ranged from nearly 0.6% to 0.8% during the third quarter. At the end of the third quarter, the yield stood at 0.59%, representing a slight rise of five basis points since the start of the year.

Despite stable benchmark rates, short-term interest rates once again fell slightly during the first months of the year, only to rise again in May/June to the level seen at the start of the year. At the end of the third quarter, two-year German government bonds were showing a negative return of -0.25%, or 15 basis points lower than at the start of the year.

Despite the generally favourable economic outlook for Europe and, in particular, Germany, we do not expect a fundamental turnaround on European bond markets in 2015/2016 and an end to the phase of low interest rates. That said, impetus for a rise in interest rates may emanate from the U.S., where the recovery has now reached a point where the Federal Reserve is expected to raise the benchmark rate in the coming months. Moreover, it cannot be ruled out that the inflation rate will rise in Germany as a consequence of higher wage levels in the coming quarters (particularly if oil prices rebound at the same time). Nevertheless, an increase in yields on bond markets is likely to be limited by the extensive bond purchases being made by the European Central Bank and high investment needs on the part of investors.

Equities markets

The European equities markets had a very good start at the beginning of the year. By April, the DAX had risen by more than 25%. But in mid-April, a spike in oil prices, a revaluation of the euro and higher returns on bond markets led to profit-taking, causing prices to decline. Prices weakened further in August, when concerns about future trends in the global economy dampened investors' risk tolerance and confidence. For instance, within just three weeks, the DAX lost 2,000 index points, falling below the 10,000 mark. The collapse was likely exacerbated by very low market liquidity in August as a result of summer holidays. By the end of the third quarter, the German equities market was suffering from negative corporate news from the automotive industry, causing the DAX to end the quarter at 9,660. This meant a slight decline of 1.5% since the start of the year. The pan-European index Euro STOXX 50 likewise posted a decline of 1.5% over the same period.

European equities markets will likely be subject to the influence of countervailing price factors in the coming months. Fundamental conditions point to a favourable environment on the exchanges. In addition, the extremely expansive monetary policies will remain in place, particularly in the EMU. The environment of low interest rates should continue to keep investors highly interested in equities. On the other hand, prices on some markets in Europe, such as the DAX in Germany, are still at a high level, despite the recent corrections. This suggests that most of the positive outlook is already reflected in stock prices. There is also the danger that constantly flaring geopolitical tensions or political risks relating to the forthcoming elections in Spain will, at least temporarily, make investors less risk-tolerant and lead to corresponding declines in prices. In short, persistently high price fluctuations and moderate price gains can be expected.

W&W stock

The number of shares in free float increased significantly in the first half of 2015. During the reporting period, L-Bank and UniCredit Bank sold their shares in W&W AG. For both banks, the investment no longer had any strategic relevance. At the same time, however, HypoVereinsbank, a subsidiary of UniCredit Bank, took this opportunity to expressly confirm its sales partnership with Wüstenrot Bausparkasse AG. Both shareholders, UniCredit as well as L-Bank, were able to place their entire shareholdings into free float, which now amounts to 20.27%. Our key shareholders are the Wüstenrot Foundation, which holds 66.31% of W&W AG through Wüstenrot Holding, and Horus Finanzholding, with a holding of 13.42%.

In the course of these sales, with heavy trading volumes, the W&W share price proved to be highly volatile in the first half-year. In the first half of May, W&W shares reached their high for the year at € 18.99. The price trend then flattened in the third quarter. However, profit-taking in late September depressed the W&W share price to € 16.00 and has since prevented it from rising to any significant degree. As at the end of September, the overall performance was -7.4%, including the dividend payment of € 0.50/share. We expect that this situation will persist for some time but gradually become attenuated.

It is already clear that interest in our shares is rising considerably as a result of the larger number of shares in free float and improved negotiability. The increase in the number of shares in free float will continue to have a positive effect on the liquidity of the shares, thus opening them up to new investor groups. Also contributing to this were our own activities on the capital markets, which we significantly intensified. We are represented at road shows and capital market conferences throughout Germany, as well as in Vienna, Zurich, Luxembourg and London. Moreover, W&W is pursuing the objective of being admitted to the Prime Standard segment of the Frankfurt Stock Exchange. Such admission is a key requirement for being included in a selection index (e.g. SDAX). W&W expects this step to have a very positive impact on how the stock is perceived, particularly by foreign investors.

Development of business and Group position

Development of business

The W&W Group once again increased its consolidated net profit after taxes. It came in at € 201.8 million (previous year: € 194.8 million), which was above the amount forecast for the period and slightly above the comparable quarter of the previous year. At the start of November 2015, the W&W Group raised the consolidated forecast to € 240-280 million.

Composition of consolidated net profit

in € million	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014
Home Loan and Savings Bank segment	43.7	42.1
Life and Health Insurance segment	36.1	42.5
Property/Casualty Insurance segment	81.2	98.4
All other segments	74.6	80.3
Consolidation across segments	–33.8	–68.5
Consolidated net profit	**201.8**	**194.8**

The prolonged environment of low interest rates, the high expenses for implementing regulatory and statutory requirements, and rising capital requirements continue to pose a challenge for the financial services industry.

In connection with W&W@2020, the W&W Group is laying the groundwork for the digitalisation of the Group. The internal W&W start-up "Digital Workshop" is to be continued in Berlin as W&W Digital GmbH. W&W will hold 51% of the equity capital of the joint venture with etventure GmbH, which will hold the remaining 49%. The objective is to develop, operate and invest in business models of all kinds. Plans call for pressing ahead with product development and cross-selling and with advancing the process of internal W&W digitalisation.

Total comprehensive income

Consolidated income statement

As at 30 September 2015, consolidated net profit after taxes rose to € 201.8 million (previous year: € 194.8 million).

Included therein is net financial income in the amount of € 1,469.5 million (previous year: € 1,603.8 million). In this regard, the following effects are to be considered:

- Net income from financial assets available for sale increased to € 1,085.1 million (previous year: € 811.0 million). This significant increase was mainly attributable to disposal gains on fixed-income securities in order to secure obligations to our customers. Moreover, it also included rises in currency gains for capital investments in foreign currency, which were attributable to downward trends in the euro rate.

- Net income from financial assets at fair value through profit or loss amounted to € -376.1 million, a year-on-year decline of € 310.5 million (previous year: € -65.6 million). In particular, net income from derivatives used to hedge interest and exchange rate risks was down significantly. In addition, weaker trends on equities markets had a negative impact on investments for unit-linked insurance.

- Net income from receivables, liabilities and subordinated capital fell to € 673.6 million (previous year: € 827.8 million). The decline was mainly attributable to low net income from disposals. The change in the discounting of the interest bonus provision worked to offset this, due to the higher interest rate level in the first three quarters.

Net income from investment property increased strongly by € 28.3 million to € 72.8 million (previous year: € 44.5 million). Higher income from rentals and disposals led to this increase.

Net premiums earned rose to € 2,863.4 million (previous year: € 2,847.0). Whereas premiums increased for Property/Casualty Insurance, those for Life and Health Insurance declined.

Net insurance benefits fell to € 3,062.7 million (previous year: € 3,135.5 million). The addition to provisions for unit-linked insurance policies, which was occasioned by the situation on the equities markets, had an impact here on net financial income that ran counter to the trends in the corresponding investments. Also having an effect was the significant continued strengthening of the additional reserves for risks associated with low interest rates.

General administrative expenses amounted to € 795.1 million (previous year: € 792.9 million). Despite collectively bargained salary increases, personnel expenses remained at the level of the previous year as a result of a lower headcount. Materials costs increased on account of higher contributions to the bank resolution fund, as well as increased investments in marketing measures.

Income tax expenses fell to € 49.2 million (previous year: € 78.5 million). Tax expenses were positively impacted by, in particular, deferred tax effects and by the release of provisions following a tax audit.

Consolidated statement of comprehensive income

As at 30 September 2015, total comprehensive income stood at € 115.2 million (previous year: € 421.6 million). It consists of consolidated net profit and other comprehensive income (OCI). The W&W Group's total comprehensive income is greatly affected by changes in interest rates.

The following shows the effects after allocations to deferred provisions for premium refunds and to deferred taxes:

Actuarial gains from defined-benefit plans for pension schemes amounted to € 98.4 million (previous year: € -119.7 million). Compared with the end of the previous year, the discount rate rose to 2.25% (previous year: 1.75%). In the comparable 2014 period, it fell from 3.25% to 2.50%.

The unrealised net income from financial assets available for sale amounted to € -173.9 million (previous year: € 367.8 million). The loss was the result of interest rates, which have increased since the start of the year, and the associated decline in prices for bearer instruments. In the prior-year period, interest rates had continued to fall. In addition, disposals resulted in a decline in reserves.

Measurement losses recognised directly in equity mainly reflect the interest rate sensitivity of the assets side of the balance sheet. Interest rate changes affect the liabilities side as well and would generate gains from underwriting and deposits. However, they are not shown in total comprehensive income in keeping with IFRS.

Home Loan and Savings Bank segment

Segment net income stood at € 43.7 million (previous year: € 42.1 million). New business remained high in the first three quarters. The segment's total assets amounted to € 36.8 billion (previous year: € 38.6 billion).

New business

Both gross new business by contract volume (€ 10.3 billion; previous year: € 10.2 billion) and net new business (paid-in new business) (€ 8.2 billion; previous year: € 8.3 billion) were at the level of the previous year.

Despite focusing on offers that generate large earnings, new construction financing business in the segment grew by 26.2% to € 2,204.2 million (previous year: € 1,746.3 million). The follow-on lending included in this figure amounted to € 344.0 million (previous year: € 367.6 million). New lending business came in at € 1,860.2 million (previous year: € 1,378.7 million). The company succeeded in making disproportionately strong use of the overall positive trends on the construction financing market.

New construction financing business across all the segments in the entire W&W Group stood at € 4,250.0 million (previous year: € 3,502.6 million). This figure includes mortgage loans of Württembergische Lebensversicherung AG in the amount of € 280.8 million (previous year: € 227.5 million) and loan disbursements under home loan and savings contracts in the amount of € 554.7 million (previous year: € 707.0 million). Brokering for third parties, which includes, among other things, brokering via the construction financing portal, amounted to € 890.1 million (previous year: € 584.0 million). The Czech home loan and savings bank and mortgage bank, whose business activities are reported under "All other segments", placed loans totalling € 320.3 million (previous year: € 238.0 million).

New business key figures

	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014	Change
	in € million	in € million	in %
Gross new business	10,305.0	10,242.1	0.6
Net new business	8,159.2	8,305.5	–1.8
New lending business	2,204.2	1,746.3	26.2
Group construction financing business (including brokering for third parties)	4,250.0	3,502.6	21.3

Financial performance

As at 30 September 2015, net financial income in the Home Loan and Savings Bank segment stood at € 311.9 million (previous year: € 324.1 million). It was mainly influenced by the following effects:

- Because of higher gains from disposals, net income from financial assets available for sale trended in a predominantly positive direction, coming in at € 147.4 million (previous year: € 140.9 million). Net interest income trended in the opposite direction due to low interest rates for new investments and for securities with floating interest rates.

- Net income from financial assets at fair value through profit or loss fell by € 127.1 million, resulting in a net loss of € -117.8 million (previous year: € 9.3 million). It primarily depicts changes in the value of derivatives that are used as hedges but do not meet the requirements for hedge accounting under IFRS. In this regard, hedges are entered into in order to cover interest rate risks for financial instruments and for the interest bonus provision in connection with managing the interest book. Whereas interest rates had continued to fall in the prior-year period, they began to rise in the first three quarters of 2015. Because of this trend in interest rates, the measurement result for free-standing derivatives was negative. Current interest income fell more than current interest expenses, leading to a decline in the net interest result for derivatives.

- The hedge result of € 65.6 million (previous year: € 53.4 million) is mainly attributable to the partial ineffectiveness of the offsetting measurement of underlying transactions and derivatives in fair value hedge relationships. In addition, the pro rata temporis release of reserves from cash flow hedge relationships had an impact.

- Net income from receivables, liabilities and subordinated capital increased to € 216.2 million (previous year: € 145.2 million). Current net interest income fell, mainly as a result of higher bonus expenses and the decline in current interest income due to persistently low interest rates.
  As a result of the trends in interest rates, the discounting of the interest bonus provision at € 82.0 million, which was lower compared with the previous year, provided substantial relief, such that net interest income rose significantly overall. In connection with management of the interest book, net income from disposals was likewise up significantly year on year. By contrast, net income fell due to instalment amortisation of hedge adjustments at the request of customers in the fair value hedge portfolio.

- Net income from risk provision improved to € 0.5 million (previous year: € -24.7 million). The improvement is based, on the one hand, on the unchanged low level of loans in default and, on the other, mainly on higher reversals of, and lower additions to, impairments as a result of reviewing risk parameters, including in connection with the introduction of IRBA.

General administrative expenses fell by € 4.2 million to € 268.8 million (previous year: € 273.0 million). Personnel expenses fell by € 5.9 million, as a result of a lower headcount. On the other hand, materials costs increased, mainly on account of higher contributions to the bank resolution fund that was introduced during the financial year on a European level, as well as a result of increased investments in marketing measures.

Net other operating income improved to € 13.1 million (previous year: € 9.9 million), mainly as a result of lower additions to other reserves.

Tax expenses in the segment fell to € 12.8 million (previous year: € 18.0 million). The decline was due to lower segment net income before taxes compared with the previous year, as well as to deferred tax effects.

Life and Health Insurance segment

Segment net income stood at € 36.1 million (previous year: € 42.5 million). New premiums in Life and Health Insurance were lower than in the previous year. The segment's total assets amounted to € 33.7 billion (previous year: € 33.9 billion).

New business

As at 30 September 2015, new premiums for the Life and Health Insurance segment stood at € 405.3 million (previous year: € 457.4 million). New regular premiums reached the level of the previous year at € 69.1 million (previous year: € 69.0 million). Single-premium income fell to € 328.1 million (previous year: € 381.2 million).

Gross premiums written fell to € 1,625.0 million (previous year: € 1,690.2 million), due to lower single premiums and a reduction in regular premiums under existing policies.

New business key figures

	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014	Change
	in € million	in € million	in %
New premium	**405.3**	**457.4**	**-11.4%**
Single premium, life	328.1	381.2	-13.9%
Regular premium, life	69.1	69.0	0.1%
Annual new premium, health	8.1	7.2	12.5%

Financial performance

Net financial income in the Life and Health Insurance segment fell to € 1,041.0 million (previous year: € 1,159.1 million). This was due to the following effects:

- Net income from financial assets available for sale increased significantly by € 283.3 million to € 866.3 million (previous year: € 583.0 million). The scope of the gains realised on fixed-income securities was significantly larger year on year. This also served to secure obligations to our customers. In addition, impairment expenses for fund investments were lower. Also making itself felt was an increase in net currency income from capital investments not denominated in euros, which benefited from the fall in the euro rate over the year.

- The net income from financial assets at fair value through profit or loss fell to € -231.6 million (previous year: € -53.5 million). In view of the weak euro, some of this was due to a significant decline in net income from currency derivatives obtained for hedging purposes. In addition, net investment income from investments made for the purpose of backing unit-linked insurance products suffered from trends on the equities market in the third quarter.

- Net income from receivables, liabilities and subordinated capital fell to € 397.0 million (previous year: € 627.0 million). Net income from disposals declined, owing to fewer sales of securities compared with the previous year. In addition, extremely low interest rates for new investments and reinvestments and a decline in the portfolio had an impact.

Net income from investment property increased significantly by € 28.3 million to € 69.3 million (previous year: € 41.0 million). This was attributable, on the one hand, to higher rental income as a result of an expanded portfolio of property investments overall, as well as commencement of business at the "Gerber" shopping centre in Stuttgart. In addition, net income from disposals increased.

Net premiums earned fell year on year. They amounted to € 1,680.3 (previous year: € 1,706.2). Contributing to this was a lower volume of single-premium insurance policies in new business, as well as a decline in the portfolio of regular premiums due to expiring policies.

Net insurance benefits fell to € 2,394.6 million (previous year: € 2,521.9 million). Benefits to customers continued to be secured through the regular increase of the additional interest reserve and interest rate reinforcement. At € 244.2 million (previous year: € 265.6 million), expenses remained at a very high level. Consequently, these reserves now total € 1,157.3 million. In addition, the addition to the provision for unit-linked life insurance policies declined significantly as a result of downward trends in equities prices.

General administrative expenses in the Life and Health Insurance segment increased to € 192.1 million (previous year: € 190.8 million). The prior-year figure for personnel expenses benefited from a one-off effect resulting from the cross-segment transfer of pension provisions.

Other operating income amounted to € -61.8 million (previous year: € -31.8 million). Making itself felt here were, among other things, lower capitalisation of acquisition costs owing to the requirements of the German Life Insurance Reform Act (*Lebensversicherungsreformgesetz*), as well as reduced profit participation from reinsurance.

Tax expenses in the segment fell to € 7.1 million (previous year: € 15.1 million). The decline was due to lower segment net income before taxes compared with the previous year, as well as to deferred tax effects.

Property/Casualty Insurance segment

Segment net income fell to € 81.2 million (previous year: € 98.4 million). New business in the Property/Casualty Insurance segment rose, with total assets amounting to € 4.3 billion (previous year: € 4.1 billion).

New business/premium development

New business increased to € 170.0 million (previous year: € 165.9 million). The decline in the corporate customers and retail customers business lines was able to be more than offset by growth in the motor business line.

Quarter on quarter, the portfolio increased considerably as a result of by and large gratifying net sales performance, taking into account pure new business, replacement business and cancellation figures. Accordingly, gross premiums written increased strongly by € 49.6 million to € 1,379.0 million (previous year: € 1,329.5 million).

New business key figures

	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014	Change
	in € million	in € million	in %
New business	**170.0**	**165.9**	**2.5%**
Motor	129.6	124.2	4.3%
Corporate customers	20.9	21.6	-3.2%
Retail customers	19.5	20.1	-3.0%

Financial performance

Net financial income fell to € 74.7 million (previous year: € 81.2 million). It consists of the following components:

- Net income from financial assets available for sale reached € 56.9 million (previous year: € 74.3 million). This decline was mainly attributable to lower net income from disposals. The prior-year figure includes a large amount of income from the sale of Antares Holding Ltd.

- Net income from financial assets accounted for using the equity method went up by € 10.4 million to € 11.0 million (previous year: € 0.6 million). This was due to the sale of an equity investment of an associated company.

- The net income from financial assets at fair value through profit or loss amounted to € -25.9 million (previous year: € -22.8 million). This item is influenced by the result from currency derivatives used to hedge financial assets available for sale.

- Net income from receivables, liabilities and subordinated capital rose by € 3.5 million to € 32.8 million (previous year: € 29.3 million). Expenses for the compounding of pension provisions declined, as a result of interest rates having fallen further.

Net commission income reduced to € -158.7 million (previous year: € -152.2 million). The insurance portfolio grew year on year, which also raised portfolio commissions.

Net premiums earned continued to trend positively. They grew by € 37.5 million to € 988.3 million (previous year: € 950.8 million). As a result of the gratifying sales performance, earned premiums were significantly above the prior-year figure.

Net insurance benefits stood at € 545.5 million (previous year: € 501.8 million). The development in claims was good, although somewhat weaker than in the previous year, which had an unusually low number of claims. In the current year, there were once again a greater number of accumulation events, such as the storm Niklas, as well as major losses in the corporate customers area. On the whole, however, a gratifying loss ratio of 74.2% (previous year: 70.9%) was achieved for the financial year.

General administrative expenses increased by € 9.0 million to € 258.8 million (previous year: € 249.8 million). Making itself felt here was, in particular, the provision for the social compensation plan adopted in connection with the restructuring of the sales departments, as well as the cost effect resulting from collectively bargained salary increases.

All other segments

"All other segments" covers the divisions that cannot be allocated to any other segment. This includes W&W AG, W&W Asset Management GmbH and the Czech subsidiaries. The total assets of all other segments amounted to € 5.9 billion (previous year: € 6.0 billion). After-tax net income amounted to € 74.6 million (previous year: € 80.3 million). This was composed, among other things, of the following: W&W AG, € 33.5 million (previous year: € 67.8 million); W&W Asset Management GmbH, € 15.9 million (previous year: € 10.3 million); Czech subsidiaries, € 12.9 million (previous year: € 7.2 million); Wüstenrot Haus- und Städtebau GmbH, € 5.1 million (previous year: € 0.0 million).

Net financial income fell year on year to € 96.4 million (previous year: € 153.4 million). This was mainly due to a decline in investment income from within the Group received by W&W AG, which is included in net income from financial assets available for sale. Dividend income from fully consolidated subsidiaries is eliminated in the consolidation/reconciliation column in order to obtain values for the Group. Also posting a decline was the measurement with regard to net income from financial instruments at fair value through profit or loss.

Earned premiums rose by € 4.1 million to € 204.9 million (previous year: € 200.8 million). This was mainly attributable to the higher volume ceded by Württembergische Versicherung AG to W&W AG for reinsurance within the Group. Net insurance benefits increased to € 136.2 million (previous year: € 130.8 million) owing to somewhat weaker development in claims.

General administrative expenses fell by € 4.8 million to € 68.5 million (previous year: € 73.3 million). This was primarily attributable to lower materials costs and higher service income.

Net other operating income increased year on year to € 26.5 million (previous year: € 8.7 million). This was mainly due to higher income from property development business.

Tax expenses in the segment fell to € 19.3 million (previous year: € 47.2 million). In this regard, the reporting half-year was positively influenced by the settlement of prior-year taxes.

OUTLOOK

In terms of future performance, persistently low interest rates, high expenses for implementing additional statutory and regulatory requirements, and rising capital requirements continue to pose a great challenge for the entire financial services industry.

With the innovation and investment programme "W&W@2020", we are adopting an ambitious product and growth strategy. Before 2017, we intend to invest above all in new techniques and an improved market alignment.

In the coming years, the focus will be on the strengthening of sales in connection with an overhauled product offer, as well as on the systematic introduction of digital means of customer access. Other core elements are investments in a lean infrastructure, digital orientation, but also employee expertise, so as to continue to operate successfully on the market.

In early November, we raised the forecast for consolidated IFRS net income to € 240 to 280 million. This increase is based on further optimisation of the business model, which is also reflected in reduced costs, as well as on recent positive trends on the equities markets and a more favourable development in claims in the area of property insurance.

In addition to the risks, opportunities and challenges for the W&W Group outlined above, these forecasts may still fluctuate considerably due to the developments described below.

An improvement of the capital market environment would have a positive effect on our financial performance. On the other hand, extreme events on capital markets, extraordinary loss events, a renewed intensification of the sovereign debt crisis in Europe or political instability would negatively impact our results.

Consolidated interim financial statements

CONSOLIDATED BALANCE SHEET

ASSETS

in € thousands		30.9.2015	31.12.2014
A.	***Cash reserves***	**129,014**	**339,053**
B.	***Non-current assets classified as held for sale and discontinued operations***	**128,925**	**14,090**
C.	***Financial assets at fair value through profit or loss***	**3,448,303**	**3,463,943**
D.	***Financial assets available for sale***	**25,085,453**	**25,613,428**
	Thereof sold under repurchase agreements or lent under securities lending transactions	2,136,380	2,304,793
E.	***Receivables***	**43,346,923**	**44,316,001**
I.	Subordinated securities and receivables	148,871	96,354
II.	First-rate receivables from institutional investors	15,778,992	16,520,286
III.	Building loans	24,486,503	25,127,273
IV.	Other receivables	2,932,557	2,572,088
F.	***Risk provision***	**–204,915**	**–214,566**
G.	***Positive market values from hedges***	**40,834**	**51,104**
H.	***Financial assets accounted for under the equity method***	**129,987**	**184,192**
I.	***Investment property***	**1,661,275**	**1,769,358**
J.	***Reinsurers' portion of technical provisions***	**1,331,902**	**1,353,969**
K.	***Other assets***	**1,571,553**	**1,645,487**
I.	Intangible assets	105,515	116,633
II.	Property, plant and equipment	225,765	238,048
III.	Inventories	75,133	67,815
IV.	Current tax assets	83,925	72,835
V.	Deferred tax assets	975,039	1,042,313
VI.	Other assets	106,176	107,843
TOTAL ASSETS		**76,669,254**	**78,536,059**

Liabilities

in € thousands		30.9.2015	31.12.2014
A.	***Liabilities under non-current assets classified as held for sale and discontinued operations***	**79,698**	**–**
B.	***Financial liabilities at fair value through profit or loss***	**1,017,781**	**1,012,030**
C.	***Liabilities***	**34,071,812**	**35,647,143**
I.	Liabilities evidenced by certificates	1,022,135	1,165,708
II.	Liabilities to credit institutions	5,534,708	6,401,409
III.	Liabilities to customers	25,263,785	25,710,869
IV.	Finance lease liabilities	29,419	32,433
V.	Miscellaneous liabilities	2,221,765	2,336,724
D.	***Negative market values from hedges***	**507,974**	**608,751**
E.	***Technical provisions***	**32,971,125**	**32,908,709**
F.	***Other provisions***	**2,781,024**	**2,944,398**
G.	***Other liabilities***	**958,358**	**1,124,310**
I.	Current tax liabilities	157,139	199,245
II.	Deferred tax liabilities	793,114	916,040
III.	Other liabilities	8,105	9,025
H.	***Subordinated capital***	**564,082**	**616,498**
I.	***Equity***	**3,717,400**	**3,674,220**
I.	Interests of W&W shareholders in paid-in capital	1,487,576	1,487,576
II.	Interests of W&W shareholders in earned capital	2,155,186	2,072,948
	Retained earnings	2,094,364	1,940,540
	Other reserves (other comprehensive income)	60,822	132,408
III.	Non-controlling interests in equity	74,638	113,696
Total liabilities		**76,669,254**	**78,536,059**

CONSOLIDATED INCOME STATEMENT

in € thousands	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014
Income from financial assets available for sale	1,285,499	938,544
Expense from financial assets available for sale	200,415	127,526
1. Net income from financial assets available for sale	**1,085,084**	**811,018**
Income from financial assets accounted for using the equity method	25,143	8,292
Expense from financial assets accounted for using the equity method	977	163
2. Net income from financial assets accounted for using the equity method	**24,166**	**8,129**
Income from financial assets/liabilities at fair value through profit or loss	1,091,108	1,184,207
Expense from financial assets/liabilities at fair value through profit or loss	1,467,180	1,249,845
3. Net income from financial assets/liabilities at fair value through profit or loss	**–376,072**	**–65,638**
Income from hedges	164,429	282,763
Expense from hedges	98,806	229,396
4. Hedge result	**65,623**	**53,367**
Income from receivables, liabilities and subordinated capital	1,287,877	1,547,003
Expense from receivables, liabilities and subordinated capital	614,228	719,244
5. Net income from receivables, liabilities and subordinated capital	**673,649**	**827,759**
Income from credit risk adjustments	85,628	80,216
Expense from credit risk adjustments	88,593	111,039
6. Net income from risk provision	**–2,965**	**–30,823**
7. NET FINANCIAL RESULT	**1,469,485**	**1,603,812**
Income from investment property	129,085	86,935
Expense from investment property	56,283	42,427
8. Net income from investment property	**72,802**	**44,508**
Commission income	169,308	164,167
Commission expense	453,037	449,913
9. Net commission income	–283,729	–285,746
Earned premiums (gross)	2,939,530	2,964,041
Premiums ceded to reinsurers	–76,162	–116,995
10. Earned premiums (net)	**2,863,368**	**2,847,046**
Insurance benefits (gross)	3,131,882	3,248,535
Received reinsurance premiums	–69,222	–113,007
11. Insurance benefits (net)	**3,062,660**	**3,135,528**
CARRYOVER	**1,059,266**	**1,074,092**

in € thousands	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014
Carryover	**1,059,266**	**1,074,092**
Personnel expenses	453,240	452,776
Materials costs	290,053	288,365
Depreciation	51,757	51,786
12. General administrative expenses	**795,050**	**792,927**
Other operating income	154,893	145,091
Other operating expense	168,109	152,991
13. Net other operating income	**–13,216**	**–7,900**
14. Earnings before income taxes from continued operations	**251,000**	**273,265**
15. Income taxes	**49,172**	**78,459**
16. Consolidated net profit	**201,828**	**194,806**
Result attributable to shareholders of W&W AG	197,972	186,482
Result attributable to non-controlling interests	3,856	8,324
17. Basic (= diluted) earnings per share, in €	**2.11**	**2.02**
Thereof from continued operations, in €	2.11	2.02

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in € thousands	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014
Consolidated net profit	**201,828**	**194,806**
Other comprehensive income		
Elements not reclassified to the consolidated income statement:		
Actuarial gains/losses (-) from defined-benefit plans (gross)	152,428	–187,683
Provision for deferred premium refunds	–10,635	11,735
Deferred taxes	–43,357	56,199
Actuarial gains/losses (-) from defined-benefit plans (net)	**98,436**	**–119,749**
Elements subsequently reclassified to the consolidated income statement:		
Unrealised gains/losses (-) from financial assets available for sale (gross)	–800,765	1,311,173
Provision for deferred premium refunds	547,581	–776,283
Deferred taxes	79,299	–167,140
Unrealised gains/losses (-) from financial assets available for sale (net)	**–173,885**	**367,750**
Unrealised gains/losses (-) from financial assets accounted for using the equity method (gross)	–135	–68
Provision for deferred premium refunds	–	–
Deferred taxes	2	1
Unrealised gains/losses (-) from financial assets accounted for using the equity method (net)	**–133**	**–67**

in € thousands	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014
Unrealised gains/losses (-) from cash flow hedges (gross)	–22,236	–25,890
Provision for deferred premium refunds	–	–
Deferred taxes	6,799	5,316
Unrealised gains/losses (-) from cash flow hedges (net)	**–15,437**	**–20,574**
Currency translation differences of economically independent foreign units	**4,359**	**–607**
Total other comprehensive income, gross	–666,349	1,096,925
Total provision for deferred premium refunds	536,946	–764,548
Total deferred taxes	42,743	–105,624
Total other comprehensive income, net	**–86,660**	**226,753**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**115,168**	**421,559**
Attributable to shareholders of W&W AG	111,967	396,931
Attributable to non-controlling interests	3,201	24,628

Segment income statement

in € thousands	Home Loan and Savings Bank		Life and Health Insurance	
	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014
1. Net income from financial assets available for sale	147,433	140,878	866,276	583,044
2. Net income from financial assets accounted for using the equity method	–	–	10,791	5,891
3. Net income from financial assets/liabilities at fair value through profit or loss	–117,817	9,309	–231,638	–53,513
4. Hedge result	65,623	53,367	–	–
5. Net income from receivables, liabilities and subordinated capital	216,178	145,242	397,022	627,047
6. Net income from risk provisioning	495	–24,667	–1,486	–3,339
7. Net financial result	**311,912**	**324,129**	**1,040,965**	**1,159,130**
8. Net income from investment property	**–**	**–**	**69,337**	**41,048**
9. Net commission income	**260**	**–869**	**–98,962**	**–104,291**
10. Premiums earned (net)	**–**	**–**	**1,680,327**	**1,706,194**
11. Insurance benefits (net)	**–**	**–**	**2,394,562**	**2,521,934**
12. General administrative expenses[3]	**268,777**	**273,006**	**192,081**	**190,773**
13. Net other operating income	**13,120**	**9,868**	**–61,752**	**–31,759**
14. Net segment income from continued operations before taxes	**56,515**	**60,122**	**43,272**	**57,615**
15. Income taxes	**12,769**	**18,008**	**7,124**	**15,067**
16. Net segment income after taxes	**43,746**	**42,114**	**36,148**	**42,548**

1 Includes amounts from proportional profit transfers eliminated in the Consolidation column.
2 The column Consolidation/reconciliation includes the effects of consolidation between segments.
3 Includes service revenues and rental income with other segments.

Property/Casualty Insurance		Total for reportable segments		All other segments[1]		Consolidation/reconciliation[2]		Group	
1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014	1.1.2015 to 30.9.2015	1.1.2014 to 30.9.2014
56,948	74,286	1,070,657	798,208	75,202	129,721	–60,775	–116,911	1,085,084	811,018
11,008	580	21,799	6,471	2,367	1,658	–	–	24,166	8,129
–25,893	–22,778	–375,348	–66,982	–4,300	2,812	3,576	–1,468	–376,072	–65,638
–	–	65,623	53,367	–	–	–	–	65,623	53,367
32,828	29,342	646,028	801,631	24,947	21,788	2,674	4,340	673,649	827,759
–174	–249	–1,165	–28,255	–1,800	–2,568	–	–	–2,965	–30,823
74,717	**81,181**	**1,427,594**	**1,564,440**	**96,416**	**153,411**	**–54,525**	**–114,039**	**1,469,485**	**1,603,812**
1,555	**1,692**	**70,892**	**42,740**	**288**	**187**	**1,622**	**1,581**	**72,802**	**44,508**
–158,726	**–152,181**	**–257,428**	**–257,341**	**–29,495**	**–31,403**	**3,194**	**2,998**	**–283,729**	**–285,746**
988,313	**950,791**	**2,668,640**	**2,656,985**	**204,938**	**200,757**	**–10,210**	**–10,696**	**2,863,368**	**2,847,046**
545,452	**501,769**	**2,940,014**	**3,023,703**	**136,199**	**130,829**	**–13,553**	**–19,004**	**3,062,660**	**3,135,528**
258,813	**249,804**	**719,671**	**713,583**	**68,455**	**73,305**	**6,924**	**6,039**	**795,050**	**792,927**
10,816	**7,854**	**–37,816**	**–14,037**	**26,470**	**8,707**	**–1,870**	**–2,570**	**–13,216**	**–7,900**
112,410	**137,764**	**212,197**	**255,501**	**93,963**	**127,525**	**–55,160**	**–109,761**	**251,000**	**273,265**
31,161	**39,393**	**51,054**	**72,468**	**19,315**	**47,195**	**–21,197**	**–41,204**	**49,172**	**78,459**
81,249	**98,371**	**161,143**	**183,033**	**74,648**	**80,330**	**–33,963**	**–68,557**	**201,828**	**194,806**

Imprint

PUBLISHER

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