Annual Report 2007

Wüstenrot & Württembergische AG

wüstenrot
württembergische

Key figures at a glance

W&W Group (in accordance with IFRS)		31 Dec 2007	31 Dec 2006
Balance sheet			
Loans and advances to banks	EUR bn	**19.1**	19.6
Loans and advances to customers	EUR bn	**29.3**	30.1
Available-for-sale financial assets	EUR bn	**13.0**	12.3[1]
Customer deposits	EUR bn	**21.8**	22.1
Technical provisions	EUR bn	**29.7**	29.3
Shareholders' equity	EUR bn	**2.5**	2.3
Net asset value per share	EUR	**24.54**	23.56
Total assets	EUR bn	**68.1**	70.1

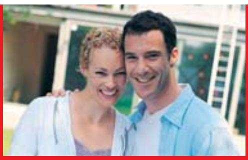
		1 Jan 2007 to	1 Jan 2006 to
Income statement		**31 Dec 2007**	31 Dec 2006[1]
Net financial result (after allowance for credit losses)	EUR mn	**1,532.2**	1,562.4
Premiums/contributions earned (net)	EUR mn	**3,835.6**	3,965.9
Insurance benefits (net)	EUR mn	**3,821.5**	3,912.9
Earnings before taxes from continued operations	EUR mn	**246.5**	25.7
Consolidated net income	EUR mn	**209.5**	44.5
Earnings per share	EUR	**2.32**	0.41

		1 Jan 2007 to	1 Jan 2006 to
Other information		**31 Dec 2007**	31 Dec 2006
Employees[2]		**8,445**	9,412
Employees[3]		**10,107**	11,334
Return on equity after taxes	Per cent	**8.8**[4]	2.0
Assets under management	EUR bn	**24.9**	24.3
Sales of own and third-party investment funds	EUR mn	**422.1**	387.0
Home Loan and Savings Bank Division			
New home loan and savings business (paid in)	EUR bn	**7.2**	7.8
Home loans disbursed	EUR mn	**4,790.0**	4,661.8
Insurance Division			
Property/Casualty Insurance			
New premiums	EUR mn	**180.1**	178.7
Gross premium income	EUR mn	**1,472.6**	1,609.0
Life and Health Insurance			
New premiums/contributions	EUR mn	**552.9**	592.2
Gross premium/contribution income	EUR mn	**2,413.7**	2,483.6

W&W AG		1 Jan 2007 to	1 Jan 2006 to
(according to the German Commercial Code)		**31 Dec 2007**	31 Dec 2006
Net profit	EUR mn	**80.4**	10.7
Dividend per share[5]	EUR	**0.50**	—
Share price at year-end	EUR	**19.75**	20.30
Market capitalisation at year-end	EUR mn	**1,703.3**	1,750.7

[1] Figures adjusted, see explanations in the notes to the consolidated financial statements, section on accounting changes (page 71)
[2] Full-time equivalent head count at year-end
[3] Number of employment contracts at year-end
[4] Adjusted for non-recurring effects in 2007, ROE was 6.1 per cent
[5] Subject to approval by the Annual General Meeting

Savings and investments



Home loan savings

Financial cover

Risk protection

W&W – we’ve got it covered

Having united the forces of Wüstenrot and Württembergische, we can offer our clients a financial planning package tailored to their individual needs – leveraging the strengths of all Group entities. As a reliable partner with an attractive range of financial and insurance pro ducts, we offer our customers guidance, security and opportunities in the complex financial services sector.

Our ambitious growth targets require harnessing the strengths of all W&W Group entities, to achieve the efficiency and financial strength required to compete successfully. In this way, we can cover all aspects of financial planning and provisions: savings/investments, home loan savings, financial cover, and risk protection – throughout all different stages in life.

It is the combination of skills and expertise of Wüstenrot and Württembergische that lets our Group stand out, making it strong and truly unique: it’s this partnership that gives us the power our customers need.

We are determined to organically boost growth, not least to sustain our strength and independence on a long-term horizon.

Contents

Consistent focus on growth targets

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

Dr Erdland, just under two years ago, W&W Group set itself an objective to clearly boost growth, and to enhance profitability and efficiency within the Group, by the end of next year. How would you describe the current status?

The measures taken during the last eighteen months, within the scope of our "W&W 2009" modernisation programme, are increasingly bearing fruit, with clear improvements already becoming visible at many Group units. This is also evident in our results. To ascertain the power to invest that we need in our business, we have set a target of increasing return on equity after taxes to 9 per cent by the end of 2009. Having exceeded the target return of 5.3 per cent for 2007 by 0.8 percentage points, we have made very good progress. The 9 per cent target is clearly within reach – at the same time, we are fully aware that further efforts are needed to achieve it. Our strategic position has set new, binding standards for corporate performance – balancing growth, efficiency, and profitability. In doing so, we always remain focused on the needs of our customers, whom we want to support as their partner of choice for all financial planning issues.

Several managers and staff members have conducted a review in order to identify scope for streamlining processes and reducing complexity, or the need for quality enhancement. Initial concrete results are already showing up, such as the reorganisation of front and back office operations at Württembergische, the realignment of Wüstenrot's mobile sales force, or the expansion of risk management and human resources development processes at Group level. Together with additional steps taken, these initiatives will help boost the Group's performance.

The acquisition of Karlsruher Versicherungsgruppe demonstrated that W&W Group is not exclusively looking for organic growth. Can you already label the merger as a success?

The answer is yes. The acquisition of Karlsruher has strengthened W&W Group, improving its market position. It has enabled us to grow our customer base, and to expand the exclusive insurance sales force by around 1,000 field staff. What's more, the trusting and close cooperation with the cooperative banking sector – established over decades – is just as beneficial. As a further positive result, the cost synergies we have realised have clearly exceeded expectations.

What are W&W Group's plans for further growth? Are you planning further acquisitions?

Needless to say, we are keeping a close eye on the market, assessing interesting opportunities with due care. Nevertheless, our primary duty looking ahead will be to do everything it takes to ensure organic growth. This is about winning new customers, but also involves exploring the huge – and, to a certain extent, unused – potential of our existing customer base of around six million, to ensure cross-selling that covers our entire product range.

Let me give you a few examples. Only 3 per cent of Württembergische's 3 million customers have a home loan savings contract with Wüstenrot. At the same time, only around 400,000 (out of 3 million) Wüstenrot customers have taken out insurance cover with Württembergische. 97 per cent of W&W's customers live without our current account, and 99.9 per cent do not have a Wüstenrot Bank overnight deposit account. We can exploit this potential available to us, by effectively fulfilling the cross-product needs of two customer bases of 3 million customers each – this sets us apart from our competitors.

We are determined to consistently improve cross-selling throughout 2008: we are currently in the process of taking measures designed to achieve this, including sales structures, processing systems, training modules, and remuneration components, all of which will enhance cross-entity sales. The most important factor, however, is the personal satisfaction of being able to do more for our customers, and to convince them of our overall performance.

Certainly, the product range and new sales cooperations are just as important for growth, aren't they?

Further growth will require products that are straightforward, attractive, and innovative. In 2008, we expect new home loan savings tariffs and new product offers from Wüstenrot Bank to be particularly attractive for customers. In the motor insurance segment, we will offer discounted premiums for existing Group customers, and for eco-sensitive motorists. Another product innovation bundles a home loan savings contract with a current account, a "Riester" pension plan, and an add-on health insurance policy. We are also in the process of developing a term life insurance policy with a health check waiver, designed to cover the death risk for the provider of home loan financing.

Of course, we continue to be open to further attractive cooperations. For example, we established a key relationship with the pension scheme of Deutscher Beamtenbund, the Association of German Civil Servants, at the end of 2007 – another clear sign of mutual trust: our home loan savings and financing products are now being offered, on an exclusive basis, to around 1.25 million civil servants and public sector employees. In our endeavours to create new, long-term customer relationships, this is an opportunity, but also a particularly challenging one.

Wüstenrot and Württembergische: two strong brands converging

To better explore the potential in your customer base requires a powerful sales force. Looking ahead, which distribution channels do you consider particularly important?

The two mobile sales forces represent the main columns of W&W Group sales. Accordingly, they will be strengthened further. All Wüstenrot & Württembergische local sales representatives are in direct contact with customers, where they can prove themselves as a guarantor of trust, and a driver of growth. We aim to expand our broker-driven sales and supplementary direct sales activities, in coordination with our mobile sales partners. In a separate initiative, we maintain and expand our business within the scope of co-operations: limiting our activities to the product range agreed upon as far as our bank partners are concerned.

Dr Erdland, you mentioned the continued integration of the Group, also in terms of organisation and corporate culture. Do you see progress in this respect?

Most of the people working at Wüstenrot and Württembergische have realised that there are many more uniting aspects than separating factors. We want to leverage our mutual, different strengths in a coordinated manner, acting jointly to exploit our very special potential. The new brand umbrella will help us achieve this, visualising the joint market presence of what has belonged together for quite some time: Wüstenrot & Württembergische – we've got it covered.

What concrete benefits will the new brand umbrella have?

We have understood that the only way to master the competitive challenges, and in particular to satisfy changing customer needs, is to unite the strengths of our brands in a powerful, visible partnership. This is an expression of mutual appreciation, with an emphasis on a strong relationship.

Our new brand umbrella is testament to a joint culture – a corporate culture. We cover all aspects of financial planning and provisions: savings/investments, home loan savings, financial cover, and risk protection – throughout all different stages in life. In this way, we also fulfil an important duty to society. Anyone considering financial planning and provisions in Germany should first consider Wüstenrot & Württembergische.

As a conclusion, would you please give us your outlook for the Group's performance during the current year?

Our market profile is defined by our slogan: "W&W – we've got it covered". With this in mind, I am very confident that we will be able to propel growth across even more business units this year.

Having concentrated on building a new foundation for higher efficiency and improved profitability, our focus in 2008 is especially on developing our entire distribution capability. At the same time, we will enhance the sales focus in our internal functions. Higher growth is a task for everyone across the Group: each member of staff takes responsibility, putting customers first. The new brand umbrella will demonstrate the Group's unity both inside and outside, translating it into a strong joint performance and high customer satisfaction – "we've got it covered".

Matthias Lechner, Dr Alexander Erdland and Dr Wolfgang Oehler (left to right) want to turn the brand umbrella into business performance

W&W Group Management Board

The W&W Group Management Board operates on the basis of short reporting lines, streamlined processes, and effective decision-making. Since 1 January 2007, W&W Group has managed its business activities in two divisions: Home Loan Savings Bank, headed by Matthias Lechner, and Insurance, headed by Dr Wolfgang Oehler.

In addition to their duties as Chairman of the Management Board of the respective subsidiaries, these independent divisions join the Management Board members of the Group holding company in the Group Management Board – W&W Group's key executive body.

Management Board W&W AG

Dr Alexander Erdland
Chairman

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

Klaus Peter Frohmüller
Chief Human Resources Officer

Group Organisation and Services
Group Finance
Group Human Resources

Dr Jan Martin Wicke

Group Controlling
Group Accounting
Group Risk Management

Division Heads

Matthias Lechner

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

Dr Wolfgang Oehler

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

Klaus Peter Frohmüller
Member of the Management Board of W&W AG

Dr Alexander Erdland
Chairman of the Management Board of W&W AG

Dr Jan Martin Wicke
Member of the Management Board of W&W AG

Matthias Lechner
Head of Division Home Loan Savings Bank

Dr Wolfgang Oehler
Head of Division Insurance

Supervisory Board

Hans Dietmar Sauer
(Chairman)

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

Bernd Steuer
(Deputy Chairman)

Chairman of the Works Council
Corporate headquarters
Wüstenrot Bausparkasse AG

Jürgen Böhme

Assistant Director
Württembergische Versicherung AG

Christian Brand

Chairman of the Management Board
Landeskreditbank Baden-Württemberg – Förderbank

Hans-Peter Braun

Head of Division
Wüstenrot Bausparkasse AG

Wolfgang Dahlen

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

Gunter Ernst

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

Dr Reiner Hagemann

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

Rolf Henrich

Senior Assistant Manager
Chairman of the Group Works Council
Württembergische Versicherungen

Ulrich Ruetz

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

Helmut Schieber

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

Joachim E. Schielke

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

Walter Specht

Process measurement and control engineer
Wüstenrot Bausparkasse AG

Prof Dr Adolf Wagner

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

Frank Weber

Chairman of the Works Council
Württembergische Versicherungen,
Karlsruhe operations

Christian Zahn

ver.di Trade Union
Head Office

W&W Group – corporate milestones 2007

Wüstenrot TV goes live

Vintage motor car insurance awarded "Best Brand 2007"

2007 was an eventful year throughout W&W Group. We review the highlights and joint achievements during 2007:

January
Württembergische Lebensversicherung AG presents the first set of joint tariffs with Karlsruher Lebensversicherung AG.
W&W Asset Management GmbH launches an attractive fund savings plan concept, managed by BWInvest.

February
The new Group Management Board structure is introduced at the annual press conference. The W&W Group Management Board consists of the Management Board of W&W AG, and the heads of the Home Loan Savings Bank and Insurance divisions. The Group Management Board is supported by three cross-divisional Group Boards dealing with Sales, Risk, and Operations.

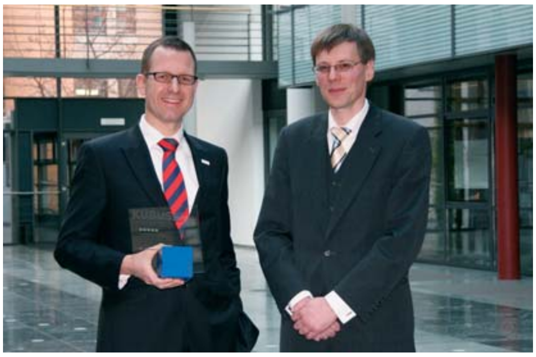
March
The squeeze-out of Karlsruher Lebensversicherung AG is concluded successfully, with Württembergische Lebensversicherung AG raising its shareholding to 100 per cent.

April
Following extensive negotiations between Management Board and the Works Council, the Wüstenrot companies reach an agreement to implement the "Wüstenrot 2009" efficiency-enhancement programme without having to terminate any employment contracts for operative reasons. The fact that the voluntary retirement offer was accepted to a large extent helped to achieve the solution found.

May
"Lights, camera, action!" Wüstenrot TV starts broadcasting, supporting the mobile sales force.

June
Having received top grades from 'Morgen & Morgen' and 'Franke & Bromberg', Stiftung Warentest – the German consumer watchdog – awards an "excellent" rating to the supplemental disability policy offered by Württembergische Lebensversicherung AG.
Fitch Ratings upgrades the mortgage bonds issued by Wüstenrot Bank AG Pfandbriefbank from "AA+" to "AAA". As a result, all of Wüstenrot Bank AG Pfandbriefbank's covered bond issues have triple-A capital market rating.

July
Wüstenrot & Württembergische Group completes a squeeze-out to become the sole owner of Wüstenrot Bausparkasse AG. This step is designed to help improve cost levels and enhance flexibility at the savings and home financing institution.
Wüstenrot launches a new remuneration structure for its mobile sales force, introducing a stronger focus on sales volumes, the value of the originated business, and on growing the customer



KUBUS survey with top ranks for Württembergische

Wüstenrot current account – a convincing product offer

base and distribution network. A computer-supported credit check for uncollateralised loans is introduced, in order to raise processing efficiency and speed at Wüstenrot Bausparkasse.

August

Fitch Ratings confirms its ratings for W&W Group, with a stable outlook.
Württembergische's motor policy for vintage cars is awarded "Best Brand 2007" by "Motor Klassik", based on a survey amongst the readers of this special-interest publication.

September

The legal merger of Württembergische Versicherungen with Karlsruher Versicherungen is completed with the registration in the Commercial Register.
W&W Service GmbH is established. Its purpose is to unite the Group's services units, which were hitherto scattered across different locations. With a uniform management structure, the objective is to raise efficiency, and to further support Group integration.

October

Wüstenrot Bank AG Pfandbriefbank extends its product range, to include an overnight deposit account, a pre-paid credit-card, and user-friendly online products for its customers.
Württembergische launches new motor insurance tariffs. Policy holders (or their spouses) already using certain products of other Group entities are eligible for a rebate of up to 10 per cent. Motorists with environmentally-friendly cars also qualify for significant premium discounts.

November

Wüstenrot's TOP current account is ranked third in a survey conducted by 'Börse Online', a financial magazine – thanks to its attractive current account interest rates, plus the overnight deposit account which is part of the package. The KUBUS 2007 insurance market survey awards an "Excellent" grade to Württembergische in the property/claims ranking, both in the overall grade and in the individual assessments for claims handling (private vehicle cover), health insurance claims, and life insurance payouts.

December

W&W Group fulfilled the expectations by Standard & Poor's during the year under review, as seen in S&P's confirmation of all ratings in December 2007.
Wüstenrot is chosen as the new partner of the pension scheme of Deutscher Beamtenbund, the Association of German Civil Servants.
Thanks to its outstanding sales performance, Wüstenrot slightly raises its market share.

W&W Group Management Report

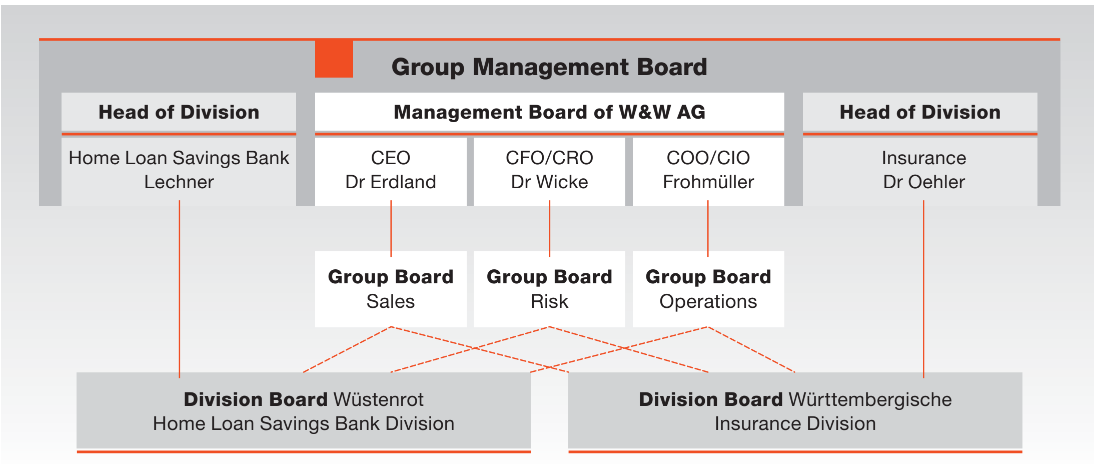
The W&W Group in profile

The independent financial services group Wüstenrot & Württembergische offers a comprehensive range of savings, investment and risk protection products typical of a major financial group. It combines this with an experienced team of locally-based sales representatives who work closely with its customers. W&W therefore positions itself as the experts in savings, investment, and risk protection, throughout all stages in life. Being financially protected is a key human need. In light of the fundamental demographic changes in evidence in our society, the gradual withdrawal of the state sector from full pension provision and employment risk cover, and the emergence of more individual lifestyles and career patterns, the need for financial security is taking on a new dimension. The range of products offered by W&W in this area is aimed at both private and commercial customers. The core market served by the W&W Group is Germany. Additionally, the Group is also focusing on exploiting market opportunities in economies characterised by rapid growth, as is currently the case in the Czech Republic.

Wüstenrot und Württembergische: Two strong partners

The unique characteristic of W&W in Germany is that its two divisions – home loan savings/banking and insurance – are managed together as two equally strong pillars, under the umbrella of a strategic management holding. This holding company – the listed Wüstenrot & Württembergische AG (W&W AG) – is the Group's parent, and thus the entity responsible to the supervisory authorities for the proper commercial organisation of the W&W financial conglomerate. Excellence in corporate governance and clear, reliable communications create the necessary market confidence in the Group.

The managers of the two divisions, together with the Management Board of W&W AG, have made up the Management Board of the W&W Group since 1 January 2007. This Management Board is supported by three Group Boards that operate across the divisions in the areas of sales, risk and operations.



The W&W Group, as well as comprising the management holding Wüstenrot & Württembergische AG, encompasses the four strategic companies Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank, the listed Württembergische Lebensversicherung AG and Württembergische Versicherung AG, as well as various smaller participating interests and investments.

The W&W Group places its entrepreneurial actions in the context of social responsibility, since its contribution to savings and investment, home loan savings, financial cover and risk protection across the population promotes personal freedom and a sense of social responsibility.

"W&W 2009" modernisation programme records first successes

The "W&W 2009" modernisation programme, developed in spring 2006 in the interests of higher growth, efficiency and profitability, was designed to make the Group a strong and successful expert in savings, investment, and risk protection. To achieve this aim, tapping the potential of the Group's six million customers by offering them our full range of products is key. Our self-perception as a unified combination of brands must be strengthened and consolidated.

In 2007 the W&W Group consistently pushed forward in its efforts towards restructuring and renewal. The successful impact of the first measures to be implemented is already in evidence. The "W&W 2009" modernisation programme is based on three pillars: the Group-wide sales project "SPRING", the cost-saving and efficiency-raising projects of the two divisions – divided into "Wüstenrot 2009" and "Württembergische 2009", and the Group project designed to optimise and improve the quality of the Group as a whole.

"W&W 2009" is designed to improve the control and efficiency of internal processes

The Group project known as "W&W 2009" is aimed at streamlining the Group's structures and making them more effective. This includes the setting-up of the W&W Group Management Board, to which the home loan savings / banking and insurance divisions both belong. An additional element is the implementation of a uniform management "cockpit" and the restructuring of accounting, auditing, human resources management and risk management. A key cornerstone is the Group-wide improvement of the efficiency of internal processes. Measures to achieve this include the W&W Group Services programme and, – in connection with this, – the launch of W&W Service GmbH: tasks and systems common to the entire Group such as purchasing, documentation and building management, together with catering and other service functions, are to be pooled, with processes and services being standardised and combined under one joint management.

Impetus for growth in cross-selling

The "SPRING" sales project is designed to boost sales and promote growth. The related interlinking of customer requirements, sales channels and products is being gradually driven forward through the Group Board responsible for sales. This is composed of the members of the Division Board responsible for sales from the two divisions – home loan savings / banking and insurance – and the Group managers responsible for coordination. This guarantees that sales and product activities are harmonised and transparent across the Group.

Cross-selling is intended to be a key engine of growth for Wüstenrot and Württembergische: stated simply, it means having each division sell the other's products in addition to its own. The necessary organisational structures, strategies and internal guidelines were put in place in 2007 with a view to realising the Group's cross-selling targets. The first signs of success are now emerging. During the past year, for example, Württembergische sales staff sold 27,000 of the 57,000 newly opened Wüstenrot current accounts. Conversely, the Wüstenrot sales team notched up success in the area of "Riester" products, concluding 23,000 of the total 48,000 pension plans taken out during the reporting year.

One of the “SPRING” measures introduced in 2007 was the Life Banking initiative. The new internet portal www.wuestenrotdirect.de means that customers, provided they are not allocated to cooperation partners, can access a broad range of products to meet their savings, insurance and risk protection needs. In addition to a free current account, a new overnight deposit account is also available and will be further developed over the coming months. This has lent additional impetus to sales activity. The target for current account business has already been clearly exceeded, and the overnight deposit account (introduced in October 2007) has been well received on the market.

Growth in new business

As a result of key growth initiatives, – particularly with regard to Wüstenrot‘s mobile sales team – home loan savings business and home loans grew increasingly dynamic over the course of the year, with a gratifying trend in the direction of greater value and growth in new business. For the first time in ten years we were able to reverse the trend of falling market share with regard to our core product, namely home loan saving plans. Meanwhile, we were also able to win market share from our competitors in the area of home loans. Detailed new business figures for the Group are provided in the segment reporting section.

In parallel, the first steps were taken towards strengthening the mobile sales force at Württembergische. By bringing together several individual agencies under the management of a single agency with particularly high production and portfolio levels, our aim is to exploit the available potential more effectively. Three pilot agencies were launched in 2007 with the aim of increasing their production over the coming three years by 30 per cent. Looking to the medium term, the plan is to create between 20 and 40 independently-managed agencies.

In September 2007 a new company was created, dealing with brokers and freelance agents: Württembergische Vertriebsservice GmbH für Makler und freie Vermittler. It will be used to acquire new customers and to exploit a key sales channel. The company brings together brokerage activities for life assurance and composite insurance. Work began on the creation of a decentralised sales network in 2007.

“Wüstenrot 2009” and “Württembergische 2009” efficiency programmes generate major success

The two efficiency programmes “Wüstenrot 2009” and “Württembergische 2009”, running at our subsidiaries until the end of 2008, had already generated clear success by the end of the 2007 financial year. Key interim objectives had been achieved ahead of schedule, one of the reasons being the higher than expected uptake of voluntary redundancy packages.

In the case of “Wüstenrot 2009”, structural measures to improve the efficiency of loan processing were the main focus during the past year. The new credit service centre for home loan savings and banking operations means that new and existing business, customer services and also reminders and enforcement are being handled centrally. Furthermore, the process of valuing real estate as part of the process of granting loans has been simplified in both home loan saving and banking operations. The valuation is generally partly automated and implemented on a cost-neutral basis for the customer. Since November 2007 no fees have been levied for valuations carried out as part of the lending decision-making process.

The Württembergische insurance companies, as part of “Württembergische 2009”, have completed the integration of the Karlsruher insurance undertakings in legal and organisational terms. Sustained positive effects from the new joint positioning have emerged – sooner than expected, and on a higher scale. The process of changing the trading name of Karlsruher HK AG to Karlsruher Lebensversicherung AG has been completed.

The further improvement of our services, in keeping with the W&W Group guiding principle of focusing on the customer, resulted in Wüstenrot and Württembergische receiving a customer service award. Both companies ranked among the 2007 list of Germany's most customer-oriented service-providers.

Customers, products and sales channels

At the W&W Group, it is the customer that is at the heart of every single thought process. Considering ideas from the customer perspective means focusing first and foremost on what they need, and using easy-to-understand product components to offer the perfect solutions. The W&W Group positions itself – with its subsidiaries – as an expert in savings, insurance, and providing for the future, together with meeting its customers' wishes with suitable products in the areas of savings and investment, home loan savings, financial cover and risk protection.

Bundle products for complete solutions

Just as much consideration is given to the choice of sales channel and method of contacting the customer as to the further development of the product range. To improve the way in which these activities are coordinated, we use a customer database, which is currently being expanded. The challenge, as far as we are concerned, is to gear our customer relations and our products to the customers' wishes. Any gaps in the Group's product portfolio are investigated and plugged where necessary. Individual products are grouped together to form bundled products, offering the customer an overall solution.

A completely new development is a home loan savings offer with five variations, due to be introduced to the market on 1 April 2008. The main advantages for the customer are loan interest rates from 1.6 per cent and credit interest of up to 4 per cent, quicker allocation and freely selectable redemption payments. This should provide a strong boost to cross-selling, and consolidate W&W's position on the market as an expert in this field.

A further example of customer-oriented new products from the W&W Group is the modular premium motor insurance product with specific cover extension options. As part of our overall approach to savings, investments and risk protection, Württembergische provides Wüstenrot home loan savings customers with premium discounts. A similar approach lies behind our new accident insurance rates. Alongside the core cover, we are also set to introduce new types of product such as "Family Management" or "Rehabilitation Management".

Also currently being developed is a term life insurance policy without a medical examination, to cover the risk of death for the financer in the case of home loans.

We have also developed our "4 Gewinnt" concept encompassing four different products in one for the target group of employees. The concept combines a home loan savings plan with a free current account, a "Riester" pension plan and private supplementary health insurance, and enables the customer to secure the maximum level of state support in the form of housing subsidies, employee savings premium and state pension provision.

Investing in our future

The creation of attractive future prospects for both mobile sales forces is the cornerstone of the W&W Group's sales strategy. The investment required in planning and reporting, expansion of the sales network, products, state-of-the-art market processing instruments, sales support and human resources development is a top priority with regard to increasing the income opportunities and productivity of the mobile sales teams. The market and sales strategy of the W&W Group, and the requirements in terms of process and service management and as a result of the regulatory environment, require substantial investment – not least in information technology.

Sales – The key to success

The key to the success of the growth initiatives lies in the performance-oriented and customer-focused organisational structure and practical approach of the entire W&W Group. The Group's selling power is based on the two mobile sales forces of Wüstenrot und Württembergische with a total of more than 6,000 staff based at some 1,000 Wüstenrot customer service centres and 2,000 Württembergische offices. This means that the W&W Group has the fourth-largest mobile sales operation in Germany.

The performance level of both mobile sales teams is at the heart of the Group's mix of sales channels. Customer proximity, and the service provided to new and existing customers, are being stepped up and expanded.

The introduction of a remuneration system geared more strongly towards performance, value, growth and needs is expected to result in far-reaching fulfilment of customers' needs and a higher level of new business.

Overview of the product range offered by the W&W Group

Home loan savings

- Home loan savings
- Bridging loans

Banking

- Saving and investment products
- Current accounts, overnight deposit accounts
- Saving deposits / time deposits
- Finance products
- Bank loans
- Mortgage loans

Investment products

- Investment funds
- Equities and bonds

Life and health insurance

Life assurance

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

Health insurance

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

Composite Insurance

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

The clear objective is to strengthen the Group's market position, – using our own resources and through strategic cooperation projects. We have succeeded in acquiring new cooperation partners such as the dbb Vorsorgewerk des deutschen Beamtenbund, which has incorporated Wüstenrot home loan saving and home loans products into its product range on an exclusive basis. Sales services with partner banks have also been expanded.

In this way the W&W Group enjoys a strong market presence, supported by direct sales activities. The capabilities acquired from cooperation between the two companies, and a strategy of positioning ourselves as an expert in savings, investment and risk protection, can be successfully tapped on this basis.

Common brand identity promotes awareness and image

Our image and the extent to which we are known, alongside our business model and corporate culture, are the determining features in the effort to promote ourselves as an expert in savings, investment and risk protection. The levels of awareness of Wüstenrot and Württembergische are very high on the market, with customer groups that offer potential and are excellently positioned in their respective markets.

The fact that both brands make up the same group should be highlighted to a greater extent that in the past. With this in mind, the W&W Group has had a new corporate look since March 2008, as also demonstrated on the title page of this Annual Report. By aligning the look of the two brands, the aim is to make a greater name for the brand combination. The new look is an important aspect of breathing life into a common identity for the Group on the market.

Ratings confirmed

The expectations of the rating agency Standard & Poor’s (S&P) with regard to the W&W Group were fulfilled during the past year: the agency confirmed all existing ratings in December 2007. The stable outlook for all areas of the Group was also reaffirmed. S&P paid tribute, among other factors, to the sound risk management concepts, as well as the new approaches in place for the further exploitation of cross-selling potential within the Group.

FitchRatings also confirmed its ratings in August 2007, and classed the W&W Group as having a stable outlook. The insurance-specific rating of “A” for insurer financial strength, which had been reaffirmed once more by the agency, was however withdrawn with regard to W&W AG due to the fact that external reinsurance business is no longer conducted on a significant scale. In a countermove, FitchRatings for the first time assigned W&W AG an “A” issuer default rating. The agency is positive in its assessment of the restructuring path upon which the W&W Group has embarked, with the aim of improving profitability and increasing new business. Additionally, FitchRatings upgraded the rating of mortgage Pfandbriefe of Wüstenrot Bank AG Pfandbriefbank from AA+ to AAA. This means that all Pfandbrief categories issued by Wüstenrot Bank AG Pfandbriefbank now enjoy the top rating on the capital market. In March 2008, on the basis of provisional figures for the 2007 financial year, FitchRatings once again confirmed all of the ratings awarded to the W&W Group, and the stable outlook.

Both agencies expect the W&W Group to achieve its growth and profitability targets by the year 2009.

In addition to the existing interactive ratings of the W&W Group awarded by S&P and Fitch-Ratings, Württembergische Versicherung AG was also awarded a rating by the internationally recognised agency A.M. Best. In March 2007, A.M. Best awarded Württembergische Versicherung AG an "A-" rating with stable outlook.

	Standard & Poor's		FitchRatings		A.M. Best	
	Financial Strength Rating	Issuer Credit Rating	Financial Strength Rating	Issuer Default Rating	Financial Strength Rating	Issuer Credit Rating
W&W AG	**BBB-** outlook stable	**BBB-** outlook stable		**A-** outlook stable		
Württembergische Versicherung AG	**BBB+** outlook stable	**BBB+** outlook stable	**A** outlook stable	**A-** outlook stable	**A-** outlook stable	**A-** outlook stable
Württembergische Lebensversicherung AG	**BBB+** outlook stable	**BBB+** outlook stable	**A** outlook stable	**A-** outlook stable		
Württembergische Krankenversicherung AG			**A** outlook stable	**A-** outlook stable		
Wüstenrot Bausparkasse AG		**BBB+** outlook stable		**A-** outlook stable		
Wüstenrot Bank AG Pfandbriefbank		**BBB+** outlook stable		**A-** outlook stable		
Wüstenrot Bank AG Pfandbriefbank Public-sector covered bonds (Öffentliche Pfandbriefe)	**AAA**		**AAA**			
Wüstenrot Bank AG Pfandbriefbank Mortgage bonds (Hypothekenpfandbriefe)			**AAA**			
Württembergische Versicherung AG Hybrid bond	**BBB-**					
Württembergische Lebensversicherung AG Hybrid bond	**BBB-**		**BBB+**			

W&W on the capital market

The year 2007 was another good year on the stock exchange, even if European share prices proved to be slightly less dynamic than in previous years. Key factors in the continuation of the upward trend were the again convincing performance of the European economy and thus of company profits, a high level of available liquidity, and an attractive initial valuation of shares, particularly when compared against other investment categories.

The Dow Jones EURO STOXX 50, despite negative factors such as record oil prices, the continuing appreciation of the euro and a huge crisis on the US real estate market, recorded a price increase of around 6.8 per cent. Recording a rise of 22.3 per cent, the German share market – measured in terms of the DAX – once again demonstrated one of the most dynamic price movements of any western European stock exchange. The central cause was the ongoing view that numerous individual stocks were likely takeover targets.

In contrast, companies in the financial sector experienced a much weaker price movement than the market as a whole. Bank stocks – measured in terms of the prime sector index for banking stocks – lost 8.7 per cent of their value compared with the previous year. Insurance stocks, based on the prime sector index containing listed stocks from the insurance sector, moved sideways compared with the previous year. This weak performance – compared with the market as a whole – can be attributed to the aforementioned crisis on the US real estate market and its consequences for international financial markets. Numerous banks have been forced to write down billions of dollars on their securities portfolios,– particularly with regard to securitised credit claims from the US sub-prime sector, resulting in the reporting of balance-sheet losses.

W&W share shows potential

Wüstenrot & Württembergische AG has been virtually unaffected by the crisis on the US mortgage market. With regard to the subsidiaries, which have also been unaffected by the sub-prime crisis, the situation is as follows:

Wüstenrot Bausparkasse AG is subject to clear investment restrictions under the terms of the German Building Society Act, with the result that it does not have any sub-prime exposure. Moreover, the internal financing of the building savings collective guarantees far-reaching stability and independence from the capital markets.

Similarly, Wüstenrot Bank AG Pfandbriefbank has not been (and is not) involved in the sub-prime segment, either directly or indirectly. The Bank’s main source of refinancing is through the Pfandbrief, which has once again proven how resistant it is to crisis.

Insurance companies that generally operate as investors do not use the capital market for refinancing purposes, with the exception of equity issues. Our insurance undertakings are not exposed to the sub-prime segment in the capacity of investors.

The W&W AG share was however unable to escape the general environment in the sector during the year under review, and lost 2.7 per cent compared with the previous year. The potential offered by our share was, however, very clear at the beginning of 2007: by the end of March it had risen from a 2006 year-end price of EUR 20.30 to as high as EUR 26.65 at its peak, a rise of more than 31 per cent. This meant that the share’s value was still unaffected by the first signs of the US real estate crisis back in the spring. However, the second wave of the US real estate crisis – as in the case of all financial stocks – also caused the W&W share to fall strongly, at times to below EUR 18. It then duly recovered again by the end of the year to EUR 19.75.

In view of the Group’s increased earning power and our excellent market positioning in home loan savings and insurance business, the W&W share continues to offer considerable price potential.

Security ID	
Security codes	WKN 805100, ISIN DE0008051004
Bloomberg code	WUW GR
Reuters code	WUWGn.SG
Type of issue	Registered share
Type of security	Unit share with no par value
Stock exchanges	Stuttgart (Regulated Market), Frankfurt (Regulated Market)
	XETRA, Düsseldorf (unofficial), Berlin (unofficial)
2007 at a glance	
Share capital	EUR 451,001,045.88
Number of shares	86,243,084 units
Lowest share price during the year under review	EUR 17.80
Highest share price during the year under review	EUR 26.65
Year-end price	EUR 19.75
Market capitalisation as at year-end	EUR 1,703.3 million
IFRS earnings per share 2007	EUR 2.32
2007 dividend[1]	EUR 0.50

[1] Subject to the approval of the Annual General Meeting

Stable shareholder structure

The shareholder structure remained stable during the 2007 financial year. The majority shareholder is Wüstenrot Holding, with 69.7 per cent of the shares. Landesbank Baden-Württemberg holds a 9.9 per cent stake. Other shareholders include Unicredit, which holds 7.5 per cent and Swiss Re, with 4.9 per cent of the shares. The free float lies at 8 per cent.

Open dialogue with investors

We further expanded our investor relations activities during the reporting year. We work to foster open, reliable and ongoing dialogue with lenders, investors and financial experts. Institutional and private investors, as well as analysts, in addition to information and order options on our website, also have access to our Investor Relations team by means of a telephone hotline. During numerous one-on-one discussions with investors and financial experts we were able to provide comprehensive information on issues relating to the W&W Group and our business model. The focus of these discussions was on our new strategy, and the restructuring of the Group.

Employees

Over the past year we have created the necessary basis for more growth, efficiency and profitability through the “W&W 2009” modernisation programme, having already begun to chart the course for this programme back in 2006. The measures that have been implemented form the basis on which we can secure the company’s future and maintain jobs in the long term. Again, in 2008, it will be important to implement changes. During this process, we will be drawing on the dedication and commitment of our employees.

The W&W Group as a significant employer

With its 10,107 employees (2006: 11,334), calculated in terms of the number of contracts, the W&W Group is the second-largest financial employer in the state of Baden-Württemberg.

The 545 trainees (2006: 600) are primarily based in the commercial banking, insurance, financial and real estate professions, as well as in office communications. Our hiring of 200 trainees every year is something that we wish to maintain over the coming years, thereby facing up to our social responsibility. We also offer staff the opportunity to study at the Berufsakademie in Stuttgart and Karlsruhe where they can, for example, work towards a Bachelor of Science degree in computing, or a Bachelor of Arts for those working in insurance, banking or a building society. A course in accounting and controlling is also available at the Berufsakademie in Mannheim.

Wüstenrot successfully implements measures for greater efficiency

Numerous measures contained in the "Wüstenrot 2009" project were implemented last year. This project was launched in 2006, in a bid to improve efficiency and make Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank competitive again. The intended reduction in staff levels was achieved through natural turnover, the voluntary redundancy programme, early retirement arrangements, or arrangements in the form of (for example) termination agreements in the context of the social plan adopted in April 2007.

Württembergische Versicherungen: Integration of the Karlsruher Insurance group successfully completed

With the "Württembergische 2009" product, the insurance arm of the Group further developed its efficiency projects over the course of the year, with some elements already having been concluded, as planned. These include the integration of the Karlsruher Insurance group. As part of the merger of the companies, the central departments were merged in Stuttgart in 2007.

Up close: five Group guidelines

The current processes of change are also reflected in our self-perception. To promote our shared corporate culture, five guidelines were formulated last year. These correspond to the newly defined management principles, and provide the foundation for a common culture within the W&W Group:

- The customer is at the core of our activities.
- We aim to create maximum efficiency and performance.
- We demonstrate team spirit.
- We show courage in the face of new challenges.
- We shoulder responsibility.

In addition, the new Group mission statement was adopted at the end of last year, containing statements on strategy, employees, sales, market approach and also on processing, customer service and capacity management.

Our guidelines and our mission have placed a new importance on how we manage our employees. Working together, we agree binding goals and milestones that will enable us to measure and acknowledge everything that has been achieved.

The agreements reached are supported by targeted training measures. Alongside training measures and continuing professional development, the W&W Group also provides a career concept encompassing several stages for the promotion of up-and-coming managerial staff. The ALFA programme is used to select and train top managers. Top-level managers are also supported within the framework of a General Management and Leadership training programme. Human resources activities themselves have been placed on a new footing, as part of the 'StEP 2009' project launched in 2007 for the strategic development of human resources. The aim is to improve the efficiency of personnel work, and create a uniform development process on a Group-wide basis.

Thanks to our employees

Our thanks go to our employees at this point for their dedication and extraordinary level of commitment displayed over the past financial year. The performance and commitment of our employees are critical to securing the future of our Group.

Our thanks also go to the employee representatives and their committees – as well as to the executive staff' representative committees – for the good working relationship enjoyed over the year, and for their constructive contribution to the ongoing change processes.

ECOfit certification

In May 2007, Württembergische Versicherung was awarded ECOfit certification by Claudia Gönner, Environment Minister for Baden-Württemberg, and Stuttgart's Mayor, Wolfgang Schuster. As part of this one-year project, environmental measures were introduced to conserve resources and save costs. The findings of the project will be implemented Group-wide at all locations and, as of 2008, will result in annual cost savings of EUR 250,000 through the reduction of consumption levels, the lowering of peak loads, the optimisation of lighting control and the installation of flow regulators to reduce water consumption.

Economic situation

Developments in the economy as a whole

The German economy grew strongly in 2007. Price-adjusted gross domestic product rose by 2.5 per cent according to the calculations of the Federal Statistical Office. Whilst this was down on the 2.9 per cent recorded in 2006, the upward momentum from within Germany and from abroad was sufficiently strong to cope with a noticeable headwind. In the first instance, 2007 was affected by the increase in value-added tax and resulting impact on private consumption, with a clear reticent mood in evidence. In addition, the turbulence on the international financial markets provided another negative factor, sparked off by the sub-prime crisis in the United States.

Foreign demand for German products continues to drive the economy. Despite the huge increase in the value of the euro against the dollar, exports grew by 8.3 per cent. Imports, meanwhile, only grew by 5.7 per cent. Thus the German economy again recorded an export surplus in 2007, contributing to more than half of the economic growth recorded. Impetus for growth also came from the domestic market, primarily in the form of gross fixed capital formation, which was up 4.9 per cent (price-adjusted) on 2006. Companies invested more heavily in plant and machinery.

The good order situation in the corporate sector resulted in new jobs being created in 2007, and a consequent reduction in the jobless figures. On average, a good 39.7 million people were in work during 2007. This is an improvement of 1.7 per cent on 2006. The fact that the upturn has had no impact on private consumption is evident from the meagre 0.3 per cent fall in private consumption in 2007 compared with the previous year. One cause can be found in the fact that although household disposal incomes have risen by 1.6 per cent, consumer prices rose by an average of 2.2 per cent during 2007. Over the same period, the savings ratio rose from 10.5 per cent to 10.8 per cent.

Sector performance

The W&W Group, in its core areas of financial provision products such as private home loan products and motor insurance, is exposed to tough competition from predatory rivals. Future growth and attaining the necessary financial strength in the midst of this competition requires the pooling of all resources to position W&W as an expert in its field for private and commercial customers in the core market of Germany.

The W&W Group's position within the sector

Wüstenrot Bausparkasse AG is Germany's third-largest private building society in terms of gross new business. Based on financing volume, we rank among the top five providers of private home loan products. The acquisition of the Karlsruher Insurance group by Württembergische Lebensversicherung AG resulted in a clear strengthening of the W&W Group's position in the insurance industry. With the successful implementation of their integration projects, Württembergischen insurance companies are holding on to their top 10 position in the German insurance sector.

Overview of segment performance

Home loan and savings market down

Building societies concluded 3.6 million contracts in total in 2007, which represents a fall of 6.6 per cent compared with the previous year. The volume of home loan and savings contracts reached EUR 98.3 billion in 2007, which was 3.6 per cent down on 2006.

The fact that the building societies were not able to repeat the exceptionally good result of the previous year is related to the extraordinary items that affected 2006. German building societies profited from the special state of the economy with strong rates of growth, particularly as a result of the abolition of home-ownership subsidies with effect from 1 January 2006. If the figures are adjusted to take account of this extraordinary effect, the home loan saving sector in 2007 performed above the long-term average. Also a factor in 2007 was consumers' increasing investment in state-supported products for retirement provision. There was, for example, a clear rise in the number of new "Riester" pension plans taken out compared with the previous year. It was decided by the policymakers at the end of February 2008 to incorporate home loan savings into what is an attractive support scheme from the consumer's perspective.

Higher demand for second-hand properties

Only a slight rise was recorded in 2007 with regard to investment in house building. At EUR 120.4 billion, the figure rose by 0.3 per cent year-on-year. One reason for the low level of growth could well lie in the fact that the state abolished key elements of the support system in place for private house building with effect from 1 January 2006. Home-ownership subsidies were abolished, write-down options applicable to the construction of rented housing deteriorated and the "speculation period" that must elapse before profits are free of tax was increased from two to ten years. However, given that it was possible to keep the old, favourable terms "in stock", many housing projects were completed in 2006, the construction of which began prior to this date. The construction measures that were introduced in 2006 were missing from 2007, resulting in a noticeable easing in demand for construction. Demand for housing was stimulated by the positive way in which the economy developed. Demand for second-hand properties and for renovation and modernisation projects remained as high as ever. According to DIW calculations, work on properties already held in portfolios now account for more than 60 per cent of the total investment in house building.

The number of house-building projects to be completed fell significantly in 2007, as a result of the effects referred to above. According to ifo estimates, 224,300 new homes were completed, of which 198,300 related to newly erected residential buildings. This was 9.8 per cent less than in the previous year. The number of newly completed homes in detached and two-family houses fell during the same period, down 15.0 per cent to

127,000 units. In contrast, there was a slight rise in the number of multi-family homes to be completed, up by 1.4 per cent.

Investment sector managing record volume

With total assets under management at the 2007 year-end of EUR 1,698.4 billion (2006: EUR 1,521.5 billion), the German investment sector recorded a new high for the fifth time in succession. Of this amount, EUR 731.1 billion related to retail funds, EUR 691.6 billion to specialty funds and EUR 276 billion to assets held outside investment funds. Retail funds proved to be the biggest source of sales, accounting for a total inflow of new investment of EUR 59.5 billion. EUR 30.8 billion of new assets was therefore invested. Specialty funds attracted assets of EUR 28.7 billion. In the case of retail funds, money market funds headed the rankings with an inflow of EUR 24.6 billion, the highest level since 1994 and a demonstration of the fact that investors in 2007 once again preferred funds with a relatively low level of risk. More than 16 million Germans now hold investments in funds, in recognition of the strong yield and flexibility of this type of investment. In the case of “Riester” savers, the investor sector is gaining further market share. Compared with just 6 per cent in December 2003, almost 18 per cent of all “Riester” savers now have a “Riester” pension plan based on investment funds.

Overview of the insurance sector

The improved state of the economy in 2007 did not lend any growth impetus to the German insurance industry. According to provisional figures, premium income is expected to have only risen by 0.2 per cent, to EUR 162.1 billion. In addition to industry-specific factors, such as intensive competition or the impact of political reforms, other factors have also come into play. The ongoing mood of uncertainty, despite the fact that unemployment is falling, is still causing reluctance among sections of the population to make long-term investments in old-age provision – despite the high need for capital-backed retirement provision.

Annuity policies in increasing demand

In the individual life assurance sectors, the trend in favour of insurance policies that pay an annuity continued in 2007. These now account for around 54 per cent of policies with regular contributions and for 69 per cent of total new contributions. Unit-linked policies that pay an annuity have grown in particular since 2006, up by 28.9 per cent so that they accounted for 24.6 per cent of new business.

“Riester” pension plans now account for a share of 32.6 per cent with a rise in new regular contributions of 12.7 per cent. “Basic” pension plans accounted for more than 20 per cent in 2007, and more than doubled compared with 2006.

Business development in the life assurance sector has been marked for some years by an excess of disposals compared with new policies, with the expansionist development of the past now translating into many policy maturity dates being reached. This results in a loss in contributions for the life assurance undertakings, due to the low level of reinvestment across the market as a whole. Despite the high requirement for capital-backed old-age provision and the attractiveness of classic life assurance as a form of investment, the growth rates of previous years appear to be unattainable now.

Composite insurance influenced by storm damage

In the case of indemnity and accident insurance, the damage caused by Hurricane Cyril was the main negative factor in 2007. Whilst premium income fell by 0.4 per cent to EUR 54.8 billion, claim payments rose considerably over the same period, up by 8.3 per cent to EUR 43.1 billion. The fall in premium income and the rising pressure of claims resulted in a deterioration of almost seven points in the claims ratio to 98 per cent. Correspondingly, this meant a reduction in the technical profit to approximately EUR 700 million, compared with EUR 4.6 billion during the previous year. This includes Hurricane Cyril, with total payouts to insured customers of around EUR 2.4 billion and EUR 2.4 million of settled individual claims. This makes Cyril not just one of the most expensive individual events in the history of the German insurance industry in terms of absolute prices, but also clear proof of the financial and organisational strength and performance of the industry.

In composite insurance business, premium income is crucially influenced by what happens in motor insurance, which is the branch with the largest claims in terms of volume. Premium income fell further, by almost 3.6 per cent to EUR 20.8 billion. Meanwhile, claim expenses rose by 2.2 per cent to EUR 19.2 billion. Overall, motor insurance moved back into the red for the first time since 2002.

Clear increase in health insurance
In the German insurance industry it was only the private health insurers that were able to record premium growth in 2007. Premium income rose by 2.5 per cent to EUR 29.2 billion, of which EUR 27.3 billion related to health insurance, 2.6 per cent more than in 2006. Nursing care insurance contributed EUR 1.9 billion, a 0.5 per cent increase.

Paid-out insurance claims, including settlement costs, totalled close to EUR 19 billion by the end of 2007. Health insurance accounted for EUR 18.4 billion, an increase of 4.6 per cent, with nursing care insurance accounting for just under EUR 0.6 billion. In this case, paid out claims rose by 1.9 per cent.

The basic parameters governing private health insurance did, however, deteriorate in 2007 as a result of diverse and far-reaching statutory reforms. Under the Statutory Health Insurance Competition Strengthening Act, the policymakers will be intervening on a major scale in the business model of private health insurance providers, and in the existing policies held by customers.

Business development of the W&W Group in 2007

Overview of the year under review

The progress made in modernising the W&W Group can be seen most clearly from the development of operational net profit, which reached EUR 145.9 million (2006: EUR 89.6 million), and from the operating return on equity after taxes, which, at 6.1 per cent, was 0.8 percentage points higher than the target of 5.3 per cent announced for 2007.

Extraordinary items influence net profit

Over and above the launch of the modernisation programme, several extraordinary items had a positive impact on the result during the reporting year, so that consolidated net income as at 31 December 2007 had risen to a total of EUR 209.5 million, compared with EUR 44.5 million during the previous year. The following extraordinary items occurred:

- In June 2007, the judicial procedure further to the merger between Wüstenrot Beteiligungs-AG and Württembergische AG Versicherungs-Beteiligungsgesellschaft in 1999 found in favour of W&W AG. The EUR 50.8 million in provisions recognised could thus be released and recognised in the income statement.
- Income of EUR 16.8 million from the strategic disposal of the Dutch Erasmus insurance group in March 2007 was also non-recurring.
- Write-downs of EUR 4 million in relation to smaller shareholdings had a negative impact on the result.

Without these one-off effects the consolidated net income would have totalled EUR 145.9 million. When comparing the figure against the published figure for 2006 of EUR 44.5 million, it should be noted that this was negatively influenced by the one-off expenses for extraordinary items due to restructuring in the amount of EUR 45.1 million. Adjusted accordingly to take account of this, consolidated net income as at 31 December 2006 lay at EUR 89.6 million. This means that the W&W Group has achieved an organic increase in its result of EUR 56.3 million, or approximately 63 per cent.

The Group's result in detail

The net financial result fell by EUR 30.2 million to EUR 1,532.2 million (2006: EUR 1,562.4 million). This fall can be attributed to various factors. Net income from investment securities available for sale fell by EUR 32.2 million, primarily due to poorer realisation gains. Lower annual profits and the need for write-downs meant that the net income from investments accounted for at equity dropped by EUR 38.8 million. Net income from financial assets and liabilities at fair value through profit or loss improved by EUR 52.3 million, mainly as a result of higher realised profits. Poorer realisation gains, meanwhile, meant that net income from loans and advances, liabilities and subordinated capital was down by EUR 67.5 million.

The improvement in allowance for credit losses, from EUR 118.4 million to EUR 52.1 million, can be attributed to a lower risk provisioning requirement.

The income from investment property fell, due to special write-downs and the reassessment of the remaining useful life; it was down by EUR 51.9 million from EUR 78.7 million to EUR 26.8 million.

The negative fee and commission result improved from EUR -375.4 million to EUR -332.4 million. Higher fee and commission income, due to higher sales in banking and investment products, had just as marked an impact as lower fee and commission expenses in the holding/reinsurance segment, due to the scheduled withdrawal of external reinsurance business.

Premiums and contributions earned in insurance fell by EUR 130.3 million from EUR 3,965.9 million to EUR 3,835.6 million. The fall can be attributed to all three insurance segments. In terms of life and health insurance, the rise in the number of maturing policies in conjunction with lower one-off premiums had a tangible impact. With regard to composite insurance, the fall in premiums was due to lower sales by our London branch and to portfolio reorganisation. In reinsurance, the fall in business due to the ending of external reinsurance business also had an impact on the figures.

Expenditure for insurance benefits fell by EUR 91.4 million from EUR 3,912.9 million to EUR 3,821.5 million. Whilst the decision to discontinue the reinsurance operations of W&W AG impacted on the reinsurance segment, Hurricane Cyril led to an increase in payments in composite insurance.

General administrative expenses fell by a total of EUR 73.0 million to EUR 1,074.1 million (2006: EUR 1,147.1 million). This was primarily due to the fall in personnel costs, which were reduced to EUR 54.5 million. This shows the positive influence of the cost-cutting measures introduced as part of the "W&W 2009" programme.

Net other income and expenses improved by EUR 230.0 million – from EUR -145.9 million to EUR +84.1 million. The one-off effect from the release of provisions for the judicial procedure was particularly evident in other income for the current period, although higher currency-related profits also had a positive effect. Other expenditure was burdened in 2007 by the restructuring expenditure described above.

The business tax reform for 2008, which was passed by the Bundesrat (the Upper House of German Parliament) on 6 July 2007, and which results in a reduction in the tax rates as of 1 January 2008, required a revaluation of deferred taxes as at the 2007 year-end. The resulting burden on the consolidated result amounted to around EUR 4.5 million.

Segment overview

In January 2007 the original five divisions – Home Loan and Savings, Banking, Investment Products, Life and Health Insurance and Composite Insurance – were combined to form the two divisions of Home Loan and Savings Bank and Insurance. To provide a better and more appropriate overview of the Group, we are continuing to provide a detailed report on how those original five divisions – now known as segments – performed: plus a further report on the holding/reinsurance segment.

In the Home Loan and Savings and Banking segments, new business tended towards more value and growth, in what was a gratifying trend. In terms of gross new business in home loan and savings on the German market, we were able to buck the industry trend. After years of decline, we were also able to gain market potential again from our competitors in the field of private home loan products.

On the income side, the turnaround has been particularly evident in the Home Loan and Savings segment. Net profit amounted to EUR 12.4 million, following a loss of EUR 48.5 million in 2006. In the banking segment, profit after taxes rose from EUR -8.4 million to EUR +22.7 million.

The positive development was maintained in the Investment Products segment. This meant that we were able to increase both fund sales and net profit in the Investment Products segment, with the latter rising from EUR 11.4 million to EUR 13.9 million.

In the Life and Health and Composite Insurance segments, we completed the integration of the Karlsruher Insurance group with the merger (with retrospective effect from 1 January 2007) between the respective Karlsruher company and the Württembergische company.

In the Life and Health Insurance segment, the net profit for the year was EUR 18.8 million, compared with EUR 33.0 million in 2006. The rise in the result recorded by the largest individual company in this segment, namely Württembergische Lebensversicherung AG, was not enough to offset the negative effects on income arising from the final consolidation of Erasmus and further changes to the group of consolidated companies in this segment. Net profit in the composite insurance segment fell from EUR 76.8 million to EUR 53.9 million. Above all, it is the fall in net premium income earned by our UK branch, but also the impact of Hurricane Cyril that has left a clear impact. In addition,we considerably stepped up the reserves for foreign insurance business that is currently being run off.

Material events after the end of the financial year

Wüstenrot Prag has been defined as our strategic foreign commitment. We therefore increased our shareholding in the Czech life assurance undertaking Wüstenrot životní pojist'ovna a.s., Prague, from 50 per cent to 74 per cent in January 2008. By contrast, we sold our entire shareholding in Wüstenrot poist'ovňa a.s., Bratislava.

Financial position and assets and liabilities of the Group

Principles and objectives of financial management

Strategic and tactical asset allocation is carried out on a decentralised basis, as part of a deliberate approach, and with the individual companies taking responsibility for their own situation. In order to guarantee optimum benefit for the Group at the same time, the whole process is coordinated centrally by W&W AG.

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

Liquidity

The liquidity of W&W AG and its subsidiaries was guaranteed at all times during the reporting year. Cash flow from operating activities in 2007 was EUR 552.8 million (2006: EUR -502.0 million). On balance, cash flow from investment was EUR -607.7 million (2006: EUR +298.3 million). Cash flow from financing activities totalled EUR -68.6 million (2006: EUR +15.8 million). For further information please refer to the cash flow statement in the Notes. Details of how we guarantee our liquidity are provided in the Risk Report.

Refinancing

The total volume of customer deposits held by the Group fell slightly during the year under review, down by 1.4 per cent to EUR 21,790.0 million (2006: EUR 22,098.3 million). This development can be attributed to a lower level of incoming savings, and to higher disbursements. Issued bonds fell by EUR 693.5 million to EUR 3,315.8 million (2006: EUR 4,009.3 million).

Equity

W&W AG, in the capacity of holding company, controls the Group's equity, collecting dividends and implementing capital increases, or granting loans to Group companies. Basically, the equity situation of the subsidiaries is based on at least meeting the stipulated regulatory requirements.

As at 31 December 2007, the equity of the W&W Group calculated under IAS was EUR 2,493.6 million compared with equity of EUR 2,306.2 million as at the 2006 year-end. The main changes to equity related to the earned capital before minority interests, and can be broken down as follows:

- The greatest part of the increase can be attributed to the rise in net profit for the year.
- The fall in market interest rates resulted in a lower revaluation reserve.
- This effect was, however, partly offset by the rise in actuarial gains on pension provisions of employees set off against the equity capital, without any effect on earnings.

Further details on how equity developed over the year can be found in the equity capital statement in the Notes.

Valuation reserves

The difference between the fair value and the book value of assets and liabilities that are not included in the balance sheet at fair value (valuation reserves) fell as a result of the general rise in market interest rates, particularly with regard to loans and advances to banks, and loans and advances to customers. Detailed information on the reserves can be found in the individual explanations relating to the respective asset and liability items in the Notes.

Assets and liabilities, and capital structure

Balance sheet structure	31 Dec 2007	31 Dec 2006
	EUR mn	EUR mn
Assets		
Claims from reinsurance business, due from customers		
and other claims minus risk provisioning	**29,498**	30,224
Investments [1]	**35,254**	34,896
Reinsurers' share of technical provisions	**1,989**	2,054
Other assets	**1,390**	2,940
Total assets	**68,131**	70,114
Shareholders' equity and liabilities		
Liabilities	**32,807**	34,164
Technical provisions	**29,720**	29,272
Equity	**2,494**	2,306
Other liabilities	**3,110**	4,372
Total shareholders' equity and liabilities	**68,131**	70,114

[1] Investments include financial assets at fair value through profit or loss, loans and advances to banks, investment securities available for sale, investments accounted for at equity, and investment property.

The consolidated total assets of the W&W Group fell by just under EUR 2 billion during the past reporting year, to EUR 68.1 billion (2006: EUR 70.1 billion). They are dominated on the assets side by investment securities available for sale, loans and advances to banks, and loans and advances to customers. The investment securities available for sale primarily include variable-income and fixed-income securities. Loans and advances to banks mainly related to debentures. Building loans account for the largest item under loans and advances to customers. The fall on the assets side is attributable to lower loans and advances to banks and to customers. On the liabilities side, it is particularly liabilities to customers that have been reduced.

As at 31 December 2007, the subordinated capital of the W&W Group was EUR 507.5 million (2006: EUR 543.5 million). Of this total, EUR 112.3 million related to participatory capital (2006: EUR 127.1 million) issued by Wüstenrot Bank AG Pfandbriefbank, with EUR 395.1 million relating to subordinated liabilities (2006: EUR 416.4 million) issued by Wüstenrot Bank AG Pfandbriefbank, Württembergische Lebensversicherung AG, Württembergische Versicherung AG and Wüstenrot stavební spořitelna a.s., Prague. Further information on subordinated capital is provided in the Notes.

Provisions for pensions and other long-term liabilities amounted to EUR 1,049.6 million (previous year; EUR 1,136.7 million).

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

Off-balance sheet financial instruments

There were no categories of off-balance sheet financial instruments with a significant influence on the W&W Group's economic position during the year under review, e.g. in the context of asset-backed securities transactions, sale and lease-back transactions or liability relationships vis-a-vis non-consolidated special purpose vehicles.

Investments

The reorganisation of the Group also encompasses the strategic realignment of our investments. In this respect, the following measures were implemented during the reporting year:

By means of a squeeze-out, the W&W Group became the sole shareholder of Wüstenrot Bausparkasse AG.

W&W Asset Management GmbH has been reassigned within the Group. It is now a wholly-owned subsidiary of W&W AG.

To align the cost structure with market levels, we are planning to bring together internal Group services into one service company. To this end, we have set up W&W Service GmbH. Our aim is to make annual savings of more than EUR 10 million, amounting to EUR 35 million between 2008 and the end of 2010.

Through our subsidiary W&W Gesellschaft für Finanzbeteiligungen mbH, we have acquired a stake of 49.9 per cent in V-Bank AG in the capacity of financial investor.

We parted company during the year under review with various investments that were no longer compliant with Group strategy, such as the Dutch Erasmus insurance group, and WürttUK Ltd. The latter was sold to the parent company of the newly established Lloyd's Syndikats Antares 1274, the umbrella company of which is Antares Holdings Ltd., in which Württembergische Versicherung AG holds an 18.1 per cent stake.

Additional information in accordance with Section 315, paragraph 4 of the German Commercial Code (HGB)

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

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

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

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

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

Income situation of the individual segments

A table showing the performance of the segments is found in the Notes from page 92 onwards.

Home Loan and Savings

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

Of the total assets in the amount of EUR 68.1 billion, EUR 19.4 billion (2006: EUR 20.6 billion) relates to the segment of home loan savings. The segment assets primarily comprise home loans and bridging loans.

Business development

In a declining market environment, the gross new business of all Group companies in this segment again totalled EUR 8.5 billion.

Despite the strong rise in new business during the final quarter of the financial year, the new business paid in was still unable to keep up with the gross business volume, as contracts were generally only paid in by customers after a certain delay. The volume of transactions concluded was EUR 7.2 billion, compared with EUR 7.8 billion in the previous year.

In terms of home loans, we disbursed EUR 3.5 billion in the home loan savings segment during the year under review, 5.2 per cent more than in 2006. Most of this rise can be attributed to disbursements from allotted funds, whilst new disbursements from bridging loans fell.

The volume of home loan and savings deposits was slightly down on the previous year, at EUR 14.8 billion (2006: EUR 15.5 billion). This was due to lower savings amounts and also to the rise in disbursements from allotted funds.

Income situation in the segment

The first effects from the modernisation path embarked upon during the previous year can be seen. As a result, and as expected, the home loan savings segment showed a clear improvement in income.

The result after taxes as at 31 December 2007 improved by EUR 60.9 million, reaching EUR 12.4 million (2006: EUR -48.5 million). However, it should be noted, when considering this substantial rise in earnings, that last year's result was burdened by restructuring expenditure of EUR 38.8 million after taxes, incurred in conjunction within the scope of the "Wüstenrot 2009" project.

The segment's net financial result increased significantly during 2007, up by EUR 7.1 million from EUR 275.4 million to EUR 282.5 million. This is primarily attributable to the lower impairment losses on loans and advances. This fall of EUR 32.8 million from EUR 55.3 million to EUR 22.5 million is based on the lower risk provisioning requirement. The EUR 10.1 million improvement in the result from the trading portfolio, expressed as "net income from financial assets and liabilities at fair value through profit or loss", added to this effect.

However, this effect was partially offset by the fall in net income from loans and advances, liabilities and subordinated capital, which was down EUR 36.7 million from EUR 267.6 million to EUR 230.9 million. A reduction in net interest income due to the fall in the average portfolio, and in the average rate of interest, had an impact in this regard. The negative net fee and commission result improved by EUR 8.4 million compared with the previous year to reach EUR -16.4 million, primarily due to the change in the provisions for the reimbursement of completion fees.

Due to restructuring measures, general administrative expenses were (as expected) considerably lower; down by EUR 26.3 million to EUR 334.1 million (2006: EUR 360.4 million). The lion's share of this reduction relates to the fall in personnel expenses, already realised within the scope of the efficiency programme "Wüstenrot 2009" launched in 2006.

Net other income and expenses improved during the year under review by EUR 74.6 million from EUR 11.7 million to EUR 86.3 million. The figure for the previous year was marked by the abovementioned restructuring costs. In the year under review, changes to agreements permitted the release provisions for anniversary commitments, bonus payments, transfer and death benefits, which resulted in other income.

Tax expenses rose by EUR 55.3 million. Taxes in the home loan savings segment were primarily actual taxes from the current financial year. Taxes during the previous year were marked by the capitalisation of deferred taxes on the assets side included in losses carried forward, and the one-off capitalisation of the corporation tax credit.

Banking

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

The segment's total assets remained constant at EUR 14.7 billion, dominated by loans and advances to customers totalling EUR 11.2 billion (2006: EUR 11.7 billion).

Business development

The segment's new lending business – comprising new loans plus extensions – stood at EUR 1,898.6 million as at the 2007 year-end compared with EUR 1,423.0 million the year before. Particularly gratifying in this regard is the rise in new credit business, excluding extensions: new loans rose by EUR 125.4 million from EUR 872.3 million to EUR 997.7 million.

Disbursements of home loans remained more or less constant, at EUR 1.33 billion compared with EUR 1.37 billion in 2006.

Income situation in the segment

The measures developed as part of the "W&W 2009" modernisation programme had a positive impact on banking business in the W&W Group during the 2007 financial year.

The result after taxes rose by EUR 31.1 million to EUR 22.7 million (2006: EUR -8.4 million). The year-on-year comparison must take into account that non-recurring extraordinary items in relation to "Wüstenrot 2009" impacted on the result, in the amount of EUR 6.3 million after taxes.

The net financial result of this segment rose by EUR 17.7 million to EUR 93.9 million (2006: EUR 76.2 million). The main cause was the improvement in net income from financial assets and liabilities at fair value through profit or loss.

The EUR 35.7 million improvement in the net result is largely explained by the improved interest income from derivatives. Nonetheless, this positive effect was partially offset by the decline in net income from loans and advances, liabilities and subordinated capital, from EUR 87.1 million to EUR 46.1 million. This was due to the redemption of high-yielding mortgage loans. Impairment losses on loans and advances were EUR 33.1 million below the level of the previous year, at EUR 56.3 million, particularly as a result of structural improvements in the lending portfolio and the lower risk provisioning requirement.

The improvement of EUR 9.7 million in (positive) net commission income, from EUR 2.5 million to EUR 12.2 million, can be explained by higher turnover in securities business – particularly with institutional customers. The systematic use of Wüstenrot Bank AG Pfandbriefbank as an intra-group trading platform was an especially positive factor here.

General administrative expenses fell substantially, from EUR 97.2 million to EUR 88.0 million. As a result of the above measures, we were able to cut personnel expenses by EUR 4.6 million from EUR 41.9 million to EUR 37.3 million.

Net other income and expenses improved by EUR 12.7 million from EUR -3.1 million to EUR +9.6 million. The figure for the previous year was marked by the above-mentioned extra-ordinary costs.

In line with the improvement in the segment's profit, tax expenses rose by EUR 18.2 million.

Investment Products

Since the merger between Baden-Württembergische Kapitalanlagegesellschaft mbH and Süd-Kapitalanlagegesellschaft mbH as at 1 July 2006, to form Baden-Württembergische Investment gesellschaft mbH (BWI)*, the Investment

* Because BWI was still included in the segment results for the previous year, comparable figures are used below.

Products segment has comprised W&W Asset Management GmbH and our fund management companies in Luxembourg and Ireland.

The segment contributed EUR 49.8 million to the consolidated total assets (2006: EUR 32.1 million), resulting from the services and advisory activity carried out in this area of business.

Business development
In the Investment Products segment, our expectations from last year of being able to achieve another rise in gross sales and a related increase in the assets under management were entirely fulfilled.

Total sales of funds distributed by the W&W Group were up by 9.1 per cent to EUR 422.1 million (2006: EUR 387.0 million). W&W funds accounted for 58 per cent of total sales, maintaining the high standard set in 2006.

The volume of assets under management of the companies operating in the Investment Products segment amounted to EUR 24.9 billion (2006: EUR 24.3 billion) at the year-end with by far the major part (EUR 23.8 billion) accounted for by investments of the W&W Group. Customer deposits and third-party accounts are also managed.

Income situation in the segment
As expected, the positive effects from the development of sales in investment products also impacted on the segment result.

Net income during the reporting year totalled EUR 13.9 million. The adjusted figure for the previous year, excluding Baden-Württembergische Investmentgesellschaft mbH (BWI), was EUR 2.5 million.

Similarly, excluding BWI, net commission income was EUR 17.7 million in the previous year, rising to EUR 32.7 million by 31 December 2007.
The rise was attributable to a significant increase in sales.

General administrative expenses fell to EUR 17.4 million during the reporting year. Excluding BWI, the figure for the previous year was EUR 17.9 million.

Life and Health Insurance

Following the merger of Karlsruher Lebensversicherung AG and Württembergische Lebensversicherung AG with retrospective effect from 1 January 2007, and the disposal of the Dutch Erasmus insurance group, this segment is mainly composed of Württembergische Lebensversicherung AG, ARA Pensionskasse AG and Württembergische Krankenversicherung AG.

The segment accounted for EUR 30.3 billion (2006: EUR 30.7 billion) of the Group's total assets. EUR 18.0 billion (2006: 17.2 billion) on the assets side relates to receivables, with a further EUR 7.5 billion (2006: EUR 7.8 billion) relating to investment securities available for sale. The liabilities side is dominated by technical provisions in the amount of EUR 27.0 billion (2006: EUR 26.5 billion).

Business development
In the Life and Health Insurance segment, the 2007 volume of new business could not match that recorded in 2006, which benefited from the "Riester" effect.

New premiums amounted to EUR 552.9 million, compared with EUR 592.2 million during 2006. This equates to a fall of 6.6 per cent. The fall was due to lower one-off premiums, with the slight growth in ongoing premiums being insufficient to offset the decline.

The total new business, in terms of total premiums generated by our domestic life assurance companies, reached EUR 3.7 billion at the year-end, down by 5.7 per cent on the previous year.

The total domestic life assurance portfolio at the financial year-end encompassed some 3.1 million policies, with ongoing premiums in the amount of EUR 2.0 billion.

New health insurance business rose by 7 per cent, despite the difficult market environment. The number of insured persons (excluding special insurance forms) rose during the reporting year to 117,582 (2006: 97,857), of which 19,557 (2006: 17,713) were insured under full health costs insurance plans.

Premiums and contributions earned in the life and health insurance segment fell by just under EUR 70 million, down from EUR 2,483.6 million to EUR 2,413.7 million. Key factors were the high number of policies that matured in the long-standing portfolios of Württembergische Lebensversicherung AG, and the fall in one-off premiums paid. The rise in regular premiums and contributions earned by ARA Pensionskasse AG and Württembergische Krankenversicherung AG was insufficient to compensate for this decline.

Taking into consideration contributions transferred, reinsurance premiums, and contributions from the provisions created for premium rebates, net premiums and contributions earned amounted to EUR 2,437.7 million (2006: EUR 2,496.3 million).

Income situation in the segment

In the Life and Health Insurance segment, the net profit, at EUR 18.8 million, was down on the previous year's figure of EUR 33.0 million despite the improved result recorded by the largest individual company in this segment, Württembergische Lebensversicherung AG. This fall was due to the sale of Erasmus and further changes in the group of consolidated companies in this segment. Additionally, there was a year-on-year increase in the minority interests in the funds contained in this segment. Under IFRS these must be reported as an expense, and therefore reduce the profit reported by the segment.

The income from investment property fell, as did premium income - falls that could not be entirely offset by lower general administrative expenses and lower policy payouts.

The net financial result, at EUR 1,061.0 (2006: EUR 1,062.1 million) was on a par with the previous year.

Income from investment property fell, due to special write-downs and the reassessment of the remaining useful life, by EUR 57.6 million to EUR 18.9 million (2006: EUR 76.5 million).

Insurance benefits paid out to customers fell by EUR 31.0 million to EUR 3,010.1 million at the year-end (2006: EUR 3,041.1 million).

The EUR 36.0 million decline in general administrative expenses to EUR 298.9 million (EUR 334.9 million) was attributable almost solely to the drop in personnel expenses. The impact of projects launched within the framework of the "Württembergische 2009" efficiency programme was also positive here. Additionally, the transfer of employment contracts of Karlsruher Lebensversicherung AG employees to Württembergische Versicherung AG resulted in a shift in personnel expenses to the composite insurance segment. However, the costs incurred for those employees that continued to work in the life and health insurance segment burdened this segment through the intra-group cost-allocation, and therefore led to an increase in the expense for services used under operating expenditure.

The change in the tax rate, due to the business tax reform in 2008, resulted overall in tax income for the life and health insurance segment. However, the resulting higher additions to deferred provisions created for premium rebates resulted in a burden of EUR 1.1 million on the segment result.

Composite Insurance

Following the merger between Karlsruher Versicherung AG and Württembergische Versicherung AG with retrospective effect from 1 January 2007 and the disposal of the Erasmus insurance group, this segment mainly encompasses Württembergische Versicherung AG.

The segment's total assets were EUR 4.0 billion (2006: EUR 4.3 billion), and dominated on the liabilities side by technical provisions.

Business development

Premiums were affected by two extraordinary factors in this segment. Firstly, our London branch had to cope with a sharp drop in sales at the beginning of 2007 that could not be made up over the rest of the year; secondly, we continued our efforts to reorganise the Karlsruher portfolios.

Gross premiums earned were therefore down by EUR 136.4 million, from EUR 1,609.0 million to EUR 1,472.6 million. W&W Group has meanwhile sold WürttUK as part of the process of disposing of non-strategic participations, and is now concentrating on its German core market. Because of a simultaneous decline in reinsurance premiums surrendered due to a higher deductible, net premiums earned, at EUR 1,177.2 million, were down only slightly on the previous year (EUR 1,201.2 million).

Income situation in the segment

Our result in the area of Composite Insurance was, as expected, down on the previous year. The segment profit as at the end of the reporting year was EUR 53.9 million. In addition to the fall in net premiums earned by our UK branch, the effects of Hurricane Cyril were also in evidence. Additionally, we considerably stepped up reserves for the foreign insurance business that is currently being run off.

The net financial result of this segment fell by EUR 3.2 million to EUR 87.9 million (2006: EUR 91.1 million). The rise in net income from investment securities available for sale (due to higher interest and dividend income) was more than offset by the fall in net income from loans and advances, liabilities and subordinated capital due to the realisation of losses in the case of borrowers' notes and debentures.

The rise in new business generated higher fee and commission expenses. As a result the negative net fee and commission result deteriorated by EUR 5.6 million, from EUR 173.4 million to EUR 179.0 million. Claims expenditure climbed by EUR 11.4 million to EUR 682.5 million (2006: 671.1 million) mainly due to Hurricane Cyril.

The EUR 29.9 million rise in general administrative expenses, to EUR 491.5 million (2006: EUR 461.6 million), was offset by an improvement of EUR 47.4 million in net other income and expenses. The rise in general administrative expenses was due – as was pointed out already in the Life and Health Insurance segment – to the merger-related assumption of employment contracts of Karlsruher Lebensversicherung AG employees by Württembergische Versicherung AG. These were however offset by income from the cost allocation within the group for those employees that are legally allocated to the Composite Insurance segment, but who remain employed by the Life and Health Insurance segment.

These service revenues, together with higher currency-related profits, resulted in a EUR 47.4 million improvement to EUR 150.3 million (2006: EUR 102.9 million).

Holding / Reinsurance

In addition to management of participating interests and the management of the Group's own investments, this segment of W&W AG also deals with reinsurance business in the capacity of holding company. The segment's total assets are EUR 3.5 billion (2006: EUR 3.5 billion).

Income situation in the segment

Net income in the Holding / Reinsurance segment rose by EUR 20.0 million to EUR 89.7 million (EUR 69.7 million). This significant rise is due primarily to the one-off effect from the release of provisions that had been set aside for potential claims by the plaintiffs in the judicial procedure (as outlined earlier).

Capital gains from the sale of the Erasmus insurance group in March 2007 are more or less neutralised by lower income from the sale of securities, so that the net financial result in the segment fell by EUR 18.2 million, from EUR 97.8 million to EUR 79.6 million.

Net income from investment property was up EUR 6.1 million to EUR 6.5 million (2006: EUR 0.4 million). The rise was attributable to property sales.

The lower volume of W&W AG's reinsurance business (in line with business strategy) led to an improvement of EUR 39.4 million in net fee and commission income in this segment, from EUR -89.2 million to EUR -49.8 million. Similarly, premiums earned were down EUR 45.4 million to EUR 223.0 million (2006: EUR 268.4 million). In this context, however, claims expenditure in the segment was reduced as planned, with the result that (net) insurance benefits paid fell by a total of EUR 18.9 million to EUR 157.1 million (2006: EUR 176.0 million).The rise in general administrative expenses, from EUR 49.2 million to EUR 59.2 million, reflected investments made for the strategic development of the W&W Group. The increase in net other income/expenses of EUR 33.0 million to EUR 43.1 million (2006: EUR 10.1 million) is primarily due to the above-mentioned release of provisions for the judicial procedure.

Other divisions

Our development company Wüstenrot Haus- und Städtebau GmbH put in a positive performance during 2007, contributing net income of EUR 4.8 million (2006: EUR 3.3 million) to the consolidated result. This rise was primarily generated by the increase in development business. Revenue from the sale of developed and undeveloped properties was boosted by EUR 13.9 million compared with the previous year to EUR 60.9 million. In total, 261 (2006: 223) housing units were completed and handed over. Work began on the construction of 248 (2006: 270) housing units in 2007.

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

Following the modernisation measures introduced in 2006 we have been successful in turning things around in 2007. Both the home loan savings and the banking segments were able to record clear increases in their income levels, and are once again in the black. With regard to insurance, the now completed integration of the Karlsruher insurance companies has generated improvements in efficiency and higher cost savings than expected.

In terms of our operations abroad, we have consistently given up any investments that do not fit in to our overall strategy, and focused our business structure on the Czech Republic. The measures implemented included the sale of the Erasmus insurance group in the Netherlands and the disposal of WürttUK Ltd., the UK subsidiary of Württembergische Versicherung AG.

Consolidated net profit increased from EUR 44.5 million in 2006 to EUR 209.5 million. Extraordinary factors included EUR 50.8 million from the release of provisions for the judicial process which has since come to an end, and EUR 16.8 million from the sale of the Erasmus insurance group, as well as EUR 4 million from write-downs on smaller participating interests. This leaves an organic income after taxes of approximately EUR 146 million. At Group level, the earnings per share under IFR Sare EUR 2.32 (2006: EUR 0.41).

Research and development

We are continually working to improve the methods, workflows and products required to fulfil our business purpose. Over and above this work, we do not engage in any research and development activities.

Risk Report

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

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

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

The following is a description of the principles behind and basic elements of our approach to risk management, as well as of our general handling of key risks within the Group. Company-specific details with regard to the design and implementation of risk management are contained in the risk reports for the individual Group companies. With regard to the quantitative analysis and portrayal of the risk situation in the W&W Group, please refer to page 148 "Information on risks arising from financial instruments and insurance contracts" contained in the Notes section of our Annual Report. Some specific circumstances and tables included in our Notes will be referred to separately below.

Aims and principles of risk management

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

The strategic framework for risk management, and the risk policy being pursued by the W&W Group, is defined in the risk strategy. Derived from the overriding business strategy, this describes the type and extent of the key risks facing our Group. It defines the aims, measures and instruments with regard to the handling of risks that have already been assumed, or that will arise in future. Basically, the aim is to strike an appropriate balance between exploiting business opportunities and assuming risks, with the priority at all times being to secure the continued existence of the Group and its member companies. No risks are assumed that could endanger the future existence of the Group or its companies, or that are incalculable.

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

Organisation of risk management

To improve the implementation of our objectives, and in line with the general restructuring of the

Group, risk management was also reorganised and reinforced in 2007. In addition to the appointment of a Chief Risk Officer (CRO) on the W&W AG Management Board, a separate Group Risk Management department was also created, responsible for the financial conglomerate and the entire W&W Group, as well as for W&W AG as an operational company in its own right. The task of coordinating risk management has also been pooled in the divisions, and extra risk controlling capacity introduced. To support the Management Boards in risk-related issues, and as a central body for the monitoring of the W&W Group's risk profile, the Group Board Risk has been set up: it comprises the CRO, the senior risk managers from the divisions and the head of Group Risk Management.

The tasks and responsibilities of all those dealing with risk management issues have been clearly defined.

The Management Board of W&W AG, with the involvement of the home loan savings/banking and insurance divisions, stipulates the objectives of the commercial and risk strategies, as well as the key parameters with regard to risk management. Operational implementation and control of these are managed centrally by the CRO.

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

In terms of imposing Group-wide standards, the Group Board Risk is advised and supported by Group Risk Management. Group Risk Management, within W&W AG, develops methods and processes for identifying, assessing, managing, monitoring and reporting risks for use across all of the companies in the Group. It also conducts qualitative and quantitative risk analysis, on the basis of a systematic and regular assessment. Group Risk Management reports to the Management Board of W&W AG.

In the context of the stipulated risk strategies and guidelines, the divisions and operational individual companies are responsible for managing and controlling their risks. Like W&W AG, the individual companies have created appropriate organisational structures for this purpose, with risk committees and risk controlling units operating across all of the divisions. By stipulating reporting methods and channels, we guarantee regular and timely communication between the risk management units at Group, division and company level.

The principle of the division of functions is adhered to by ensuring a strict division between those units responsible for risk and those that monitor risk.

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

Risk management process

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

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

To gain a better overview of our risks, similar risks are grouped together into risk areas across the Group as a whole. The following risk areas have been identified as material for the W&W Group:

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

The individual risk areas are differentiated from one another and are described in more detail below.

Various different processes are used for the quantitative assessment and valuation of risks, depending on the type of risk concerned. Where possible, stochastic processes and the value-at-risk method (VaR) are applied. This is the method 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 key figure analysis round off the range of instruments used.

Risks are assumed on a decentralised basis by the respective departments of our operational companies. Based on the Group risk strategy and/or the risk strategies of the individual companies, they decide on products and transactions to manage the respective risk position. In addition to the return on equity (ROE), division-specific key figures are also referred to as part of this process. We are also working to introduce risk and value-based key figures.

Compliance with the parameters set for risk strategy and risk organisation, and the appropriateness and quality of risk management, are monitored on an ongoing basis. The monitoring activities for quantifiable and non-quantifiable risks are used to derive recommended actions, which lead to corrective measures being taken in good time so that the aims formulated in the business and risk strategy are achieved. A unit is also in place to control the measures being taken on the basis of the recommended actions.

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

All of the essential risks facing our Group are reported to the Management Board and Supervisory Board of W&W AG and to the Group Management Board on a timely basis.

The central information medium is the quarterly risk report, which provides a comprehensive overview of the entire risk situation, the Group's risk-bearing capacity, together with key individual risks and how these are being handled. New risks or extraordinary changes in the risk situation that will result in the stipulated internal thresholds being exceeded are also reported on an ad hoc basis by the operational units concerned or the Group Risk Management to the Management Board of W&W AG and to the Group Management Board.

The risk position of the W&W Group is as follows with regard to key risks:

Market price risks

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

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

Our policy towards investments is security-oriented and focuses on preserving sufficient liquidity and securing the necessary minimum return. Opportunities are exploited within the context of a calculable and appropriate risk / return ratio. Financial stability and maintaining the value of the individual Group companies, and thus their ability to pay dividends, are further focuses of our approach to risk management.

The opportunities and risks associated with the future income development of our Group companies are reviewed and analysed in economic planning sessions, extrapolations over the course of the year and medium-term calculations. These results are incorporated into our internal risk-bearing capacity model. In addition to forecasts, scenario analysis is used to assess the potential risks to the results recorded by the Group companies. Scenarios in the claims, shares and bond sectors consider the impact of positive and negative effects on the annual results and reserves of the respective companies. Where there are essential risks, appropriate measures are introduced and their implementation monitored. The effects of potential market price scenarios on the Group's result and equity situation are set out in more detail in the Notes to our Annual Report under No. 57.

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

Alongside this approach at Group level, the individual companies also use comparable methods to measure their market price risks.

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

To hedge and manage market price risks during 2007, the credit institutions and insurance companies also made use of derivative financial instruments in the form of swaps, options, futures and forward exchange contracts. Further details are provided in No. 57 of the Notes. The statutory provisions and rules imposed under supervisory law with regard to such transactions were complied with.

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

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

Counterparty risks

Counterparty risks are potential losses arising from the default of (or deterioration in the credit rating of) borrowers or debtors.

Risks in connection with the default of a business partner arise for our Group in connection with the credit institutions' customer lending business in particular. The strategic focus on home loans practically excludes the possibility of individual loans that could jeopardise the Group's continued existence, which means that any risks are primarily related to collective and structural risks in the lending portfolio.

By applying careful loan review and scoring procedures and clear acceptance guidelines, by securing loans against property, by monitoring and limiting various risk indicators and by using a sophisticated system for the automated calculation of value adjustments, we are able to limit, monitor and manage credit risks. Credit risks are valued using our loan portfolio model, which was extended and fine-tuned in 2007.

Counterparty risks can also arise if securities default or if there is a change in their credit rating, or from claim default risks in relation to our retrocessionaries (risk transferees in our reinsurance business).

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

We limit counterparty risk by achieving a broadly diversified mix of investment categories, taking into account the relevant regulatory provisions governing the area of business concerned, and by carefully selecting issuers and reinsurance partners. We act to counter the creation of cluster risks due to the concentration of large or different investments with a single issuer by applying lines, which limit the maximum permitted investment volume per issuer. When assessing issuers and deciding on lines, we make use of estimates from international rating agencies, as well as using our own risk classification system.

When selecting our contractual partners and securities, we basically limit our search to first-class investment grade ratings.

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

Our approach to risk provisioning and value adjustments, and how these changed in 2007, is detailed in the Notes to the Annual Report under No. 58. A breakdown of our assets according to rating class and maturity structure is also provided.

During the second half of 2007 the sub-prime crisis triggered in the USA left its mark on the international financial markets. As lending rates rose, US property owners found it increasingly difficult to meet their mortgage repayments. In the financial sector, this led to a significant need for value adjustments and write-downs with regard to sub-prime exposures, with some institutions even finding their very existence to be under threat. The full extent and future consequences of the crisis are still unknown, which means that uncertainty on the markets will persist beyond this reporting period.

Neither W&W AG nor its subsidiaries hold any direct investments in the sub-prime sector. Nevertheless, the turbulence on the financial markets is having an effect on our result, even if only on a small scale, due to the general revaluation of credit risks and general level of uncertainty on the capital markets as a whole. We are carefully observing and analysing our investments so that any risks in relation to how the markets develop can be identified at an early stage, and counter-measures can be taken.

Actuarial risks

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

We offer life, health and indemnity / accident insurance products, almost exclusively for private and commercial customers on the domestic market. Now that new business activity by its UK branch (WürttUK) has ceased, Württembergische Versicherung AG (with effect from 2008) does not face any major industrial risks and is not longer involved in in reinsurance business. Active reinsurance business with partners outside the Group is only carried out on a very limited scale by W&W AG, in the form of its participatory holding in some German market pools.

As a result of W&W AG giving up its active reinsurance operations for the greater part some years ago, this not being an area that fits in to the Group's strategy, and given that WürttUK is no longer taking on new business, we have significantly reduced our international risk exposure. We have secured our position with regard to the resulting run-off risks, which are diminishing over time, by creating an appropriate level of reserves.

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

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

To assess the risks arising from catastrophes, natural disasters or cumulative events, we also make use of the simulation results of external reinsurance companies and brokers that specialise in this field. These results are incorporated into our stochastic model.

In terms of life assurance and health insurance, we use the standard procedures applied throughout the sector to assess actuarial risks.

To limit our actuarial risks on a gross and net basis, i.e. before and after reinsurance, we make use of various different instruments and measures that combine to provide effective and appropriate cover.

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

We counter the risk of natural disasters with suitably tailored rates and adjusted contractual conditions for critical areas, as well as with risk exclusions.

As well as using our mix of business areas and products to balance out the risk, our efficient claims management and a cautious claim reserves policy means that we can limit our actuarial risk on a gross basis. We regularly check the adequacy of our reserves, using actuarial reports and sensitivity analysis. How our claim reserves have developed, and the fact that they have proved sufficient, can be seen from the claim triangles depicted under No. 28 of the Notes.

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

Further details on actuarial risks with regard to indemnity/accident insurance and the instruments used to minimise these are provided under No. 59.2 of the Notes.

With regard to life and health insurance, actuarial risks mainly arise due to long-term trends and exogenous influences such as mortality rates, life expectancy or advances in medical science. Short-term fluctuation risks and the risk of errors also come into play.

We monitor such risks on an ongoing basis using actuarial analysis, taking due account of the results in our product design and rate models. Our calculation basis includes an additional amount, which would be enough to even out relatively small fluctuations in the assumptions on biometry, interest rates and costs incorporated into the policy calculation. In addition to our own findings, we also follow industry recommendations and the guidelines issued by the German Association of Actuaries. To face up to the trend of rising life expectancy, we have further increased our safety margin in the actuarial reserves to cover the risk of longevity. The basis of our calculation is judged to be appropriate by both the supervisory authority and the German Association of Actuaries.

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

In addition to a rate and underwriting policy geared around risk and the cautious and appropriate creation of reserves, we limit our risk on a net basis through reinsurance to cover individual and cumulative risks.

Further information on the actuarial risks involved in life assurance business and the instruments used to minimise these, as well as on the structure of our actuarial reserves, is provided under No. 59.1 in the Notes.

Collective risks

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

To value collective risks, Wüstenrot Bausparkasse AG uses stochastically supported simulations, in which modified customer behaviour is depicted through targeted changes to the relevant collective parameters. The risk is valued at its net present value, i. e. taking into account future payment flows on the basis of a value-at-risk model. The process was further developed and fine-tuned during 2007.

The results of the simulations are incorporated into rate and product development, so that we are in a position from an early stage to identify disruptions to a balanced relationship between saving and lending, and manage these accordingly.

Operational risks

Operational risks are potential losses relating to the inappropriateness or failure of internal processes or systems, or to human error, or occurring as a result of externally-driven events. We also count legal and tax risks as operational risks.

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

Alongside numerous reorganisation measures to improve efficiency, several projects were introduced during the previous year throughout the Group to optimise our internal control systems, improve the measures in place to combat fraud and money laundering, and to provide business continuity management. Work will continue in 2008 on those projects that have not yet been completed. Regular quality checks, along with information and ongoing staff training, ensure that the security level achieved is maintained and form the basis for further improvements.

IT development, IT operations and IT service are all areas covered by W&W Informatik GmbH. W&W Informatik GmbH has its own risk management system, which also considers the IT risks facing the individual companies and provides regular reports on these. Detailed testing and backup procedures for application and computer systems, the redundant design of the in-house and the external telecommunications structure, and further protective measures all minimise the risk of IT failure.

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

In the court case relating to the appropriateness of the exchange offered upon the merger to create W&W AG, the Federal Constitutional Court rejected the constitutional complaint lodged by former shareholders of WürttAG. The decision of Stuttgart's Higher Regional Court is therefore now final and absolute, and the claim for cash compensation dismissed.

Strategic risks

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

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

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

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

Liquidity risks

We define liquidity risks as potential losses arising from a lack of liquid funds (insolvency) or if such funds are more expensive to acquire than expected (refinancing and market liquidity risk) in order for us to honour our payment obligations on time.

Our risk and liquidity management is geared towards being able to meet our financial commitments at all times and on a sustained basis. The individual companies are basically responsible for managing this situation, monitoring and managing liquidity targets by comparing expected payments against the available financing resources in a funding matrix as part of a standardised approach to liquidity planning. The individual companies predict future inflows and outflows of funds, taking into account the maturity structures of the receivables and liabilities. Any excess cover or shortfall is incorporated into investment or financing decision-making accordingly. We use sensitivity analysis to investigate the impact and cover options of particular behaviours by the capital markets and customers. Contingency plans are in place to guarantee that we can cope with this type of exceptional situation.

The maturity structure of our financial instruments is set out in the Notes under No. 60.

The systems in place enable our Group companies to recognise any fluctuations in payment flows at an early stage and to react accordingly. Known or foreseeable liquidity risks are reported to Group Risk Management without delay within the context of ad-hoc reporting. To the extent that a company is unable to overcome liquidity bottlenecks alone, refinancing options within the Group can be made available in accordance with contingency planning.

Concentration risks

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

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

By diversifying our investments, applying limit and line systems and clearly defined acceptance and underwriting guidelines in lending and insurance business, as well as by purchasing appropriate reinsurance cover, we are able to limit concentration risks.

Outlook

Over the past few years the internal and external demands made of companies' risk management have consistently increased. Current developments on the capital markets and the ever quicker introduction of new and more complex financial instruments, as well as the increasing need for corporate risk selection and risk provisioning, are also making higher demands of risk management. The supervisory authorities, and external partners such as the rating agencies, are responding to this trend with new and further-reaching statutory provisions and / or tighter requirements. Looking to the next few years, we therefore expect to see a further increase in national and international initiatives to extend risk management. Basel II and Solvency II are completely changing the face of state-sector bank and insurance supervision within the European Union. Following the successful introduction of Minimum Requirements for Risk Management in the case of Credit Institutions (MaRisk), the German supervisory authority is also planning to introduce similar requirements for the insurance sector in 2008.

We are closely monitoring the changes in the internal and external environment so that we can react flexibly and in good time. In reorganising our risk management on a Group-wide basis, we have created the necessary basic foundation from which to face up to future challenges even more effectively. Our aim is to build on the standards achieved in risk management going forward in 2008, consistently developing these in the interests of our internal targets. To this end, we have set ourselves a demanding development programme with a series of measures and projects relating to our entire risk management process.

In addition to the ongoing further development and fine-tuning of our existing processes, systems and methods, we are also working on the broadening and harmonisation of our standards on a Group-wide basis. By way of example, in the next stage, we are planning to push forward with the further harmonisation of risk processes (e.g. in the area of risk inventories), as well as continuing our process of realigning risk reporting. Additionally, in the Group as a whole and at the level of the individual companies, we will be focusing on the further optimisation of risk measurement and the expansion of our internal risk-bearing capacity models. This involves assessing the risk situation both in terms of net present value with regard to the economic result and also at regular intervals with regard to the balance-sheet result, thereby creating the necessary basis for a tailored risk and value-oriented approach to company management.

Overall, we believe that, through this development programme, we are well equipped to successfully implement the internal and external expectations in terms of risk management.

Summary

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

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

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

The Group and the individual companies had sufficient risk-bearing capacity at all times during 2007. Based on our internal model we had access to sufficient financial means at all times in order to cover (with a high degree of security) the risks that had been assumed and in the event of their simultaneous occurrence.

The regulatory requirements with regard to solvency were also fulfilled at all times. An overview of regulatory capital resources is provided under No. 10a of the Notes.

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

Forecast

Expected developments in the economy as a whole

According to the experts, the worldwide economic growth initially expected by leading economic research institutes for 2008 will be significantly impeded, not least by the turbulence on the international financial markets sparked off by the US sub-prime crisis. This will also impact upon Germany. The majority of research institutions and analysts expect GDP growth to be in the region of 1.5 per cent. Despite the slightly lower rate of growth compared with previous years, the positive development of the German labour market should basically continue in 2008, and a fall in the average rate of unemployment for the year to around the 8 per cent mark can be expected.

Economic growth in Germany could be slowed during the current year by the price of oil and the appreciation of the euro. High and rising wage agreements for those in work, and the resulting increase in households' purchasing power will, however, according to the economic researchers, stimulate consumption and therefore lend support to the economy. Only a slight change in the savings rate is anticipated. It is expected to continue to move in proximity to 10.5 per cent of disposable income.

Given the significant interest rate cut by the Federal Reserve at the beginning of 2008, the capital markets' expectation that the ECB will cut key rates, and lower risks of inflation in the EU, we only expect to see a very moderate rise in interest rates during 2008. On this basis, we expect interest rates for ten-year maturities to end 2008 at 5.0 per cent. In terms of short-term maturities, we expect to see a slightly higher level of interest rates in 2008 compared with 2007.

Looking to the worldwide equity markets, we anticipate a slightly positive development in 2008 despite the noticeable correction at the beginning of the year. Taking into account these imponderables, we expect the rise in equity prices to tend towards the hesitant. In terms of the share index on which our planning is based (Dow Jones EURO STOXX 50, S&P 500) we predict single-digit growth by the year-end, compared with 2007.

Based on current market predictions, we do not envisage any major changes in interest rate developments in 2009. In terms of the equity market, our planning is based on slightly increasing prices.

Our forecast figures have been derived from data from the ifo Institut für Wirtschaftsforschung e.V., based in Munich, as well as from our own calculations, some of which have also been published by W&W Asset Management GmbH. In light of the US sub-prime crisis and the resulting potential impact on economic development, our planned business development is subject to risks. These risks and the resulting effect on our Group are detailed in the information provided for the respective segments.

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

After taking stock of the Group's overall situation, reorganising the Group and launching the "W&W 2009" modernisation programme for greater growth, efficiency and profitability back in 2006, we notched up the first key successes in 2007.

Recognising that we needed to improve the Group's profitability, we set ourselves the target of achieving a return on equity (ROE) after taxes of 9 per cent by 2009. We are consistently working towards this target. In 2007 we were able to exceed our ROE target of 5.3 per cent by 0.8 percentage points, recording a level of 6.1 per cent. As a next step, our aim is achieve an ROE of 6.7 per cent in 2008. This equates to net income in the range of EUR 160 million to EUR 180 million.

In 2008 implementation of the measures that have been introduced will be stepped up. A key element in creating more efficiency and reducing complexity lies in pooling the Group's service areas, which are all organised differently, into their own company in the form of W&W Service GmbH. Its task is to bring the cost structure and performance in line with the market level of comparable sectors.

Our aim is grow significantly and successfully across all of our divisions. To achieve this, we must align our thought processes and actions even more consistently with our customers and their overall financial cover requirements in 2008. Opportunities that emerge, such as from the introduction of definitive withholding tax or the incorporation of ownership of residential property into pension plans (under a “Riester” scheme) are opportunities that we intend to exploit. Our new market image will support our growth objectives. By aligning the look of the two brands – Wüstenrot und Württembergische – the aim is to make a greater name for the brand combination.

We once again intensified our efforts to optimise our processes and cut costs in 2007. These efforts will have a positive influence on the income situation in 2008 and 2009. However, we want to step up these efforts even more in 2008 to secure the Group’s future for the long term. Additionally, the law reforming business tax, which came into force on 1 January, will also have a positive impact on our income situation.

Development of the segments

Home Loan and Savings

According to surveys, 2008 will see the construction industry enjoy stable development, albeit still at a low level. The ifo Institute expects a weak level of house building due to the sharp fall in the number of planning permission applications being accepted. Stabilising factors will continue to be provided by the modernisation and renovation segment, which will also benefit from increased demand for projects to upgrade energy systems in buildings.

In the area of bridging loans, we expect the positive development seen in the second half of 2007 to continue at a higher level. With regard to home loans, we anticipate slight growth for 2008, with home savings deposits at the same level as in 2007.

With the introduction of the new home loan savings offer as at 1 April 2008, we will be creating a tariff landscape, the basic principles of which are attractiveness, target group focus, manageability and profitability.

The “Wüstenrot 2009” programme has been progressing well since its launch. In terms of domestic business, we expect the harmonisation of processes at Wüstenrot Bausparkasse AG and Wüstenrot Bank AG Pfandbriefbank to result in a pooling of resources and the generation of synergistic benefits. Those measures already introduced will be pushed forward or concluded in 2008.

The measures that have been introduced to reduce the workforce will continue as planned. Once again, the main priority will lie in finding a socially acceptable solution. The decentralised processing units will be closed successively up until the end of 2008. We want to maintain the high level of service for our customers with our presence on the ground – to which customers have grown accustomed – via our field sales teams and our optimised processing.

Our cooperation ventures have been extended since 1 January 2008 with an exclusive partnership in place between Wüstenrot and Vorsorgewerk of the “dbb beamtenbund und tarifunion”. The cooperation agreement represents a major source of potential custom, and is an important milestone in our efforts to acquire new cooperation partners.

We expect there to be a further increase in the net financial result recorded for 2008. This estimate is based on a very moderate rise in interest rate levels, lower returns in the home loan savings business, and a strong rise in interest income from bridging loans.

We do not expect any major changes in relation to provisions for loan losses. Meanwhile, general administrative expenses will continue to fall, thanks to the measures introduced in this area.

We expect to see a clear improvement in our result in 2008, and a slightly higher level of total assets compared with 2007.

Looking ahead to 2009, our plan is to make further progress in the economic development of the segment. This view is based primarily on the foreseeable need for finance for renovation and modernisation measures, also being implemented on the grounds of climate protection and energy conservation. Additionally, we aim to use existing customer contacts within our Group to create new business (cross-selling), whilst also implementing targeted sales and marketing activities. The further fall in general administrative costs will also have a positive impact on the income situation.

In addition to fiercer competition, risks also arise from any development in interest rate levels that deviates from levels used as the basis for our planning. However, the possibility currently being discussed of imposing a long-term obligation to utilise housing subsidies (Wohnungsbauprämie) only for a specific purpose could also have a negative effect on our business. Risks to the way our business develops could also arise from weaker than expected economic development, or if the construction sector fails to match our expectations. Both could impact on the anticipated level of new business. However, there is also the risk of delayed implementation with regard to the "Wüstenrot 2009" measures, and a related delay in the realisation of synergistic benefits.

We repositioned ourselves in the Czech Republic during 2007 in order to develop a stronger, more dynamic position on the market and to leverage synergies. The Czech building society Wüstenrot stavební spořitelna a.s. has assumed the role of a contractual holding within the Czech Wüstenrot companies in order to guarantee uniform management and the tapping of all synergy potential. The new structure will enable the building society, with effect from 2008, to take over the entire loan processing operation of the Czech mortgage bank Wüstenrot hypoteční banka a.s. In exchange, the plan is for the mortgage bank to deal with payment transactions, treasury functions and further money operations for the entire Group within the Prague holding structure.

The Czech Republic is an attractive growth market for home loans. In a still-prospering economic environment, we expect to see slight growth in home loan savings plans during 2008. Despite the rise in value-added tax in the Czech Republic affecting some construction services, the previously positive trend is likely to continue with regard to home loans provided by building societies. We therefore expect Wüstenrot stavební spořitelna a. s. to record a rise in income in 2008 compared with 2007.

We consider the main sources of growth opportunities to be the conclusion of follow-up policies and the home loan sector, in which our Czech building society has achieved a strong market position, particularly with regard to finance for renovation measures in the case of residential cooperatives and owner associations. The possibility is also currently being discussed in the Czech Republic of using home loan savings plans to finance training and higher education. This would mean additional new business for us. In addition to interest rate risks, we also, as in the case of Germany, envisage risks in relation to the cutting of subsidies for home loan savings plans and the abolition of tax benefits relating to home loan saving.

For 2009 we have planned double-digit income growth for Wüstenrot stavební spořitelna a. s. compared with 2008.

Overall, we expect to see a clear improvement in the home loan savings segment result in 2008 and slightly higher total assets compared with 2007. Further income growth is then planned for 2009, as well as a further increase in total assets.

Banking

Despite the increasing pressure of competition and taking into account consistent quality-oriented growth, we are planning a higher level of new lending business on the domestic market in 2008 compared with 2007. We will react to changes in the market segment with flexible lending programmes and additional product variations. Existing customer contacts will be built on, through cross-selling activities. We expect our cooperation with Deutscher Beamtenbund to provide additional sales opportunities for our products.

Moreover, the focus of our business activities will be on the expansion of our online presence, in addition to launching new products. Together with our free current account, our newly-introduced overnight deposit account will create new business whilst also consolidating our existing customer base. In terms of investment services for private customers, we will be focusing on a clear reduction on internal costs and on the expansion of customers' securities accounts in the fund sector. We will continue to act as custodian bank and provide securities trading services for the W&W Group companies, doing so to a greater extent than before.

The credit service centre for home loan savings and banking operations, which was restructured in 2007, means that new and existing business, customer services and also reminders and enforcement are being handled centrally.

The income situation of Wüstenrot Bank AG Pfandbriefbank will be further strengthened in 2008 by product innovations, growing deposits and the successive improvement of our refinancing structure using Pfandbriefe. This positive development will be shored up by falling restructuring costs and by process optimisation, as well as by the measures introduced as part of the "Wüstenrot 2009" programme.

We will continue to reduce the size of our workforce in 2008. Consistent implementation of the "W&W 2009" and "Wüstenrot 2009" measures, focused development of the "current account/overnight deposit account/customer deposits" product segment, and concentrating on the custodian bank function and securities trading will all have sustained positive impact on the income situation in 2009.

The fact that our business activities are influenced by interest rates means that any deviatory development in the interest rate level compared with the figures used in our planning represents a potential risk. In conjunction with this, the pressure of competition in banking is set to increase further. A weakening of the economy could jeopardise our ability to reach our new business targets. Delayed implementation of the measures contained in the "Wüstenrot 2009" project could mean that it will take longer to realise the planned synergistic benefits. Ultimately, the US sub-prime crisis, which has yet to run its course, could impact on liquidity and refinancing costs.

The growth of the home loan saving market will slow somewhat in the Czech Republic but the predicted market growth, according to surveys, will still be in double figures. There is therefore growth potential for our Czech mortgage bank – Wüstenrot hypoteční banka a. s. – which is currently being developed. The planned growth is above the predicted level of market growth for 2008 and 2009.

The refinancing options open to the Czech Wüstenrot mortgage bank have deteriorated to a certain extent, due to the fact that interest income from Pfandbriefe for new issues ceased to be exempt from tax as of 1 January 2008. Our company is therefore planning to introduce fixed-term deposit investments for private customers, to extend its funding basis. Our income growth will come from redemptions of mortgages from other banks, as many mortgages from the boom period of recent years will see their tied-in periods expire. Balance sheet growth will be correspondingly dynamic. In addition to the risk associated with changing interest rates, we regard a change to the law in the area of refinancing as a significant risk. With effect from 2010, it will no longer be possible to recognise most interest expenses from Pfandbriefe as operating expenses for tax purposes.

In terms of our result in the banking segment, we expect to see it stabilise in 2008, with a rise expected for 2009. We anticipate a fall in total assets in 2008 and 2009, primarily due to the expiry of existing contracts in relation to the earlier decision to give up public-sector lending business.

Investment Products

In light of the increasing importance of private retirement provision and the resulting demand for capital market products, as well as the introduction of definitive withholding tax as of 2009, the investment sector is looking confidently to 2008.

We are hoping to acquire additional new business as a result of the imminent introduction of the definitive withholding tax. Private investors will increasingly be looking for attractive capital market products in 2008, in order to secure for themselves the available tax benefits for this year. With this in mind, a further fund of funds has been issued to meet the expected level of demand.

The development in our portfolio and in value on the basis of the capital market premises will have a positive impact on net interest and commission income, and generate additional income in 2008. The restructuring of portfolio management carried out in the fourth quarter of 2007, and the continuation of our streamlined approach to cost management, will contribute to long-term and sustainable results in 2008. Negative factors, however, will include project start-up costs (e.g. for preparatory work in the run-up to the introduction of the definitive withholding tax).

We are expecting stable results in 2008 from our Luxembourg and Dublin companies.

Overall, due to the situation described, net income in 2008 will be down slightly on the previous year's level.

Risks arise in the investment products segment from the non-achievement of new business targets and from a negative development on the capital markets, which could impact on the volume of funds under management.

Assuming that the capital markets are stable, we expect to record income growth in 2009 compared with 2008. We will be able to profit from the funds acquired in 2008 due to the introduction of the definitive withholding tax and from a further rise in new business.

Life and Health Insurance

In terms of life assurance, we expect new business to develop satisfactorily due to the increasing importance of private retirement provision, our advisory expertise, and our attractive product ranges. One of the key pillars is private pension provision, with a focus on "Riester" pension plans and occupational pension schemes. Our staff pension scheme, together with greater sales of direct insurance in small and medium-sized enterprises, represent particular sources of potential growth.

We expect one-off contributions to remain at a high level over the next few years.

Through greater cross-selling, the expansion of sales through brokers, and an intensification of sales via banks, the aim is to further expand our new business. We have implemented comprehensive measures to take account of the amendments to the German Insurance Contracts Act (VVG), which entered into force on 1 January 2008, and the transposition into German law of the EU Insurance Medication Directive. The improved generation of rates introduced through the VVG reform will be established to a greater extent during the current financial year in all sales channels.

The higher level of new business will have a positive impact on premium income from regular premiums over the next few years.

A central aim for the 2008 financial year will be the consistent and successful continuation of the measures agreed in the context of the "Württembergische 2009" and "SPRING" projects. We want to utilise the opportunities arising from the merger with the Karlsruher insurance companies to strengthen our competitive position for the long term. The first positive signs emerged in 2007, and were also reflected in the expense ratios. In the medium term, we are expecting a further easing of the burdens on costs.

We are planning single-digit growth in percentage terms for 2008 and 2009 with regard to our investment portfolio. We will use the opportunities that present themselves on the financial markets, whilst taking account of our risk-bearing capacity, in order to generate a stable and appropriate investment result and to expand our solid reserves position.

Overall, we expect to see a clear improvement in the income situation, both this year and in the 2009 financial year. This assumes that there are no long-term negative developments on the capital markets compared with our plans. Any downward development on the equity markets could have a negative impact on our equity situation and on the segment result.

In terms of private health insurance, the development prospects for the future hinge to a large extent on the statutory environment. The enactment of the Statutory Health Insurance Competition Strengthening Act (WSG) will mean a further deterioration over the short and medium term in the basic parameters affecting private full-cost insurance.

As already mentioned last year, the decision to introduce the basic rate with effect from 1 January 2009, and the transferability of ageing provisions in the amount of the basic rate, will result in premium increases for classic rates. In light of the difficult legal framework conditions, and the restricted sales opportunities that could arise as a result, we judge the growth potential in full-cost insurance to still be reserved.

Private supplementary insurance, in contrast, continues to offer clear growth potential due to the structural problems facing statutory health insurance. We continue to see opportunities in supplementary nursing care insurance. The fact, however, that the statutory health insurers have begun offering optional rates (since 1 April 2007), and thereby entering into direct competition with private health insurers, could have a negative impact on this market segment.

The basis for achieving our growth targets is greater exploitation of the existing customer potential within the Group through cross-selling and the further expansion of sales through brokers.

As in 2007 we will continue to work towards our income targets by carefully selecting risks and using effective instruments to review and manage performance. Our aim is to further reduce our cost structure over the medium term by improving administrative workflows. In the short term, however, the IT implementation of the WSG represents a burden.

The achievement of our growth and income targets is subject to uncertainty in light of the changed framework conditions, particularly as a result of the WSG. Overall, however, we should record strong growth over the planning period at a level that is above the market average.

Composite Insurance

Increasingly dynamic competition, changing legal parameters and rising requirements for high-quality insurance cover are presenting us with major challenges in terms of composite insurance. More intensive competition has hit motor vehicle liability and vehicle insurance as a whole. We have set the necessary changes in motion to face up to this competition.

With regard to sales, we intend to step up the expansion of sales through brokers during the current year, a measures that goes in tandem with a realignment towards corporate customer business. We are tackling the ongoing improvement of product development and the guaranteeing of efficient workflows through the "Württembergische 2009" package of measures.

Due to our UK branch no longer taking on new business, our total premium income will fall in 2008. In relation to the domestic market we expect stable premium income, despite the fiercer competition. The expected fall in motor vehicle insurance will be more than offset by higher premiums in private and corporate customer business. Despite the difficult situation on the capital markets, we are expecting the net financial result to rise as our investments still offer further income potential within the context of asset allocation.

In short, we are planning to generate higher income in the composite sector during 2008.

The drivers of growth in 2008 will be our strengthened exclusivity organisation, our newly built-up broker sales channel and growth in cross-selling. The decision to cease new business at our UK branch will only have a slight impact on premium income in subsequent years. Our projects that are already in place will reduce the claim and expense ratio in the long term. Looking to 2009, the impact of winding up the UK branch will push net income down slightly, compared with the previous year.

Risks to our business could emerge indirectly from the current capital market as a general revaluation of credit risks in the form of higher spreads and the turbulence on the equity markets could impact on our investment portfolio. Risks could also emerge from price competition on the domestic market, which remains intensive. Additionally, a higher volume of claims or natural disasters resulting in a significantly worse than expected development in claims would also have a negative impact on our income position.

Holding / Reinsurance

W&W AG, in its capacity as the strategic management holding company, will continue its efforts during 2008 to create a strong and dynamic group out of W&W. In addition to the pooling of units that operate across the Group, we are also aiming to look this year at which functions could be performed centrally for the entire Group so as to avoid redundancies. We are also aiming to optimise our investment structure within the Group itself.

The income situation of W&W AG as a holding company crucially depends on the dividends of the subsidiaries. In terms of 2008 and 2009, we expect the dividends paid by the subsidiaries to rise overall, since, for example, Wüstenrot Bausparkasse AG will be paying a dividend again with effect from 2008.

In addition to its function as the management holding company, W&W AG also operates in the capacity of reinsurer, primarily only offering reinsurance cover to affiliated companies. Reinsurance business with companies outside the Group is currently being wound up. Premium income will, as expected, fall in the 2008 financial year. The reasons for this lie in the cessation of new business at the UK branch, and in higher excesses on the part of the subsidiaries.

Assuming that we are not affected by any major claims in 2008, we expect a slightly positive technical result, primarily due to the reinsurance business involving companies outside the Group being wound up.

On the basis of a constant premium volume, the technical result for 2009, compared with 2008, will again be higher.

For 2008 we are predicting a positive result for the Holding / Reinsurance segment, but one which will nevertheless be down on that recorded in 2007 due to one-off extraordinary items that year. In 2009, we expect our result to be up on 2008.

Overall view

Ambitious growth and attaining the necessary financial strength in the midst of this competition require the pooling of all resources to position the W&W Group as an expert in its field for private and commercial customers. By combining the two strong brands of Wüstenrot und Württembergische, the W&W Group acts for its customers, in competition and inwardly, as one single company. Our target is to be the first point of contact for current and new customers in all areas of financial protection. Meeting each of our customers' needs is at the heart of linking up the two brands, and at the heart of the service promised by the W&W Group in its capacity as an expert in savings, investment and risk protection.

The W&W Group pursues demanding objectives, which will substantially improve its market position and financial strength as a basis for future investment and long-lasting independence. To this end, we must work on the ongoing improvement of new business across all segments, tap potential for greater efficiency within the Group and achieve our defined goals in every division.

Having achieved an ROE of 6.1 per cent in 2007, the next target for us in 2008 is a figure of 6.7 per cent. This equates to net income in the range of EUR 160 million to 180 million. Our Group's core objective for 2009 is to achieve an ROE of 9 per cent.

Overall, for 2008 and 2009, we expect our Group to further consolidate its income position and to see a positive development in the result for the following year.

Forward-looking statements

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

Consolidated balance sheet as at 31 December 2007

Assets		31 Dec 2007	31 Dec 2006
		EUR 000's	EUR 000's
A. Cash reserve	(1) [1]	182,333	139,934
B. Non-current assets held for sale and disposal groups	(2)	89,505	1,485,277
C. Financial assets at fair value through profit or loss	(3)	1,706,279	1,673,767
D. Available-for-sale financial assets	(4)	13,029,552	12,309,908[2]
E. Receivables	(5)	48,862,777	50,087,237[2]
I. Loans and advances to banks	(6)	19,097,928	19,560,708
II. Receivables from reinsurance business	(7)	183,355	161,249
III. Loans and advances to customers	(8)	29,330,354	30,110,575[2]
IV. Other receivables	(9)	251,140	254,705
F. Allowance for credit losses	(10)	– 266,346	– 301,645[2]
G. Positive market value of hedges	(11)	19,099	58,079
H. Investments accounted for using the equity method	(12)	192,570	148,346
I. Investment property	(13)	1,227,801	1,202,653
J. Share of reinsurance business in technical provisions	(14)	1,988,978	2,054,381
K. Other assets		1,098,828	1,256,352
I. Intangible assets	(15)	203,632	205,880
II. Property, plant and equipment, and inventories	(16)	353,487	399,649
III. Current tax assets	(17)	131,368	161,242
IV. Deferred tax assets	(18)	343,774	399,785
V. Other assets		66,567	89,796
Total assets		68,131,376	70,114,289

[1] See numbered notes to the consolidated financial statements from page 96

[2] Figures adjusted, see explanations in the notes to the consolidated financial statements, section on accounting changes (page 71)

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

- 51-55 Notes to financial instruments;
- 56-60 Disclosures on risks arising from financial instruments and insurance contracts;
- 64 et seq. Other disclosures.

Shareholders’ equity and liabilities		31 Dec 2007	31 Dec 2006
		EUR 000's	EUR 000's
A. Liabilities directly connected with non-current assets held for sale and disposal groups	19	—	1,002,193
B. Financial liabilities at fair value through profit or loss	19	**227,690**	236,672
C. Liabilities	21	**32,807,055**	34,163,831
I. Certificated liabilities	22	**3,315,831**	4,009,291
A. Liabilities to banks	23	**5,542,903**	5,943,249
III. Liabilities from reinsurance business	24	**1,710,444**	1,708,884
IV. Liabilities to customers	25	**21,789,959**	22,098,304
V. Other liabilities	26	**447,918**	404,103
D. Negative market value of hedges	27	**85,833**	159,441
E. Technical provisions	28	**29,719,736**	29,271,754
F. Other provisions	29	**1,607,470**	1,764,765
G. Other liabilities		**682,576**	665,998
I. Current tax liabilities	30	**301,623**	290,150
II. Deferred tax liabilities	31	**337,712**	370,727
III. Miscellaneous liabilities	32	**43,241**	5,121
H. Subordinated capital	33	**507,455**	543,468
I. Shareholders' equity	34	**2,493,561**	2,306,167
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		**1,045,104**	851,788
III. Minority interests		**74,352**	80,274
Total shareholders' equity and liabilities		**68,131,376**	70,114,289

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

- 51-55 Notes to financial instruments;
- 56-60 Disclosures on risks arising from financial instruments and insurance contracts;
- 64 et seq. Other disclosures.

Consolidated income statement
for the period from 1 January to 31 December 2007

			1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
	Income from available-for-sale financial assets		**847,589**	694,804
	Expenses for available-for-sale financial assets		**357,097**	172,067
1.	**Net income from available-for-sale financial assets**	35	**490,492**	522,737[1]
	Income from investments accounted for using the equity method		**3,321**	15,248
	Expenses for investments accounted for using the equity method		**28,352**	1,502
2.	**Net income from/net expense for investments accounted for using the equity method**	36	**– 25,031**	13,746
	Income from financial assets and liabilities at fair value through profit or loss		**804,988**	738,601
	Expenses for financial assets and liabilities at fair value through profit or loss		**618,222**	604,097
3.	**Net income from financial assets and liabilities at fair value through profit or loss**	37	**186,766**	134,504
	Income from hedges		**45,695**	122,739
	Expenses for hedges		**49,143**	115,941
4.	**Hedge result**	38	**– 3,448**	6,798
	Income from receivables, liabilities and subordinated capital		**2,208,862**	2,275,178
	Expenses for receivables, liabilities and subordinated capital		**1,273,336**	1,272,183
5.	**Net income from receivables, liabilities and subordinated capital**	39	**935,526**	1,002,995[1]
	Income from allowances for credit losses		**69,419**	43,244
	Expenses for allowances for credit losses		**121,483**	161,610
6.	**Net expense for allowances for credit losses**	40	**52,064**	118,366[1]
7.	**Net financial result**		**1,532,241**	1,562,414
	Income from investment property		**139,418**	162,665
	Expenses for investment property		**112,645**	83,968
8.	**Net income from investment property**	41	**26,773**	78,697
	Fee and commission income		**272,219**	244,622
	Fee and commission expenses		**604,600**	619,986
9.	**Net fee and commission result**	42	**– 332,381**	– 375,364
	Premiums/contributions earned (gross)		**4,078,348**	4,313,656
	Premiums ceded to reinsurers		**242,704**	347,711
10.	**Premiums/contributions earned (net)**	43	**3,835,644**	3,965,945
	Insurance benefits (gross)		**4,061,051**	4,202,124
	Claim recoveries from reinsurers		**239,521**	289,175
11.	**Insurance benefits (net)**	44	**3,821,530**	3,912,949
	Personnel expenses		**639,008**	693,526
	Other administrative expenses		**367,728**	367,565
	Amortisation, depreciation and impairment		**67,418**	86,017
12.	**General administrative expenses**	45	**1,074,154**	1,147,108
	Amount carried forward		**166,593**	171,635

[1] Figures adjusted, see explanations in the notes to the consolidated financial statements, section on accounting changes (page 71)

		1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Amount brought forward		**166,593**	171,635
13. **Measurement gain/loss for non-current assets and disposal groups classified as held for sale**	46	**– 4,221**	—
Other income		**458,553**	273,843
Other expenses		**374,453**	419,772
14. **Net other income/expense**	47	**84,100**	– 145,929
15. **Earnings before taxes from continued operations**		**246,472**	25,706
Taxes on income		**48,203**	– 15,704
Other taxes		**8,949**	7,118
16. **Taxes**	48	**57,152**	– 8,586
17. **Earnings after taxes from discontinued operations**	49	**20,229**	10,232
18. **Consolidated net income**		**209,549**	44,524
a) Result attributable to shareholders of W&W AG		**200,444**	35,582
b) Result attributable to minority interests		**9,105**	8,942
19. Earnings per share in EUR[1]	50	**2.32**	0.41
of which attributable to continued operations		**2.09**	0.29

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

Further information relating to several income statement items is summarised in the following notes

- 51-55 Notes to financial instruments;
- 56-60 Disclosures on risks arising from financial instruments and insurance contracts;
- 64 et seq. Other disclosures.

Statement of recognised income and expense

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Measurement gains and losses recognised directly in shareholders' equity from available-for-sale financial assets (net)	**– 66,827**	– 19,945
Measurement gains and losses from cash flow hedges recognised directly in shareholders' equity (net)	**160**	17,810
Currency translation differences of independent foreign operations	**3,105**	3,895
Actuarial gains and losses from defined benefit plans	**37,450**	– 24,884
Gains/losses recognised directly in equity from investments accounted for using the equity method	**– 2,552**	24,500
Total gains and losses recognised directly in equity	**– 28,664**	1,376
Consolidated net income	**209,549**	44,524
Total recognised income and expenses	**180,885**	45,900
of which: attributable to shareholders of W&W AG	**180,822**	38,750
of which: attributable to minority interests	**63**	7,150

Cash flow statement

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

The foreign companies included in the consolidated financial statements are generally measured at annual average rates. Liquidity is translated at the exchange rate prevailing at the balance sheet date.

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

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

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

In the year under review, cash and cash equivalents consist of the balance sheet item "Cash reserve" in the amount of EUR 182.3 milllion (2006: EUR 139.9 million) as well as deposits at banks and savings banks payable on demand totalling EUR 723.9 million (2006: EUR 890.0 million) (see Note 1 and Note 6). The cash reserve consists of cash on hand, balances with central banks, balances in foreign postal giro accounts as well as public-sector debt instruments with an original term to maturity of up to three months.

Cash and cash equivalents comprise both inflows from the disposal of discontinued operations and inflows from continued operations until they are discontinued.

Restricted cash and cash equivalents amount to EUR 48.2 million (2006: EUR 39.3 million). The restriction is attributable to minimum reserve requirements of the European Central Bank and the Czech National Bank.

The cash flows from operating activities were mainly characterised by the increase of consolidated net income. In addition, the decline of loans and advances to banks as well as loans and advances to customers caused an increase of net cash flows from operating activities. On the other hand, the decrease in certificated liabilities and liabilities to banks resulted in a reduction of net cash flows from operating activities.

The decrease in the balance of cash and cash equivalents as at 31 December 2007 by EUR 123.7 million (2006: EUR 187.2 million) to EUR 906.2 million (2006: EUR 1,029.9 million) is mainly a result of the cash flows from investing activities. Cash payments for investing activities with respect to financial assets grew significantly compared to the previous year. The reduction in subordinated capital and the resulting interest payments are reflected in the cash flows from financing activities.

The price for the disposal of Erasmus Groep B.V. in the financial year under review totalled EUR 78.2 million, representing an increase of cash and cash equivalents by that amount. Cash and cash equivalents disposed amounted to EUR 35.4 million.

The assets of the disposed operation Erasmus Groep B.V. amounted to EUR 1,036.3 million (net of cash). They consist of financial assets at fair value through profit or loss (EUR 637.2 million), receivables (EUR 315.8 million) and other assets (EUR 83.3 million). The liabilities of Erasmus Groep B.V. amounted to EUR 1,002.2 million. They consist of technical provisions (EUR 927.2 million), liabilities (EUR 44.0 million) and other liabilities (EUR 31.0 million).

The acquisition of 49.99 per cent of the shares in V-Bank AG, which is accounted for using the equity method, resulted in a cash outflow of EUR 12.0 million.The net cash flows from discontinued operations amount to EUR 2.1 million (2006: EUR 45.2 million) for operating activities, EUR 0 million (2006: net cash outflow of EUR 40.8 million) for investing activities and EUR 0 million (2006: net cash outflow of EUR –2.7 million) for financing activities.

Cash flow statement

I. Cash flows from operating activities:	2007 in EUR 000's	2006 in EUR 000's[1]
Consolidated net income (less minority interests)	**200,444**	35,582
Non-cash items included in consolidated net income and reconciliation to net cash flows from operating activities:		
Net income/expense for investments accounted for using the equity method	**25,031**	– 13,746
Minority interests in consolidated net income	**9,105**	8,942
Amortisation, depreciation, impairment losses and reversals of impairment losses of intangible assets and property, plant and equipment	**67,418**	85,265
Amortisation, impairment losses and reversals of impairment losses of receivables and financial assets	**210,116**	132,773
Increase/decrease in technical provisions	**519,002**	– 106,263
Increase/decrease in other provisions	**– 157,295**	204,522
Changes in deferred tax assets and liabilities	**– 38,917**	– 118,899
Net gain/loss from the disposal of intangible assets and property, plant and equipment	**– 1,672**	662
Net gain/loss from the disposal of financial assets	**– 94,883**	– 108,471
Other non-cash expenses/income	**– 3,296**	95,553
Other adjustments	**– 1,428,063**	– 1,520,891
Subtotal	**– 693,010**	– 1,304,971

Changes in assets and liabilities from operating activities:		
Increase/decrease in loans and advances to banks	**300,334**	– 66,772
Increase/decrease in loans and advances to customers	**881,874**	1,457,593
Increase/decrease in deposits retained by reinsurers on assumed reinsurance and accounts receivable from reinsurance business	**– 22,105**	51,641
Increase/decrease in other assets	**82,395**	– 972,916
Financial assets and liabilities at fair value through profit or loss	**– 44,608**	– 99,625
Increase/decrease in liabilities to banks	**– 400,346**	– 909,450
Increase/decrease in liabilities to customers	**– 308,510**	– 421,921
Increase/decrease in certificated liabilities	**– 782,175**	– 449,426
Increase/decrease in deposits retained by W&W on ceded business and accounts payable from reinsurance business	**1,561**	– 349
Increase/decrease in other liabilities	**80,895**	680,358
Interest, received	**2,763,518**	2,895,119
Dividends received	**196,803**	171,983
Interest paid	**– 1,457,569**	– 1,596,266
Cash payments/refunds of income taxes	**– 46,285**	62,952
Net cash flows from operating activities	**552,772**	– 502,050

[1] Figures adjusted, see explanations in the notes to the consolidated financial statements, section on accounting changes (page 71)

II. Cash flows from investing activities:	2007 in EUR 000's	2006 in EUR 000's[1]
Cash receipts from the disposal of intangible assets and property, plant and equipment	38,674	5,549
Cash payments to acquire intangible assets and property, plant and equipment	– 58,623	– 16,349
Cash receipts from the disposal of financial assets	10,118,942	8,486,686
Cash payments to acquire financial assets	– 10,737,574	– 8,177,814
Cash receipts from the disposal of consolidated companies and other business units	78,232	240
Cash and cash equivalents disposed on the sale of consolidated companies	– 35,407	—
Cash payments to acquire investments accounted for using the equity method	– 11,992	—
Net cash flows from investing activities	**– 607,748**	298,312

III. Cash flows from financing activities:		
Cash payments to owners	—	– 43,122
Cash payments to other shareholders	– 4,225	– 8,392
Changes from subordinated capital	– 36,013	95,438
Interest payments on subordinated capital	– 28,405	– 28,124
Net cash flows from financing activities	**– 68,643**	15,800

Balance of cash and cash equivalents:		
Cash and cash equivalents at the beginning of the financial year	**1,029,860**	1,217,044
Net change in cash and cash equivalents (I.+II.+III.)	– 123,619	– 187,938
Effects of exchange rate changes on cash and cash equivalents	– 1	754
Cash and cash equivalents at the end of the financial year	**906,240**	1,029,860

Components of cash and cash equivalents:		
Cash reserve	182,333	139,934
Balances with banks and savings banks payable on demand	723,907	889,926
Cash and cash equivalents at the end of the financial year	**906,240**	1,029,860

[1] Figures adjusted, see explanations in the notes to the consolidated financial statements, section on accounting changes (page 71)

Notes to the consolidated financial statements

The consolidated financial statements were authorised for issue by the Management Board of Wüstenrot & Württembergische AG on 10 March 2008. They will be submitted for approval by the shareholders on the Annual General Meeting on 13 June 2008.

Financial reporting standards

International Financial Reporting Standards (IFRS) and interpretations (IFRIC) applied
The consolidated financial statements of W&W AG were prepared in accordance with IFRS, as adopted by the European Union, pursuant to Section 315 a (1) of the German Commercial Code (HGB, Handelsgesetzbuch) in conjunction with Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The international financial reporting standards adopted pursuant to Articles 2, 3 and 6 of the abovementioned Regulation as well as the provisions set out in Section 315 a (1) of the HGB were complied with. The consolidated financial statements fulfil all requirements stipulated by IFRS.

Our consolidated financial statements consist of:

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

We also prepared a Group management report.

Standards, interpretations and amendments to standards and interpretations required to be applied for the first time in the year under review
The accounting policies and presentation methods are applied based on the principle of consistency. Changes were necessary due to newly introduced or amended IFRS. We complied with all new and amended IFRS and IFRIC which were required to be applied for the first time as at 1 January 2007.

IFRS 7 Financial Instruments: Disclosures:
IFRS 7 summarises the previous regulations related to the disclosure of financial instruments included in IAS 32 "Financial Instruments: Presentation" and the entire IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" into one standard. The previous disclosure requirements were extended by requirements to provide information on the nature and extent of risks arising from financial instruments as well as on the methods used to manage (control) those risks. The objective of IFRS 7 is to enable users of financial statements to evaluate the significance of financial instruments for the reporting entity's financial position and performance. In connection with IFRS 7, the disclosure requirements included in IFRS 4 Insurance Contracts were also modified. By analogy, the requirements to provide disclosures on risks from insurance contracts were modified as well.

IAS 1 Presentation of Financial Statements:
In connection with IFRS 7, one change was made to IAS 1. This change related to additional disclosures on objectives, policies and processes for managing capital.

IFRIC 7 Applying the Restatement Approach under IAS 29: IFRIC 7 includes explanations related to IAS 29, more specifically to the restatement of financial statements in case the functional currency of a company is considered hyperinflationary for the first time.

IFRIC 8 Scope of IFRS 2: IFRIC 8 includes regulations for cases in which the identifiable consideration obviously is below the fair value of the equity instruments granted or liability incurred. In accordance with IFRIC 8, this circumstance indicates that another consideration has been (or will be) received.

IFRIC 9 Reassessment of Embedded Derivatives: This interpretation relates to the accounting for embedded derivatives in accordance with IAS 39. In accordance with IFRIC 9, the assessment whether an embedded derivative must be separated from the host contract and accounted for as a derivative generally has to be made at the inception of the contract. Subsequent reassessment during the contract term is only permitted when, and to the extent that there is a change in the terms of the contract that significantly modifies the associated cash flows that otherwise would be required under the contract.

A reassessment of embedded derivatives was not necessary in the W&W Group in the financial year 2007.

IFRIC 10 Interim Financial Reporting and Impairment: IFRIC 10 addresses the interaction between the requirements of IAS 34 Interim Financial Reporting and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39. IFRIC 10 prescribes that impairment losses that were recognised in interim financial statements and that may not be reversed in accordance with IAS 36 and IAS 39, respectively, may not be reversed in subsequent interim financial statements and subsequent annual or consolidated financial statements. IFRIC 10 explicitly states that an entity shall not extend this consensus by analogy to similar areas of potential conflict between IAS 34 and other standards.

The first-time adoption of IFRS 7 in connection with IFRS 4 and the amendments of IAS 1 do not have any effects on the presentation of the financial position, financial performance and cash flows of the W&W Group. The same applies to IFRIC 10. The reason for this is that the W&W Group had previously already followed accounting procedures as set out in IFRIC 10.

IFRIC 7, 8 and 9 had no practical consequences for the W&W Group in the financial year 2007.

The changes of the accounting policies were made in accordance with the transitional requirements.

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

IFRS 8 Operating Segments: IFRS 8 stipulates new provisions with respect to segment reporting and is required to be applied from the financial year 2009.

IAS 1 Presentation of Financial Statements: The most important amendments to IAS1, which is required to be applied from 1 January 2009 and includes requirements with respect to the presentation of financial statements, are the definition of the components of the individual statements, the definition and the presentation of the profit for the period, the statement of changes in equity as well as the presentation of the dividend.

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

The impact of the implementation of IFRS 8, IAS 1 and IAS 23 on the presentation of the financial position, the financial performance and the cash flows, is currently being assessed within the framework of the related implementation projects.

IFRIC 11 on IFRS 2 – Group and Treasury Share Transactions: IFRIC 11 provides guidance on how to apply IFRS 2 on share-based payment arrangements where equity instruments of the reporting entity itself or equity instruments of another entity in the same group as the reporting entity are granted.

IFRIC 12 Service Concession Arrangements: IFRIC 12 governs the accounting for contractual obligations related to construction activities as well as to operating and maintaining the public sector infrastructure, where control of the infrastructure remains in public hands.

IFRIC 13 Customer Loyalty Programmes: IFRIC 13 governs the accounting and measurement of revenue from sales transactions and related expenses for obligations resulting from customer loyalty programmes.

IFRIC 14 on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interpretation: IFRIC 14 provides general guidance on how to assess the limit on the amount of the surplus of a pension fund that can be recognised as an asset in accordance with IAS 19 Employee Benefits.

IFRIC 11, 12, 13 and 14 currently have no practical consequences in the W&W Group.

Revised IFRS 3 and IAS 27: In January 2008, the IASB published the revised standards IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements according to IFRS.

The main changes to IFRS 3 compared to the current version are as follows:

- An election will be introduced allowing minority interests to be measured either at fair value or at the pro rata share in identifiable net assets.
- In case of business combinations achieved in stages, the already existing shares in the acquired company must be remeasured through profit or loss at the time control is acquired. Accordingly, goodwill is determined as the difference between the remeasured carrying amount of the equity investment plus purchase price payments for the acquisition of the new shares less net assets acquired.
- Costs of acquisition must be recognised as an expense in future.
- A potential adjustment of acquisition costs depending on post-acquisition events that have to be accounted for as a liability at the date of purchase is no longer permitted for subsequent measurement of goodwill.
- The effects from the settlement of business relationships already existing before the date of the business combination may not be included in the consideration for the business combination.
- Guidance is provided for the recognition and measurement of rights granted to another company before a business combination and re-acquired, in substance, within the scope of the business combination.

The revised IFRS 3 is required to be applied prospectively to business combinations whose date of purchase occurs in annual periods beginning on or after 1 July 2009.

The main changes to IAS 27 are as follows:

- In case of a partial disposal of an investment that does not result in loss of control, the transaction is accounted for as an equity transaction.
- If a parent company loses control over a subsidiary, the consolidated assets and liabilities must be derecognised. Any remaining investment in a former subsidiary has to be measured at fair value upon initial recognition. Any resulting difference has to be recognised in profit or loss.
- In case the share of minority shareholders in losses exceeds the share of minority shareholders in shareholders' equity of the subsidiary, they still have to be allocated to minority interests even if this results in a negative balance.

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

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

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

Presentation of financial statements

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

Changes in the balance sheet and the income statement

In order to further improve the transparency of the consolidated financial statements of Wüstenrot & Württembergische AG and the implementation of IFRS 7, the structure of the balance sheet and the income statement was revised in the financial year 2007.

In this context, investments accounted for using the equity method were reported in separate items of the balance sheet and the income statement. Financial assets not accounted for using the equity method were reclassified to the line item "Available-for-sale financial assets". Prior-year figures were adjusted accordingly.

In addition, the individual components of the Group's profit or loss are now broken down in more detail into individual income and expense items in the income statement.

Within the scope of the implementation of IFRS 7, the presentation of the interest effect and the accounting for interest income from receivables subject to specific and portfolio-based valuation allowances was changed.

These changes are reflected accordingly in segment reporting.

In addition, the cash flow statement was restructured to a considerable extent.

In order to enhance transparency of the financial statements, we also made a number of changes in the presentation of the notes to the consolidated financial statements. We especially revised the structure of the notes to the consolidated financial statements and the presentation of the changes to the individual balance sheet items.

Consolidation

Scope of consolidation

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

A full list of shareholdings of the W&W Group is published in the electronic Federal Gazette (elektronischer Bundesanzeiger). The list of shareholdings is presented on pages 187 et seq.

	Germany	Other countries	Mutual and special funds	Total
Subsidiaries				
Included as at 31 December 2006	14	12	24	**50**
Included as at 31 December 2007	16	5	23	**44**
Investments in associates				
accounted for using the equity method				
Included as at 31 December 2006	1	4	0	**5**
Included as at 31 December 2007	7	3	0	**10**

Changes to the scope of consolidation

In March 2007, we sold our foreign subgroup Erasmus Groep B.V. to Delta Lloyd NV in Amsterdam. As a result, eight foreign companies were deconsolidated as at 31 March 2007.

The special fund iii-Badenimmo, Munich, which currently is in liquidation, was excluded from the scope of consolidation as at 31 March 2007. BWK-Fonds 61, Stuttgart, and BWInvest-79, Stuttgart, have no longer been included in the scope of consolidation since 30 June 2007 and 31 December 2007, respectively. Both special funds were dissolved.

As at 1 April 2007, the newly established LP 1 Beteiligungs-GmbH & Co. KG, Stuttgart, was added to the scope of consolidation. The formation of W&W Service GmbH, Stuttgart, provided for the necessary framework to increasingly render intragroup services in an efficient manner in future. For this reason, the company was included in the scope of consolidation retrospectively as at 1 January 2007.

Furthermore, Wüstenrot hypoteční banka a. s., Prague, was newly added to the scope of consolidation as at 1 January 2007. Furthermore, Berlin Leipziger Platz Grundbesitz GmbH, Berlin, and Elektra Beteiligungs-AG, Stuttgart, W&W Global Strategies South East Asian Equity Fund, Dublin, and UIN-Fonds Nr. 567, Frankfurt, were included in the scope of consolidation for the first time as at 1 January 2007.

In September 2007, Karlsruher Lebensversicherung AG was merged into Württembergische Lebensversicherung AG retrospectively as at 1 January 2007. Karlsruher Versicherung AG was merged into Württembergische Versicherung AG – also retrospectively – as at the same date. As a result, these companies are no longer included in the scope of consolidation. In order to preserve the name "Karlsruher Lebensversicherung AG", Karlsruher HK AG Lebensversicherung für Beamte und Angestellte der öffentlichen Verwaltung, Karlsruhe, was renamed in Karlsruher Lebensversicherung AG in December 2007.

The investment in Wüstenrot poisťovňa a. s., Bratislava, which was sold on 8 February 2008 at a carrying amount of EUR 2.8 million, is no longer included in the consolidated financial statements as at 31 December 2007 using the equity method.

On 2 January 2008, the stake held in Wüstenrot životní pojišťovna a.s., Prague, which is reported in the consolidated financial statements as at 31 December 2007 as an associate, was increased by 24 per cent to 74 per cent in line with the strategic positioning on the Czech market. Wüstenrot životní pojišt'ovna a. s. is a life assurance company operating in the Czech Republic. The cost of the business combination amounted to EUR 1.1 million, including costs directly attributable to the business combination. Wüstenrot životní pojišt'ovna a.s. is included in the scope of consolidation as a fully consolidated subsidiary from the date of the purchase of the additional shares.

Exemption from the duty to publish separate financial statements

Wüstenrot GmbH & Co. Grundstücks-KG, Ludwigsburg, elects not to publish its separate financial statements. Wüstenrot & Württembergische AG will publish its consolidated financial statements for 2007 in the electronic Federal Gazette pursuant to Section 264b No. 3 of the HGB.

Consolidation methods

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

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

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

The carrying amount of the goodwill is reviewed for impairment at least annually (impairment test). If there are indications of a potential impairment, the impairment test is also performed more frequently. An impairment loss is recognised if the impairment test shows that goodwill is impaired.

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

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

Intragroup receivables and liabilities as well as expenses and income, and profits or losses resulting from intragroup transactions are eliminated during consolidation. Temporary differences between the assets and liabilities as reported under IFRS and their tax bases are accounted for by recognising the required deferred taxes.

All material associates are included in the consolidated financial statements using the equity method. If a company that is included in the consolidated financial statements using the equity method uses accounting policies other than the IFRS requirements used in the Group, appropriate adjustments are made to conform the associate's accounting policies to those applied uniformly throughout the Group.

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

Reporting date

The financial statements of the parent company, the consolidated subsidiaries and associates are prepared as at the reporting date (31 December 2007), except the financial statements of W&W

Asset Management AG, Luxembourg, whose financial year ends on 30 November. We decided not to prepare interim financial statements for reasons of materiality, but adjustments were made to account for the effects of significant transactions.

Currency translation

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

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

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

Other currency translation differences are recognised in the income statement.

Assets and liabilities included in the consolidated financial statements of subsidiaries whose functional currency is not the euro are translated from the relevant local currency into euro in accordance with the modified closing rate method defined in IAS 21 using the reference rate of the ECB applicable at the balance sheet date. Expenses and income of foreign subsidiaries whose functional currency is not the euro are translated using annual average exchange rates.

Currency translation differences, including differences from applying the equity method, are recognised directly in equity. These currency translation differences are recognised in the income statement in the period in which the subsidiary concerned is disposed.

Currency	2007		2006	
	Closing rate	**Annual average rate**	Closing rate	Annual average rate
USD	**1.4721**	**1.3748**	1.317	1.2566
CZK	**26.628**	**27.7314**	27.485	28.3272
SKK	**33.583**	**33.8269**	34.435	37.1558
HRK	**7.3308**	**7.3349**	7.3504	7.3250

The closing rate for Pound Sterling was 0.73335 (2006: 0.6715) and for the Danish Krone 7.4583 (2006: 7.456), in relation to the euro, respectively.

Accounting estimates and assumptions

The estimates and assumptions required for recognition and measurement in accordance with IFRS are made in line with the respective standard, are regularly updated and based on historic experience and expectations as to future events which appear reasonable under the given circumstances. If estimates were required to a greater extent, the relevant estimates are explained in the note to the corresponding item.

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

Financial instruments as well as receivables and liabilities from insurance business

Classes of financial instruments

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

Cash reserve

Financial assets at fair value through profit or loss
- Financial assets designated as at fair value
- Financial assets classified as held for trading

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

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

Positive market value of hedges

Financial liabilities at fair value through profit or loss
- Financial liabilities designated as at fair value
- Financial liabilities classified as held for trading

Liabilities
- Certificated liabilities
- Liabilities to banks
- Liabilities from reinsurance business
- Liabilities to customers
- Other liabilities

Negative market value from hedges

Subordinated capital

Principles for measurement and presentation of financial instruments

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

Additions and disposals of financial instruments are generally recognised at settlement date at the fair value, except derivative financial instruments which are measured at fair value at the inception of the contract.

Cash reserve

This item comprises cash on hand, balances with central banks, balances in foreign postal giro accounts as well as public-sector debt instruments. Items included in the cash reserve are carried at face value.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading
Financial instruments acquired with the objective of generating a profit from short-term fluctuations in prices are classified as held-for-trading financial assets. This item also includes positive market values of derivatives which are not accounted for as a hedging transaction pursuant to hedge accounting criteria.

Both unrealised and realised gains and losses from measurement are recognised in net income from financial assets and liabilities at fair value through profit or loss. Current income and expenses from financial instruments as well as fees and commissions for trading transactions are also recognised in net income from financial assets and liabilities at fair value through profit or loss.

Financial assets designated as at fair value

Under the fair value option, structured products are reported as financial assets measured at fair value when these products would have to be separated into host contract and derivative component.

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

Financial assets at fair value through profit or loss are measured at fair value as a result of their specific characteristics. All realised and unrealised gains and losses are recognised in the income statement in net financial result. Transaction costs are recognised directly in the income statement.

Available-for-sale financial assets

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

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

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

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

Receivables

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

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

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

Receivables from the direct insurance business, deposits retained by reinsurers on assumed reinsurance and accounts receivable from reinsurance business are carried at nominal amounts.

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

Receivables are reviewed for impairment at each balance sheet date or if indicators of potential impairment exist. Impairment losses are recognised if necessary. Reversals of impairment losses are recognised in the income statement. The upper limit for such a reversal is the amortised cost that would have resulted had no impairment occurred.

Positive market value of hedges

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

Financial liabilities at fair value through profit or loss

Financial liabilities classified as held for trading
This item includes negative market values of derivatives which are not accounted for as a hedging transaction pursuant to hedge accounting criteria.

Both unrealised and realised gains and losses from measurement are recognised in net income from financial assets and liabilities at fair value through profit or loss. Current expenses and income from financial instruments as well as fees and commissions for trading transactions are also recognised in net income from financial assets and liabilities at fair value through profit or loss.

Financial liabilities designated as at fair value
Under the fair value option, financial liabilities which are structured products are reported as financial liabilities measured at fair value when these products would have to be separated into host contract and derivative component.

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

Liabilities

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

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

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

Negative market value of hedges

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

Subordinated capital

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

Measurement at fair value

If the financial instruments are traded on active markets with sufficient liquidity, (quoted) market prices are used as the measurement basis for the fair value.

If there are no quotes on liquid markets, the fair value is determined in accordance with accepted financial calculation models using prices from any observable current market transactions in the same instrument or based on any available observable market data.

Structured products for which no market price is available are measured using accepted financial calculation models either in their entirety or separately by individual components. In case of unbundling, the individual gains or losses from measurement are aggregated to a total price.

The present value method is used as the accepted model for the measurement of receivables and liabilities, securities with fixed contractually agreed payments, subordinated capital, interest rate swaps and forward transactions without options.

Pursuant to the present value method, the expected cash flows in the future are discounted using the interest rates applicable for the relevant terms and markets.

The fair values of options are calculated using accepted option pricing models (Black 76 for interest-rate options, Black-Scholes for stock options), depending on the types of options and the relevant underlyings. These models are applied on the basis of generally accepted assumptions regarding valuation parameters, in particular the value and volatility of the underlying instrument, the agreed exercise price, reference interest rate or reference index, the risk-free interest rate as well as the remaining lifetime of the contract.

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

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

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

The determination of the changes in the fair values due to a change in credit risk is based on a comparison of the financial instrument with a corresponding financial instrument not exposed to credit risks. The credit spread will be calculated as part of this comparison. The changes in the credit risk are regularly monitored in the Group.

Hedge accounting

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

Each change in the fair value of the derivative used as a hedging instrument is recognised in the income statement. The carrying amount of the hedged item is adjusted by the measurement gains or losses attributable to the hedged risk, with the relevant amounts from the adjustment being recognised in profit or loss. After the termination of the hedging relationship, the adjustment of the carrying amount of the hedged item is amortised over the remaining term, if appropriate.The existing fair value hedges are used to reduce interest rate risk exposure. Only interest rate swaps are designated as hedges of interest rate risk exposures resulting from a decline in value due a change in interest rates.

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

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

Structured products

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

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

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

Under the fair value option, structured products are reported as financial assets and financial liabilities measured at fair value when these products would have to be separated into host contract and derivative component.

Impairment

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

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

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

Portfolio-based valuation allowances are recognised for receivables for which specific valuation allowances have not been recognised. Portfolio-based valuation allowances for credit risks are intended to cover impairments in the loan portfolio that have occurred, but that are not yet known.

If further payments are not expected with a high degree of certainty, the receivable concerned is classified as uncollectible. Uncollectable receivables for which valuation allowances have already been recognised are written off against the allowance account. If no valuation allowances have been recognised for a particular uncollectable receivable, the receivable concerned is directly written off as an expense in the income statement. Recoveries on receivables previously written off are recognised in profit or loss.

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

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

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

With respect to receivables subject to specific valuation allowances or portfolio-based valuation allowances, the interest income resulting from the changes in the present value (present value effect, interest effect or unwinding) has to be recognised, rather than recognising and amortising the actual interest payments as interest income. The actually paid interest is continued to be recognised as the interest income for the portfolios with events of default that have been incurred, but have not yet been identified. Interest income from present value changes are reported in net interest income in accordance with IFRS 7 Financial Instruments: Disclosures.

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

Other balance sheet items

Non-current assets held for sale and disposal groups

An entity shall classify a non-current asset or a disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of an entity, that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

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

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

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

Investments accounted for using the equity method

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

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

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

Investment property

Investment properties include land and buildings that is held to earn rentals or for capital appreciation. Initial measurement of investment property is based on its cost, taking into account transaction costs. Recognition and measurement upon acquisition and subsequently is made in accordance with the cost model, as described under the item „Property, plant and equipment, and inventories“.

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

Share of reinsurance business in technical provisions

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

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

Intangible assets

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

Goodwill is the excess of the cost of acquisition of a subsidiary over the acquirer’s interest in equity after disclosing hidden reserves and liabilities at the date of acquisition. Goodwill has an indefinite useful life and is recognised at cost less any accumulated impairment losses. Impairment losses result from an impairment test which is performed at least annually on the basis of cash-generating units. Cash-generating units in the W&W Group correspond to the legal entities.

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

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

Internally generated or acquired software is generally amortised on a straight-line basis over a useful life of three (local software) to five (central software) years. In addition, other intangible assets are tested for impairment at the balance sheet date if indicators for impairment exist. In case of impairment, a write-down for impairment to the recoverable amount is recognised.

The carrying amount of acquired life insurance contracts is the present value of the expected net cash flows from the acquired insurance contracts (PVFP – present value of future profits) at the date of acquisition. This amount represents the present value of the expected profits from the acquired portfolio without taking into account new business or tax effects. The PVFP is amortised on a straight-line basis over a term of 15 years. The PVFP is tested for impairment at each balance sheet date, and an impairment loss is recognised in case an impairment exists. Borrowing costs are not capitalised as part of the cost of qualifying assets in the W&W Group. Amortisation and impairment losses are included in general administrative expenses.

Property, plant and equipment, and inventories

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

Property, plant and equipment are carried at cost (cost model).

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

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

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

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

The individual useful life for the components "structural work" and "interior fittings / technology" is determined by a court-appointed appraiser of the W&W Group, and amounts to up to 80 years for the structural work component for residential properties and up to 40 years for commercial properties. The maximum useful life for interior fittings / technology is assumed to be 25 years.

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

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

Operating and office equipment is measured at amortised cost. The assets are depreciated on a straight-line basis over an expected useful life of up to 19 years. Purchased IT equipment is depreciated on a straight-line basis over an expected useful life of up to nine years. In addition, write-downs are recognised in case of impairment.

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

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

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

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

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

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

Leases

Under finance leases, all material risks and rewards of leased assets are transferred to the lessee. In contrast, all material risks and rewards of leased assets are retained by the lessor under operating leases. In the financial year 2007, the W&W Group was the lessee under both finance leases and operating leases.

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

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

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

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

Technical provisions

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

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

The claims equalisation provision and similar provisions required under local law for property-casualty insurance may not be recognised in accordance with IFRS 4. The provisions for our reinsurance business were calculated in accordance with the information provided by the direct insurer. If such information was not provided, we calculated the provisions based on data available to us. We followed the same methods in the case of co-insurance and pools managed by third parties.

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

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

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

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

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

The interest rate for the provision for future policy benefits in connection with healthcare insurance amounts to 3.5 per cent. The mortality tables published by the German Federal Financial

Supervisory Authority (BaFin, Bundesanstalt für Finanzdienstleistungsaufsicht) are used as biometrical calculation parameters.

For annuity assurance policies whose original calculation parameters no longer include sufficient security margins, the calculation parameters published by the German Association of Actuaries are used. These calculation parameters are considered to be sufficient parameters. In the financial year 2007, the confidence level was increased once again, since the task force for biometrical calculation parameters of the German Association of Actuaries recommended an adjustment due to the current trend with respect to the mortality rate of the persons with annuity assurance policies. The increase amounted to one twentieth of the difference between the mortality tables "DAV2004RBestand" and "DAV2004RB20", with probabilities of capital payouts being taken into account as well.

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

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

With respect to health insurance, the calculation of the provision for future policy benefits takes into account, among other things, assumptions related to the termination rates as well as to current healthcare costs, which increase as people grow older. These assumptions are based on own experience and industry-specific benchmark values. The calculation parameters are reviewed regularly within the scope of premium adjustments and adjusted if necessary with the consent of the public trustee. New tariffs are only introduced when the adequacy of the calculation parameters to be used are confirmed by the new trustee.

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

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

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

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

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

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

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

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

The second portion of the provision for premium refunds, the provision for deferred premium refunds, is attributable to the policyholders' interests in the cumulative measurement differences between the financial statements of the individual companies in accordance with local GAAP and the consolidated financial statements in accordance with IFRS. These temporary measurement differences are transferred to the provision for deferred premium refunds, in an amount which represents the minimum rate of participation of the policyholders in the event of the realisation. We did not elect to recognise provisions for deferred premium refunds in case of portfolios of investments of life and health insurance companies held indirectly via upstream companies. Within the context of a voluntary adjustment of accounting policies, the W&W Group decided according to IFRS 4.30 to recognise a provision for deferred premium refunds for these portfolios of investments as well, if necessary.

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

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

Other provisions

Provisions for pensions and other long-term employee benefits

Occupational pension schemes in the W&W Group comprise both defined contribution plans and defined benefit plans. Before the restructuring of the occupational pension schemes in the year 2002, Wüstenrot maintained defined benefit plans for all employees. Württembergische provided basic pensions in form of defined contribution plans (pension fund of Württembergische). In addition, officers and members of the Management Board or managing directors were granted pension commitments (benefit commitments), which are reinsured at ARA-Pensionskasse. Basic pensions are provided for all employees joining the Group from 2002 through ARA-Pensionskasse (defined contribution plans).

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

Expenses and income from pension obligations are reported in the income statement in the item personnel expenses as general administrative expenses.

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

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

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

Provisions for other long-term employee benefits

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

The measurement of other long-term employee benefits is based on interest rates that correspond to the shorter terms of the obligations (commitments for early retirement benefits 4.5 per cent, partial retirement agreements 4.5 per cent, and jubilee benefits 5 per cent).

Other provisions

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

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

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

Shareholders' equity

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

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

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

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

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

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

Genuine securities repurchase agreements

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

Securities lending

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

Trust activities

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

Contingent liabilities

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

Notes to selected items of the income statement

Net financial result

The net financial result of the W&W Group comprises several components, being the result from:
- available-for-sale financial assets,
- investments accounted for using the equity method and
- financial assets and financial liabilities at fair value through profit or loss,
- hedging relationships,
- receivables, liabilities and subordinated capital.

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

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

The net income from financial assets and liabilities at fair value through profit or loss includes realised and unrealised gains and losses, as well as interest and dividends from financial assets and financial liabilities measured at fair value through profit or loss and other income and expenses. Dividends are recognised on a received basis.

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

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

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

Net fee and commission result

The net fee and commission result includes fee and commission income from home loan and savings, banking, reinsurance and investment products as well as fee and commission expenses for home loan and savings, direct insurance, reinsurance and investment products, to the extent that these are not taken into account in the calculation of the effective interest rate. Fee and commission income is recognised in profit or loss at the date of provision of service, while fee and commission expenses are recognised at the date the services are rendered by third parties. Fees and commissions received and paid in connection with the reinsurance business are also included in the net fee and commission result. Fee or commission income is not recognised for the direct insurance business since the costs associated with the writing of an insurance contract are not billed to the customer.

Premiums/contributions earned (gross)

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

Insurance benefits (gross)

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

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

General administrative expenses

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

Taxes on income

Income tax expenses or income is reported in the income statement as taxes on income. A distinction is made in the notes to the consolidated financial statements between current and deferred taxes. Income tax expenses or income relating to the earnings from discontinued operations are included in the item “Earnings after taxes from discontinued operations”.

Segment reporting

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

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

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

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

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

The **Life and Health Insurance segment** includes Württembergische Lebensversicherung AG, Württembergische Krankenversicherung AG, ARA Pensionskasse AG, Karlsruher Lebensversicherung AG (formerly Karlsruher HK AG Lebensversicherung für Beamte und Angestellte der öffentlichen Verwaltung), 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, 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, TRIO-Universal-Fonds, UIN-Fonds Nr. 600, 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 International Europa Aktien Premium II Fonds, W&W International Global Convertibles Fonds, W&W International US Aktien Premium Fonds and WSV-Universal-Fonds. The life insurance business of Erasmus Groep B.V. and the special funds iii-Fonds Badenimmo and BWInvest-79 contributed to the segment result until the date of their deconsolidation. They are no longer included in the segment balance sheet.

The **Composite Insurance segment** consists of Württembergische Versicherung AG and Elektra Beteiligungs-AG as well as the special fund UIN-Fonds Nr. 567. The property-casualty insurance business of Erasmus Groep B.V. contributed to the segment result until the date of its deconsolidation. It is no longer included in the segment balance sheet.

Wüstenrot & Württembergische AG, as the controlling Group company, is the holding of the Group. In addition, it operates as a reinsurer. The **Holding/Reinsurance segment** also includes the special fund BWK-Fonds 76. Due to the deconsolidation of BWK-Fonds 61, the fund is no longer included in the segment balance sheet, but contributed to the segment result until the date of deconsolidation.

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

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

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

Segment income statement*	Home Loan and Savings		Banking		Investment Products	
	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's	**1 Jan 2007 to 31 Dec 2007 EUR 000's**	1 Jan 2006 to 31 Dec 2006 EUR 000's	**1 Jan 2007 to 31 Dec 2007 EUR 000's**	1 Jan 2006 to 31 Dec 2006 EUR 000's
1. Net income from available-for-sale financial assets	**65,639**	64,471	**59,975**	59,611	**50**	2,618
2. Net income from/net expense for investments accounted for using the equity method	**—**	—	**—**	—	**734**	—
3. Net income from financial assets and liabilities at fair value through profit or loss	**8,808**	– 1,251	**13,588**	– 22,062	**—**	—
4. Hedge result	**– 361**	– 177	**– 2,536**	7,874	**—**	—
5. Net income from receivables, liabilities and subordinated capital[1]	**230,859**	267,631	**46,059**	87,057	**967**	479
6. Net expense for allowances for credit losses	**22,475**	55,287	**23,231**	56,316	**—**	—
Net financial result	**282,470**	275,387	**93,855**	**76,164**	**1,751**	3,097
7. Net income from investment property[3,4]	**26**	145	**—**	—	**—**	—
8. **Net fee and commission result**	**– 16,403**	– 24,784	**12,150**	2,446	**32,673**	37,276
9. **Premiums/contributions earned (net)[2]**	**—**	—	**—**	—	**—**	—
10. **Insurance benefits (net)**	**—**	—	**—**	—	**—**	—
Personnel expenses	**180,270**	200,201	**37,302**	41,926	**10,070**	11,554
Other administrative expenses	**132,382**	130,044	**47,103**	44,443	**7,160**	11,834
Amortisation, depreciation and impairment[3]	**21,484**	30,172	**3,592**	10,837	**169**	742
11. **General administrative expenses**	**334,136**	360,417	**87,997**	97,206	**17,399**	24,130
12. **Measurement gain/loss for non-current assets and disposal groups classified as held for sale**	**—**	—	**—**	—	**—**	—
13. **Net other income/expense**	**86,322**	11,726	**9,653**	– 3,071	**545**	– 417
14. **Segment result from continued operations before taxes**	**18,279**	– 97,943	**27,661**	– 21,667	**17,570**	15,826
15. **Taxes**	**5,916**	– 49,401	**4,960**	– 13,262	**3,624**	4,440
16. **Result from discontinued operations**	**—**	—	**—**	—	**—**	—
17. **Segment result after taxes**	**12,363**	– 48,542	**22,701**	– 8,405	**13,946**	11,386

for information purposes:						
[1] including interest income from other segments	**24,087**	21,126	**8,635**	7,529	**807**	376
[1] including interest income from external customers	**804,653**	881,528	**622,129**	651,596	**166**	115
[2] Premiums/contributions earned (net) from insurance business with other segments	**—**	—	**—**	—	**—**	—
[2] Premiums/contributions earned (net) from insurance business with external customers	**—**	—	**—**	—	**—**	—
[3] including depreciation and amortisation	**8,492**	23,609	**1,059**	7,468	**37**	593
[3] including impairment losses	**7,738**	—	**386**	—	**—**	—
[4] including reversals of impairment losses	**—**	—	**—**	—	**—**	—

* Previous year's figures partially adjusted, see explanations in the notes to the consolidated financial statements, section on accounting changes (page 71)

Life and Health Insurance		Composite Insurance		Holding/Reinsurance		Miscellaneous/Reconciliation		Group	
1 Jan 2007 to 31 Dec 2007	1 Jan 2006 to 31 Dec 2006	**1 Jan 2007 to 31 Dec 2007**	1 Jan 2006 to 31 Dec 2006	**1 Jan 2007 to 31 Dec 2007**	1 Jan 2006 to 31 Dec 2006	**1 Jan 2007 to 31 Dec 2007**	1 Jan 2006 to 31 Dec 2006	**1 Jan 2007 to 31 Dec 2007**	1 Jan 2006 to 31 Dec 2006
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
330,899	329,929	**37,539**	28,427	**75,268**	86,076	**– 78,878**	– 48,395	**490,492**	522,737
– 17,739	2,713	**—**	—	**– 5,591**	8,799	**– 2,435**	2,234	**– 25,031**	13,746
159,797	158,746	**1,452**	762	**3,121**	– 1,691	**—**	—	**186,766**	134,504
– 55	– 236	**– 496**	– 663	**—**	—	**—**	—	**– 3,448**	6,798
595,017	577,504	**48,941**	62,819	**6,715**	4,554	**6,968**	2,951	**935,526**	1,002,995
6,885	6,540	**– 510**	282	**– 82**	– 82	**65**	23	**52,064**	118,366
1,061,034	1,062,116	**87,946**	91,063	**79,595**	97,820	**– 74,410**	– 43,233	**1,532,241**	1,562,414
18,905	76,534	**456**	947	**6,475**	409	**911**	662	**26,773**	78,697
– 130,693	– 127,281	**– 178,962**	– 173,404	**– 49,858**	– 89,218	**– 1,288**	– 399	**– 332,381**	– 375,364
2,437,656	2,496,270	**1,177,191**	1,201,236	**223,053**	268,439	**– 2,256**	—	**3,835,644**	3,965,945
3,010,167	3,041,135	**682,494**	671,136	**157,107**	176,008	**– 28,238**	24,670	**3,821,530**	3,912,949
86,968	130,249	**282,104**	270,299	**31,957**	26,337	**10,337**	12,960	**639,008**	693,526
188,458	179,345	**192,344**	174,671	**25,900**	21,998	**– 225,619**	– 194,770	**367,728**	367,565
23,454	25,355	**17,088**	16,657	**1,321**	911	**310**	1,343	**67,418**	86,017
298,880	334,949	**491,536**	461,627	**59,178**	49,246	**– 214,972**	– 180,467	**1,074,154**	1,147,108
– 3,748	—	**—**	—	**– 473**	—	**—**	—	**– 4,221**	—
– 57,759	– 57,116	**150,267**	102,910	**43,108**	10,134	**– 148,036**	– 210,095	**84,100**	– 145,929
16,348	74,439	**62,868**	89,989	**85,615**	62,330	**18,131**	– 97,268	**246,472**	25,706
– 1,961	43,502	**10,736**	20,776	**– 4,059**	– 7,354	**37,936**	– 7,287	**57,152**	– 8,586
501	2,045	**1,719**	7,595	**—**	—	**18,009**	592	**20,229**	10,232
18,810	32,982	**53,851**	76,808	**89,674**	69,684	**– 1,796**	– 89,389	**209,549**	44,524

10,530	8,347	**10,288**	8,372	**8,541**	6,402	**– 62,888**	– 52,152	**—**	—
685,159	636,668	**60,049**	60,115	**26,888**	17,600	**– 978**	871	**2,198,066**	2,248,493
1,009	– 1,106	**– 268,841**	– 282,837	**270,088**	284,097	**– 2,256**	—	**—**	154
2,436,647	2,497,376	**1,446,032**	1,484,073	**– 47,035**	– 15,658	**—**	—	**3,835,644**	3,965,791
46,616	47,475	**7,370**	8,854	**749**	1,788	**18,091**	21,193	**82,414**	110,980
38,111	7,746	**6,198**	4,153	**410**	—	**—**	—	**52,843**	11,899
—	1,667	**—**	—	**—**	—	**—**	—	**—**	1,677

Segment balance sheet*	Home Loan and Savings		Banking		Investment Products	
	31 Dec 2007	31 Dec 2006	**31 Dec 2007**	31 Dec 2006	**31 Dec 2007**	31 Dec 2006
	EUR 000's	EUR 000's	**EUR 000's**	EUR 000's	**EUR 000's**	EUR 000's
A. Cash reserve	**50,274**	52,431	**131,915**	87,378	**—**	—
B. Non-current assets held for sale and disposal groups	**2,699**	—	**—**	—	**—**	—
C. Financial assets at fair value through profit or loss	**1,835**	7,893	**137,329**	272,845	**—**	—
D. Available-for-sale financial assets	**2,429,069**	1,640,135	**1,364,529**	1,229,100	**6,994**	6,732
E. Receivables	**16,743,534**	18,619,048	**13,131,820**	13,124,050	**34,485**	22,217
F. Allowance for credit losses	**– 109,346**	– 124,688	**– 125,583**	– 148,803	**—**	—
G. Positive market value of hedges	**14,238**	37,254	**4,861**	20,724	**—**	—
H. Investments accounted for using the equity method	**—**	—	**—**	—	**5,503**	—
I. Investment property	**684**	701	**—**	—	**—**	—
J. Share of reinsurance business in technical provisions	**—**	—	**—**	—	**—**	—
K. Other assets	**282,756**	330,466	**74,966**	85,226	**2,789**	3,153
Segment assets	**19,415,743**	20,563,240	**14,719,837**	14,670,520	**49,771**	32,102
A. Liabilities directly connected with non-current assets held for sale and disposal groups	**—**	—	**—**	—	**—**	—
B. Financial liabilities at fair value through profit or loss	**6,862**	13,368	**76,094**	70,555	**—**	—
C. Liabilities	**17,342,315**	18,472,160	**13,800,562**	13,695,795	**4,854**	4,000
D. Negative market value of hedges	**6,156**	974	**77,279**	152,274	**—**	—
E. Technical provisions	**—**	—	**—**	—	**—**	—
F. Other provisions	**817,669**	842,079	**40,937**	50,895	**5,067**	5,028
G. Other liabilities	**113,920**	90,693	**83,060**	79,474	**4,182**	1,956
H. Subordinated capital	**15,497**	11,287	**288,126**	328,439	**—**	—
I. Shareholders' equity [1]	**1,113,324**	1,132,679	**353,779**	293,088	**35,668**	21,118
Segment liabilities	**19,415,743**	20,563,240	**14,719,837**	14,670,520	**49,771**	32,102
for information purposes:						
Capital expenditures for property, plant and equipment, and intangible assets	**8,413**	5,116	**3,450**	1,641	**13**	40
[1] including accumulated unrealised gains and losses from non-current assets held for sale and disposal groups	**—**	—	**—**	—	**—**	—

* Previous year's figures partially adjusted, see explanations in the notes to the consolidated financial statements, section on accounting changes (page 71)

	Life and Health Insurance		Composite Insurance		Holding/Reinsurance		Miscellaneous/Reconciliation		Group	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
	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
	55	29	77	88	4	1	8	7	182,333	139,934
	75,336	1,184,461	—	298,396	11,470	2,420	—	—	89,505	1,485,277
	1,531,428	1,359,533	31,761	30,686	3,926	2,809	—	1	1,706,279	1,673,767
	7,543,406	7,826,782	1,149,166	1,090,650	2,180,713	2,207,391	– 1,644,325	– 1,690,882	13,029,552	12,309,908
	18,004,416	17,168,546	1,723,654	1,845,000	1,059,457	954,808	– 1,834,589	– 1,646,432	48,862,777	50,087,237
	– 23,810	– 19,944	– 4,726	– 5,249	– 2,881	– 2,962	—	1	– 266,346	– 301,645
	—	—	—	101	—	—	—	—	19,099	58,079
	106,392	31,766	—	—	70,242	63,500	10,433	53,080	192,570	148,346
	1,149,449	1,165,221	70,731	21,065	183	8,671	6,754	6,995	1,227,801	1,202,653
	1,605,218	1,594,209	716,422	756,510	131,448	141,046	– 464,110	– 437,384	1,988,978	2,054,381
	328,581	364,534	276,676	248,238	76,746	104,775	56,314	119,960	1,098,828	1,256,352
	30,320,471	30,675,137	3,963,761	4,285,485	3,531,308	3,482,459	– 3,869,515	– 3,594,654	68,131,376	70,114,289
	—	730,699	—	286,711	—	—	—	– 15,217	—	1,002,193
	25,318	19,039	197	1,572	119,219	132,138	—	—	227,690	236,672
	2,618,431	2,734,134	361,815	343,897	615,458	562,442	– 1,936,380	– 1,648,597	32,807,055	34,163,831
	2,398	5,679	—	514	—	—	—	—	85,833	159,441
	27,024,819	26,479,079	2,612,755	2,603,638	605,543	581,947	– 523,381	– 392,910	29,719,736	29,271,754
	109,070	117,348	324,394	343,763	256,817	307,066	53,516	98,586	1,607,470	1,764,765
	223,848	225,610	164,533	185,310	50,003	86,063	43,030	– 3,108	682,576	665,998
	133,429	133,379	90,994	90,948	—	—	– 20,591	– 20,585	507,455	543,468
	183,158	230,170	409,073	429,132	1,884,268	1,812,803	– 1,485,709	– 1,612,823	2,493,561	2,306,167
	30,320,471	30,675,137	3,963,761	4,285,485	3,531,308	3,482,459	– 3,869,515	– 3,594,654	68,131,376	70,114,289

	23,617	21,816	11,280	1,105	811	410	11,040	– 214	58,624	29,914
	1,032	7,265	—	– 5,924	—	—	—	—	1,032	1,341

Notes to the balance sheet

Assets

1. Cash reserve

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Cash on hand	3,381	3,608
Balance with central banks	140,626	93,152
Balance in foreign postal giro accounts	320	199
Public-sector debt instruments	38,006	42,975
Cash reserve	182,333	139,934

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

The minimum reserve requirements related to balances held at central banks amounted to EUR 48.2 million (2006: EUR 39.3 million) as at 31 December 2007. The companies concerned fulfilled the minimum reserve requirements at all times in the year under review.

Public-sector debt instruments refer to government bonds and treasury bills, each with a term of up to three months.

The fair value of the cash reserve is EUR 182.3 milion (2006: EUR 139.9 million), and corresponds to the carrying amount.

2. Non-current assets held for sale and disposal groups

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Financial assets at fair value through profit or loss	—	637,200
Investments in associates	38,541	26,020
Receivables	—	351,205
Investment property	48,265	391,280
Share of reinsurance business in technical provisions	—	45,457
Other assets	2,699	34,115
Non-current assets held for sale		
and disposal groups	89,505	1,485,277

In the prior year, non-current assets held for sale and disposal groups included the assets of the discontinued operation of the Erasmus Group, which was sold in March 2007. Accordingly, this item does not include any discontinued operations in the financial year 2007.

In the prior year, a net amount of EUR 1.3 million (after provision for deferred premium refunds and deferred taxes) was recognised directly in equity as unrealised gains from the discontinued operation of the Erasmus Group. In the year under review, an accumulated unrealised gain of

EUR 1.0 million from the investment in PBW Real Estate Fund N.V. (net, after provision for deferred premium refunds and deferred taxes) was recognised directly in equity.

The sub-item “Investments in associates” includes the shares held in PBW Real Estate Fund N.V. by Württembergische Lebensversicherung AG in the Life and Health Insurance segment as well as an investment in Wüstenrot poist’ovňa a.s. held by Wüstenrot & Württembergische AG in the Holding/Reinsurance segment. The shares are intended to be sold by mid-year 2008.

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

Investment property includes eleven properties. One property belongs to the Holding/Reinsurance segment from the portfolio of Wüstenrot & Württembergische AG. The property is an office building located in Frankfurt/Main, and is entirely used by third parties. The sale is planned to be completed early in 2008. Ten properties belong to the Life and Health Insurance segment.

One property belongs to the portfolio of Württembergische Lebensversicherung AG. It is located in Böblingen, Germany, and is entirely used by third parties. Nine properties relate to the special fund of CS-WV Immofonds. The properties are intended to be sold during the course of 2008.

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

The other assets include, among other things, three owner-occupied properties held for sale. One property belongs to the portfolio of Wüstenrot Bausparkasse AG. It is an administrative building, intended to be abandoned. The sale of the property to an investor is planned for the first half of 2008. Two properties belong to the portfolio of Wüstenrot GmbH & Co. Grundstücks KG. These properties are an existing residential building with employee flats, and a former administrative building. Brokerage firms were commissioned with the sale, which is scheduled to occur in 2008.

The described sales continue the restructuring of the W&W Group.

3. Financial assets at fair value through profit or loss

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Financial assets classified as held for trading	**188,950**	103,748
Equities, shares in investment funds and other non-fixed-income securities	**1,212**	4,228
Fixed-income securities	**50,448**	5,660
Derivative financial instruments	**137,290**	93,860
Financial assets designated as at fair value	**1,517,329**	1,570,019
Investments for the account and risk of life insurance policyholders	**674,000**	584,580
Structured interest rate products	**380,646**	661,757
Structured currency products	**79,767**	75,402
Structured equity/index products	**352,849**	35,074
Other structured products	**30,067**	213,206
Financial assets at fair value through profit or loss	**1,706,279**	1,673,767

The changes in the fair value of receivables designated as at fair value through profit or loss are attributable to changes in the credit risk associated with the receivables in an amount of EUR -3,336 thousand (2006: EUR 3,713 thousand).

4. Available-for-sale financial assets

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

	Amortised cost 31 Dec 2006 EUR 000's	Unrealised gains (gross) 31 Dec 2006 EUR 000's	Unrealised losses (grosss) 31 Dec 2006 EUR 000's	**Fair value 31 Dec 2006 EUR 000's**
Equity investments	670,923	30,504	7,334	**694,093**
Equities, shares in investment funds and other non-fixed-income securities	3,614,082	419,338	36,247	**3,997,173**
Debt securities and other fixed-income securities	7,158,429	72,438	139,051	**7,091,816**
Registered bonds and other receivables	472,005	3,660	9,891	**465,774**
Other	61,052	—	—	**61,052**
Available-for-sale financial assets	11,976,491	525,940	192,523	**12,309,908**

The shares in the separate guarantee assets of the insurance guarantee scheme (Sicherungsfonds), which is maintained separately from the assets of Protektor Lebensversicherungs-AG, are reported as a registered profit-participation right in the category "Available-for-sale financial assets".

In the financial year 2007, we made contributions amounting to EUR 5.6 million (2006: EUR 4.8 million).

5. Receivables

	Carrying amount		**Fair value**	
	31 Dec 2007 EUR 000's	31 Dec 2006 EUR 000's	**31 Dec 2007 EUR 000's**	31 Dec 2006 EUR 000's
Loans and advances to banks	**19 097 928**	19 560 708	**18 342 153**	19 434 089
Receivables from reinsurance business	**183 355**	161 249	**183 355**	161 249
Loans and advances to customers	**29 330 354**	30 110 575	**29 160 386**	30 225 256
Other receivables	**251 140**	254 705	**251 140**	254 705
Receivables	**48 862 777**	50 087 237	**47 937 034**	50 075 299

6. Loans and advances to banks

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Building loans	5,762	5,916
Loans to local authorities	4,357,994	4,675,189
Other loans and advances	14,734,172	14,879,603
of which: Balances with banks and savings banks payable on demand	723,907	889,926
Loans and advances to banks	**19,097,928**	19,560,708

Other loans and advances include registered bonds in the amount of EUR 10.3 billion (2006: EUR 10.9 billion) as well as promissory note loans totalling EUR 1.5 billion (2006: EUR 1.7 billion).

7. Receivables from reinsurance business

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Accounts receivable from reinsurance business	143,389	123,083
Deposits retained by reinsurers on assumed reinsurance	39,966	38,166
Receivables from reinsurance business	**183,355**	161,249

8. Loans and advances to customers

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Building loans	25,312,330	26,189,855
of which: Loans under home loan and savings contracts	3,558,872	3,459,569
of which: Loans for prefinancing and interim financing purposes	8,688,767	9,400,335
of which: Other building loans	13,064,691	13,329,951
Loans to local authorities	3,377,763	3,357,743
Other receivables to customers	640,261	562,977
of which: to insurance agents	24,991	32,689
of which: to policyholders	391,026	420,208
of which: Certificated receivables	126,447	85,167
of which: Miscellaneous receivables	97,797	24,913
Loans and advances to customers	**29,330,354**	30,110,575

9. Other receivables

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

10. Allowance for credit losses

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

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

	Opening balance	Change during the financial year	
	1 Jan 2006	Additions	Utilisation
Loans and advances to banks	**124**	3,366	—
Specific valuation allowances	**124**	3,366	—
Portfolio-based valuation allowances	**—**	—	—
Loans and advances to customers	**285,968**	112,707	51,452
Specific valuation allowances	**247,392**	87,450	51,452
Portfolio-based valuation allowances	**38,576**	25,257	—
Receivables from reinsurance business	**3,100**	—	—
Specific valuation allowances	**—**	—	—
Portfolio-based valuation allowances	**3,100**	—	—
Other receivables	**4,098**	1,100	389
Specific valuation allowances	**3,735**	860	389
Portfolio-based valuation allowances	**363**	240	—
Allowance for credit losses	**293,290**	117,173	51,841
Specific valuation allowances	**251,251**	91,676	51,841
Portfolio-based valuation allowances	**42,039**	25,497	—

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

	Change during the financial year				Closing balance
Changes in the scope of consolidation	Reversals	Currency translation	Interest effect	Reclassifications	**31 Dec 2006**
—	89	—	—	—	**3,401**
—	89	—	—	—	**3,401**
—	—	—	—	—	**—**
—	39,919	429	– 16,832	42	**290,943**
—	37,989	429	– 16,832	42	**229,040**
—	1,930	—	—	—	**61,903**
—	138	—	—	—	**2,962**
—	—	—	—	—	**—**
—	138	—	—	—	**2,962**
—	467	39	—	– 42	**4,339**
—	402	39	—	– 42	**3,801**
—	65	—	—	—	**538**
—	40,613	468	– 16,832	—	**301,645**
—	38,480	468	– 16,832	—	**236,242**
—	2,133	—	—	—	**65,403**

11. Positive market value of hedges

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Cash flow hedges	**19,099**	41,165
Hedge of interest rate risk	**19,099**	41,165
Fair value hedges	**—**	16,914
Hedge of interest rate risk	**—**	16,914
Positive market value of hedges	**19,099**	58,079

12. Investments accounted for using the equity method

	2007	2006
	in EUR 000's	in EUR 000's
Carrying amount at 1 Jan	**148,346**	92,224
Additions/disposals	**78,121**	– 4,845
Intended for sale	**– 4,443**	—
Net profit for the year	**– 3,969**	13,746
Impairment	**– 21,062**	—
Currency translation	**551**	1,616
Changes in the carrying amount of associates recognised directly in equity	**– 4,974**	45,605
Carrying amount at 31 Dec	**192,570**	148,346

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

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

Amounts as at 31 Dec 2006	Assets EUR 000's	Liabilities EUR 000's	Revenues EUR 000's	**Net profit for the year EUR 000's**	Shareholding in per cent
BWK GmbH Unternehmens-beteiligungsgesellschaft	619,299	253,900	29,481	**18,091**	35.00
Wüstenrot poist‘ovňa a.s.	55,078	43,145	30,818	**601**	33.87
Wüstenrot stambena štedionica d.d.	127,34	123,594	4,840	**– 4,027**	39.52
Wüstenrot stavebná sporitel‘na a.s.	248,927	213,849	12,264	**2,111**	40.00
Wüstenrot životní pojišt‘ovna a.s.	26,940	20,897	7,716	**460**	50.00

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

13. Investment property

The fair value of investment property amounts to EUR 1,421.9 million (2006: EUR 1,316.2 million) at year-end.

There are no restrictions on the realisability of investment property or the availability of income and proceeds of disposal.

There are no material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

If the impairment review was based on the value in use of an investment property, the discount rates used in the year under review and in the prior year ranged between 4.5 per cent and 6.5 per cent.

	2007	2006
	in EUR 000's	in EUR 000's
Gross carrying amounts		
Balance at 1 Jan	**1,426,545**	1,978,924
Additions	**38,698**	12,288
Changes in the scope of consolidation	**113,474**	—
Disposals	**– 36,620**	– 173,025
Reclassifications	**13,853**	8,382
Intended for sale	**– 81,188**	– 400,024
Balance at 31 Dec	**1,474,762**	1,426,545
Accumulated depreciation and impairment		
Balance at 1 Jan	**– 223,892**	– 242,140
Additions (depreciation)	**– 36,467**	– 36,234
Additions (impairment)	**– 31,372**	– 629
Changes in the scope of consolidation	**– 940**	—
Disposals	**22,124**	45,419
Reclassifications	**—**	– 730
Intended for sale	**23,586**	8,745
Reversals of impairment losses	**—**	1,677
Balance at 31 Dec	**– 246,961**	– 223,892
Net carrying amounts		
Balance at 31 Dec 2007 and 31 Dec 2006	**1,227,801**	1,202,653
Balance at 31 Dec 2006 and 31 Dec 2005	**1,202,653**	1,736,784

In the year under review, we reassessed the remaining useful life of our property portfolio. This resulted in an increase of the depreciation, which amounted to EUR 11.6 million in the year under review.

The additions to investment property comprise subsequent capitalisation totalling EUR 0.2 million (2006: EUR 8.3 million).

For the financial year 2008 we expect depreciation to remain at the level recorded in the year under review, since we assume immaterial changes to the property portfolio. For the following years, we expect only marginal changes in depreciation volumes.

14. Share of reinsurance business in technical provisions

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Unearned premiums	30,567	41,912
Provision for future policy benefits	1,575,383	1,563,893
Provision for loss and loss adjustment expenses	381,799	446,466
Other technical provisions	1,229	2,110
Share of reinsurance business in technical provisions	**1,988,978**	2,054,81

Further explanations are included in the notes to the related liability items, beginning with Note 28.

Other assets

15. Intangible assets

	31 Dec 2007	31 Dec 2006	Remaining
	EUR 000's	EUR 000's	amortisation
			period (years)
Goodwill	57,306	48,795	—
Software	46,004	48,537	0 to 6
Acquired insurance portfolios	100,277	108,502	8 to 13
Other	45	46	0 to 5
Intangible assets	**203,632**	205,880	

	Intangible assets		
	Internally generated	Acquired	
	intangible	Other intangible	Goodwill
	assets[1]	assets	
	EUR 000's	EUR 000's	EUR 000's
Gross carrying amounts			
Balance at 1 Jan 2007	48,895	300,292	48,795
Additions	10,590	6,363	8,511
Changes in the scope of consolidation	—	233	—
Disposals	—	– 1,073	—
Reclassifications	—	—	—
Intended for sale	—	—	—
No longer intended for sale	—	—	—
Exchange rate changes	—	117	—
Balance at 31 Dec 2007	**59,485**	**305,932**	**57,306**

Accumulated amortisation and impairment			
Balance at 1 Jan 2007	– 35,046	– 157,056	—
Additions (amortisation)	– 4,863	– 14,698	—
Additions (impairment)	– 386	– 7,412	—
Changes in the scope of consolidation	—	—	—
Disposals	—	479	—
Reclassifications	—	—	—
Intended for sale	—	—	—
No longer intended for sale	—	—	—
Reversals of impairment losses	—	—	—
Exchange rate changes	—	– 109	—
Balance at 31 Dec 2007	– 40,295	– 178,796	—

Net carrying amounts			
Balance at 31 Dec 2007	**19,190**	**127,136**	**57,306**
Balance at 31 Dec 2006	13,849	143,236	48,795

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

	Intangible assets		
	Internally generated	Acquired	
	intangible assets[1]	Other intangible assets	Goodwill
	EUR 000's	EUR 000's	EUR 000's
Gross carrying amounts			
Balance at 1 Jan 2006	43,577	300,792	51,554
Additions	5,357	8,469	—
Changes in the scope of consolidation	—	– 2,591	—
Disposals	– 39	– 1,943	– 2,759
Reclassifications	—	—	—
Intended for sale	—	– 4,611	—
No longer intended for sale	—	—	—
Exchange rate changes	—	176	—
Balance at 31 Dec 2006	48,895	300,292	48,795
Accumulated amortisation and impairment			
Balance at 1 Jan 2006	– 23,821	– 123,936	—
Additions (amortisation)	– 11,264	– 26,827	—
Additions (impairment)	—	– 11,270	—
Changes in the scope of consolidation	—	1,350	—
Disposals	39	1,914	—
Reclassifications	—	—	—
Intended for sale	—	1,843	—
No longer intended for sale	—	—	—
Reversals of impairment losses	—	—	—
Exchange rate changes	—	– 130	—
Balance at 31 Dec 2006	– 35,046	– 157,056	—
Net carrying amounts			
Balance at 31 Dec 2006	13,849	143,236	48,795
Balance at 31 Dec 2005	19,756	176,856	51,554

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

Karlsruher Lebensversicherung AG was merged into Württembergische Lebensversicherung AG. Goodwill in the amount of EUR 20.5 million, which had previously been allocated to Karlsruher Lebensversicherung AG (old), was reallocated to Württembergische Lebensversicherung AG as part of this merger. Accordingly, the goodwill of EUR 57.3 million (2006: EUR 48.8 million) as reported in the consolidated financial statements as at 31 December 2007 is fully attributable to the cash-generating unit Württembergische Lebensversicherung AG.

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

There were no commitments for the purchase of intangible assets.

16. Property, plant and equipment, and inventories

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Owner-occupied property	**209,256**	258,192
Leased assets	**32,086**	32,620
Operating and office equipment	**28,985**	38,774
Inventories	**79,179**	66,247
Other	**3,981**	3,816
Property, plant and equipment, and inventories	**353,487**	399,649

There were no restrictions on title with respect to property, plant and equipment, and inventories. Expenditures for property, plant and equipment under construction amounted to EUR 0.1 million (2006: EUR 0.0 million). There were no commitments for the purchase of property, plant and equipment.

Leased assets include property in the amount of EUR 31.7 million (2006: EUR 32.2 million).

Inventories in the amount of EUR 78.9 million (2006: EUR 65.9 million) relate to property development business, and primarily include land and buildings intended for sale as well as land with buildings under construction.

Write-downs of inventories recognised in the income statement amounted to EUR 0.1 million (2006: EUR 0.3 million).

As in the prior year, there were no reversals of write-downs of inventories.

If the impairment review was based on the value in use of an owner-occupied property, the discount rates used in the year under review and in the prior year ranged between 4.5 per cent and 6.5 per cent.

	Property, plant and equipment		
	Owner-occupied property EUR 000's	Operating and office equipment EUR 000's	Leased assets EUR 000's
Gross carrying amounts			
Balance at 1 Jan 2007	396,959	251,193	45,483
Additions	22,492	10,668	—
Changes in the scope of consolidation	—	190	—
Disposals	– 57,997	– 13,345	– 108
Reclassifications	– 13,853	—	—
Intended for sale	– 28,092	—	—
No longer intended for sale	—	—	—
Exchange rate changes	473	88	3
Balance at 31 Dec 2007	**319,982**	**248,794**	**45,378**
Accumulated depreciation and impairment			
Balance at 1 Jan 2007	– 138,767	– 212,419	– 12,863
Additions (depreciation)	– 8,476	– 17,378	– 532
Additions (impairment)	– 12,591	– 1,082	—
Changes in the scope of consolidation	—	—	—
Disposals	23,784	11,150	106
Reclassifications	—	—	—
Intended for sale	25,393	—	—
No longer intended for sale	—	—	—
Reversals of impairment losses	—	—	—
Exchange rate changes	– 69	– 80	– 3
Balance at 31 Dec 2007	– 110,726	– 219,809	– 13,292
Net carrying amounts			
Balance at 31 Dec 2007	**209,256**	**28,985**	**32,086**
Balance at 31 Dec 2006	258,192	38,774	32,620

	Property, plant and equipment		
	Owner-occupied property EUR 000's	Operating and office equipment EUR 000's	Leased assets EUR 000's
Gross carrying amounts			
Balance at 1 Jan 2006	414,905	260,521	45,492
Additions	332	14,786	970
Changes in the scope of consolidation	—	– 1,269	—
Disposals	– 1,220	– 14,622	– 984
Reclassifications	– 8,627	245	—
Intended for sale	– 9,196	– 8,634	—
No longer intended for sale	—	—	—
Exchange rate changes	765	166	5
Balance at 31 Dec 2006	396,959	251,193	45,483
Accumulated depreciation and impairment			
Balance at 1 Jan 2006	– 125,559	– 213,370	– 10,642
Additions (depreciation)	– 16,377	– 18,374	– 1,906
Additions (impairment)	—	—	—
Changes in the scope of consolidation	—	949	—
Disposals	735	13,248	– 311
Reclassifications	729	—	—
Intended for sale	1,791	5,269	—
No longer intended for sale	—	—	—
Reversals of impairment losses	—	—	—
Exchange rate changes	– 86	– 141	– 4
Balance at 31 Dec 2006	– 138,767	– 212,419	– 12,863
Net carrying amounts			
Balance at 31 Dec 2006	258,192	38,774	32,620
Balance at 31 Dec 2005	289,346	47,151	34,850

In the year under review, we reassessed the remaining useful life of our property portfolio.

This resulted in an increase in depreciation, which amounted to EUR 7.6 million in the year under review.

For the financial year 2008, we expect depreciation to remain at the level recorded in the year under review as we assume only immaterial changes in the property portfolio. For the following years, we expect only marginal changes in the depreciation volumes.

17. Current tax assets

Current tax assets relate to current tax receivables, and will be realised within twelve months in the amount of EUR 28.5 million (2006: EUR 60.6 million).

18. Deferred tax assets

Deferred tax assets were recognised for the following items:

	31 Dec 2007 EUR 000's	31 Dec 2006 EUR 000's
Financial assets and liabilities at fair value through profit or loss	**10,944**	24,146
Available-for-sale financial assets	**32,831**	17,642
Receivables	**34,644**	10,062
Positive and negative market value of hedges	**27,269**	43,803
Investments accounted for using the equity method	**432**	55
Tax loss carryforward	**33,128**	47,510
Liabilities	**5,487**	5,620
Technical provisions	**88,087**	84,039
Provisions for pensions and other obligations	**74,416**	129,076
Other balance sheet items	**36,536**	37,832
Deferred tax assets	**343,774**	399,785

Deferred taxes on provisions for pensions and other obligations were recognised directly in equity in the amount of EUR 27.0 million (2006: EUR 69.7 million).

Deferred tax assets amounting to EUR 48.9 million (2006: EUR 49.2 million) and deferred taxes on tax loss carryforwards of EUR 16.4 million (2006: EUR 16.3 million) are expected to be realised within twelve months.

Deferred taxes were not recognised for deductible temporary differences and tax loss carryforwards in the amount of EUR 77.2 million (2006: EUR 54.5 million), as they are not expected to be realised in the medium term.

19. Liabilities directly connected with non-current assets held for sale and disposal groups

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Liabilities	—	43,974
Technical provisions	—	927,219
Other provisions	—	25,502
Other liabilities	—	5,498
Liabilities directly connected with non-current assets held for sale and disposal groups	—	1,002,193

In the prior year, liabilities directly connected with non-current assets held for sale and disposal groups included the liabilities of the discontinued operation of the Erasmus Group, which was sold in March 2007.

20. Financial liabilities at fair value through profit or loss

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Financial liabilities classified as held for trading	108,468	104,525
Derivative financial instruments	108,468	104,525
Financial liabilities designated as at fair value	119,222	132,147
Structured equity/index products	119,219	132,138
Other structured products	3	9
Financial liabilities at fair value through profit or loss	227,690	236,672

Financial liabilities designated as at fair value mainly comprise a so-called exchangeable bond. This bond grants holders the right to repay the bond in cash or equities, while the issuer has the right to repay the bond early. Wüstenrot & Württembergische AG has the right to fully or partially call the bond at par value when the price of the share of Schweizer Rückversicherung AG amounts to at least 130 per cent of the exchange price of CHF 203.77.

The price of the bond, which is due on 17 April 2008, was the same on the balance sheet dates of 2006 and 2007 (change in the fair value recognised in profit or loss in the prior year EUR 0.2 million). The change in the carrying amount is therefore exclusively attributable to a change in the nominal volume.

The change in the fair value of this liability, attributable to a change in the credit quality, corresponded to an increase by one basis point (2006: 1 to 2 basis points). This is equivalent to an increase of EUR 4 thousand (2006: EUR 13 to 26 thousand) based on the nominal amount of EUR 120.0 million (2006: EUR 133.4 million). The change attributable to the change in the credit quality is a result of the overall increase of credit spreads during 2007. The credit spread of the rating nomenclature for this bond also increased. The carrying amount of the exchangeable bond as at 31 December 2007 is EUR 3.4 million (2006: EUR 3.3 million) less than its repayment amount. In view of the short maturity of the bond and the share price applicable as at the balance sheet date, the bond is expected to be repaid at its nominal amount, assuming a reasonable investor.

21. Liabilities

	Carrying amount		Fair value	
	31 Dec 2007	31 Dec 2006	**31 Dec 2007**	31 Dec 2006
	EUR 000's	EUR 000's	**EUR 000's**	EUR 000's
Certificated liabilities	**3,315,831**	4,009,291	**3,304,186**	4,004,124
Liabilities to banks	**5,542,903**	5,943,249	**5,312,038**	5,947,097
Liabilities from reinsurance business	**1,710,444**	1,708,884	**1,710,444**	1,708,884
Liabilities to customers	**21,789,959**	22,098,304	**21,755,975**	22,110,356
Other liabilities	**447,918**	404,103	**447,454**	404,103
Liabilities	**32,807,055**	34,163,831	**32,530,097**	34,174,564

22. Certificated liabilities

Certificated liabilities in the amount of EUR 3.3 million (2006: EUR 4.0 million) exclusively consist of debt securities in issue.

They include mortgage bonds in the amount of EUR 1,482.3 million (2006: EUR 1,202.9 million), public-sector covered bonds in the amount of EUR 1,052.2 million (2006: EUR 1,739.1 million) and other debt securities totalling EUR 781.4 million (2006: EUR 1,067.3 million).

23. Liabilities to banks

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Home loan and savings deposits	**3,823**	3,810
Miscellaneous liabilities	**5,539,080**	5,939,439
Liabilities to banks	**5,542,903**	5,943,249

24. Liabilities from reinsurance business

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Accounts payable from reinsurance business	**99,979**	107,766
Deposits retained by reinsurers on ceded business	**1,610,465**	1,601,118
Liabilities from reinsurance business	**1,710,444**	1,708,884

25. Liabilities to customers

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Deposits from home loan and savings business, and savings deposits	15,460,750	16,347,868
Other deposits	5,554,777	4,819,899
Liabilities from direct insurance business	774,432	930,537
Liabilities to customers	21,789,959	22,098,304

Of the other deposits, an amount of EUR 609.2 million (2006: EUR 445.6 million) refers to deposits payable on demand, and deposits in the amount of EUR 4,945.6 million (2006: EUR 4,374.3 million) have a fixed term.

Liabilities from direct insurance business include liabilities to policyholders of EUR 728.1 million (2006: EUR 881.6 million) and liabilities to insurance agents of EUR 46.3 million (2006: EUR 48.9 million).

26. Other liabilities

Other liabilities include among other items advances received in the amount of EUR 17.7 million (2006: EUR 20.3 million), trade payables in the amount of EUR 45.9 million (2006: EUR 13.6 million) as well as liabilities to employees totalling EUR 80.1 million (2006: EUR 83.0 million).

Liabilities from finance leases amount to EUR 31.7 million (2006: EUR 32.2 million).

27. Negative market value of hedges

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Cash flow hedges	27,367	62,777
Hedge of interest rate risk	27,367	62,777
Fair value hedges	58,466	96,664
Hedge of interest rate risk	58,466	96,664
Negative market value of hedges	85,833	159,441

28. Technical provisions

	Gross	Gross
	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Unearned premiums	451,560	502,565
Provision for future policy benefits	24,034,098	23,436,549
Provision for loss, and loss adjustment expenses	2,597,717	2,548,957
Provision for premium refunds	2 ,611,003	2,758,255
Other technical provisions	25,358	25,428
Technical provisions	29,719,736	29, 271,754

Unearned premiums

	Gross	Share of	Gross	Share of
		reinsurance		reinsurance
	2007	business 2007	2006	business 2006
	in EUR 000's	in EUR 000's	in EUR 000's	in EUR 000's
Balance at 1 Jan	**502,565**	**41,912**	579,339	57,742
Utilisation	**321,924**	**29,820**	386,547	39,559
Additions	**278,698**	**20,189**	313,860	24,938
Currency translation	**– 7,779**	**– 1,714**	– 4,087	– 1,209
Balance at 31 Dec	**451,560**	**30,567**	502,565	41,912

Provision for future policy benefits

	Gross	Share of	Gross	Share of
		reinsurance		reinsurance
		business		business
	31 Dec 2007	31 Dec 2007	31 Dec 2006	31 Dec 2006
	EUR 000's	EUR 000's	EUR 000's	EUR 000's
Life insurance	**23,934,563**	**1,575,383**	23,362,765	1,563,893
Healthcare insurance	**99,535**	**—**	73,784	—
Provision for future policy benefits	**24,034,098**	**1,575,383**	23,436,549	1,563,893

Provision for future policy benefits by type of life insurance:

	Gross	Share of	Gross	Share of
		reinsurance		reinsurance
	2006	business 2007	2006	business 2006
	in EUR 000's	in EUR 000's	in EUR 000's	in EUR 000's
Provision for future policy benefits	**22,778,185**	**—**	22,777,000	—
Provision for future policy benefits, for unit-linked contracts	**584,580**	**—**	549,627	—
Receivables not yet due from policyholders	**– 83,360**	**—**	– 103,844	—
Balance at 1 Jan	**23,279,405**	**1,563,893**	23,222,783	1,548,058
Additions from premiums/contributions[1]	**1,972,927**	**—**	2,052,690	—
Guaranteed interest[1]	**808,993**	**—**	785,410	—
Changes due to payments[1]	**– 2,018,513**	**—**	– 2,063,016	—
Other changes[1]	**– 184,596**	**11,490**	– 718,462	15,835
Currency translation	**—**	**—**	—	—
Balance at 31 Dec	**23,858,216**	**1,575,383**	23,279,405	1,563,893
Provision for future policy benefits	**23,260,563**	**—**	22,778,185	—
Provision for future policy benefits for unit-linked contracts	**674,000**	**—**	584,580	—
Receivables not yet due from policyholders	**– 76,347**	**—**	– 83,360	—

[1] The distribution of the changes in the year under review was calculated on the basis of preliminary profit splits. The prior year figures were adjusted based on the final profit split.

Aging provision for health insurance:

	2007	2006
	in EUR 000's	in EUR 000's
Balance at 1 Jan	73,784	52,555
less amounts attributable to general tariffs	12,797	10,617
Balance at 1 Jan excl. general tariffs	60,987	41,938
Amounts transferred from the provision for premium refunds	1,687	2,301
Additions from premiums	18,687	14,768
Interest	2,539	1,801
Direct credit	187	179
Balance at 31 Dec excl. general tariffs	84,087	60,987
plus amounts attributable to general tariffs	15,448	12,797
Balance at 31 Dec	99,535	73,784

Provision for loss and loss adjustment expenses

	Gross	Share of reinsurance business	Gross	Share of reinsurance business
	31 Dec 2007	31 Dec 2007	31 Dec 2006	31 Dec 2006
	EUR 000's	EUR 000's	EUR 000's	EUR 000's
Life/health insurance	112,719	8,026	101,617	8,933
Property-casualty insurance, reinsurance	2,484,998	373,773	2 447,340	437,533
Provision for loss and loss adjustment expenses	2,597,717	381,799	2,548,957	446,466

The provision for loss and loss adjustment expenses for life and health insurance developed as follows:

	Gross	Share of reinsurance business	Gross	Share of reinsurance business
	2007	2007	2006	2006
	in EUR 000's	in EUR 000's	in EUR 000's	in EUR 000's
Balance at 1 Jan	101,617	8,933	96,031	7,840
Changes recognised through profit or loss	11,102	– 907	5,586	1,093
Balance at 31 Dec	112,719	8,026	101,617	8,933

The provision for loss and loss adjustment expenses for property-casualty insurance and reinsurance developed as follows:

	Gross 2007 in EUR 000's	Share of reinsurance business 2007 in EUR 000's	Gross 2006 in EUR 000's	Share of reinsurance business 2006 in EUR 000's
Balance at 1 Jan	2,447,340	437,533	2,628,138	569,706
Additions	639,283	165,935	631,833	59,835
Benefits paid	417,399	80,056	474,641	134,503
Reversals	133,296	134,552	118,107	– 1,077
Other changes	—	—	– 188,606	– 48,027
Currency translation	– 50,930	– 15,087	– 31,277	– 10,555
Balance at 31 Dec	2,484,998	373,773	2,447,340	437,533

The other changes in the financial year 2006 refer to the re-classification of the claims provision of Erasmus Groep B.V. into the item "Liabilities directly connected with non-current assets held for sale and disposal groups".

The following loss triangles (gross and net) show the settlement in the area of property-casualty insurance and reinsurance.

The loss triangles include reconciliations to the gross and net amounts of the relevant provisions, based on the provision for loss and loss adjustment expenses (on a gross basis for the net loss triangle, and on a net basis for the gross loss triangle) as at the relevant balance sheet date by disclosing the share attributable to reinsurers and by reducing the provision for loss adjustment expenses (also on a gross or net basis, depending on the presentation method).

Gross loss triangle[1]

	31 Dec 2001	31 Dec 2002	31 Dec 2003	31 Dec 200	31 Dec 2005	31 Dec 2006	**31 Dec 2007**
	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	**EUR 000's**
Provision for loss, and loss adjustment expenses (net)	1,619,903	1,712,797	1,771,652	1,798,242	1,919,017	2,009,807	**2,111,225**
Share of reinsurers	488,799	504,201	408,585	435,516	521,679	437,533	**373,773**
Provision for loss, and loss adjustment expenses (gross)	2,108,702	2,216,998	2,180,237	2,233,758	2,440,696	2,447,340	**2,484,998**
less provision for outstanding claims	142,622	155,009	159,614	159,301	161,274	161,721	**172,324**
Provision for loss, and loss adjustment expenses (gross)	1,966,080	2,061,989	2,020,623	2,074,457	2,279,422	2,285,619	**2,312,674**
Payments, accumulated (gross)							
1 year later	466,710	473,017	396,674	401,017	425,274	371,565	**—**
2 years later	666,057	653,144	591,002	588,784	626,304	—	**—**
3 years later	775,966	784,598	722,349	720,198	—	—	**—**
4 years later	873,251	882,558	821,883	—	—	—	**—**
5 years later	948,221	963,225	—	—	—	—	**—**
6 years later	1,011,419	—	—	—	—	—	**—**
Original provision, reassessed (gross)							
1 year later	1,924,465	1,959,921	1,975,537	2,004,110	2,183,568	2,153,977	**—**
2 years later	1,845,856	1,960,043	1,919,884	1,975,542	2,092,159	—	**—**
3 years later	1,816,102	1,921,224	1,893,743	1,933,552	—	—	**—**
4 years later	1,842,568	1,897,130	1,871,268	—	—	—	**—**
5 years later	1,822,366	1,885,266	—	—	—	—	**—**
6 years later	1,822,180	—	—	—	—	—	**—**
Accumulated surplus (deficit)							
Accumulated gross surplus (deficit) excluding exchange rate effects	143,900	176,723	149,355	140,905	187,263	131,642	**—**
Accumulated gross surplus (deficit) including exchange rate effects	190,996	231,859	173,460	106,952	223,349	182,097	**—**

[1] Group companies added or disposed of have been taken into account or excluded retrospectively in the loss triangle.

Net loss triangle[1]

	31 Dec 2001	31 Dec 2002	31 Dec 2003	31 Dec 2004	31 Dec 2005	31 Dec 2006	**31 Dec 2007**
	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	**EUR 000's**
Provision for loss, and loss adjustment expenses (gross)	2,108,702	2,216,998	2,180,237	2,233,758	2,440,696	2,447,340	**2,484,998**
Share of reinsurers	488,799	504,201	408,585	435,516	521,679	437,533	**373,773**
Provision for loss, and loss adjustment expenses (net)	1,619,903	1,712,797	1,771,652	1,798,242	1,919,017	2,009,807	**2,111,225**
less provision for outstanding claims	125,791	137,145	141,022	143,126	147,717	148,511	**160,629**
Provision for loss, and loss adjustment expenses (net)	1,494,112	1,575,652	1,630,630	1,655,116	1,771,300	1,861,296	**1,950,596**
Payments, accumulated (net)							
1 year later	345,846	309,174	318,570	305,735	291,877	281,724	**—**
2 years later	446,800	454,161	464,996	428,554	425,631	—	**—**
3 years later	531,429	553,024	561,064	516,606	—	—	**—**
4 years later	606,803	622,547	625,032	—	—	—	**—**
5 years later	659,593	674,666	—	—	—	—	**—**
6 years later	701,078	—	—	—	—	—	**—**
Original provision, reassessed (net)							
1 year later	1,447,013	1,497,262	1,589,585	1,573,632	1,671,776	1,716,714	**—**
2 years later	1,397,758	1,513,174	1,527,924	1,500,241	1,586,514	—	**—**
3 years later	1,375,798	1,455,833	1,464,412	1,461,348	—	—	**—**
4 years later	1,373,081	1,400,798	1,442,597	—	—	—	**—**
5 years later	1,328,444	1,395,809	—	—	—	—	**—**
6 years later	1,335,650	—	—	—	—	—	**—**
Accumulated surplus (deficit)							
Accumulated net surplus (deficit) excluding exchange rate effects	158,462	179,843	188,033	193,768	184,786	144,582	**—**
Accumulated net surplus (deficit) including exchange rate effects	196,947	224,417	208,135	169,631	210,190	180,038	**—**

[1] Group companies added or disposed of have been taken into account or excluded retrospectively in the loss triangle.

Provision for premium refunds

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Gross amount	2,611,003	2,758,255
less: Share for reinsurance ceded	—	—

The provision for premium refunds developed as follows:

	2007	2006
	in EUR 000's	in EUR 000's
Balance at 1 Jan	2,758,255	2,667,647
Actual provision for premium refunds		
Balance at 1 Jan	2,010,855	1,901,018
Additions	473,111	456,961
Utilisation with an effect on cash	191,872	167,035
Utilisation with no effect on cash	147,355	180,089
Balance at 31 Dec	2,144,739	2,010,855
Provision for deferred premium refunds		
Balance at 1 Jan	747,400	766,629
Changes recognised through profit or loss	– 210,116	– 27,251
Changes recognised directly in equity	– 71,020	8,022
Balance at 31 Dec	466,264	747,400
Balance at 31 Dec	2,611,003	2,758,255

Other technical provisions

	Gross	Share of reinsurance business	Gross	Share of reinsurance busines s
	2007	2007	2006	2006
	in EUR 000's	in EUR 000's	in EUR 000's	in EUR 000's
Balance at 1 Jan	25,428	2,110	27,679	617
Utilisation	25,428	2,110	27,679	617
Additions	25,487	1,229	25,428	2,110
Currency translation	– 129	—	—	—
Balance at 31 Dec	25,358	1,229	25,428	2,110

29. Other provisions

Other provisions comprise provisions for pensions and other long-term employee benefits in the amount of EUR 1,049.6 million (2006: EUR 1,136.7 million) and other provisions amounting to EUR 557.9 million (2006: EUR 628.0 million).

Provisions for pensions and other long-term employee benefits

The item "Provisions for pensions and other long-term employee benefits" totals EUR 1,049.6 million (2006: EUR 1,136.7) million, of which an amount of EUR 949.4 million (2006: EUR 1,025.8 million) relates to provisions for pensions and EUR 100.2 million (2006: EUR 110.9 million) to provisions for other long-term employee benefits.

Provision for pensions

The changes of the defined benefit obligation, plan assets, unrecognised past service cost, and of the provision for pensions, are shown in the following table:

	Defined benefit obligation	Plan assets	Unrecognised past service cost	Pension provision
	EUR 000's	EUR 000's	EUR 000's	EUR 000's
Balance at 1 Jan 2007	1,029,252	—	3,463	1,025,789
Pension expense reported in the income statement	62,802	—	866	63,668
Service cost	17,387	—	—	17,387
Interest cost	45,415	—	—	45,415
Past service cost	—	—	866	866
Expected return	—	—	—	—
Actuarial gains (-) and losses (+) recognised directly in equity	– 98,463	—	—	– 98,463
Pension payments	– 42,006	—	—	– 42,006
Additions	—	—	—	—
Employer contributions	—	—	—	—
Employee contributions	—	—	—	—
Settlements	409	—	—	409
Changes in the scope of consolidation	—	—	—	—
Reclassification to the item "Liabilities directly connected with non-current assets held for sale and disposal groups"	—	—	—	—
Balance at 31 Dec 2007	951,994	—	2,597	949,397

Balance at 1 Jan 2006	1,016,924	27,957	—	988,967
Pension expense reported in the income statement	69,179	1,059	3,463	64,657
Service cost	19,027	—	—	19,027
Interest cost	45,823	—	—	45,823
Past service cost	4,329	—	3,463	866
Expected return	—	1,059	—	– 1,059
Actuarial gains (-) and losses (+) recognised directly in equity	39,551	—	—	39,551
Pension payments	– 39,606	– 345	—	– 39,261
Additions	—	2,369	—	– 2,369
Employer contributions	—	2,369	—	– 2,369
Employee contributions	—	—	—	—
Settlements	– 165	—	—	– 165
Changes in the scope of consolidation	– 940	—	—	– 940
Reclassification to the item "Liabilities directly connected with non-current assets held for sale and disposal groups"	– 55,691	– 31,040	—	– 24,651
Balance at 31 Dec 2006	1,029,252	—	3,463	1,025,789

The following assumptions are used for the defined benefit plans:

	2007	2006
	%	%
Actuarial interest rate	**5.25**	4.5
Pension increase	**2.0**	1.75
Benefit increases	**3.0**	2.5
Salary increases	**3.0**	2.5
Probability of employee turnover	**3.5**	3.5
Inflation rate	**2.0**	1.75

As in the prior year, the "Richttafeln 2005G" mortality tables by Prof. Klaus Heubeck were used for biometrical assumptions.

The development of the present value of the benefit obligation, the fair value of the plan assets, the surplus or deficit of the plans, and the relevant experience adjustments were as follows in the years 2004 to 2007:

	2007	2006	2005	2004
Present value of the defined benefit obligation (DBO) in EUR 000's	**951,994**	1,029,252	988,966	767,707
Fair value of plan assets in EUR 000's	**—**	—	27,957	22,727
Surplus or deficit of the plans in EUR 000's	**951,994**	1,029,252	961,009	744,980
Experience adjustments of the present value of the defined benefit obligation (DBO) in %	**– 2.4**	1.1	1.9	– 0.4
Experience adjustments of the fair value of plan assets in %	**—**	—	4.5	5.3

Other provisions

	Balance at 1 Jan 2007	Currency translation differences	Changes in the scope of consolidation	Additions	Reversals	Utilisation	Interest effect	Intended for sale	**Balance at 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**
Provisions for restructuring	71,018	—	—	14,692	8,235	29,081	2,269	—	**50,663**
Provisions for the refund of acquisition fees upon loan renunciation	70,216	—	—	1,344	2,732	17,193	4,065	—	**55,700**
Provisions for interest bonus option	318,694	283	—	130,927	17,212	74,621	—	—	**358,071**
Miscellaneous	168,115	3	—	77,505	113,182	39,125	132	—	**93,448**
Other provisions	628,043	286	—	224,468	141,361	160,020	6,466	—	**557,882**

The provision in the amount of EUR 50.8 million recognised in connection with the judicial procedure further to the merger between Wüstenrot Beteiligungs-AG and Württembergische AG Versicherungs-Beteiligungsgesellschaft in 1999 was reversed in the year under review, after the complaint had been dismissed by the Federal Constitutional Court (Bundesverfassungsgericht). The restructuring provision mainly includes severance payments to employees.

	Balance at at 1 Jan 2006	Currency translation differences	Changes in the scope of consolidation	Additions	Reversals	Utilisation	Interest effect	Intended for sale	**Balance at 31 Dec 2006**
	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**
Provisions for restructuring	—	—	—	71,018	—	—	—	—	**71,018**
Provisions for the refund of acquisition fees upon loan renunciation	78,828	—	—	7,089	—	18,389	2,688	—	**70,216**
Provisions for interest bonus option	270,692	317	—	110,451	1,908	60,858	—	—	**318,694**
Miscellaneous	123,333	29	– 1 076	99,252	30,712	21,881	—	830	**168,115**
Other provisions	472,853	346	– 1 076	287,810	32,620	101,128	2,688	830	**628, 043**

The expected payments can be broken down on the basis of the expected dates of payment for 2007 as follows:

	up to 1 year	1 year to 5 years	more than 5 years	indefinite term	**Total**
	EUR 000's	EUR 000's	EUR 000's	EUR 000's	**EUR 000's**
Provisions for restructuring	12,592	10,400	27,671	—	**50,663**
Provisions for the refund of acquisition fees upon loan renunciation	8,900	2,600	44,200	—	**55,700**
Provisions for interest bonus option	52,510	122,723	182,838	—	**358,071**
Miscellaneous	73,890	10,465	—	9,093	**93,448**
Other provisions	147,892	146,188	254,709	9,093	**557,882**

The miscellaneous other provisions include provisions for anticipated losses from executory contracts, for litigation, settlement provisions from the property development business as well as warranty provisions.

Remaining terms of other provisions 2006:

	up to 1 year	1 year to 5 years	more than 5 years	indefinite term	**Total**
	EUR 000's	EUR 000's	EUR 000's	EUR 000's	**EUR 000's**
Provisions for restructuring	40,200	30,818	—	—	**71,018**
Provisions for the refund of acquisition fees upon loan renunciation	12,951	32,741	24,524	—	**70,216**
Provisions for interest bonus option	57,267	150,693	110,734	—	**318,694**
Miscellaneous	103,814	26,926	22,800	14,575	**168,115**
Other provisions	214,232	241,178	158,058	14,575	**628,043**

30. Current tax liabilities

Current tax liabilities relate to current tax liabilities for the period and will be realised within twelve months in the amount of EUR 63.7 million (2006: EUR 33.3 million).

31. Deferred tax liabilities

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Financial assets and liabilities at fair value through profit or loss	**31,632**	11,664
Available-for-sale financial assets	**29,704**	38,852
Receivables	**21,304**	26,792
Positive and negative market value of hedges	**2,133**	15,091
Investments accounted for using the equity method	**4,449**	2,961
Liabilities	**11,052**	1,421
Technical provisions	**104,577**	229,135
Other balance sheet items	**132,861**	44,811
Current tax liabilities	**337,712**	370,727

Deferred tax liabilities amounting to EUR 30.6 million (2006: EUR 18.3 million) are expected to be realised within twelve months. Beginning in the reporting year 2007, deferred taxes are calculated for all temporary differences in connection with investments in subsidiaries and associated companies, as well as interests in joint ventures. In the prior year, temporary differences in connection with investments in subsidiaries and associated companies, as well as interests in joint ventures for which no deferred tax liabilities were recognised, amounted to EUR 2.6 million.

32. Other liabilities

This item includes advance interest payments received in the amount of EUR 2.8 million (2006: EUR 5.1 million), as well as bonuses on home loan and savings deposits from the Czech government in the amount of EUR 39.7 million for the year under review.

33. Subordinated capital

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Subordinated liabilities	**395,124**	416,380
Profit-participation rights	**112,331**	127,088
Subordinated capital	**507,455**	543,468

The fair value of subordinated capital is EUR 498.5 million (2006: EUR 540.9 million). In the following, we present the issued volumes of subordinated liabilities and profit-participation rights. Subordinated liabilities towards Group companies are included in the relevant tables.

Subordinated liabilities

Year of issue	Type	Amount	Interest rate	Maturity
		EUR mn	%	
1998	Registered security	1.0	5.720	12 Feb 2008
1998	Registered security	0.5	5.510	22 Feb 2008
1998	Registered security	2.6	5.480	14 Apr 2008
1999	Registered security	10.2	4.970	22 Jan 2009
2000	Registered security	10.0	6.650	08 Mar 2010
2000	Registered security	6.5	6.500	03 May 2010
2000	Registered security	5.0	6.480	21 Jun 2010
2001	Bearer bond	20.0	5.465	30 May 2011
2001	Bearer bond	30.0	5.400	01 Dec 2011
2002	Bearer bond	10.2	5.750	29 Jun 2009
2003	Registered security	4.0	6.160	01 Aug 2013
2003	Bearer bond	9.0	5.750	05 Aug 2013
2003	Registered security	3.0	6.190	05 Aug 2013
2003	Registered security	3.0	6.200	06 Aug 2013
2003	Registered security	3.0	6.330	03 Aug 2015
2003	Registered security	5.0	6.500	01 Aug 2018
2003	Registered security	5.0	6.600	01 Aug 2018
2004	Registered security	5.0	6.190	05 Feb 2019
2004	Registered security	5.0	6.150	11 Feb 2019
2004	Registered security	5.0	5.270	12 Nov 2019
2004	Registered security	10.0	5.280	12 Nov 2019
2005	Bearer bond	11.3	4.500	31 Jan 2015
2005	Bearer bond	3.8	4.500	31 Jan 2015
2005	Bearer bond	60.0	5.250 until 2015, then	no
			3-month EURIBOR plus 3 %	final maturity
2006	Registered security	50.0	4.570	06 Dec 2016
2006	Bearer bond	130.0	5.375 until 2016, then	
			variable interest	01 Jun 2026

The bearer bond issued in 2001 at an amount of EUR 20.0 million bears variable interest on the basis of 6-month EURIBOR plus 0.75 per cent. The other subordinated liabilities bear fixed interest as at the balance sheet date.

The subordinated liabilities of Wüstenrot Bank AG Pfandbriefbank meet the requirements of Section 10 (5 a) of the German Banking Act (Kreditwesengesetz, KWG). The subordinated liabilities of Württembergische Versicherung AG and of Württembergische Lebensversicherung AG qualify as regulatory own funds pursuant to Section 53c (3) Number 3b of the German Insurance Supervisory Law (Versicherungsaufsichtsgesetz, VAG).

Profit-participation rights

Year of issue	Type	Amount	Interest rate	Maturity
		EUR mn	%	
1999	Registered profit-participation certificate	5.1	5.670	30 May 2010
1999	Bearer profit-participation certificate	30.8	5.813	01 Jul 2009
2002	Bearer profit-participation certificate	10.0	7.000	22 Aug 2013
2004	Registered profit-participation certificate	10.0	6.620	01 Jun 2015
2004	Bearer profit-participation certificate	14.0	6.750	01 Jun 2015
2004	Registered profit-participation certificate	5.0	6.760	01 Jun 2015
2004	Registered profit-participation certificate	2.0	6.850	01 Jun 2015
2004	Registered profit-participation certificate	2.0	6.800	01 Jun 2015
2004	Registered profit-participation certificate	7.0	7.400	01 Jun 2025
2005	Registered profit-participation certificate	5.0	5.470	01 Jun 2021
2005	Registered profit-participation certificate	5.0	5.575	01 Jun 2021
2005	Registered profit-participation certificate	5.0	5.560	01 Jun 2021
2005	Registered profit-participation certificate	5.0	5.655	01 Jun 2021

The bearer profit-participation certificate issued in 1999 bears variable interest on the basis of 6-month EURIBOR plus 1.50 per cent. The other profit-participation certificates bear fixed interest as at the balance sheet date.

The profit-participation certificates were issued by Wüstenrot Bank AG Pfandbriefbank. The profit-participation rights where repayment is due at least after two years meet the requirements set out in Section 10 (5) of the KWG, and thus qualify for inclusion in liable capital.

34. Shareholders' equity

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Share in paid-in capital attributable to shareholders of W&W AG	**1,374,105**	1,374,105
Share in retained earnings attributable to shareholders of W&W AG	**1,045,104**	851,788
Minority interests	**74,352**	80,274
Shareholders' equity	**2,493,561**	2,306,167

A dividend payment of EUR 0.50 per share will be proposed for the financial year 2007. This corresponds to a payout of EUR 43.1 million. There was no dividend payout in the previous year.

Subscribed capital

Subscribed capital is divided into 86,243,084 no-par value registered shares, which are fully paid in. From a legal perspective, they are ordinary shares. This means that they carry voting and dividend rights, a right to a share in the liquidation proceeds, and subscription rights. There are no preferential rights or restrictions.

Changes in the number of shares outstanding

	Number of shares 2007	Number of shares 2006
Balance at 1 Jan	**86,243,084**	86,243,084
Additions due to capital increase	**—**	—
Disposals	**—**	—
Balance at 31 Dec	**86,243,084**	86,243,084

As in the prior year, there was no authorised capital at the end of the financial year 2007.

Minority interests

Minority interests can be broken down as follows:

	31 Dec 2007 EUR 000's	31 Dec 2006 EUR 000's
Interests in unrealised profits and losses	**– 1,386**	8,896
Interests in consolidated net income for the year	**9,105**	8,942
Other interests	**66,633**	62,436
Minority interests	**74,352**	80,274

Statement of changes in shareholders' equity

	Attributable to shareholders of W&W AG		
	Subscribed capital	Capital reserve	Retained earnings Other reserves Revaluation reserve
	EUR 000's	EUR 000's	EUR 000's
Shareholders' equity as at 1 Jan 2006	**451,001**	**923,104**	**67,205**
Reclassifications and corrections in accordance with IAS 8	—	—	12,919
Shareholders' equity (adjusted) as at 1 Jan 2006	**451,001**	**923,104**	**80,124**
Currency translation differences	—	—	—
Changes in the scope of consolidation	—	—	– 55
Unrealised gains and losses (net)			
from financial instruments available for sale	—	—	6,372
from cash flow hedges	—	—	18,569
Actuarial gains and losses	—	—	—
Consolidated net income	—	—	—
Dividends paid to shareholders	—	—	—
Other	—	—	—
Shareholders' equity as at 31 Dec 2006	**451,001**	**923,104**	**105,010**
Shareholders' equity as at 1 Jan 2007	**451,001**	**923,104**	**105,010**
Currency translation differences	—	—	—
Changes in the scope of consolidation	—	—	– 7,402
Unrealised gains and losses (net)			
from financial instruments available for sale	—	—	– 59,599
from cash flow hedges	—	—	664
Actuarial gains and losses	—	—	—
Consolidated net income	—	—	—
Dividends paid to shareholders	—	—	—
Other	—	—	—
Shareholders' equity as at 31 Dec 2007	**451,001**	**923,104**	**38,673**

	Attributable to shareholders of W&W AG				Minority	Total
	Retained earnings			Sum total	interests	shareholders'
	Other reserves					equity
	Reserve from currency translation	Reserve from pension obligations	Other retained earnings			
	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's
	4,198	**– 84,619**	**929,179**	**2,290,068**	**88,364**	**2,378,432**
	—	—	– 71,292	– 58,373	– 1,758	**– 60,131**
	4,198	**– 84,619**	**857,887**	**2,231,695**	**86,606**	**2,318,301**
	2,897	—	—	2,897	998	**3,895**
	—	94	– 1,129	– 1,090	– 1,330	**– 2,420**
	—	—	—	6,372	– 1,817	**4,555**
	—	—	—	18,569	– 759	**17,810**
	—	– 24,670	—	– 24,670	– 214	**– 24,884**
	—	—	35,582	35,582	8,942	**44,524**
	—	—	– 43,121	– 43,121	– 8,391	**– 51,512**
	—	—	– 341	– 341	– 3,761	**– 4,102**
	7,095	**– 109,195**	**848,878**	**2,225,893**	**80,274**	**2,306,167**
	7,095	**– 109,195**	**848,878**	**2,225,893**	**80,274**	**2,306,167**
	2,395	—	—	2,395	710	**3,105**
	2,675	6,072	9,466	10,811	1,739	**12,550**
	—	—	—	– 59,599	– 9,780	**– 69,379**
	—	—	—	664	– 504	**160**
	—	36,918	—	36,918	532	**37,450**
	—	—	200,444	200,444	9,105	**209,549**
	—	—	—	—	– 4,225	**– 4,225**
	—	—	1,683	1,683	– 3,499	**– 1,816**
	12,165	**– 66,205**	**1,060,471**	**2,419,209**	**74,352**	**2,493,561**

35. Net income from available-for-sale financial assets

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Interest income	**339,822**	317,384
Dividend income	**188,068**	158,201
Gains from disposals	**319,668**	218,563
Income from reversals of impairment losses	**31**	656
Income from available-for-sale financial assets	**847,589**	694,804
Losses from disposals	**279,119**	141,312
Amortisation, depreciation and impairment	**77,978**	30,755
Expenses for available-for-sale financial assets	**357,097**	172,067
Net income from available-for-sale financial assets	**490,492**	522,737

36. Net income from / net expense for investments accounted for using the equity method

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Income	**3,321**	15,248
Share in net income	**3,321**	15,248
Expenses	**28,352**	1,502
Share in net loss	**7,290**	1,502
Amortisation, depreciation and impairment	**21,062**	—
Net income from / net expense for investments accounted for using the equity method	**– 25,031**	13,746

37. Net income from financial assets and liabilities at fair value through profit or loss

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Income from interest rate products of the trading portfolio	**535**	152
Income from equity products of the trading portfolio	**1,573**	1,081
Income from derivatives of the trading portfolio	**714,381**	628,486
Other income from instruments of the trading portfolio	**145**	251
Income from instruments of the trading portfolio	**716,634**	629,970
Expenses from interest rate products of the trading portfolio	**81**	140
Expenses from equity products of the trading portfolio	**103**	131
Expenses from derivatives of the trading portfolio	**552,186**	551,228
Other expenses from instruments of the trading portfolio	**—**	3,480
Expenses from instruments of the trading portfolio	**552,370**	554,979
Result from instruments of the trading portfolio	**164,264**	74,991
Interest income	**14,909**	15,890
Realised gains	**20,271**	13,679
Income from fair value measurement	**6,541**	17,514
Income from investments for the account and risk of life insurance policyholders	**46,633**	61,548
Income from financial assets and liabilities designated as at fair value	**88,354**	108,631
Interest expense	**2,796**	294
Realised losses	**8,155**	3,937
Expense from fair value measurement	**20,199**	19,594
Expenses from investments for the account and risk of life insurance policyholders	**34,702**	25,293
Expenses from financial assets and liabilities designated as at fair value	**65,852**	49,118
Result from financial assets and liabilities designated as at fair value	**22,502**	59,513
Net income from financial assets and liabilities at fair value through profit or loss	**186,766**	134,504

38. Hedge result

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Measurement gains from hedged items	**16,209**	71,065
Measurement gains from hedging instruments	**23,089**	48,398
Income from fair value hedges	**39,298**	119,463
Measurement losses from hedged items	**27,346**	48,651
Measurement losses from hedging instruments	**9,433**	65,550
Expenses from fair value hedges	**36,779**	114,201
Result from fair value hedges	**2,519**	5,262
Income from cash flow hedges	**6,397**	3,276
Expenses from cash flow hedges	**12,364**	1,740
Net result from cash flow hedges	**– 5,967**	1,536
Hedge result	**– 3,448**	6,798

39. Net income from receivables, liabilities and subordinated capital

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Interest income	**2,198,066**	2,228,543
Gains from the termination of fair value hedges	**—**	445
Income from receivables and liabilities	**2,198,066**	2,228,988
Interest expenses	**1,192,467**	1,219,175
Expenses from receivables and liabilities	**1,192,467**	1,219,175
Result from receivables and liabilities	**1,005,599**	1,009,813
Refinancing expenses for subordinated capital	**28,405**	28,124
Gains from disposal	**10,796**	46,190
Losses from disposal	**52,464**	24,884
Net gain / loss from disposal	**– 41,668**	21,306
Net income from receivables, liabilities and subordinated capital	**935,526**	1,002,995

Of the refinancing expenses for subordinated capital, an amount of EUR 6.8 million (2006: EUR 8.0 million) relates to profit-participation certificates and EUR 21.6 million (2006: EUR 20.1 million) to subordinated liabilities.

Interest income from impaired receivables amounted to EUR 8.5 million (2006: EUR 16.8 million).

40. Net expense for allowances for credit losses

The changes in the net expense for allowances for credit losses are due to specific valuation allowances recognised for existing credit risks with respect to receivables as well as portfolio-based valuation allowances.

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Additions to allowances for credit losses	113,697	117,172
Reversals of allowances for credit losses	57,152	40,613
Direct write-offs	7,786	44,438
Recoveries on receivables previously written off	12,267	2,631
Net expense for allowances for credit losses	52,064	118,366

The allowance for credit losses relates to the following types of business:

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Net expense for allowances for credit losses	52,064	118,366
for the credit business	50,335	116,091
for the insurance business	– 1,779	– 1,327
for the reinsurance business	– 82	– 673
for other business types	3,590	4,275

41. Net income from investment property

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Income	139,418	162,665
from rental and leases	84,025	122,509
from reversals of impairment losses	—	1,677
from disposal	55,393	38,479
Expenses	112,645	83,968
for repairs, maintenance and management	43,748	39,847
from depreciation and impairment losses	67,839	36,862
from disposal	1,058	7,259
Net income from investment property	26,773	78,697

Depreciation and impairment losses include impairment losses in the amount of EUR 31.4 million (2006: EUR 3.0 million). In addition, net income from investment property includes directly attributable operating expenses for repairs, maintenance, management and depreciation in the amount of EUR 101.3 million (2006: EUR 74.5 million). These expenses exclusively relate to properties held to earn rentals. The increase of the depreciation expense results from the reassessment of the remaining useful lives in the year under review.

42. Net fee and commission result

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Fee and commission income	**272,219**	244,622
from concluding home loan and savings contracts	**68,338**	57,702
from banking business	**36,831**	35,719
from reinsurance business	**53,767**	59,112
from agency business	**64,678**	37,153
from investment business	**42,161**	51,928
from other business	**6,444**	3,008
Fee and commission expenses	**604,600**	619,986
from insurance business	**399,099**	375,777
from home loan savings/banking business	**125,544**	122,544
from reinsurance business	**20,156**	55,235
from agency business	**29,804**	32,776
from investment business	**23,104**	29,532
from other business	**6,893**	4,122
Net fee and commission result	**– 332,381**	– 375,364

Fee and commission income includes income from trustee activities or similar fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions in the amount of EUR 1.0 million (2006: EUR 26.3 million).

The decrease is attributable to the fact that BWInvest was included in the scope of consolidation in the year 2006, but was accounted for using the equity method in 2007 and accordingly no longer contributed to the net fee and commision result.

43. Premiums/contributions earned (net)

Life/health insurance	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Premiums written	**2,411,433**	2,483,640
Changes in unearned premiums	**17,565**	20,605
Amounts transferred from the provision for premium refunds	**139,867**	147,724
Premiums/contributions earned (gross)	**2,568,865**	2,651,969
Premiums ceded to reinsurers	**132,217**	154,593
Premiums/contributions earned (net)	**2,436,648**	2,497,376

The active reinsurance business in the area of life and health insurance only accounts for an insignificant portion.

Property-casualty insurance, reinsurance	**1 Jan 2007 to 31 Dec 2007 EUR 000's**	1 Jan 2006 to 31 Dec 2006 EUR 000's
Premiums written	**1,483,822**	1,673,221
Direct insurance business	**1,355,204**	1,408,643
Reinsurance assumed	**128,618**	264,578
Changes in unearned premiums	**25,661**	– 11,534
Premiums / contributions earned (gross)	**1,509,483**	1,661,687
Premiums ceded to reinsurers	**110,487**	193,118
Premiums / contributions earned (net)	**1,398,996**	1,468,569

44. Insurance benefits (net)

Insurance benefits from direct insurance business are reported excluding loss adjustment expenses, which are recorded in general administrative expenses. Insurance benefits for reinsurance assumed, as well as the share of reinsurers in insurance benefits, may consist of both claims payments and claims handling costs.

The item “Changes in the provision for premium refunds” includes additions to provisions for premium refunds to be recognised in accordance with national requirements as well as the changes in the provision for deferred premium refunds recognised in the income statement.

Life / health insurance	**1 Jan 2007 to 31 Dec 2007 EUR 000's**	1 Jan 2006 to 31 Dec 2006 EUR 000's
Payments for insured events	**2,067,649**	2,082,699
Gross amount	**2,214,033**	2,244,640
less: Share of reinsurers	**146,384**	161,941
Change in the provision for loss and loss adjustment expenses	**12,009**	4,625
Gross amount	**11,102**	5,718
less: Share of reinsurers	**– 907**	1,093
Change in the provision for future policy benefits	**639,690**	645,598
Gross amount	**645,467**	656,137
less: Share of reinsurers	**5,777**	10,539
Change in the provision for premium refunds	**262,995**	333,556
Change in other technical provisions	**72**	– 72
Gross amount	**72**	– 71
less: Share of reinsurers	**—**	1
Insurance benefits	**2,982,415**	3,066,406
Total gross amount	**3,133,670**	3,239,980
less: Share of reinsurers	**151,255**	173,574

Property-casualty insurance, reinsurance	**1 Jan 2007**	1 Jan 2006
	to 31 Dec 2007	to 31 Dec 2006
	EUR 000's	EUR 000's
Payments for insured events	**699,076**	732,953
Gross amount	**836,896**	920,765
less: Share of reinsurers	**137,820**	187,812
Change in the provision for loss and loss adjustment expenses	**137,258**	111,380
Gross amount	**88,585**	37,789
less: Share of reinsurers	**– 48,673**	– 73,591
Change in the provision for premium refunds	**—**	– 176
Change in other technical provisions	**2,781**	2,386
Gross amount	**1,900**	3,879
less: Share of reinsurers	**– 881**	1,493
Insurance benefits	**839,115**	846,543
Total gross amount	**927,381**	962,144
less: Share of reinsurers	**88,266**	115,601

45. General administrative expenses

	1 Jan 2007	1 J an 2006
	to 31 Dec 2007	to 31 Dec 2006
	EUR 000's	EUR 000's
Personnel expenses	**639,008**	693,526
Wages and salaries	**444,043**	482,060
Social security contributions	**86,656**	96,586
Expenses for pensions and other employee benefits	**92,584**	97,793
Other	**15,725**	17,087
Other administrative expenses	**367,728**	367,565
Amortisation, depreciation and impairment	**67,418**	86,017
Owner-occupied property	**21,067**	16,377
Operating and office equipment	**18,460**	18,374
Intangible assets	**27,359**	49,360
Other	**532**	1,906
General administrative expenses	**1,074,154**	1,147,108

In the year under review, EUR 23.6 million (2006: EUR 15.6 million) was contributed to defined contribution plans.

We expect direct pension payments for the pension plans in the amount of EUR 44.1 million (2006: EUR 41.8 million) for the following year.

46. Measurement gain/loss for non-current assets and disposal groups classified as held for sale

The measurement expense related to property held for sale amounts to EUR 3.7 million (2006: EUR 0.0 million) in the year under review. The measurement expense for investments in associates held for sale amounts to EUR 0.5 million (2006: EUR 0.0 million) in the year under review.

47. Net other income/expense

Net other income/expense can be broken down as follows:

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Revenue from services (property development business)	72,461	64,456
Reversal of provisions	131,297	20,446
Service revenues	16,432	18,018
Income from currency translation	125,295	75,882
Other technical income	20,127	23,368
Gains from disposals	3,643	229
Miscellaneous income	89,298	71,444
Other income	**458,553**	273,843

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Expenses for services (property development business)	67,565	53,312
Additions to provisions	17,887	43,606
Losses from disposals	1,971	1,187
Expenses from currency translation	167,947	127,188
Other technical expenses	70,057	89,393
Expenses for services to Group-external third parties	71	1,188
Miscellaneous expenses	48,955	103,898
Other expenses	**374,453**	419,772

Miscellaneous expenses include expenses for the recognition of restructuring provisions in the amount of EUR 14.7 million (2006: EUR 71.0 million).

48. Taxes

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Current taxes on income for the reporting year	**97,808**	123,364
Current taxes referring to previous years	**– 11,729**	– 67,530
Deferred taxes	**– 37,876**	– 71,538
Taxes on income	**48,203**	– 15,704
Other taxes	**8,949**	7,118
Taxes	**57,152**	– 8,586

An amount of EUR 35.5 million (2006: EUR 61.6 million) was charged directly to equity for deferred taxes. Current taxes did not have to be credited or charged directly to equity.

The following reconciliation shows the relationship between expected taxes on income and the taxes on income actually reported in the consolidated financial statements:

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Earnings before taxes from continued operations	**246,472**	25,706
Less other taxes	**8,949**	7,118
Earnings before taxes on income	**237,523**	18,588
Group tax rate (%)	**39.19**	39.19
Expected taxes on income	**93,085**	7,285
Tax rate changes at Group companies	**– 16,388**	– 230
Effects of tax-exempt income	**– 16,667**	– 6,652
Effects of non-deductible expenses	**7,421**	8,827
Effects attributable to other periods	**181**	– 61,029
Other	**– 19,429**	36,095
Taxes on income	**48,203**	– 15,704

The income tax rate of 39.19 per cent used as the basis for the reconciliation consists of the corporate income tax rate of 25 per cent plus solidarity surcharge of 5.5 per cent and an average rate for the municipal trade tax of 17.39 per cent.

Taking into account the corporate tax reform 2008, which will result in a reduction of tax rates, an income tax rate of 30.58 per cent (corporate income tax rate of 15 per cent plus solidarity surcharge of 5.5 per cent and municipal trade tax rate of 14.75 per cent) applies from 1 January 2008, with municipal trade tax no longer being tax-deductible in contrast to the previous regulation.

This has already been taken into account in the calculation of deferred tax assets and liabilities in the year 2007.

49. Earnings after taxes from discontinued operations

	1 Jan 2007 to 31 Dec 2007 EUR 000's	1 Jan 2006 to 31 Dec 2006 EUR 000's
Earnings before taxes	**21,750**	12,871
Income	**131,804**	318,368
Expenses	**110,054**	305,497
Taxes	**1,521**	2,639
Earnings after taxes from discontinued operations	**20,229**	10,232

50. Earnings per share

Basic earnings per share are calculated by dividing consolidated net income for the year by the weighted average number of shares:

	1 Jan 2007 to 31 Dec 2007 in EUR	1 Jan 2006 to 31 Dec 2006 in EUR
Result attributable to shareholders of W&W AG	**200,443,886**	35,582,025
Number of shares at the beginning of the financial year	**86,243,084**	86,243,084
Issue of new shares/conversion of options	**—**	—
Weighted average of shares during the financial year	**86,243,084**	86,243,084
Basic (diluted) earnings per share	**2.32**	0.41

Basic earnings per share correspond to diluted earnings per share as there is no conditional capital outstanding.

Basic (and at the same time diluted) earnings per share from discontinued operations amounts to EUR 0.23 (2006: EUR 0.12).

Notes to financial instruments

This section provides additional information on line items that include financial instruments.

	Maturities 2007			
	up to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years
	EUR mn	EUR mn	EUR mn	EUR mn
Interest-rate derivatives				
Over-the-counter				
Swaps	611.2	2,336.8	1,775.3	760.0
Options				
Purchases	—	—	73.0	500.0
Other	208.4	25.0	—	—
Currency-related derivatives				
Over-the-counter				
Foreign exchange forward transactions	1,975.8	370.0	173.5	7.4
Equity-/index-related Derivatives	607.4	116.2	5.9	2.5
Other derivatives	107.7	—	—	—
Derivatives	**3,510.5**	**2,848.0**	**2,027.7**	**1,269.9**

	Maturities 2006			
	up to 3 months	3 months up to 1 year	1 to 2 years	2 to 3 years
	EUR mn	EUR mn	EUR mn	EUR mn
Interest-rate derivatives				
Over-the-counter				
Swaps	670.4	1,219.7	2,062.6	1,046.7
Options				
Purchases	191.7	—	—	73.0
Other	200.0	35.9	—	30.0
Currency-related derivatives				
Over-the-counter				
Foreign exchange forward transactions	396.9	642.7	—	—
Equity-/index-related Derivatives	875.4	2.0	—	—
Other derivatives	—	120.0	—	—
Derivatives	**2,334.4**	**2,020.3**	**2,062.6**	**1,149.7**

					2007	
	3 to 4 years	4 to 5 years	more than 5 years	**Notional amounts Total**	Positive market values	Negative market values
	EUR mn	EUR mn	EUR mn	**EUR mn**	EUR mn	EUR mn
	729.0	570.0	5,465.6	**12,247.9**	81.6	168.8
	—	—	—	**573.0**	5.7	—
	—	—	153.0	**386.4**	3.9	4.8
	—	—	—	**2,526.7**	28.3	2.0
	—	2.8	1.2	**736.0**	36.6	17.4
	—	—	—	**107.7**	0.3	1.3
	729.0	**572.8**	**5,619.8**	**16,577.7**	**156.4**	**194.3**

					2006	
	3 to 4 years	4 to 5 years	more than 5 years	**Notional amounts Total**	Positive market values	Negative market values
	EUR mn	EUR mn	EUR mn	**EUR mn**	EUR mn	EUR mn
	450.0	779.0	3,512.6	**9,741.0**	114.4	250.9
	600.0	—	200.0	**1,064.7**	10.3	0.4
	—	—	123.0	**388.9**	6.8	7.1
	—	—	—	**1,039.6**	14.0	0.3
	—	—	—	**877.4**	6.0	4.5
	—	—	—	**120.0**	0.5	0.8
	1 050.0	**779.0**	**3,835.6**	**13,231.6**	**152.0**	**264.0**

51. Derivative financial instruments

The table shows the notional amounts as well as the positive and negative market values of all derivatives of the W&W Group, i. e. derivative financial instruments that are hedging instruments of accepted hedging relationships in accordance with hedge accounting criteria as well as those derivative financial instruments reported in the sub-items of held-for-trading financial assets or liabilities.

52. Additional disclosures on hedging relationships

The following table shows the maturities of cash flow hedges:

	up to 3 months EUR 000's	3 months up to 1 year EUR 000's	1 year to 5 years EUR 000's	more than 5 years EUR 000's	indefinite term EUR 000's	**Total EUR 000's**
Notional amounts 31 Dec 2007	105,903	461,164	719,700	1,370,000	—	**2,656,767**
Notional amounts 31 Dec 2006	149,782	120,565	1,733,235	1,185,000	—	**3,188,582**

The time band "1 to 5 years" can be broken down as follows:

	1 to 2 years EUR 000's	2 to 3 years EUR 000's	3 to 4 years EUR 000's	4 to 5 years EUR 000's	**Total EUR 000's**
Notional amounts as at 31 Dec 2007	369,700	205,000	145,000	—	**719,700**
Notional amounts as at 31 Dec 2006	808,535	234,700	255,000	435,000	**1,733,235**

The following effects on the income statement and on shareholders' equity result from cash flow hedges in the year under review:

	31 Dec 2007 EUR 000's	31 Dec 2006 EUR 000's
Income or expense transferred from shareholders' equity to the income statement	**– 7,618**	– 860
Income or expense from the ineffective portion of cash flow hedges	**1,651**	2,396

Unrealised net gains of EUR 8.4 million (2006: EUR 17.8 million) resulting from cash flow hedges were recognised in equity.

The expected cash receipts (+) and cash payments (–) related to the hedged items of cash flow hedges can be broken down as follows:

Expected cash flows	31 Dec 2007	31 Dec 2006
Interest-rate hedges	**EUR 000's**	EUR 000's
payable on demand	**—**	—
up to 3 months	**– 7,715**	– 10,247
3 months to 1 year	**– 16,976**	– 33,451
1 to 2 years	**24,332**	– 17,468
2 to 3 years	**29,536**	– 32,725
3 to 4 years	**30,997**	– 12,799
4 to 5 years	**29,694**	12,054
more than 5 years	**144,329**	18,492

The following effects on the income statement result from fair value hedges in the year under review:

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Income or expense from hedged items	**– 11,136**	22,414
Income or expense from hedging instruments	**13,656**	– 17,152

53. Securities lending transactions

Available-for-sale financial assets include securities lent in the amount of EUR 90.0 million (2006: EUR 56.3 million).

54. Trust activities

The following amounts referred to the trust activities, which do not have to be reported in the balance sheet:

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Loans and advances to customers	**492**	10,071
Other	**305,269**	293,429
Trust assets	**305,761**	303,500
Liabilities to banks	**492**	10,071
Other	**305,269**	293,429
Trust liabilities	**305,761**	303,500

55. Additional disclosures on the effects of financial instruments on the income statement and on shareholders' equity

Net gains and losses per category of financial instruments shown in the following table consist of the following components:

- Interest income and expenses as well as fee and commission income and expenses are not included in net gains or losses. Dividends are not reported in net gains.
- Net gains include gains from disposals, reversals of impairment losses recognised in profit or loss, subsequent recoveries on financial instruments previously written off as well as currency translation gains from the measurement of debt instruments denominated in a foreign currency as at the balance sheet date.
- Net losses include losses from disposals, impairment losses recognised in profit or loss as well as currency translation losses from the measurement of debt instruments denominated in a foreign currency as at the balance sheet date.

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Financial assets and liabilities at fair value through profit or loss		
Held-for-trading assets and liabilities		
Net gains	**319,404**	299,538
Net losses	**133,876**	149,880
Financial assets and liabilities designated as at fair value		
Net gains	**75,503**	92,724
Net losses	**63,056**	49,163
Available-for-sale financial assets		
Net gains	**319,699**	219,219
Net losses	**357,097**	172,067
Receivables		
Net gains	**10,526**	46,061
Net losses	**52,222**	24,777
Liabilities		
Net gains	**270**	574
Net losses	**242**	107

Available-for-sale financial assets had the following effects on shareholders' equity and on the income statement, before provisions for deferred premium refunds and deferred taxes:

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Unrealised gains and losses	**226,430**	227,115
Income or expense transferred from shareholders' equity to the income statement	**– 49,445**	67,786
Total result	**176,985**	294,901

In addition to the disclosures in the notes to the income statement, net interest income of financial instruments not measured at fair value through profit or loss is shown in the following table:

	31 Dec 2007 EUR 000's	31 Dec 2006 EUR 000's
Interest income from available-for-sale financial assets	339,822	317,384
Interest income from receivables	2,198,066	2,228,543
Interest income from financial instruments not measured at fair value through profit or loss	**2,537,888**	2,545,927
Interest expenses from liabilities	1,192,467	1,219,175
Interest expenses from subordinated capital	28,405	28,124
Interest expenses from financial instruments not measured at fair value through profit or loss	**1,220,872**	1,247,299

Income and expense items in the form of fees or commissions arising from financial assets and financial liabilities not taken into account in the determination of the effective interest rate can be broken down as follows:

	31 Dec 2007 EUR 000's	31 Dec 2006 EUR 000's
Receivables		
Fee and commission income	116,603	90,367
Fee and commission expenses	170,986	163,379
Liabilities		
Fee and commission income	4,408	4,337
Fee and commission expenses	2,324	7,795

Disclosures on risks arising from financial instruments and insurance contracts

56. Risk management

The W&W Group maintains a comprehensive risk management system with a risk management process that is organised in the form of an iterative regular workflow. This risk management and risk control system, which is suitable for the timely identification and assessment – as far as possible – of the existing and envisaged risks, is described in detail in the risk report of the management report on page 39.

The risk report also describes strategies, objectives and processes to control risks and the methods used to measure risks as well as the development in the reporting period. Collective risks, operational risks and strategic risks are also presented in detail in the risk report section of the management report. Further qualitative and quantitative disclosures to market price risks, default risks, insurance-specific risks and liquidity risks are included in this section.

57. Market price risks

Interest rate risks

Interest rate risk – as a form of market price risk – is the risk that changes in market interest rates may have negative effects on expected results and the portfolio of assets and liabilities of the W&W Group. Interest rate risk consists of interest spread or market value risk. Effects on the income statement may arise on the one hand from a change in the market value of assets and liabilities resulting from interest rate changes. The interest spread or income risk – also called cash flow risk – has the effect that a movement in market interest rates may impact net interest income and thus the profit for the period. The interest rate elasticity is of particular importance in this context. The market value of an asset or liability is calculated based on the discounted interest and principal payments. A movement in market interest rates leads to a change in discount factors which may reduce the value of an asset or increase the value of a liability. This may have negative effects on earnings and/or equity in the current and the following periods.

Persistently low interest rates may pose a threat in the medium term to the earnings of, in particular, Wüstenrot Bausparkasse AG, Karlsruher Lebensversicherung AG and die Württembergische Lebensversicherung AG, as new investments and reinvestments may only be made at lower interest rates, while at the same time the interest rates previously agreed or the interest rate arrangements with customers have to be adhered to.

The W&W Group enters into financial derivatives, especially interest rate swaps as well as interest rate caps, floors and collars, interest rate options (swaptions) and futures and forwards, in order to control interest rate risks. They are reflected as economic hedges within the framework of the risk management and control process.

If these economic hedges meet hedge accounting requirements, they are accounted for as such in the financial statements. Receivables with fixed interest rates belonging to the banking and insurance business as well as fixed-income securities from the banking business belonging to the category “Available-for-sale financial assets” are hedged against losses in value (fair value hedge). In addition, receivables bearing variable interest arising in the banking business as well as securities of the category “Available-for-sale financial assets” and liabilities bearing variable interest are hedged against variations in cash flows (cash flow hedge).

The W&W Group actively manages interest rate risks arising from both the banking segment and the insurance segment. Hedges relate to individual transactions and include instruments such as interest rate swaps as well as bund futures, interest rate options and forwards.

In addition, we enter into interest rate swaps in the banking business in order to control and hedge interest rate risks on the level of the overall bank.

Interest rate derivatives are used primarily to hedge interest rate risks and also to avoid risk concentrations.

The effects of a potential increase or decrease of the interest rate level by 100 basis points (parallel shift of the yield curve) on Group earnings as well as on shareholders' equity are presented in the following table. Within this context, the effects of deferred taxes and, as far as life and health insurance is concerned, also the effects of the provision for deferred premium refunds were taken into account. The latter results in a relatively smaller effect of changes in market interest rates on Group earnings and / or shareholders' equity. There is no asset-based interest rate risk with respect to the profit for the period for items recognised as receivables measured at amortised cost. This does not apply to hedged items belonging to a fair value hedge since they are measured at fair value.

	Group earnings		Shareholders' equity	
	31 Dec 2007	31 Dec 2006	**31 Dec 2007**	31 Dec 2006
Interest rate risk	**EUR 000's**	EUR 000's	**EUR 000's**	EUR 000's
Net effect after deferred taxes and				
provision for deferred premium refunds				
+ 100 basis points	**23,982**	33,212	**– 82,117**	– 28,101
– 100 basis points	**– 22,232**	– 25,468	**96,975**	28,813

Price risks of equity instruments

The price risk of equity instruments is on the one hand the general risk that the value of assets and thus earnings and / or shareholders' equity may be negatively influenced by market movements. On the other hand, price risks also include the specific risk characterised by issuer-specific aspects.

In the W&W Group, the price risk related to equity instruments is mainly characterised by the share price risk. The share price risk is defined as the risk arising from losses resulting from changes in share prices related to open equity positions.

Price risks of equity instruments are managed by means of financial derivatives, in particular by equity options. Apart from that, financial derivatives, especially equity options, are used to implement certain investment strategies for investment funds and to generate additional income.

Market price risks from trading transactions are monitored and managed at the home loan and savings banks and other banks within the meaning of the Minimum Requirements for Risk Management (MaRisk) and on the basis of value-at-risk approaches, stress scenarios and internal limit systems. Company-specific internal limit systems have been established in order to limit market price risks. The individual limits are determined by taking into account the current business development based on the risk cover potential. Compliance with the defined limits is monitored and documented regularly in the individual companies. Scenario analyses and the establishment of limit systems are also intended to avoid risk concentrations.

The insurance companies analyse changes in the value of their investment portfolios on the basis of simulations and stress scenarios.

The following overview shows the effects of an increase or decrease in the market value of equity instruments by 10 per cent and 20 per cent on Group earnings and / or shareholders' equity.

Within this context, the effects after deferred taxes and, as far as life and health insurance is concerned, also the effects of the provision after deferred premium refunds were taken into account. The table shows that price risks of equity instruments primarily affect shareholders' equity. This is due to the fact that they are mainly allocated to the category "Available-for-sale financial assets", whose fair value changes are recognised in the revaluation reserve unless impairment exists.

	Group earnings		Shareholders' equity	
	31 Dec 2007	31 Dec 2006	**31 Dec 2007**	31 dec 2006
Price risk of equity instruments	**EUR 000's**	EUR 000's	**EUR 000's**	EUR 000's
Net effect after deferred taxes and				
provision for deferred premium refunds				
+ 10 %	**– 1,503**	– 860	**66,760**	62,267
– 10 %	**– 7,182**	– 11,725	**– 61,578**	– 50,822
+ 20 %	**– 4,071**	– 2,442	**121,473**	123,893
– 20 %	**– 14,968**	– 21,128	**– 124,076**	– 101,622

Currency risks

The currency risk is defined as the risk arising from losses resulting from exchange rate changes. The extent of this risk depends on the amount of open positions as well as on the exchange rate change potential of the currency concerned.

The major part of our business is made in Germany. The W&W Group operates in foreign countries to a smaller extent via branches and subsidiaries. The latter activities are partially associated with exchange rate risks.

Currency risks related to investments result from open currency positions and mainly refer to globally operating investment funds. Currency risks are systematically recognised and analysed by fund management within the context of continuously reviewed expectations of exchange rates. If appropriate, we initiate measures to mitigate risks.

The effects of an increase or decrease of the material exchange rates on Group earnings and / or on shareholders' equity are presented in the following table. Within this context, the effects of deferred taxes and, as far as life and health insurance is concerned, also the effects of the provision for deferred premium refunds were taken into account.

The presented exchange rate risk results from both asset and liability items and only takes into account monetary instruments, i.e. cash funds and claims denominated in cash amounts as well as liabilities that have to be settled with a fixed or determinable cash amount. Exchange rate risks from equity instruments (non-monetary assets) are not taken into account.

	Group earnings		Shareholders' equity	
	31 Dec 2007	31 Dec 2006	**31 Dec 2007**	31 Dec 2006
Currency risk	**EUR 000's**	EUR 000's	**EUR 000's**	EUR 000's
Net effect after deferred taxes and provision for deferred premium refunds				
USD				
+ 10 %	**2,479**	1,886	**874**	813
– 10 %	**– 2,479**	– 1,794	**– 874**	– 679
GBP				
+ 10 %	**– 4,274**	– 423	**187**	215
– 10 %	**4,274**	423	**– 187**	– 215
YEN				
+ 10 %	**326**	662	**765**	599
– 10 %	**– 326**	– 662	**– 765**	– 599
DKK				
+ 1 %	**1,767**	1,534	**—**	497
– 1 %	**– 1,767**	– 1,534	**—**	– 497

The foreign currency risk of a strategic foreign currency position denominated in Danish Krone held at insurance companies results from exchange rate fluctuations that primarily affect the income statement, although the Danish Krone is characterised by a small range of fluctuation against the Euro. Foreign currency risks are generally minimised as far as possible by a corresponding currency-matching cover of the technical liabilities.

In addition, foreign exchange forward transactions are used to hedge foreign currency risks and to avoid risk concentrations.

58. Default risks

The default risk is a material risk assumed by the Group companies. It is typical for the industry. Default risk is defined as the risk of a loss or lost profit incurred as a result of the default of a contracting partner. The default risk mainly comprises the following types:

Credit risk: Credit risk is the risk that a contracting party may not fulfil its obligations after such party has received cash funds, securities or services (e.g. the risk of a default of a debtor of a receivable or a bond issuer; realisation risk of collateral provided).

Counterparty risk: Counterparty risk is the risk that unrealised profits from transactions in progress cannot be recognised due to the default of a counterparty (e.g. default of a counterparty to a swap where the swap has a positive market value).

Country risk: The country risk is defined as the credit or counterparty risk that results from the activities of a contracting party in a foreign country, rather than from its individual circumstances. This risk may be caused by a crisis with respect to political or economic developments in such countries, which may lead to transfer problems and, accordingly, to additional default risks.

Default risks mainly result from the credit business of home loan and savings banks and other banks, from investment activities as well as from direct insurance and reinsurance business of insurance companies (bad debt risk).

We also comply with legal and regulatory provisions in the context of managing default risks. We limit default risk through a broad diversification of the types of investments and by a prudent selection of issuers and reinsurance partners. Cluster risks due to the concentration of large investments or various investments with one issuer are addressed with limits restricting the maximum investment volume permitted per issuer. The evaluation of issuers and the determination of limits is based on the assessment of international rating agencies as well as own risk classifications.

We restrict our selection of contracting parties and securities mainly on parties and instruments with top credit quality in the investment grade range.

The W&W Group has receivables against customers mainly in the area of residential property financing in the Federal Republic of Germany. The major part of the loans is secured by charges over property. Commercial property financing activities were discontinued in 2004. The W&W Group addresses credit risks in residential property financing through risk analyses and risk management of the operating units on portfolio level by means of a credit application scoring and regular assessments of creditworthiness. Since July 2006, the credit application scoring has also been used for money transmission and clearing operations. It has been supplemented by a behaviour scoring since 2007. Risks from customer credit business are measured using a stochastic loan portfolio model. In addition, credit risks on Group level are analysed, monitored and communicated to the Management Board within the scope of regular credit risk reporting which complies with the Minimum Requirements for Risk Management (MaRisk).

The issuer and counterparty limits from trading transactions within the meaning of the MaRisk are determined for all domestic banks and for Wüstenrot & Württembergische AG on a uniform basis throughout the Group. All business partners are classified into risk categories based on their creditworthiness and are assessed using a corresponding probability of default. Credit lines are granted for securities and trading transactions on that basis. Concentration risks from trading transactions are aggregated and monitored on a Group-wide basis.

The W&W Group monitors risks from the default of receivables from agents, policyholders and reinsurers by means of IT-based controls of outstanding receivables. The average default rate of the last three years as at the balance sheet date for receivables from policyholders amounts to 0.1 per cent. The average default rate of the last three years for receivables from agents amounts to 1.7 per cent. Receivables from reinsurance business are not subject to material risks due to the high creditworthiness of the reinsurance companies.

The allowance for credit losses is calculated using the following uniform principles throughout the Group:

Receivables are reviewed for impairment on an individual basis. If necessary, specific valuation allowances are recognised. An impairment or uncollectibility exists when expectations with respect to the future cash flows from a financial asset or a group of financial assets change, i.e. when it has to be assumed that the newly expected cash flows to be generated from the asset or the portfolio of assets no longer are equivalent to the originally expected cash flows.

Specific valuation allowances are determined for material receivables (significant amount and significant arrears) on an individual basis. In addition, specific valuation allowances for receivables of a minor individual significance are recognised on a portfolio basis. These valuation allowances are determined on the level of receivables portfolios with similar risk characteristics (type of credit, past-due status, probability of default) and are based on a present value analysis. The expected future cash flows are determined for the individual receivables of a portfolio, taking into account probabilities of default.

Specific valuation allowances are recognised to cover imminent default risks in the case that it is probable that not all interest and principal payments may be made as contractually agreed.

Objective evidence that a receivable is impaired includes loss events incurred and identified. Such loss events normally result from financial difficulties of or breaches of covenants by the obligor. Objective evidence indicating that a financial asset or a group of financial assets are impaired includes:

- significant financial difficulties of the obligor
- a breach of contract, such as a default or delinquency in interest or principal payments
- default of payment of more than 90 days
- deferrment or waiver of payment obligations
- initiation of enforcement measures
- imminent insolvency or over indebtedness
- applying for or opening insolvency proceedings
- failure of restructuring measures
- the disappearance of an active market for financial assets because of financial difficulties of the obligor
- observable data indicating that the recoverable amount or the expected future cash flows decrease without the decrease being attributable to an individual financial asset.

Apart from specific valuation allowances for individually significant receivables and groups of receivables of minor significance recognised for loans where the event of default is already known, we also recognise portfolio-based valuation allowances. In order to hedge risks from events of default that have occurred already, but have not yet been identified, appropriate portfolios are established with receivables that have similar risk profiles. For each portfolio established, the present value of future cash flows is determined and compared with the current carrying amount, taking into account historical probabilities of default.

In the insurance business, we make a distinction between different types of obligors (e.g. insurance agent, policyholder). The calculation of the valuation allowances is based on historical probabilities of default as well as on current developments in the economic environment. Specific valuation allowances recognised on a lump-sum basis for undue receivables from policyholders from the direct insurance business are also based on historical experience.

Reversals are made when the objective evidence of impairment ceases to exist, an unexpected repayment is received or the recoverable amount increases. The latter may take the form of an increase of the repayment amounts or an earlier maturity of the same.

We write off receivables when the assessment of credit risk management shows that receivables are uncollectible. A receivable is generally written off when all economically reasonable debt collection measures have been unsuccessful.

If the borrower is not able to meet its obligations as a result of its economic circumstances, or if the proceeds from the realisation of collateral provided are insufficient to settle the receivable, we recognise a write-off for the relevant receivable.

Reinsurance contracts are concluded with reinsurers of top credit quality so that the risk of default is extremely limited (see "Receivables from reinsurance business classified by rating categories", table on pages 158 et seq.).

In order to limit the risk from debt securities, the credit quality assessment of the individual issuers is of crucial significance. Apart from the classifications by international rating agencies, the internal assessment is also a key criterion for the selection of issuers. The largest portion of the fixed-income securities is rated with "A" or higher. In addition, a major part of the fixed-income securities held are also secured by state guarantees or deposit protection schemes.

The maximum default risk exposure from financial assets measured at fair value through profit or loss amounts to EUR 843.3 million (2006: EUR 985.4 million).

In the case of an impairment of debt instruments belonging to the category "Available-for-sale financial assets", an impairment loss is recognised in the income statement when the following criteria are met:

- significant financial difficulties of the issuer
- a breach of contract (such as a default or delinquency in interest or principal payments)
- concessions granted to the borrower due to its financial difficulty
- increased probability that insolvency proceedings will be initiated
- the disappearance of an active market for financial assets because of financial difficulties of the obligor
- verifiable data indicating a reduction of future cash flows (change in the behaviour of a group, negative economic framework).

Since the business activity of the W&W Group is mainly limited to Germany, the country risk has to be considered low. Foreign transactions refer to countries of the European Union or countries with a stable political and economic environment.

The above-mentioned procedures and management and control measures are also employed to avoid or minimise risk concentrations.

As at the balance sheet date, the following financial assets subject to some form of default risk, as well as the following assets resulting from direct insurance and reinsurance contracts and subject to some form of default risk, were reported in the consolidated balance sheet. Existing collateral items reducing the default risk are not taken into account in the following table.

31 Dec 2007 in EUR 000's	Amount of assets which are neither past due nor impaired	Amount of assets which are past due, but not impaired	Amount of impaired assets	Portfolio impairment allowance	**Sum total**
Cash reserve	178,953	—	—	—	**178,953**
Receivables	46,888,472	1,441,263	335,112	– 73,211	**48,591,636**
Loans and advances to banks	19,097,865	—	—	—	**19,097,865**
Receivables from the reinsurance business	177,471	5,883	—	– 2,880	**180,474**
Loans and advances to customers	27,379,968	1,421,367	334,829	– 69,360	**29,066,804**
Building loans	23,423,659	1,353,727	325,130	– 61,963	**25,040,553**
Receivables from retail customers secured by charges over property	20,949,239	1,326,550	290,036	– 57,530	**22,508,295**
Receivables from retail customers not secured by charges over property	2,474,420	27,177	35,094	– 4,433	**2,532,258**
Loans to local authorities	3,377,763	—	—	—	**3,377,763**
Other receivables from customers	578,546	67,640	9,699	– 7,397	**648,488**
Other receivables	233,168	14,013	283	– 971	**246,493**
Financial assets at fair value through profit or loss	1,706,279	—	—	—	**1,706,279**
Positive market value of hedges	19,099	—	—	—	**19,099**
Available-for-sale receivables	8,151,431	—	76,281	—	**8,227,712**
Debt securities and other fixed-income securities	7,566,936	—	62,941	—	**7,629,877**
Available-for-sale assets	494,917	—	—	—	**494,917**
Other available-for-sale financial assets	89,578	—	13,340	—	**102,918**
Share of reinsurance business in technical provisions	1,988,978	—	—	—	**1,988,978**
Total	58,933,212	1,441,263	411,393	– 73,211	**60,712,657**

31 Dec 2006 in EUR 000's	Amount of assets which are neither past due nor impaired	Amount of assets which are past due, but not impaired	Amount of impaired assets	Portfolio impairment allowance	**Sum total**
Cash reserve	136,325	—	—	—	**136,325**
Receivables	47,965,220	1,493,353	392,490	-65,403	**49,785,660**
Loans and advances to banks	19,555,046	—	2,337	—	**19,557,383**
Receivables from the reinsurance business	157,970	3,279	—	– 2,962	**158,287**
Loans and advances to customers	28,015,709	1,476,274	389,551	– 61,903	**29,819,631**
Building loans	24,126,012	1,432,560	387,443	– 52,909	**25,893,106**
Receivables from retail customers secured by charges over property	18,851,483	1,398,862	353,942	– 44,245	**20,560,042**
Receivables from retail customers not secured by charges over property	5,274,529	33,698	33,501	– 8,664	**5,333,064**
Loans to local authorities	3,357,743	—	—	—	**3,357,743**
Other receivables from customers	531,954	43,714	2,108	– 8,994	**568,782**
Other receivables	236,495	13,800	602	– 538	**250,359**
Financial assets at fair value through profit or loss	1,673,767	—	—	—	**1,673,767**
Positive market value of hedges	58,079	—	—	—	**58,079**
Available-for-sale receivables	7,749,892	—	710	—	**7,750,602**
Debt securities and other fixed-income securities	7,091,106	—	710	—	**7,091,816**
Available-for-sale assets	465,775	—	—	—	**465,775**
Other available-for-sale financial assets	193,011	—	—	—	**193,011**
Share of reinsurance business in technical provisions	2,054,381	—	—	—	**2,054,381**
Total	59,637,664	1,493,353	393,200	-65,403	**61,458,814**

Assets past due but not subject to specific valuation allowances include both past due instalments and the underlying total amount of the receivable. In addition, existing risks of default are minimised by accepting collateral primarily in the property financing business.

Wüstenrot Bausparkasse AG, Wüstenrot Bank AG Pfandbriefbank and Württembergische Lebensversicherung AG operate in the home loan business. Loans granted by these Group companies are mainly secured by land charges and mortgages. Collateralisation leads to a significant reduction of the possible default. The loans granted by Württembergische Lebensversicherung AG are wholly secured by charges over property.

In addition, Group companies have entered into off-balance sheet transactions which are also associated with default risks. These transactions include irrevocable loan commitments by Group companies in the amount of EUR 870.1 million (2006: EUR 689.4 million) as well as guarantees with a maximum exposure to default risks of EUR 9.9 million (2006: EUR 28.6 million). The default risk from guarantees is calculated based on the maximum liability less the provisions recognised for default risks.

The carrying amounts of the building loans where the terms and conditions have been renegotiated and which would otherwise be past due or impaired, amount to EUR 11.0 million (2006: EUR 8.4 million). These loans are almost completely secured by charges over property.

The following table shows the assets that were neither past due nor impaired as at the balance sheet date, based on external rating categories.

Analysis of assets neither past due nor impaired by rating categories

	AAA	AA
	31 Dec 2007	31 Dec 2007
	EUR 000's	EUR 000's
Cash reserve	3,381	—
Receivables	9,823,440	5,678,990
Loans and advances to banks	8,143,829	3,876,584
Receivables from reinsurance business	371	60,236
Loans and advances to customers	1,678,467	1,742,170
Building loans	—	—
Receivables from retail customers secured by charges over property	—	—
Receivables from retail customers not secured by charges over property	—	—
Loans to local authorities	1,564,864	1,742,170
Other receivables from customers	113,603	—
Other receivables	773	—
Financial assets at fair value through profit or loss	48,065	513,227
Positive market value of hedges	—	823
Available-for-sale financial assets	5,239,241	416,639
Bonds and other fixed-income securities	4,883,076	356,882
Available-for-sale receivables	335,206	35,992
Other available-for-sale financial assets	20,959	23,765
Share of reinsurance business in technical provisions	1,206	1,821,780
Total	15,115,333	8,431,459

	AAA	AA
	31 Dec 2006	31 Dec 2006
	EUR 000's	EUR 000's
Cash reserve	3,614	—
Receivables	9,225,920	5,418,127
Loans and advances to banks	8,121,121	4,097,486
Receivables from reinsurance business	379	46,205
Loans and advances to customers	1,104,420	1,274,436
Building loans	—	—
Receivables from retail customers secured by charges over property	—	—
Receivables from retail customers not secured by charges over property	—	—
Loans to local authorities	1,027,580	1,274,436
Other receivables from customers	76,840	—
Other receivables	—	—
Financial assets at fair value through profit or loss	131,152	252,744
Positive market value of hedges	—	2,273
Available-for-sale financial assets	4,546,403	805,023
Bonds and other fixed-income securities	4,185,440	761,622
Available-for-sale receivables	283,531	27,113
Other available-for-sale financial assets	77,432	16,288
Share of reinsurance business in technical provisions	3,317	1,925,979
Total	13,910,406	8,404,146

A	BBB	BB	B or lower	not rated	**Sum total**
31 Dec 2007	31 Dec 2007	31 Dec 2007	31 Dec 2007	31 Dec 2007	**31 Dec 2007**
EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	**EUR 000's**
46,916	—	—	—	128,656	**178,953**
5,886,582	70,529	229	—	25,428,702	**46,888,472**
5,784,958	27,230	—	—	1,265,264	**19,097,865**
91,168	17,171	229	—	8,296	**177,471**
10,456	26,056	—	—	23,922,819	**27,379,968**
—	—	—	—	23,423,659	**23,423,659**
—	—	—	—	20,949,239	**20,949,239**
—	—	—	—	2,474,420	**2,474,420**
10,456	—	—	—	60,273	**3,377,763**
—	26,056	—	—	438,887	**578,546**
—	72	—	—	232,323	**233,168**
255,171	116,719	20,433	—	752,664	**1,706,279**
18,276	—	—	—	—	**19,099**
1,828,080	425,369	52,039	48,635	141,428	**8,151,431**
1,771,906	395,603	19,701	23,571	116,197	**7,566,936**
42,467	25,623	30,220	25,064	345	**494,917**
13,707	4,143	2,118	—	24,886	**89,578**
74,493	—	—	154	91,345	**1,988,978**
8,109,518	612,617	72,701	48,789	26,542,795	**58,933,212**

A	BBB	BB	B or lower	not rated	**Sum total**
31 Dec 2006	31 Dec 2006	31 Dec 2006	31 Dec 2006	31 Dec 2006	**31 Dec 2006**
EUR 000's	EUR 000's	EUR 000's	EUR 000's	EUR 000's	**EUR 000's**
48,751	—	—	—	83,960	**136,325**
5,836,117	576,085	49,382	4,953	26,854,636	**47,965,220**
5,758,107	565,139	26,068	4,941	982,184	**19,555,046**
78,010	879	189	12	32,296	**157,970**
—	10,021	23,125	—	25,603,707	**28,015,709**
—	—	—	—	24,126,012	**24,126,012**
—	—	—	—	18,851,483	**18,851,483**
—	—	—	—	5,274,529	**5,274,529**
—	—	—	—	1,055,727	**3,357,743**
—	10,021	23,125	—	421,968	**531,954**
—	46	—	—	236,449	**236,495**
334,499	67,951	2,766	—	884,655	**1,673,767**
35,081	—	—	—	20,725	**58,079**
1,393,733	335,926	54,813	205,005	408,989	**7,749,892**
1,276,860	292,235	23,760	176,052	375,137	**7,091,106**
62,758	28,526	31,053	28,953	3,841	**465,775**
54,115	15,165	—	—	30,011	**193,011**
94,621	1,077	182	19	29,186	**2,054,381**
7,742,802	981,039	107,143	209,977	28,282,151	**59,637,664**

Of the debt securities and other fixed-income securities included in held-for-trading assets and available-for-sale financial assets, an amount of EUR 1,880 million (2006: EUR 2,222 million) related to public issuers. As at the balance sheet date, financial assets in the W&W Group that were past due, but not subject to specific valuation allowances had a carrying amount of EUR 1,441.3 million (2006: EUR 1,493.4 million).

The maturity structure of these financial assets is presented in the table below:

31 Dec 2007 in EUR 000's	up to 1 month past due	more than 1 month to 2 months past due	more than 2 month to 3 months past due	more than 3 months up to 1 year past due	more than 1 year past due	Sum total
Receivables	746,546	274,025	115,039	239,907	65,746	**1,441,263**
Receivables from the reinsurance business	5,883	—	—	—	—	**5,883**
Loans and advances to customers	726,650	274,025	115,039	239,907	65,746	**1,421,367**
Building loans	692,637	260,315	110,228	228,643	61,904	**1,353,727**
Loans to private customers secured by charges on real property	671,363	257,725	109,647	226,904	60,911	**1,326,550**
Loans to private customers not secured by charges on real property	21,274	2,590	581	1,739	993	**27,177**
Other receivables from customers	34,013	13,710	4,811	11,264	3,842	**67,640**
Other receivables	14,013	—	—	—	—	**14,013**
Total	746,546	274,025	115,039	239,907	65,746	**1,441,263**

31 Dec. 2006 in EUR 000's	up to 1 month past due	more than 1 month to 2 months past due	more than 2 month to 3 months past due	more than 3 months up to 1 year past due	more than 1 year past due	Sum total
Receivables	768,833	332,652	164,664	165,721	61,483	**1,493,353**
Receivables from the reinsurance business	3,279	—	—	—	—	**3,279**
Loans and advances to customers	765,554	332,652	150,864	165,721	61,483	**1,476,274**
Building loans	751,539	330,808	144,392	148,469	57,352	**1,432,560**
Loans to private customers secured by charges on real property	725,337	327,098	143,540	146,238	56,649	**1,398,862**
Loans to private customers not secured by charges on real property	26,202	3,710	852	2,231	703	**33,698**
Other receivables from customers	14,015	1,844	6,472	17,252	4,131	**43,714**
Other receivables	—	—	13,800	—	—	**13,800**
Total	768,833	332,652	164,664	165,721	61,483	**1,493,353**

The major part of the assets past due and not subject to specific valuation allowances relates to receivables from building loans, which are largely secured by charges over property.

In addition, assets subject to specific valuation allowances were reported at a carrying amount of EUR 411.4 million (2006: EUR 393.3 million) as at the balance sheet date. The gross carrying amounts of the related assets, the direct write-offs recognised up to the balance sheet date and the specific valuation allowances recognised up to the balance sheet date are shown in the following table.

	Assets subject to specific valuation allowances			
31 Dec 2007 in EUR 000's	Gross carrying amount	Direct write-off	Specific valuation allowances	**Sum total**
Receivables	534,096	– 5,848	– 193,136	**335,112**
Loans and advances to banks	63	—	– 63	–
Loans and advances to customers	529,215	– 4,994	– 189,392	**334,829**
Building loans	514,465	– 4,271	– 185,064	**325,130**
Receivables from retail customers secured by charges over property	456,216	– 4,132	– 162,048	**290,036**
Receivables from retail customers not secured by charges over property	58,249	– 139	– 23,016	**35,094**
Other receivables from customers	14,750	– 723	– 4,328	**9,699**
Other receivables	4,818	– 854	– 3,681	**283**
Available-for-sale financial assets	96,381	– 20,100	—	**76,281**
Debt securities and other fixed-income securities	68,785	– 5,844	—	**62,941**
Other available-for-sale financial assets	27,596	– 14,256	—	**13,340**
Total	630,477	– 25,948	–193,136	**411,393**

	Assets subject to specific valuation allowances			
31 Dec 2006 in EUR 000's	Gross carrying amount	Direct write-off	Specific valuation allowances	**Sum total**
Receivables	642,314	– 13,651	– 236,173	**392,490**
Loans and advances to banks	5,662	—	– 3,325	**2,337**
Loans and advances to customers	632,225	– 13,634	– 229,040	**389,551**
Building loans	623,627	– 12,295	– 223,889	**387,443**
Receivables from retail customers secured by charges over property	568,747	– 9,094	– 205,711	**353,942**
Receivables from retail customers not secured by charges over property	54,880	– 3,201	– 18,178	**33,501**
Other receivables from customers	8,598	– 1,339	– 5,151	**2,108**
Other receivables	4,427	– 17	– 3,808	**602**
Available-for-sale financial assets	6,284	– 5,574	—	**710**
Debt securities and other fixed-income securities	6,284	– 5,574	—	**710**
Total	648,598	– 19,225	– 236,173	**393,200**

They major part of the assets subject to specific valuation allowances relates to receivables from building loans, which are largely secured by charges over property.

59. Insurance risks

59.1 Life and health insurance

Presentation of insurance portfolio

The life and health insurance business in the W&W Group comprises endowment and term assurance, annuity assurance, permanent health insurance, and health insurance. The insurance portfolio mainly consists of long-term contracts with a discretionary participation feature. Unit-linked life and annuity assurance are covered on a matching basis with the shares in investment funds attributable to the insurance policies.

The active reinsurance business now only accounts for an insignificant portion.

Risks of the insurance portfolio and risk management system

The distinctive feature of life insurance contracts is the long-term nature of the obligations assumed. The calculation of the guaranteed benefits is based on prudent assumptions. The calculation parameters may change significantly over time such that material cash flows may deviate from expectations.

Risks from the life insurance business mainly result from mortality and other biometric risks, interest rate risk and expense risk.

The biometric calculation parameters, such as mortality, life expectancy or invalidity probabilities are subject to fluctuation risks and risk of errors as well as long-term changes. These risks are controlled on an ongoing basis by means of actuarial analyses and reviews. As far as product development is concerned, we take into account potential changes through corresponding actuarial models.

The assessment of longevity risk is of particular significance for the provision for future policy benefits in the annuity assurance business. In addition to the analysis of the Company's own findings, W&W also relies on research, comments and guidelines of the German Association of Actuaries in order to stabilize the information basis. Due to the insufficiently weakened trend in mortality improvement, Württembergische Lebensversicherung AG has again increased the safety margins for longevity risk in the provision for future policy benefits. Future findings with respect to mortality trends or the increase of the safety margins as recommended by the German Association of Actuaries may lead to additional transfers to the provision for future policy benefits.

The calculation parameters are considered appropriate by both the supervisory authority and the German Association of Actuaries. The internal reporting to the supervisory authority includes an annual comparison with actual results. Smaller changes in the assumptions underlying the calculation with respect to biometry, interest rates and expenses are compensated for by the safety premiums included in the calculation parameters.

In case of a change of the risk, expense and / or interest rate expectations, the associated impact on earnings is significantly reduced by an adjustment of the future profit participation payable to the policyholders.

The risks are limited by suitable passive reinsurance contracts concluded with top reinsurance companies.

Sensitivity analysis

In the life insurance segment, we use calculation parameters subject to high safety margins for the calculation of guaranteed benefits in order to take into account the long-term nature of life insurance contracts. Discretionary participation features are used to pass on unnecessary safety margins to customers. Short-term fluctuations are compensated for by reducing or increasing the additions to the provision for premium refunds intended for future profit participation. In addition, the amount of the profit participation is adjusted in case of long-term changes.

Biometric risk

An increase of mortality reduces earnings in case of endowment and term life assurance contracts, but increases earnings in case of annuity assurance contracts. The expected mortalities are sufficiently taken into account by the existing safety margins, and a change will only have marginal effects in accordance with the mechanism described above, even on a gross basis, when such effects cannot be compensated for completely. The passive reinsurance concluded further reduces this effect.

In the area of permanent health insurance, the invalidity probability is subject to social and economic developments, apart from medical and legal changes. The safety margins embedded in the calculation are sufficiently taken into consideration here as well, so that the underlying expectations will have a positive result. A reasonably assumed change of the invalidity probability does not have more than marginal effects on the Group's earnings, both on a gross or on a net basis.

In the area of health insurance, the risk resulting from an increase of the per capita losses is provided for by an adjustment of the premium. Accordingly, this risk has no significant effect on Group earnings.

Cancellation risk

An increased cancellation of contracts by customers may result in larger-than-expected outflows of liquidity. The changes of the cancellation rates in the past do not show significant fluctuations. Accordingly, only minor changes can be reasonably expected, which means that the impact on earnings is negligible.

In addition, negative consequences on earnings only occur in the first years after a contract is concluded, as long as claims against the policyholder are reported that are not yet due and cannot be recovered after cancellation. Cancellations are accounted for by recognising an appropriate valuation allowance. The valuation allowances are based on prudent assumptions according to experience from prior years.

In case of a surrender in subsequent years, the cancellation discounts have a positive effect on Group earnings as the provisions include at least the surrender value. This means that the payment is simultaneously matched with a corresponding reversal of the provisions.

Unit-linked insurance policies are covered on a matching basis with the relevant funds; additional guarantee commitments are taken into account in the provision for future policy benefits. An increase or reduction of the cancellation rate does not result in any material effect on earnings.

Risk concentrations

Concentrations of insurance risks in the life and health insurance business result from regional risk concentrations as well as from individual insurance contracts, in case of a significant level of insured risks.

The emergence of regional risk concentrations is addressed by life and health insurance providers by distributing their insurance products on a nationwide basis.

Risk concentrations from individual insurance contracts (cluster risk) are reduced by passive reinsurance contracts with top reinsurance providers. The remaining risk concentrations result from the insured risks, i. e. the mortality, longevity and invalidity risks, respectively. The following table shows the provision for future policy benefits by insured risks to illustrate the existing risk concentrations.

	31 Dec 2007	31 Dec 2007	31 Dec 2006	31 Dec 2006
	EUR 000's	EUR 000's	EUR 000's	EUR 000's
	Gross	Net	Gross	Net
Life assurance				
Mainly mortality risk	14,936,821	13,790,422	15,115,120	13,980,140
Mainly endowment risk (annuities)	7,843,263	7,487,437	7,302,069	6,932,669
Mainly invalidity risk	444,393	385,340	326,914	278,364
Health insurance	99,535	99,535	73,784	73,784
Active reinsurance business	36,086	36,086	34,082	34,082
Total	23,360,098	21,798,820	22,851,969	21,299,039

Individual insurance contracts are not associated with material risk concentrations, neither on a gross nor on a net basis. This becomes apparent in the following overview in which the gross provision for future policy benefits of the direct insurers is classified by the sum insured (12 times the annuity in case of annuity assurance) of the underlying insurance contracts.

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
	Gross	Gross
< EUR 0.5 million	22,671,596	22,203,526
> EUR 0.5 million – EUR 1 million	267,181	261,271
> EUR 1 million – EUR 5 million	216,482	212,059
> EUR 5 million – EUR 15 million	16,860	16,166
> EUR 15 million – EUR 50 million	52,358	51,081
> EUR 50 million	—	—
Active reinsurance business	36,086	34,082
Total	23,260,563	22,778,185

Insurance contracts with an insured sum between EUR 15 million and EUR 50 million refer to endowment insurance policies against payment of a single premium. The mortality risk, which is low for single premium insurance contracts anyway, is further reduced by facultative reinsurance.

Risks from options and guarantees included in insurance contracts

- **Unit-linked life and annuity assurance: guaranteed minimum benefits**
  The investment risk associated with unit-linked annuity assurance contracts remains with the policyholder. There is no market risk since all contracts are covered on a matching basis. The product design ensures that reserves are established for contribution components necessary to pay any guaranteed minimum benefits.
- **Annuity assurance: lump-sum option**
  The exercise of the lump-sum option is influenced by individual factors of the policyholder.
- **Life assurance: annuitisation option**
  The annuitisation option is carried out on the basis of the tariffs applicable to new insurance contracts concluded. This option does not have any effects on earnings or the balance sheet.
- **Surrender option and contribution exemption**
  The provision for future policy benefits recognised in the balance sheet for contracts with surrender options is in each case at least equivalent to the surrender value. A contribution exemption with reduced guaranteed benefits represents a partial surrender and is therefore already accounted for in the balance sheet by analogy.
- **Premium indexation**
  While the option to increase insurance benefits by increasing the premium without additional underwriting is calculated using a fixed calculation rate, previous experience shows that the decision of the policyholders is influenced to a higher degree by the type of insurance contract or by the expectation of higher interest rates from the profit participation. The interest rate risk from this option is negligible.

59.2 Property-casualty insurance/reinsurance

Presentation of insurance portfolio

The property-casualty insurance business is carried out in the domestic market by Württembergische Versicherung AG. In its domestic market, Württembergische Versicherung AG insures risks with a focus on the private and commercial sector. Types of insurance include the traditional segments of liability insurance, motor insurance, household insurance, legal protection insurance, personal accident insurance and residential building insurance.

After the discontinuation of new business activities of its UK subsidiary WürttUK, Württembergische Versicherung AG has not underwritten any large industrial risks or reinsurance since 2008. Wüstenrot & Württembergische AG operates in the active reinsurance business only to a very limited extent in form of a participation in some German market pools. As a result of the almost complete discontinuation of the active reinsurance business by Wüstenrot & Württembergische AG already a number of years ago as well as due to the discontinuation of new business at WürttUK, the international risk exposure of the W&W Group has been reduced considerably. Run-off risks from this existing business, which decrease over time, have been provided for through the recognition of appropriate provisions.

Risks of the insurance portfolio and risk management system

Insurance risks result from uncertainties with respect to the future development of losses and costs from insurance contracts concluded which may result in unexpected loss adjustment and benefit obligations, possibly detrimenting our financial performance and competitive position.

In the property insurance segment, insurance risks are primarily of a short-term nature as loss adjustment may generally be made on a timely basis. In case of severe bodily injuries in the areas of general liability insurance and motor third party liability insurance, as well as in the personal accident insurance, risks are also subject to exogenous trends, such as medical progress and the associated life expectancy. In addition, risks are influenced by legal regulations with regard to compensation for damages and liability.

Württembergische Versicherung AG selects its risks by a risk- and cost-based tariff structure and underwriting policy. The price calculation is based on actuarial calculations and statistical analyses of existing portfolios and costs. The product design is mainly based on normal market conditions and regulations and excludes – to the extent possible in the contract design – barely estimable risks, for which there is insufficient loss history (e.g. terror acts, asbestos). Risk underwriting is based on specified guidelines and takes into account defined maximum underwriting amounts. As far as natural hazards are concerned, risk selection and pricing is based on regional classification systems so that objects with a high exposure to loss are not insured at all or only at appropriate prices. The underwriting guidelines are regularly updated, and compliance with these guidelines is monitored on an ongoing basis.

Loss management is optimised on a continuous basis. Advising customers with respect to precautionary measures reduces the loss probability, and quick and uncomplicated loss adjustment minimises costs. The loss events are processed by qualified and specialised staff.

Furthermore, Württembergische Versicherung AG has a comprehensive and appropriate reinsurance protection for the purpose of limiting negative effects from large, cumulative or long tail damages. The reinsurance program is reviewed annually taking into consideration the risk-bearing capacity, and adapted to the relevant business development. Passive reinsurance is placed with several highly rated reinsurers (currently 95 per cent are rated with A or higher).

In case of identified or expected insurance risks, we recognise provisions in a timely and appropriate manner in form of specific or general provisions as well as equalisation provisions in sufficient amounts.

Sensitivity analysis

Underwriting of risks is exclusively based on actuarial and statistical analyses. This means that Württembergische Versicherung AG has priced in sufficient safety premiums in its tariffs in order to cover risk fluctuations.

In order to review the sufficiency of the provisions, we use actuarial opinions as well as regular simulations and stress analyses. The recognition of provisions for loss events is based on a conservative approach followed by Württembergische Versicherung AG. The objective of this approach is to meet future payment obligations at any time. Provisions are reviewed for each insurance segment on a regular basis as to their appropriateness, using the internal risk-bearing capacity model. On the basis of the results of these reviews and the analyses performed by public audit firms, we come to the conclusion that the provisions of Württembergische Versicherung AG in the property-casualty segment are sufficient.

The Group’s earnings may be negatively affected if actual loss or cost trends deviate from expectations. These negative effects are accounted for as part of insurance risks.

The insurance risks are measured using statistical-analytical factor models customary in the industry or company-specific stochastic models.
In addition, loss scenario analyses are performed.

Risk concentrations

Risk concentrations primarily result from the risks insured in the different insurance segments. The following table shows the claims provision by segments to illustrate the existing risk concentrations. The table shows the portfolio which is characterised by a broadly diversified segment mix and which contributes to a reduction of the risk exposures.

	31 Dec 2007	**31 Dec 2007**	31 Dec 2006	31 Dec 2006
	EUR 000's	**EUR 000's**	EUR 000's	EUR 000's
Claims provision	**Gross**	**Net**	Gross	Net
Liability insurance – corporate customers	**471,861**	**453,771**	461,285	391,099
Property insurance – corporate customers	**448,698**	**355,297**	465,915	337,739
Liability insurance – private customers	**121,865**	**89,091**	84,093	88,918
Other insurance – private customers	**2,134**	**1,480**	51,622	24,577
Motor third party liability	**1,081,349**	**865,252**	1,029,931	823,795
Other motor insurance	**1,030**	**870**	2,894	2,335
Household insurance	**9,084**	**9,000**	9,228	9,131
Legal protection insurance	**116,538**	**116,538**	110,048	110,048
Hull fire/theft	**4,171**	**4,127**	5,179	4,530
Personal accident insurance	**170,037**	**165,482**	164,715	161,853
Hull all risks	**21,764**	**18,476**	24,738	22,617
Residential building insurance	**32,498**	**27,872**	34,530	30,004
Other	**3,969**	**3,969**	3,161	3,161
Total	**2,484,998**	**2,111,225**	2,447,339	2,009,807

60. Liquidity risks

Liquidity risk is the risk that an entity will not be able to raise funds necessary to settle its obligations. Liquidity risks may also result from an inability to timely sell an asset quickly at its fair value, or cash funds have to be raised at higher-than-expected costs. Accordingly, liquidity risks consist of the risk of the inability to pay, the funding risk and the market liquidity risk.

A number of Group companies, operating as financial services companies, is subject to specific legal and regulatory requirements which are intended to ensure that the related companies are able to meet their current or future payment obligations at any time. The Group companies complied with these regulatory requirements at any time.

For the purpose of monitoring and controlling liquidity risks, the cash flows expected in future are compared with existing funds in a liquidity run-off profile. Within the scope of a standardised liquidity planning, the individual companies forecast all future cash inflows and outflows. This involves taking into account and reconciling maturity structures of receivables and liabilities. The calculated surpluses or deficits then represent the basis for the investment or financing decisions. Sensitivity analyses are used to evaluate the effects and coverage potential of specific behaviours of capital markets and customers. Emergency plans are established to manage exceptional situations. This is to address concentrations of risks threatening the liquidity in the Group.

Identified or expected liquidity risks are immediately reported to central risk management. In 2007, we successfully completed a project for ensuring sustainable liquidity and monitoring cash flows of the W&W Group and the individual Group companies. Material liquidity risks are notified as part of regular risk reporting.

The following table shows the maturity analysis with respect to selected financial instruments for the financial year 2007:

	up to 3 months EUR mn	3 months to 1 year EUR mn	1 year to 5 years EUR mn	more than 5 years EUR mn	indefinite term EUR mn	**Total EUR mn**
Assets						
Loans and advances to banks	2,468.8	1,289.7	3,671.1	11,627.8	40.5	**19,097.9**
Receivables from the reinsurance business	105.4	63.3	14.7	—	—	**183.4**
Loans and advances to customers	2,262.0	3,154.7	8,926.3	11,382.2	3,605.2	**29,330.4**
Other receivables	246.1	2.0	—	—	3.0	**251.1**
Debt securities and other fixed-income securities classified as financial assets designated as at fair value	54.5	102.8	159.2	526.8	674.0	**1,517.3**
Debt securities and other fixed-income securities as well as derivatives held for trading	53.7	15.7	32.3	86.0	—	**187.7**
Debt securities and other fixed-income securities, bearer bonds and other receivables as well as other available-for-sale financial assets	243.8	590.5	2,388.2	4,901.2	1.1	**8,124.8**
Liabilities						
Certificated liabilities	747.2	892.0	1,170.1	506.5	—	**3,315.8**
Liabilities to banks	1,999.9	1,061.8	1,475.8	462.8	542.6	**5,542.9**
Liabilities from the reinsurance business	1,655.8	54.6	—	—	—	**1,710.4**
Liabilities to customers	2,914.0	731.7	1,967.9	2,414.4	13,761.9	**21,789.9**
Other liabilities	341.2	17.9	12.1	31.7	45.0	**447.9**
Financial liabilities measured at fair value through profit or loss	61.3	119.2	13.2	34.0	—	**227.7**
Subordinated capital	16.8	2.6	122.6	365.5	—	**507.5**

As of the balance sheet date 2007, the remaining terms to maturity of financial instruments of more than one year and up to including five years can be broken down for material items into the following time bands:

	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	**Total**
	EUR mn	EUR mn	EUR mn	EUR mn	**EUR mn**
Assets					
Loans and advances to banks:					
of which: Building loans	4.7	—	0.2	—	**4.9**
of which: Other loans and advances	860.6	653.2	401.3	454.2	**2,369.3**
Loans and advances to customers:					
of which: Building loans	2,720.3	2,076.9	1,674.4	1,678.9	**8,150.5**
of which: Other loans and advances	1.2	1.3	1.3	1.8	**5.6**
Debt securities and other fixed-income securities classified as financial assets designated as at fair value	46.8	39.3	45.3	27.8	**159.2**
Debt securities and other fixed-income securities as well as derivatives held for trading	12.6	10.6	1.8	7.3	**32.3**
Debt securities and other fixed-income securities, bearer bonds and other receivables as well as other available-for-sale financial assets	983.5	414.9	634.0	355.8	**2,388.2**
Liabilities					
Certificated liabilities	954.3	100.0	52.7	63.2	**1,170.2**
Liabilities to banks:					
Other liabilities	597.2	473.3	207.2	198.1	**1,475.8**
Liabilities to customers:					
Savings deposits	10.9	—	—	106.2	**117.1**
Other deposits	552.0	362.5	634.0	302.3	**1,850.8**
Financial liabilities measures at fair value through profit or loss	5.1	2.2	5.8	0.1	**13.2**
Subordinated capital	50.5	32.1	40.0	—	**122.6**

The following table shows the maturity analysis with respect to selected financial instruments for the financial year 2006:

	up to 3 months EUR mn	3 months to 1 year EUR mn	1 year to 5 years EUR mn	more than 5 years EUR mn	indefinite term EUR mn	**Total EUR mn**
Assets						
Loans and advances to banks	2,215.4	1,054.0	4,784.7	11,505.7	0.9	**19,560.7**
Receivables from the reinsurance business	80.0	81.2	—	—	—	**161.2**
Loans and advances to customers	2,302.1	2,996.2	10,444.5	10,801.4	3,566.4	**30,110.6**
Other receivables	199.2	2.7	12.8	—	40.0	**254.7**
Debt securities and other fixed-income securities classified as financial assets designated as at fair value	21.6	10.4	388.6	564.8	584.6	**1,570.0**
Debt securities and other fixed-income securities as well as derivatives held for trading	45.2	5.6	18.2	30.5	—	**99.5**
Debt securities and other fixed-income securities, bearer bonds and other receivables as well as other available-for-sale financial assets	410.6	334.5	2,840.0	4 031.5	2.0	**7,618.6**
Liabilities						
Certificated liabilities	535.1	442.2	2,427.8	604.2	—	**4,009.3**
Liabilities to banks	519.1	783.4	2,728.3	1,407.1	505.3	**5,943.2**
Liabilities from the reinsurance business	129.4	1,579.5	—	—	—	**1,708.9**
Liabilities to customers	2,868.0	512.2	2,294.2	1,840.1	14,583.8	**22,098.3**
Other liabilities	295.2	2.5	11.9	—	94.5	**404.1**
Financial liabilities measured at fair value through profit or loss	58.1	7.1	158.8	12.7	—	**236.7**
Subordinated capital	34.2	6.9	125.8	376.6	—	**543.5**

As of the balance sheet date 2006, the remaining terms to maturity of financial instruments of more than one year and up to including five years can be broken down for material items into the following time bands:

	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	**Total**
	EUR mn	EUR mn	EUR mn	EUR mn	**EUR mn**
Assets					
Loans and advances to banks:					
of which: Building loans	5.0	—	—	—	**5.0**
of which: Other loans and advances	998.3	887.2	673.8	850.0	**3,409.3**
Loans and advances to customers:					
of which: Building loans	3,360.0	2,449.3	1,888.7	1,691.4	**9,389.4**
of which: Other loans and advances	10.0	0.1	—	—	**10.1**
Debt securities and other fixed-income securities classified as financial assets designated as at fair value	164.8	149.8	43.7	30.3	**388.6**
Debt securities and other fixed-income securities as well as derivatives held for trading	4.4	0.6	6.3	6.9	**18.2**
Debt securities and other fixed-income securities, bearer bonds and other receivables as well as other available-for-sale financial assets	669.0	1,059.7	339.6	771.7	**2,840.0**
Liabilities					
Certificated liabilities	1,545.1	789.3	80.6	12.8	**2,427.8**
Liabilities to banks:					
Other liabilities	1,155.2	647.2	563.3	362.6	**2,728.3**
Liabilities to customers:					
Savings deposits	346.9	—	—	56.2	**403.1**
Other deposits	417.9	488.4	354.9	629.9	**1,891.1**
Financial liabilities measured at fair value through profit or loss	141.2	10.1	1.5	6.0	**158.8**
Subordinated capital	4.1	65.1	16.6	40.0	**125.8**

The following overview shows the future contractual gross payments for the financial instruments in the Group's portfolio as of the balance sheet date, as well as the expected maturity structure for the liability items resulting from insurance contracts:

31 Dec 2007 in EUR 000's	up to 3 months	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	more than 20 years
Contractually agreed cash flows							
Liabilities	20,066,893	2,748,577	5,899,907	4,047,721	316,402	359,157	72,796
Certificated liabilities	1,081,713	749,264	1,384,441	547,038	17,890	10,599	—
Liabilities to banks	2,317,168	1,016,057	1,781,879	1,008,278	13,076	54,683	—
Liabilities to customers	16,223,329	946,106	2,721,643	2,492,405	285,436	293,875	72,196
Deposits from the home loan and savings business and other savings deposits	14,892,567	387,642	116,085	128,918	—	—	—
Other deposits	1,330,762	558,464	2,605,558	2,363,487	285,436	293,875	72,196
Other liabilities	444,683	37,150	11,944	—	—	—	600
Financial liabilities measured at fair value through profit or loss	24,451	136,609	27,991	10,473	312	1,238	1,096
Negative market value of hedges	4,709	11,621	52,488	29,796	21,301	10,470	—
Subordinated capital	5,860	27,869	245,179	254,632	98,894	152,230	—
Off-balance sheet transactions:							
Loan commitments	296,297	610,173	—	—	—	—	—
Total	**20,398,210**	**3,534,849**	**6,225,565**	**4,342,622**	**436,909**	**523,095**	**73,892**
Expected maturity of amounts recognised in the balance sheet							
Liabilities from reinsurance business	104,377	77,150	—	—	—	—	—
Liabilities to customers from the direct insurance business	18,751	323,519	150,364	118,907	56,211	30,517	39,760
Technical provisions	784,861	2,377,739	8,080,049	6,438,946	3,654,490	2,042,684	3,231,850
Provision for future policy benefits for life insurance	487,288	1,796,282	7,005,994	5,999,457	3,355,632	1,825,262	2,843,468
Provision for loss and loss adjustment expenses	287,049	530,892	962,467	307,444	208,770	158,040	143,054
Provisions for unit-linked life-insurance contracts	10,284	25,285	111,588	132,045	90,088	59,382	245,328
Other technical provisions	240	25,280	—	—	—	—	—
Total	**907,989**	**2,778,408**	**8,230,413**	**6,557,853**	**3,710,701**	**2,073,201**	**3,271,610**

31 Dec 2006 in EUR 000's	up to 3 months	3 months to 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	more than 20 years
Contractually agreed cash flows							
Liabilities	19,615,150	2,079,524	8,839,501	3,086,032	287,535	438,329	23,233
Certificated liabilities	513,997	357,511	2,596,012	652,363	18,550	11,125	—
Liabilities to banks	2,069,488	989,678	3,246,262	740,451	13,104	57,226	—
Liabilities to customers	16,650,702	709,261	2,985,325	1,693,218	255,881	369,978	22,288
Deposits from the home loan and savings business and other savings deposits	15,751,898	187,981	417,034	14,824	—	—	—
Other deposits	898,804	521,280	2,568,291	1,678,394	255,881	369,978	22,288
Other liabilities	380,963	23,074	11,902	—	—	—	945
Financial liabilities measured at fair value through profit or loss	27,227	22,318	169,637	8,892	—	—	—
Negative market value of hedges	14,986	16,847	60,266	39,676	27,428	17,380	2,221
Subordinated capital	28,556	40,286	275,159	268,667	102,071	152,748	—
Off-balance sheet transactions:							
Loan commitments	185,596	556,871	—	—	—	—	—
Total	**19,871,515**	**2,715,846**	**9,344,563**	**3,403,267**	**417,034**	**608,457**	**25,454**
Expected maturity of amounts recognised in the balance sheet							
Liabilities from reinsurance business	98,713	14,553	—	—	—	—	—
Liabilities to customers from the direct insurance business	699,235	39,240	90,454	53,246	25,314	12,781	11,145
Technical provisions	904,389	2,305,275	7,690,478	6,268,067	3,634,566	2,049,595	3,096,626
Provision for future policy benefits for life insurance	476,738	1,671,205	6,859,058	5,836,636	3,335,194	1,841,395	2,757,900
Provision for loss and loss adjustment expenses	400,296	600,504	731,605	318,559	212,210	157,086	135,771
Provisions for unit-linked life-insurance contracts	8,114	23,803	99,249	112,487	87,010	51,012	202,904
Other technical provisions	19,241	9,763	566	385	152	102	51
Total	**1,702,337**	**2,359,068**	**7,780,,932**	**6,321,313**	**3,659,880**	**2,062,376**	**3,107,771**

Equity management

Wüstenrot & Württembergische AG, as the holding company, is responsible for W&W Group's equity base. On the one hand, it receives dividends and profit transfers and on the other hand, it carries out corporate actions such as capital increases and reductions and grants loans to Group companies.

The main objective of equity management is an efficient allocation of equity and an adequate return on equity as reported under IFRS. In order to ensure that this objective is reached, return on equity (ROE) targets are set for the W&W Group and the individual subsidiaries, with these targets being derived on the basis of the relevant IFRS equity.

As of 31 December 2007, the W&W Group's equity as reported in accordance with IFRS amounted to EUR 2,493.6 million (2006: EUR 2,306.2 million). The changes of the individual components of equity are disclosed in Note 34 (Statement of changes in shareholders' equity).

Further objectives of euity management are ensuring the risk-bearing capacity on the basis of internal risk-bearing capacity models of the W&W Group as well as meeting the regulatory minimum capital requirements, which are defined by the provisions of the German Banking Act (Kreditwesengesetz, KWG), the German Insurance Supervisory Law (Versicherungsaufsichtsgesetz, VAG) and the German Solvability Ordinance for Financial Groups (Finanzkonglomeratesolvabilitätsverordnung, FkSolV).

Another capital requirement is that the W&W Group – in aggregate as well as the individual subsidiaries on a stand-alone basis – must have sufficient equity so that a financial strength rating of at least "A" is possible. Within the scope of an efficient equity management, the W&W Group also employs subordinated capital for the purposes of meeting the regulatory solvability requirements.

61. Regulatory solvability

The insurance companies and the credit and financial services institutions of the W&W Group are subject to supervision on the level of the individual company by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) and the German Central Bank pursuant to the VAG, the KWG and the applicable provisions of the country of incorporation of the supervised foreign companies of the W&W Group. This supervision represents the basis for the capital requirements applicable to these companies.

Wüstenrot & Württembergische AG ensures that all supervised subsidiaries comply with the minimum regulatory capital requirements. In this context, equity capital and subordinated capital represent the basis for equity management in accordance with the regulatory standards. The composition of subordinated capital is disclosed in Note 33 (Subordinated capital). The changes of the individual components of shareholders' equity are disclosed in Note 34 (Statement of changes in shareholders' equity).

In the year under review, all companies of the W&W Group that are subject to supervision have fulfilled the regulatory minimum capital requirements.

The following table shows the regulatory capital ratios of the material subsidiaries:

	Existing own funds pursuant to VAG / KWG		Solvability requirement pursuant to VAG / KWG		Ratio	
	2007	2006	2007	2006	2007	2006
	EUR mn	EUR mn	EUR mn	EUR mn	Per cent	Per cent
Wüstenrot Bausparkasse AG	**710.9**	882.0	**7,512.3**	7,938.3	**9.5**	11.1
Wüstenrot Bank AG Pfandbriefbank	**586.0**	596.0	**6,646.6**	6,551.5	**8.8**	9.1
Württembergische Versicherung AG[1]	**322.4**	306.5	**200.3**	175.1	**161**	175
Württembergische Lebensversicherung AG[2]	**1,840.2**	1,180.4	**971.7**	551.6	**189**	214
Württembergische Krankenversicherung AG	**7.8**	7.8	**5.3**	4.6	**147**	170

[1] Figures for 2007 after the merger with Karlsruher Versicherung AG
[2] Figures for 2007 after the merger with Karlsruher Lebensversicherung AG

In addition to supervision on individual company level, insurance companies of the W&W Group are subject to additional supervision due to the fact that they together represent an insurance group. In the year under review, the insurance group complied with the regulatory minimum capital requirements.

Based on a letter dated 23 February 2007, the BaFin classified the W&W Group as a financial conglomerate, with Wüstenrot & Württembergische AG being the controlling company. Therefore, Wüstenrot & Württembergische AG has to ensure that the regulatory requirements for financial conglomerates as defined by the provisions of the KWG, the VAG and the FkSolV are complied with. These requirements include, among other things, that the W&W Group as the financial conglomerate must hold regulatory own funds that satisfy the regulatory minimum requirements. Wüstenrot & Württembergische AG has to issue a corresponding notification to the BaFin and the German Central Bank on an annual basis.

This notification with respect to the calculation of the solvability in the financial conglomerate has to be prepared for the first time for the financial year 2007 and will be submitted to the BaFin and the German Central Bank not later than 30 September 2008.

Internal calculations on the basis of preliminary data for 2007 as well as on the basis of the projections or planning figures for 2007 and 2008 show that the regulatory minimum capital requirements in the W&W Group as a financial conglomerate will be met.

62. Risk-bearing capacity models

In order to reconcile the risks identified on company level to a quantitative assessment of the overall risk profile, we have developed a Group-wide risk- and present-value-based risk-bearing capacity model, which is continuously optimised and expanded by us upon validation. This involves aggregating material risks in the W&W Group to a total amount and a comparison with the funds available for risk cover.

The model enables a quantitative evaluation of all material risks and represents the overall risk profile in the W&W Group and on individual company level. Management is informed on a timely basis in case action is needed. Details for risk-compensating or risk-reducing measures are also provided. The model provides the basis for the definition of risk limits and serves the purpose of achieving the goal of risk-based corporate management.

Return targets
For the year 2007, the ROE target set for the W&W Group is 5.3 per cent (after taxes). We exceeded this target achieving a ROE of 6.1 per cent.

By continuous extrapolations and comparisons of actual and plan data during the year, we ensure that deviations from the ROE target in the Group and in the business segments are identified and corresponding measures can be initiated. For this purpose, we break down the ROE target for the entire Group to the operating business segments of the W&W Group.

63. External rating

The W&W Group's minimum target for the financial strength rating is "A". Therefore, the target for equity management of Wüstenrot & Württembergische AG is to ensure that the overall Group, as well as the individual subsidiaries, have the required equity capital.

64. Assets pledged as security

The Group has pledged assets as security for the following liabilities:

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Liabilities to banks	2,238,713	1,427,069
Total	**2,238,713**	1,427,069

The following assets have been pledged as security:

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Loans and advances to banks	60,479	1,005
Loans and advances to customers	1,292,552	1,673,804
Available-for-sale financial assets	2,313,393	600,465
Total	**3,666,424**	2,275,274

Loans and advances to banks were pledged as security for securities and forward transactions. In addition, securities reported as available-for-sale financial assets were pledged as security for the securities business of the W&W Group.

Furthermore, promissory note loans included in loans and advances to banks were pledged as security for credit balances of the Group's own employees in the context of partial retirement schemes.

Loans and advances to customers mainly comprise refinanced high quality residential building loans. The underlying framework agreements generally provide for an assignment of these loans to the refinancing banks.

In addition, insurance liabilities of the German direct insurers of the W&W Group are covered with assets (financial instruments as well as property) belonging to separate guarantee assets, pursuant to the legal requirements. The assets allocated to the separate guarantee assets are of senior rank, and are accordingly available to satisfy the claims of policyholders.

65. Leases

In the financial years 2007 and 2006, the Group entered into finance leases and operating leases only as lessee.

31 Dec 2007 in EUR 000's	up to 1 year	1 year to 5 years	more than 5 years	**Total**
Finance leases				
Minimum lease payments	3,161	14,087	20,530	**37,778**
Interest effect	151	2,178	7,295	**9,624**
Present value of minimum lease payments	3,010	11,909	13,235	**28,154**
Operating leases				
Minimum lease payments	19,202	17,328	—	**36,530**

31 Dec 2006 in EUR 000's	up to 1 year	1 year to 5 years	more than 5 years	**Total**
Finance leases				
Minimum lease payments	3,182	13,812	23,966	**40,960**
Interest effect	151	2,170	10,496	**12,817**
Present value of minimum lease payments	3,031	11,642	13,470	**28,143**
Operating leases				
Minimum lease payments	17,248	30,500	—	**47,748**

In the previous years, finance leases mainly existed for properties, mainframe computers and mainframe-related hardware and software, printers as well as copiers. In the financial year 2007, there were no finance leases for operating and office equipment.

The lease agreements for buildings have a term of 22.5 years. Purchase options at the end of the term have been agreed. Lease agreements for mainframe computers and mainframe-related hardware and software, printers as well as copiers have a term of up to five years upon conclusion of the lease agreement, in accordance with the useful life of the assets. At the end of the lease term, there are purchase options in some cases.

There were no non-cancellable sub-leases from finance leases (2006: EUR 1.7 thousand).

Operating leases exist for IT equipment and computer software as well as for motor vehicles. The agreements have a term of up to four years.

In the year under review, minimum lease payments from operating leases amounted to EUR 17.8 million (2006: EUR 6.8 million).

Contingent rents were not recorded in the financial years 2007 and 2006 for finance and operating leases. There are also no restrictions for these transactions imposed by lease agreements.

66. Contingent liabilities and other obligations

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Contingent liabilities from banking business	876,388	715,464
Contingent liabilities from insurance business	286,715	268,251
Other contingent liabilities	16,485	12,290
Contingent liabilities	**1,179,588**	996,005

Contingent liabilities from banking business

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Credit guarantees	6,266	26,053
Irrevocable loan commitments	870,122	689,411
Contingent liabilities from banking business	**876,388**	715,464

Credit guarantees primarily include guarantees in favour of borrowers. In addition, guarantees are issued in favour of home owners associations, to the extent that loans were granted to these associations for capital expenditure reserves.

Irrevocable loan commitments represent remaining obligations from committed loans that were not drawn at all, or not drawn in the full amount. Interest rate risks with respect to irrevocable loan commitments only exist to a limited degree due to their short terms.

Wüstenrot Bank AG Pfandbriefbank and Wüstenrot Bausparkasse AG are members of the investor compensation scheme of the Association of German Banks (Entschädigungseinrichtung deutscher Banken GmbH). In addition, Wüstenrot Bank AG Pfandbriefbank is a member of the deposit protection fund of the Association of German Public Sector Banks (Einlagensicherungsfonds des Bundesverbandes deutscher Banken) which covers liabilities to debtors. Wüstenrot Bausparkasse AG is also a member of the deposit protection fund of German home loan and savings banks (Bausparkassen-Einlagensicherungsfonds e.V.).

As in the prior year, drawdowns from placement and assumption obligations did not exist as at 31 December 2007.

Contingent liabilities from insurance business

Due to the membership of some insurance companies of the W&W Group in the German Association for Road Casualties (Verkehrsopferhilfe e.V.), these companies have obligations to provide the association with the funds necessary to achieve its purpose. The amount of the contribution corresponds to the premiums earned by the member companies from the direct insurance business in the calendar year before last.

The membership in the Institute of London Underwriters (ILU) results in a maximum contingent liability of GBP 0.4 million (2006: GBP 0.3 million) on the part of the Württembergische Versicherung AG in case that the ILU is not able to meet some or all of its obligations. Therefore, Württembergische Versicherung AG has issued a letter of credit in favour of ILU.

Pursuant to Sections 124 et seqq. of the VAG, life and health insurance companies are required to be members of an insurance guarantee scheme (Sicherungsfonds). However, pension funds may become a member of the insurance guarantee scheme on a voluntary basis pursuant to Section 124 (2) of the VAG. The insurance guarantee scheme collects annual contributions in the maximum amount of 0.2 per mil of the sum total of the net technical provisions, based on the funding regulations of the insurance guarantee scheme for the life insurance segment, until the guarantee assets have reached an amount of 1.0 per mil of the sum total of the net technical provisions. The resulting future obligations amount to EUR 11.1 million (2006: EUR 14.6 million) for the life and health insurance providers of the W&W Group.

Furthermore, the insurance guarantee scheme may collect special contributions in the amount of an additional 1 per mil of the net technical provisions; this corresponds to an obligation of EUR 26.1 million (2006: EUR 23.9 million).

In addition, the life insurers and the pension fund of the W&W Group have undertaken to provide funds to the insurance guarantee scheme or, alternatively, to the Protektor Lebensversicherungs-AG if the funds of the insurance guarantee scheme are not sufficient in case of financial reorganisation. The obligation amounts to one per cent of the sum total of the net technical provisions, taking into account the contributions made to the insurance guarantee scheme up to that date. Taking into account the abovementioned payment obligations from the contributions to the insurance guarantee scheme, the total obligation amounts to EUR 245.9 million (2006: EUR 229.6 million) as at the balance sheet date.

Other contingent liabilities

In addition, other contingent liabilities existed in the amount of EUR 16.5 million (2006: EUR 12.3 million), mainly relating to liabilities from other guarantee obligations.

67. 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. Other shareholders include Landesbank Baden-Württemberg (9.9 per cent), UniCredito Italiano S.p.A. (7.5 per cent) as well as SwissRe Germany AG (4.9 per cent). The remaining 8.0 per cent of the shares are held in free float.

Remuneration disclosures

Remuneration of the Management Board
The current remuneration system of the Management Board generally includes a fixed remuneration component (fixed salary and fixed bonus) and a performance-based component in form of a variable bonus.

The remuneration is linked to a target arrangement system. Accordingly, the performance-based bonus depends on the components “Company targets” and “Individual targets”. The entire remuneration concept allows a measurement of the variable remuneration components that is more closely related to success factors and based on operational targets, resulting in a more performance-oriented remuneration.

There are no subscription rights or other share-based remuneration components in the W&W Group.

There is a change of control clause with respect to one member of the Management Board, which includes a compensation arrangement of the parent company applicable in case of a takeover.

Ancillary benefits to members of the Management Board consist of a company car pursuant to the provisions of the company car guidelines of the W&W Group, a group accident insurance as well as baggage insurance.

Retirement benefits are provided to members of the Management Board through defined benefit plans (direct retirement benefit obligations) in form of fixed amounts. The individual retirement benefit commitments are based on different rules. Pensions are generally granted upon completion of the 65th year of age, from the 61st year of age in case of a preliminary redundancy, and in case of a disability of service.

Current service costs for the retirement benefit commitments amounted to EUR 189 thousand (2006: EUR 236 thousand) in the year under review.

Past service costs were not incurred in the year under review. These benefits represent long-term post-employment benefits. There are no benefits for which a third party has made a commitment in favour of a member of the Management Board to be paid in return for his or her service or which were granted in the year under review or in the prior year.

Based on the resolution of the Annual General Meeting on 14 June 2006, we elect not to disclose the individual remuneration of the members of the Management Board for a period of five years, beginning with the financial year 2006, pursuant to Section 286 (5) of the HGB.

Remuneration of the Management Board

	Non-performance-based remuneration EUR '000s	Performance-based remuneration EUR '000s	Other EUR '000s	**Total EUR '000s**
Active members of the Management Board	1,902	1,153	75	**3, 130**

The expenses for the total remuneration of the Management Board in the financial year 2007 amounted to EUR 3,130 thousand (2006: EUR 2,723 thousand), of which EUR 1,215 thousand (2006: EUR 367 thousand) relate to provisions for expected remuneration. The break-down of these short-term benefits into performance-based and non-performance-based remuneration is presented in the above table.

In the financial year 2007, remuneration payments totalled EUR 2,282 thousand (2006: EUR 2,689 thousand), of which EUR 1,725 thousand (2006: EUR 2,318 thousand) relate to non-performance-based components, EUR 75 thousand (2006: EUR 38 thousand) to ancillary benefits and EUR 482 thousand (2006: EUR 333 thousand) to performance-based components. A provision of EUR 367 thousand had been recognised in the financial year 2006. In addition, the Company did not grant or pay any other not yet disbursed remuneration, remuneration converted into claims of another type, remuneration used to increase the amount of other claims, or other remuneration that have not yet been disclosed in previous annual financial statements.

As before, the Company has not extended advances or loans to members of the Management Board. There were no contingencies.

The total remuneration attributable to former members of the Management Board amounted to EUR 4,142 thousand (2006: EUR 1,782 thousand) in the year under review, of which EUR 189 thousand (2006: EUR 194 thousand) relate to remuneration to surviving dependents. The total amount of remuneration includes termination benefits in an amount of EUR 1,884 thousand (2006: EUR 0 thousand). There were no other obligations of the W&W Group with respect to benefits in favour of former members of the Management Board, members of the Supervisory Board and their surviving dependents in form of severance pay, pensions, remuneration to surviving dependents or other related benefits in the year under review.

An amount of EUR 21,617 thousand (2006: EUR 21,381 thousand) were recognised as a provision for retirement benefit obligations to former members of the Management Board and their surviving dependents.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is generally paid in form of a fixed remuneration subject to top-up amounts for the Chairman, the Deputy Chairman and membership in committees as well as a variable, performance-based bonus.

The fixed remuneration payable after the end of the financial year amounts to EUR 7.5 thousand. The bonus amounts to EUR 0.8 thousand for each 0.5 per cent of the dividend to be paid out to the shareholders for the past financial year that exceeds 2 per cent of the share capital.

The fixed remuneration and the bonus are twice the amount for the Chairman and 1.5 times the amount for the Deputy Chairman.

The fixed remuneration is increased by one third of the fixed amount for each membership in one or more Supervisory Board committees. The additional remuneration for committee membership is equivalent to twice the above-mentioned top-up amount for the Chairman and 1.5 times the amount for the Deputy Chairman.

For the financial year 2007, the members of the Supervisory Board of Wüstenrot & Württembergische AG received a fixed remuneration from the Company in the amount of EUR 204 thousand (2006: EUR 197 thousand) as well as another EUR 46 thousand (2006: EUR 52 thousand) from further offices held within the Group. In line with the dividend proposal, the Company has recognised a provision in the amount of EUR 210 thousand (2006: EUR 0 thousand) for bonuses for the financial year 2007, which are paid in the following year 2008. Former members of the Supervisory Board of Wüstenrot & Württembergische AG did not receive any remuneration payments for the financial year 2007, while in the previous year a rateable remuneration of EUR 44 thousand as well as a further amount of EUR 59 thousand resulting from offices held within the Group were paid. These benefits represent short-term benefits.

Expenses incurred and the value-added tax attributable to the Supervisory Board remuneration are additionally reimbursed to the members of the Supervisory Board upon request. However, they are not included in the above-mentioned expenses.

Advances and loans to members of the Supervisory Board of Wüstenrot & Württembergische AG were granted in an amount of EUR 618 thousand (2006: EUR 538 thousand). The loans were granted by Group companies at interest rates ranging from 3.7 to 6.4 per cent. Repayments received for loans granted to members of the Supervisory Board amounted to EUR 12 million (2006: EUR 12 million).

No contingencies existed in favour of these persons. There are no subscription rights or other share-based remuneration components for members of the Supervisory Board in the W&W Group. No provisions had to be recognised for current pension payments or benefits for Supervisory Board members or their surviving dependents. No remuneration was paid or benefits granted by the Company to members of the Supervisory Board in return for services provided individually, such as consulting and arrangement services.

Remuneration of the members of the Supervisory Board

Name	W&W AG Fixed remuneration for 2007 EUR 000's	W&W AG Variable remuneration for 2007 EUR 000's	Group 2007 EUR 000's	**Total EUR 000's**	Bonus for 2006 EUR 000's
Hans-Dietmar Sauer (Chairman)	33	24	7	**64**	0
Rolf Henrich (Deputy Chairman)	19	18	8	**45**	0
Jürgen Böhme	10	12	0	**22**	0
Christian Brand	10	12	0	**22**	0
Hans-Peter Braun	10	12	0	**22**	0
Wolfgang Dahlen	10	12	0	**22**	0
Gunter Ernst	8	12	0	**20**	0
Dr. Reiner Hagemann	10	12	0	**22**	0
Ulrich Ruetz	15	12	0	**27**	0
Helmut Schieber	13	12	0	**25**	0
Joachim E. Schielke	10	12	0	**22**	0
Walter Specht	13	12	0	**25**	0
Bernd Steuer	13	12	31	**56**	0
Prof. Dr. Adolf Wagner	10	12	0	**22**	0
Frank Weber	10	12	0	**22**	0
Christian Zahn	10	12	0	**22**	0
Total remuneration of the Supervisory Board	204	210	46	**460**	0

Total remuneration of the Management Board and the Supervisory Board of Wüstenrot & Württembergische AG

The total remuneration of the Management Board and the Supervisory Board of Wüstenrot & Württembergische AG amounted to EUR 5,663 thousand (2006: EUR 3,311 thousand), of which EUR 3,590 thousand (2006: EUR 3,075 thousand) related to short-term benefits, EUR 189 thousand (2006: EUR 236 thousand) to long-term benefits and EUR 1,884 thousand (2006: EUR 0 thousand) to termination benefits.

Other disclosures

Within the course of its ordinary activities of the Group companies, transactions are entered into with members of the Management Board and the Supervisory Board of Wüstenrot & Württembergische AG. The transactions referred to business relationships in the areas of home loan and savings and the banking business as well as life and property casualty insurance. Premiums amounted to EUR 76 thousand (2006: 163 thousand). The transactions were entered into either on an arm's length basis or, if appropriate, at preference terms and conditions customary in the industry.

Receivables from and liabilities to related companies

The companies of the W&W Group maintain various business relationships with related companies. The business relationships with Wüstenrot Holding AG almost entirely relate to banking services rendered by Wüstenrot Bank AG Pfandbriefbank. The transactions were carried out on an arm's length basis.

Receivables from and liabilities to the other related companies are also based on banking services received and, to a lesser extent, other services received, which were carried out on an arm's length basis as well.

The balance of receivables and liabilities as at the balance sheet date are as follows:

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Loans and advances to banks		
Associates	—	11
Loans and advances to customers		
Wüstenrot Holding AG	—	2
Affiliated companies	188	237
Other receivables		
Wüstenrot Holding AG	49	46
Affiliated companies	14,427	13,103
Associates	1,492	183
Receivables from related companies	**16,156**	13,582
Certificated liabilities		
Affiliated companies	376	376
Liabilities to customers		
Wüstenrot Holding AG	18,777	798
Affiliated companies	79,977	79,383
Associates	12,011	—
Other liabilities		
Affiliated companies	16,293	12,087
Associates	—	1
Liabilities to related companies	**127,434**	92,645

Expenses and income from transactions with related companies and other related persons

By analogy with receivables from and liabilities to related companies and other related persons, expenses and income also result from banking and other service contracts entered into on an arm's length basis.

	31 Dec 2007	31 Dec 2006
	EUR 000's	EUR 000's
Wüstenrot Holding AG	22	– 295
Affiliated companies	– 10,205	– 3,023
Associates	15,290	11
Other related persons	– 22	2

In addition, Wüstenrot Bausparkasse AG has concluded home loan and savings contracts with Wüstenrot Immobilien GmbH and 3B Boden-Bauten-Beteiligungs-GmbH – both unconsolidated companies – in a volume of EUR 200 million. These contracts represent so-called "reserve contracts" and are transferred, if required, to customers of the W&W Group who buy a property from a company of the W&W Group. The acquisition fee payable for these contracts becomes due at the date of arrangement and transfer.

68. Number of employees

The W&W Group employed on average in the year 2007 8,712 (2006: 9,773) employees (full-time equivalents). The number of employees is calculated as the arithmetic mean of the end-of-quarter figures between 31 March 2007 and 31 December 2007 as well as in the relevant prior-year period.

The change in the average number of employees is largely attributable to the reduction of full-time equivalents at Wüstenrot Bausparkasse AG and Württembergische Versicherung AG.

As a result of the calculation methodology, the prior-year comparative figures include the employees of Baden-Württembergische Kapitalanlagegesellschaft mbH (deconsolidated as at 1 July 2006) and of Erasmus Groep B. V. (deconsolidated as at 31 March 2007), both on time proportional basis. The first-time consolidation of Wüstenrot hypotečni banka a. s., Prague, had an offsetting effect. The other companies consolidated for the first time in the year 2007 do not have own employees.

Of the people employed on average for the year, 2,476 (2006: 2,925) employees were attributable to the Home Loan and Saving segment, 436 (2006: 444) to the Banking Business segment, 97 (2006: 113) to the Investment Products segment, 1,261 (2006: 1,932) to the Life and Health Insurance segment and 4,177 (2006: 4,128) to the Composite Insurance segment. In the year 2007, a number of 163 (2006: 130) persons were employed in the Holding/Reinsurance segment. The employees of W&W Informatik GmbH were allocated to the abovementioned segments. A total of 102 (2006: 101) employees of Wüstenrot Haus- und Städtebau GmbH are allocated to neither segment.

69. Auditors

The Supervisory Board of Wüstenrot & Württembergische AG has appointed Pricewaterhouse-Coopers AG Wirtschaftsprüfungsgesellschaft as auditors of the consolidated financial statements. Expenses for services of the auditors in the W&W Group amounted to EUR 6,199 thousand (2006: EUR 4,308 thousand) in the year under review. Of that amount, EUR 3,755 thousand (2006: EUR 2,983 thousand) related to the audit of financial statements, EUR 722 thousand (2006: EUR 411 thousand) to other assurance and valuation services, EUR 0 thousand (2006: EUR 8 thousand) to tax advisory services and EUR 1,722 thousand (2006: EUR 906 thousand) to other services.

70. Events after the balance sheet date

After the end of the financial year 2007, the stake held in Wüstenrot životní pojist‘ovna a.s., Prague, a life insurance company operating in the Czech Republic and previously classified as an associate, was increased by 24 per cent to 74 per cent. The share purchase was made in line with the strategic positioning on the Czech market.

71. Corporate governance code

The members of the Management Board and of the Supervisory Board of our listed companies Wüstenrot & Württembergische AG, Stuttgart, and Württembergische Lebensversicherung AG, Stuttgart, have issued the declaration of compliance with the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz, AktG). The declaration has been made permanently available to the shareholders on the website of the W&W Group.

72. Group affiliation

The consolidated financial statements of Wüstenrot & Württembergische AG, Stuttgart, represent subgroup consolidated financial statements and are included in the consolidated financial statements of Wüstenrot Holding AG, Ludwigsburg, which holds the majority in Wüstenrot & Württembergische AG, Stuttgart. The consolidated financial statements of Wüstenrot Holding AG, Ludwigsburg, and the subgroup consolidated financial statements of Wüstenrot & Württembergische AG, Stuttgart, are published in the German electronic Federal Gazette.

List of shareholdings

The scope of consolidation includes, apart from the parent company Wüstenrot & Württembergische AG, the following subsidiaries as well as mutual and special funds. In addition, the associates shown in the table thereafter are included in the consolidated financial statements using the equity method.

Subsidiaries

Name and registered office	Share in capital %[1]	Proportion of voting power held[2]
Allgemeine Rentenanstalt Pensionskasse AG, Stuttgart	100.00	100.00
Berlin Leipziger Platz Grundbesitz GmbH, Stuttgart	100.00	100.00
Elektra Beteiligungs-AG, Stuttgart	100.00	100.00
Karlsruher Lebensversicherung AG, Karlsruhe[3]	82.70	82.70
LP 1 Beteiligungs-GmbH & Co. KG, Stuttgart	100.00	100.00
W&W Gesellschaft für Finanzbeteiligungen mbH, Stuttgart	100.00	100.00
Württembergische Krankenversicherung AG, Stuttgart	100.00	100.00
Württembergische Lebensversicherung AG, Stuttgart	72.01	72.01
Württembergische Versicherung AG, Stuttgart	100.00	100.00
Wüstenrot Bank AG Pfandbriefbank, Ludwigsburg	100.00	100.00
Wüstenrot Bausparkasse AG, Ludwigsburg	100.00	100.00
Wüstenrot GmbH & Co. Grundstücks-KG, Ludwigsburg	100.00	100.00
Wüstenrot Haus- und Städtebau GmbH, Ludwigsburg	100.00	100.00
Wüstenrot stavební spořitelna a. s., Prague	52.46	52.46
Wüstenrot hypoteční banka a. s., Prague	90.00	90.00
W&W Advisory Dublin Ltd., Dublin	100.00	100.00
W&W Asset Management Dublin Ltd., Dublin	100.00	100.00
W&W Asset Management GmbH, Stuttgart	100.00	100.00
W&W Asset Management AG, Luxembourg	100.00	100.00
W&W Informatik GmbH, Ludwigsburg	100.00	100.00
W&W Service GmbH, Stuttgart	100.00	100.00

[1] Share in capital = shares held directly and indirectly, including indirect minority interests
[2] Proportion of voting power held = ratio of the total nominal value of ordinary shares held and voting share capital
[3] formerly Karlsruher HK AG Lebensversicherung für Beamte und Angestellte der öffentlichen Verwaltung, Karlsruhe

Mutual and special funds

Name and registered office	Share in capital %
AROS-Universal-Fonds I, Frankfurt	100.00
BWK-Fonds 15, Stuttgart	100.00
BWInvest-54, Stuttgart	100.00
BWK-Fonds 69, Stuttgart	100.00
BWInvest-76, Stuttgart	100.00
BWInvest-94, Stuttgart	100.00
BWK-Fonds 97, Stuttgart	100.00
BWInvest-KF 1, Stuttgart	100.00
BWInvest-Südinvest 160, Stuttgart	100.00
BWInvest-WAKAM, Stuttgart	100.00
Credit Suisse-WV Immofonds, Frankfurt	99.73
DEVIF-Fonds Nr. 13, Frankfurt	100.00
DEVIF-Fonds Nr. 130, Frankfurt	100.00
TRIO-Universal-Fonds, Frankfurt	100.00
UIN-Fonds Nr. 567, Frankfurt	100.00
UIN-Fonds Nr. 600, Frankfurt	100.00
WSV-Universal-Fonds, Frankfurt	100.00
W&W Global Strategies Asset-backed Securities Fund, Dublin	92.20
W&W Global Strategies Euro Corporate Bond Fund, Dublin	98.50
W&W Global Strategies South East Asian Equity Fund, Dublin	99.65
W&W International Europa Aktien Premium II Fonds, Luxembourg	96.74
W&W International Global Convertibles Fonds, Luxembourg	97.88
W&W International US Aktien Premium Fonds, Luxembourg	97.72

Associates

Name and registered office	Share in capital %	Proportion of voting power held
Baden-Württembergische Investmentgesellschaft mbH, Stuttgart	36.00	36.00
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	35.00	35.00
V-Bank AG, Munich	49.99	49.99
Tertianum Besitzgesellschaft Berlin Passauer Str. 5-7 mbH, Munich	25.00	25.00
Tertianum Besitzgesellschaft Konstanz		
Marktstätte 2-6 u. Sigismundstr. 5-9 mbH, Munich	25.00	25.00
Tertianum Besitzgesellschaft München Jahnstr. 45 mbH, Munich	33.33	33.33
VV-Immobilien GmbH & Co. US City KG, Munich	23.10	23.10
Wüstenrot stambena štedionica d.d., Zagreb	25.63	25.63
Wüstenrot stavebná sporitel'na a.s., Bratislava	40.00	40.00
Wüstenrot životní pojišt'ovna a.s., Prague	50.00	50.00

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Stuttgart, 29 February 2008

Dr A. Erdland

K. P. Frohmüller

Dr J. M.Wicke

Auditors' Report

We have audited the consolidated financial statements prepared by Wüstenrot & Württembergische Aktiengesellschaft, Stuttgart, comprising the balance sheet, income statement, statement of recognised income and expenses, cash flow statement and notes, together with the Group Management Report, for the financial year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315 a (1) of the German Commercial Code (Handelsgesetzbuch, HGB) are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report, based on our audit.

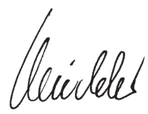
We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB with due regard for the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). These standards require that we plan and perform the audit such that mis-statements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework, and in the Group Management Report, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting policies and consolidation principles used, and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315 a (1) of the HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, 10 March 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



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

Corporate Governance

Traditionally, W&W AG has assigned great importance to transparent and responsible corporate governance. Our aim is to honour and continuously strengthen the trust placed in us by shareholders, financial markets, business partners, staff, and the general public. We have identified three key factors in this context: a good relationship with shareholders, transparent accounting and timely reporting, and the efficient cooperation of Management Board and Supervisory Board.

The German Corporate Governance Code, published by the Government commission appointed by the German Federal Ministry of Justice, was first published in 2002, and last amended on 14 June 2007. The purpose of the German Corporate Governance Code (the "Code") is to enhance transparency – firstly regarding the German regime for company management, and secondly regarding monitoring for domestic and international investors – in order to strengthen confidence in German corporate management. The Code contains recommendations and suggestions specifically addressing the relationship with shareholders, the cooperation between Management Board and Supervisory Board, and the avoidance of conflicts of interest, and promoting a high degree of transparency of corporate governance and accounting.

Since the inception of the Code, the Management Board and Supervisory Board have been reviewing its implementation at W&W AG on an annual basis, making adjustments as required. On 26 September 2007, the Management Board and the Supervisory Board of W&W AG recognised the German Corporate Governance Code, as amended on 14 June 2007, as binding, and issued a Declaration of Compliance pursuant to section 161 of the AktG.

Accordingly, W&W AG ensures that all provisions of law and internal regulations are adhered to, and endeavours to ascertain this adherence throug a Group-wide Compliance organisation. A Group Compliance Committee, comprising the Compliance Officer, the Money Laundering Prevention Officer, and the Heads of Internal Audit departments, is being established to enhance the efficiency of the Compliance function. The committee will meet on a quarterly basis, with ad-hoc meetings convened if necessary.

This will further intensify the close cooperation and permanent exchange of information amongst the Compliance-relevant units within the Group.

The W&W Group complies with the recommendations of the Code, as amended on 14 June 2007, with three exceptions:

- If the Company takes out a D&O (directors and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible should be agreed as stipulated under Section 3.8 senctence 4 of the Code. W&W AG does not comply with this recommendation. This is because a material deductible (which, observing the principle of equality, would need to be identical for all Board members), would affect members of the Management and Supervisory Boards to a different extent, depending on their respective remuneration and personal financial circumstances. As a consequence, less affluent members of the Supervisory Board might face serious financial problems in the event of a serious problem; given that identical duties are being performed, this is considered unfair.
- The Supervisory Board shall form a nomination committee, composed exclusively of shareholder representatives, which proposes suitable candidates to the Supervisory Board for recommendation to the General Meeting. (Section 5.3.3 of the Code) The Company does not comply with this recommendation, as no

need for an additional committee is perceived against the background of the manageable shareholder structure.
- Pursuant to sections 4.2.4 and 4.2.5 sentences 1, 3 and 4 of the Code, the total compensation of each member of the Management Board is to be disclosed in a remuneration report, which should also include amounts allocated to pension provisions or pension funds (in the event of pension plans), plus details on any fringe benefits provided by the company. In a resolution passed by the Annual General Meeting of W&W AG on 14 June 2006, a majority in excess of three quarters of the share capital represented resolved that Management Board remuneration will not be broken down by individual members within the scope of the financial statements and the consolidated financial statements. Accordingly, no such disclosure has been made. As in the previous year, the main components of the compensation system for the members of the Management Board are a fixed remuneration component, and a bonus which is determined by the Supervisory Board on an annual basis. W&W AG does not offer any stock option plans or similar schemes.

The current Declaration of Compliance was made permanently available to shareholders and the general public, without delay, on the Company's website, (www.ww-ag.com/corporate-governance). The Declarations of Compliance issued in the years 2002 to 2006 are also available on the website. Important company events are regularly communicated to shareholders via a financial calendar published in this annual report, and on the W&W website. All documents and information related to the Annual General Meeting, annual and interim reports, press releases, and ad-hoc disclosures are also available there. In our communications, we strive to provide all information to all target groups at the same time. Current Group developments are communicated to all stakeholders without delay, via the internet.

Subsidiaries

Wüstenrot & Württembergische AG's listed subsidiary, Württembergische Lebensversicherung AG, also issued a Declaration of Compliance on 25 September 2007. Our unlisted domestic subsidiaries also observe the recommendations of the German Corporate Governance Code, to the extent applicable.

Remuneration report

Please refer to the Notes to the financial statements for details regarding the remuneration of the Management Board and Supervisory Board members.

Financial Calendar

Press Conference

W&W Group Annual Press Conference	Thursday, 28 February 2008

Financial Reports

Interim management statement as at 31 March	Thursday, 15 May 2008
Interim report as at 30 June	Friday, 15 August 2008
Interim management statement as at 30 September	Friday, 14 November 2008
Annual Report 2007	Monday, 31 March 2008
Annual Report 2008	Tuesday, 31 March 2009

General Meetings

Württembergische Lebensversicherung AG	Wednesday, 28 May 2008
Wüstenrot & Württembergische AG	Friday, 13 June 2008

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