WGZ BANK
Die Initiativbank

2013 Annual Report

Cooperative central institution and SME bank since 1884

WGZ BANK
Die Initiativbank

WGZ BANK has been the central institution to what are now 192 local cooperative banks in Germany’s Rhineland and Westphalia regions since 1884. In addition to its traditional functions as a central institution, it proactively complements the services of its member banks in domestic and international transactions. Beyond its role as a central institution, WGZ BANK has a tradition of working in collaboration with small and medium-sized enterprises (SMEs) in the Rhineland and Westphalia regions and acts as a reliable financial partner for businesses in this sector. As a modern corporate bank, it offers its clients a broad range of suitable products and services tailored to their specific needs.

As a trading bank, WGZ BANK takes an active part in global trading of cash deposits, foreign currencies, and derivatives, buying and selling products available on the capital markets and in the business of issuing securities and undertaking syndicated transactions. It also offers customized products to partners on the capital markets (banks, institutions, and major corporate customers).

In addition, WGZ BANK acts as a bridge to the international markets for its local cooperative banks, working with over 3,000 correspondent banks in every continent and thereby ensuring that foreign transactions are processed quickly and smoothly.

WGZ BANK complements its innovative financial services offering via a range of subsidiary businesses, equity interests, and the cooperative financial network.

Key figures for WGZ BANK

Dec. 31, € million	2012 (HGB)	2013 (HGB)	Change	%[3]
Assets				
Loans and advances to				
affiliated banks	**15,231**	**15,844**	613	4.0
other banks	**5,852**	**6,046**	194	3.3
customers	**8,347**	**8,286**	-61	-0.7
Securities	**8,071**	**8,450**	379	4.7
Trading securities	**11,186**	**9,620**	-1,566	-14.0
Long-term equity investments and shares in affiliated companies	**2,608**	**2,571**	-37	-1.4
Other assets	**340**	**543**	203	59.7
Equity and liabilities				
Deposits from/amounts owed to				
affiliated banks	**10,039**	**10,227**	188	1.9
other banks	**16,236**	**16,767**	531	3.3
customers	**4,551**	**6,148**	1,597	35.1
Debt certificates including bonds	**8,318**	**8,174**	-144	-1.7
Trading securities	**8,586**	**6,063**	-2,523	-29,4
Subordinated liabilities	**537**	**517**	-20	-3.7
Profit-sharing rights	**-**	**-**	0	0.0
Fund for general banking risks	**809**	**819**	10	1.2
Subscribed capital	**649**	**649**	0	0.0
Reserves	**1,411**	**1,495**	84	6.0
Distributable profit	**83**	**77**	-6	-7.2
Other liabilities	**416**	**424**	8	1.9
Total assets / total equity and liabilities	**51,635**	**51,360**	-275	-0.5
Contingent liabilities	**3,602**	**3,096**	-506	-14.0
Volume of business	**55,237**	**54,456**	-781	-1.4
Derivatives – notional amount –	**143,860**	**137,976**	-5,884	-4.1
Tier 1 capital	**2,907**	**2,987**	80	2.8
Liable capital	**2,394**	**2,508**	114	4.8
Total capital ratio (%)	**16.0**	**16.6**		
Results of operations				
Net interest income	**285**	**291**	6	2.1
Net fee and commission income	**103**	**110**	7	6.8
Net trading income	**131**	**80**	-51	-38.9
Other net operating income	**-7**	**0**	7	>100.0
Administrative expenses	**223**	**229**	6	2.7
Operating profit before allowances for losses on loans and advances	**289**	**252**	-37	-12.8
Net income from other business[1]	**1**	**-41**	-42	<-100
Allowances for losses on loans and advances[2]	**-22**	**-37**	-15	68.2
Addition to fund for general banking risks	**100**	**-**	-100	-100.0
Tax expense	**35**	**63**	28	80.0
Net income for the year	**133**	**111**	-22	-16.5
Cost/income ratio (%)	**43.6**	**47.7**		

[1] Incl. gains on long-term equity investments and losses assumed under profit and loss transfer agreements. [2] Incl. change in hidden reserves.
[3] Percentage discrepancies due to unrounded figures.

Key figures for the WGZ BANK Group

Dec. 31, € million	2012 (IFRS)	2013 (IFRS)	Change	%[3]
Assets				
Loans and advances to				
affiliated banks	**15,615**	**16,368**	753	4.8
other banks	**8,707**	**6,598**	-2,109	-24.2
customers	**37,483**	**37,007**	-476	-1.3
Financial assets held for trading	**9,960**	**8,199**	-1,761	-17.7
Long-term equity investments portfolio and securities portfolio	**21,969**	**20,615**	-1,354	-6.2
Companies accounted for using the equity method	**1,010**	**949**	-61	-6.0
Other assets	**1,338**	**1,190**	-148	-11.1
Equity and liabilities				
Deposits from/amounts owed to				
affiliated banks	**10,411**	**10,388**	-23	-0.2
other banks	**27,744**	**25,585**	-2,159	-7.8
customers	**20,128**	**21,911**	1,783	8.9
Debt certificates including bonds	**25,333**	**22,790**	-2,543	-10.0
Financial liabilities held for trading	**6,592**	**4,871**	-1,721	-26.1
Subordinated capital	**721**	**646**	-75	-10.4
Subscribed capital	**649**	**649**	0	0.0
Reserves	**2,348**	**2,562**	214	9.1
Non-controlling interests	**-27**	**-15**	12	-44.4
Distributable profit attributable to the group	**83**	**77**	-6	-7.2
Other liabilities	**2,100**	**1,462**	-638	-30.4
Total assets / total equity and liabilities	**96,082**	**90,926**	-5,156	-5.4
Contingent liabilities	**837**	**902**	65	7.8
Volume of business	**96,919**	**91,828**	-5,091	-5.3
Derivatives – notional amount –	**182,053**	**183,851**	1,798	1.0
Tier 1 capital	**2,970**	**3,074**	104	3.5
Liable capital	**2,387**	**2,552**	165	6.9
Total capital ratio (%)	**13.6**	**14.8**		
Financial performance				
Net interest income	**486**	**468**	-18	-3.7
Allowances for losses on loans and advances	**-2**	**-8**	-6	>100.0
Net fee and commission income	**59**	**67**	8	13.6
Gains and losses arising on hedging transactions	**-17**	**-36**	-19	>100.0
Gains and losses on trading activities	**273**	**152**	-121	-44.3
Gains and losses on investments	**-19**	**-87**	-68	>100.0
Profit/loss from companies accounted for using the equity method	**15**	**17**	2	13.3
Administrative expenses	**279**	**284**	5	1.8
Other net operating income	**36**	**17**	-19	-52.8
Operating profit	**552**	**306**	-246	-44.6
Tax expense	**171**	**79**	-92	-53.8
Net profit for the year	**381**	**227**	-154	-40.4
Cost/income ratio (%)	**33.5**	**47.5**		

WGZ BANK
Die Initiativbank

2013 Annual Report


MITTELSTAN

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Supervisory Board

Dieter Philipp
– Chairman –
Honorary President of the German Association of Skilled Trades,
President of the Aachen Chamber of Skilled Trades

Franz Lipsmeier
– Deputy Chairman –
Bank Director, Chief Executive Officer of Volksbank Delbrück-Hövelhof eG
Hövelhof

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Bank Director (ret.)
Lohmar

Peter Bersch
Bank Director, Chief Executive Officer of Volksbank Bitburg eG
Bitburg

Werner Böhnke (from June 18, 2013)
Bank Director (ret.)
Düsseldorf

Martin Eul (from June 18, 2013)
Bank Director, Chief Executive Officer of Dortmunder Volksbank eG
Dortmund

Ludger Hünteler
WGZ BANK
Düsseldorf

Manfred Jorris
WGZ BANK
Düsseldorf

Hannelore Kurre (until June 18, 2013)
WGZ BANK
Düsseldorf

Ina Maßmann (from June 18, 2013)
WGZ BANK
Düsseldorf

Franz-Josef Möllers (until June 18, 2013)
President of the Westphalia-Lippe Agricultural Association (ret.)
Hörstel

Manfred Wortmann (until June 18, 2013)
Bank Director (ret.)
Soest

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– Chief Executive Officer –

Werner Böhnke (until June 18, 2013)
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

Advisory Council

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Honorary President of the German Association of Skilled Trades,
President of the Aachen Chamber of Skilled Trades

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– Deputy Chairman –
Bank Director, Chief Executive Officer
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Hövelhof

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Morbach

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of the Rhineland-Westphalia Cooperative Association
Münster

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of Darlehnskasse Münster eG
Münster

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of Volksbank Paderborn-Höxter-Detmold eG
Paderborn

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Koblenz

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of Raiffeisenbank Neustadt eG
Neustadt

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Bank Director, Member of the Board of Managing Directors
of Vereinigte Volksbank eG
Telgte

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President of the Rhineland Agricultural Association
Bonn

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Münster

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Bank Director, Chief Executive Officer
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Versmold

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Bank Director, Member of the Board of Managing Directors
of Volksbank Mindener Land eG
Minden

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Bank Director, Member of the Board of
Managing Directors
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Arnsberg

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Dortmund

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of Raiffeisen-Bank Eschweiler eG
Eschweiler

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Managing Directors
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Hürth

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of Volksbank Meerbusch eG
Meerbusch

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Chief Executive Officer of AGRAVIS
Raiffeisen AG
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Greven

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Managing Directors
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Bocholt

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Datteln

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Raiffeisen Waren-Zentrale Rhein-Main eG
Cologne

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of Volksbank Beckum-Lippstadt eG
Lippstadt

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Zell (Moselle)

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Managing Directors
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Dortmund

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Siegen

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Lüdenscheid

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of Vereinigte Volksbank eG
Brakel

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Bank Director (ret.)
Kalletal

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of Volksbank Selm-Bork eG
Selm

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Director, Chief Executive Officer of GAD eG
Münster

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Euskirchen

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of Volksbank Erkelenz eG
Erkelenz

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Steinfurt

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Bad Neuenahr-Ahrweiler

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Düsseldorf

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Wipperfürth

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of Volksbank Emmerich-Rees eG
Emmerich

Peter Zurheide
Bank Director, Member of the Board of Managing Directors
of Bielefelder Volksbank eG
Bielefeld

SME Initiative Group

The long-standing partnership between WGZ BANK and its small and medium-sized corporate clients has given the bank an insight into the large number of similar challenges in which a common solution could benefit both clients and bank. For this reason, WGZ BANK has set up the SME Initiative Group with the aim of maintaining a regular dialog with selected, experienced high-profile businesspeople and academics from across the territory in which the bank operates.

The SME Initiative Group currently has 16 members, who meet in a creative working environment to discuss practical issues and visionary ideas, share their experiences, and develop common positions. The latest suggestions and findings from both academic studies and day-to-day operations are always a feature of these discussions. These meetings are intended to have an outcome that can be used to make SMEs more aware of current challenges and help them to overcome the hurdles, thereby having a lasting impact.

Initiativkreis
Mittelstand

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Chief Executive Officer,
INDUS Holding AG

Dr. Matthias Becker
Managing Director,
Hüls AG & Co. KG

Professor Dr. Wolfgang Berens
Chair of business administration
focusing on financial control,
University of Münster

Albert ten Brinke
Managing Director,
Ten Brinke Group

Andreas Busacker
Finance & Operations Director,
Mondi Consumer Packaging
International AG

Klaus-Dieter Hölz
Managing Director,
Vulkan Grundstücksgesellschaft mbH & Co. KG

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Chief Executive Officer,
Georgsmarienhütte Holding GmbH

Philipp Koecke
Chief Financial Officer,
SolarWorld AG

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Deputy Chairman
of the Board of Managing Directors,
Rheinisch-Bergische Verlagsgesellschaft mbH

Roland Mauss
Chief Financial Officer,
KMR Stainless AG and
KMR Group

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Managing Director,
H. & E. Reinert Westfälische
Privat-Fleischerei GmbH

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Chairman of the Supervisory Board,
TRIMET ALUMINIUM SE and
owner of the TRIMET Group

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Professor at RWTH Aachen University

Ulrich Schümer
Chief Executive Officer,
Schmitz Cargobull AG

Jürgen Tönsmeier
Chairman of the Supervisory Board,
Tönsmeier Dienstleistung GmbH & Co. KG

Dr. Carsten Wilken
Member of the Board of Managing
Directors,
Westfalen AG

Introduction by the Board of Managing Directors

Dear reader,

The past financial year, 2013, held a few surprises in store for banks – some of them encouraging, a small number less so. Starting with the bright spots, economic conditions improved steadily over the course of the year, with the German economy demonstrating its resilience. The European sovereign debt crisis also gradually eased during the year. However, the structural problems at the root of this crisis have not yet been resolved; unfortunately, the unavoidable fiscal consolidation in Europe is still a long time coming.

Trends in interest rates were anything but encouraging. Even at the start of 2013, interest rates had been at a historically low level, but they then fell even further during the year. The environment of low interest rates represents a huge challenge, particularly for banks closely linked to the real economy, and also because it is barely possible to achieve the margins necessary to mitigate risk over the long term.

Equally challenging are the moves toward a further tightening of the regulatory framework, although these developments are not altogether surprising. It goes without saying that there can be no argument against an effective regulatory regime that aims to prevent the abuses that occurred in the past. What we still have to deal with, however, is a tide of regulation with no differentiation and no end in sight.

Even though these developments were significant factors that shaped WGZ BANK's business environment in 2013, we did not let the adverse effects catch us on the wrong foot. We were once again able to achieve excellent results overall, notching up very creditable successes, particularly in our core businesses. We continued to consolidate the operating business involving member banks, corporate customers, capital market partners, and real estate customers. Generally, we significantly exceeded our 2013 budget figures, which had been based on the challenging conditions, without deviating from our risk-conscious business policy.

We continue to focus first and foremost on our business with the local cooperative banks. The persistently low interest rates are an enormous challenge for them too. Against this background, we expanded our support to help our member banks manage their own-account investing activities so that they could make best use of the available investment options. We are also in the process of expanding our securities business services with a view to relieving the member banks of the growing burden of regulation.

The switch to the standardized European payments processing system known as the Single Euro Payments Area (SEPA) on February 1, 2014 ran smoothly and on schedule at WGZ BANK. We had worked closely over a number of years with our direct customers and the customers of the local cooperative banks (in collaboration with the local cooperative banks themselves) to prepare for this change. We were relaxed about the EU Commission's last-minute decision to postpone the official date for the switch to August 1, 2014; the postponement did not compromise our careful preparatory work in any way.

In the year under review, we continued to act as a reliable partner for our SME customers. The results from the latest customer survey reveal a high degree of satisfaction among our corporate customers with the services and expertise provided by WGZ BANK. The figures for corporate banking activities confirm these findings: In 2013, the bank attracted around 160 new corporate customers. The total volume of corporate lending rose by €250 million to the current level of €7.8 billion. The main areas of continued expansion were the provision of finance in the renewable energies segment and export finance activities.

Development lending was another area of further growth; we worked together with our member banks to maintain our outstanding position in this market. The local cooperative banks in the Rhineland and Westphalia regions remain the undisputed leaders in the market for commercial development programs offered by Germany's KfW development bank. The total volume of development loans in which we acted as an intermediary went up by 4 percent to just under €13.5 billion.

Our capital market partners were also again impressed by our capabilities. We continue to be among the top five banks involved in syndicated business with the German federal states. As far as custody business is concerned, we are widely regarded as a well-established player and partner for prestigious asset management companies. We are one of the few banks in Germany offering custodian banks services for both open-ended and closed-end real estate funds. In the future, we will continue to systematically exploit the potential business available to us as a custodian bank.

In 2014, we will again be required to make considerable efforts to meet the demands of regulation. The agenda in 2014 will be dominated by the comprehensive assessment being conducted by the European Central Bank (ECB), a procedure that we must undergo along with other systemically important banks and banking groups in Europe. Later in the year, we of course aim to pass the stress tests carried out by the European Banking Authority (EBA) without difficulty. The responsibility for supervising WGZ Bank is provisionally scheduled to be handed over by the German banking regulator to the ECB in the autumn.

It is not just the regulatory requirements on the horizon, but also the increasingly demanding market conditions that mean we must continuously improve our organization and IT infrastructure, and also our management tools. Without a highly motivated, capable workforce, we would not be able to meet the challenges we face.

Even that is not enough. It is in our interests to continue to strengthen our capital base too, so that we are well prepared for any conceivable additional burdens even if no specific risk is immediately apparent. After starting 2014 with a Tier 1 capital ratio of 9.2 percent (based on the new standards), we will build up this ratio to more than 12 percent by the midpoint in the year. This will also be achieved with the help of the capital increase announced in 2013 and implemented at the beginning of 2014. The volume of this capital increase amounted to approximately €292 million and was placed in full within just a few weeks.

We owe our shareholders a particular debt of gratitude for this magnificent demonstration of confidence in the bank and for their backing throughout the whole of 2013. We would also like to thank the members of our Supervisory Board and our Advisory Council for their constructive cooperation and expert advice. In addition, our thanks go to our customers, who continued to place their trust in us in 2013. Not least, we would like to express our gratitude and appreciation to our employees. Their diligence, commitment, and creativity have been significant contributing factors in the success enjoyed by the entire group.

To date, the cooperative financial network has come through the financial crisis practically unscathed. It has achieved this success on the basis of its proven business model, which is highly valued by its customers. However, we must not and will not rest on our laurels. A tighter regulatory regime, persistent cost pressures, and growing competition demand our complete attention. Our member banks and customers expect us to continue to impress them in the future based on performance, reliability, and trustworthiness. In 2014, it will again be our pleasure to pursue these aims with dedication and great energy.

The Board of Managing Directors

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth


MADE
BY
MITTELSTAND

MITTEL

THE PICTURE IS CLEAR FROM THE FIGURES:

- MORE THAN **99 PERCENT** OF ALL THE APPROX. **3.7 MILLION** BUSINESSES IN GERMANY ARE SMALL OR MEDIUM-SIZED.
- **FOUR** OUT OF **FIVE** TRAINEES LEARN FOR LIFE IN SMALL AND MEDIUM-SIZED ENTERPRISES.
- SMALL AND MEDIUM-SIZED ENTERPRISES ACCOUNT FOR AROUND **60 PERCENT** OF ALL GERMAN EMPLOYEES – MORE THAN **15 MILLION** PEOPLE.
- IN GERMANY, EVERY **SECOND EURO** IS GENERATED BY SMALL AND MEDIUM-SIZED ENTERPRISES.

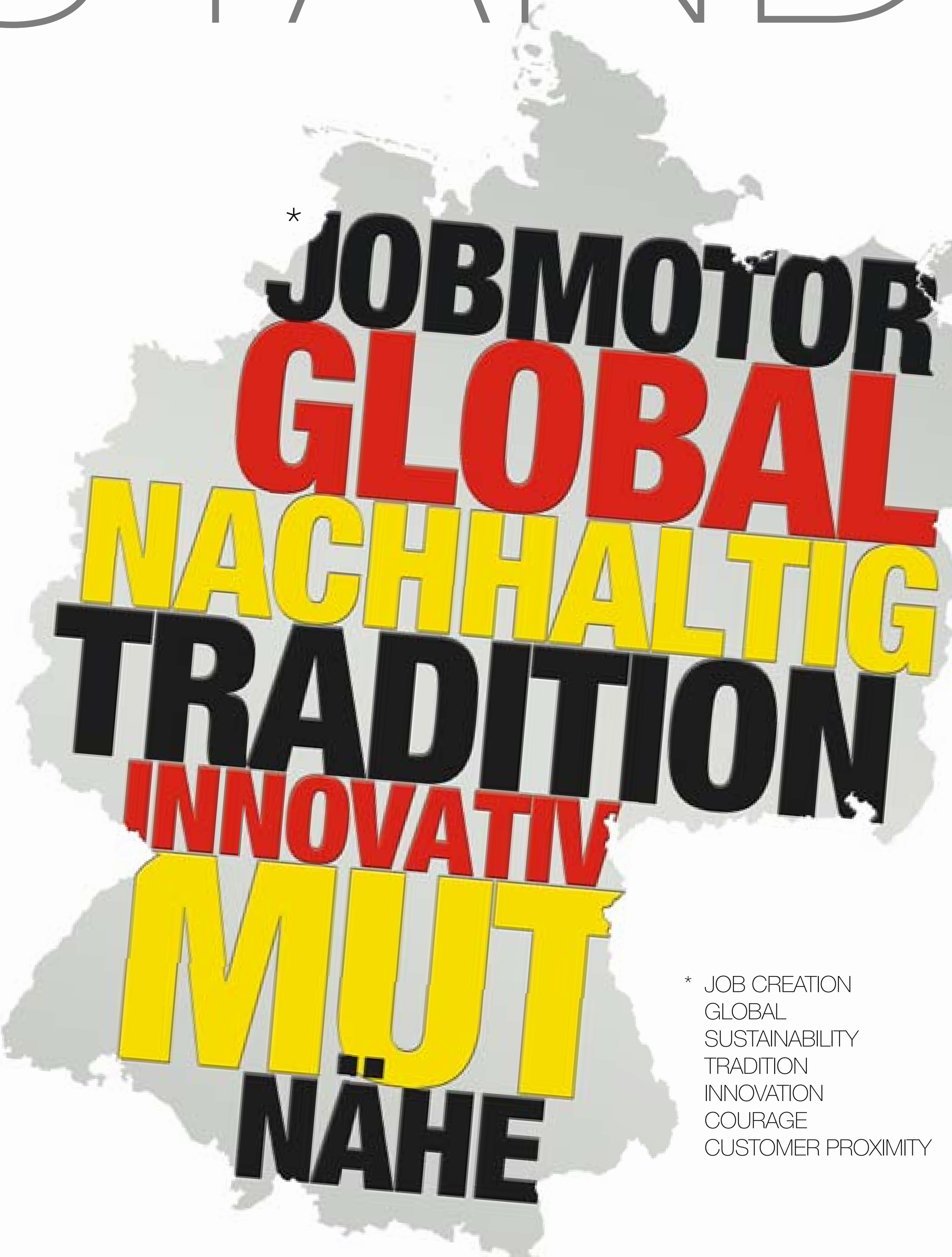
IN SHORT: GERMANY WOULD NOT BE GERMANY WITHOUT ITS STRONG MITTELSTAND.

It is therefore at this point that we must offer our wholehearted thanks. The ‘Deutschland – made by Mittelstand’ campaign launched by the Volksbanken Raiffeisenbanken cooperative financial network at the beginning of 2013 and continued intensively in 2014 forms a major feature of this annual report.

The Volksbanken Raiffeisenbanken cooperative financial network has been very closely associated with the small and medium-sized enterprise sector since the local cooperative banks were originally established. The German Mittelstand drives our business, we drive the Mittelstand – and the Mittelstand also drives Germany. Good enough reason to express due gratitude to the businesspeople who take our country forward day after day and who, together with their firms and families, are often committed not only to managing their businesses but also to corporate social responsibility.

The following pages present seven businesses and the people behind them in more detail. In all cases, the people are impressive individuals – and have been valued clients of WGZ BANK for years or even decades. All of them are models in the way that they support jobs, uphold tradition, think innovatively and ‘out of the box’, demonstrate entrepreneurial spirit, stand up for values, and exploit the opportunities presented by a globalized world. For this, we say thank you!

STAND



* JOB CREATION
GLOBAL
SUSTAINABILITY
TRADITION
INNOVATION
COURAGE
CUSTOMER PROXIMITY

The Board of Managing Directors of WGZ BANK says THANK YOU ...

From left to right:

Karl-Heinz Moll

Uwe Berghaus

Hans-Bernd Wolberg
– Chief Executive Officer –

Michael Speth

Dr. Christian Brauckmann

Milk makes you strong

Established in 1932 by a small group of farmers in Germany's Hunsrück hills, the Hochwald Group has grown to become one of the largest milk processors in Germany. Hochwald's success has been built on the back of well-known brands such as **'hochwald'** and **'Bärenmarke',** an audacious strategy of internationalization, and with the energy of some 5,750 cooperative members and approximately 1,700 employees.

Axel Mueller,
Head of Department, Mittelstand Corporate Customers, Rhineland-Palatinate, WGZ BANK
Detlef Latka,
Chief Financial Officer,
Hochwald Foods GmbH
(From left to right)

Would you like a bet? It is odds on that, if you open your refrigerator right now, you are bound to come across a product from Hochwald Foods GmbH. The name of the company from Thalfang am Erbeskopf in the Hunsrück region, a climatic health resort in the Rhineland-Palatinate district of Bernkastel-Wittlich, may only mean something to those in the know, but its products are literally on everyone's lips.

Hochwald Foods is the company behind high-profile brands such as 'hochwald', 'Bärenmarke', 'Lünebest', and 'Glücksklee', and also operates private label business on behalf of supermarket chains and discounters. International activities represent a further significant cornerstone of the business. Hochwald Foods generates around 40 percent of its revenue outside Germany.

REGIONAL MILK, **GLOBAL** SALES

Milk has always been Hochwald's primary product. Several thousand farmers in various regions throughout Germany supply raw milk from the cow to milk processing plants located at the Thalfang head office, Hungen and Hünfeld in the state of Hessen, Erftstadt in the Rhineland, Kaiserslautern, Lüneburg, Weiding in Bavaria, and Bolsward in the Netherlands.

Hochwald Foods then processes the huge quantity of milk involved – more than two billion kilograms a year – into dairy products such as UHT milk, condensed milk, aerosol whipped cream, dessert products, powdered milk for babies, spreads, and cheese. In addition, the sale of sausage and canned sausage meat products accounted for 8 percent of the revenue of €1.5 billion (including collaborative partnerships) in 2013. Hochwald Foods operates a meat processing facility in Meppen.

However, the most notable feature of the business is not its brands or the vast production volumes, it is quite simply its cooperative structure, which remains unchanged to this day. The operating unit, Hochwald Foods GmbH, is a wholly-owned subsidiary of the cooperative Hochwald Milch eG, which has approximately 5,750 members – almost all of them farmers. Practically every milk supplier is also a member of the cooperative.

"Hochwald has a cooperative structure and its role is to process and market the raw milk supplied by the milk producers, adding the greatest possible value so that it is able to pay a competitive, above-average farmgate milk price," says Detlef Latka, Chief Financial Officer of Hochwald Foods GmbH. The success of Hochwald Foods therefore creates jobs in dairies – and for decades has also been safeguarding the incomes of thousands of independent farmers.

THREE **DECADES** OF PARTNERSHIP

Hochwald Foods is also protecting the incomes of German farmers with a policy of internationalization, which it has been pursuing determinedly for a number of years. The company now sells its products – including products under brands such as 'Bonny', which are well-known outside Germany – in what is now more than 100 countries around the globe. As Latka explains, "Our subsidiary Hochwald Nederland B.V. in Bolsward means that we are well positioned internationally in terms of both marketing and production." Hochwald also has its own sales company in Dubai. Consumers in Arab countries have a particular taste for sweetened condensed milk – a nourishing, long-lasting, and affordable indulgence. German consumers find it less palatable.

"Expansion, especially abroad, requires a great deal of capital. WGZ BANK has been our principal bank, and has supported us loyally, for more than 30 years," reports Latka. "We process all payments, provide support in terms of guarantees, and are a key partner for finance requirements," explains his counterpart at the bank, Axel Mueller. He is a head of department and corporate customer relationship manager responsible for Hochwald Foods GmbH at the Koblenz branch of WGZ BANK.

However, even in Germany, this highly proactive business is far from being content with its achievements so far. Evidence of this is the sum of around €60 million that the company has invested, with the support of WGZ BANK, in new facilities for demineralizing and drying whey at the Hünfeld site. In the future, it is planned to process the whey from the extended cheese processing plant internally. The ground-breaking ceremony for one of the largest capital investment projects in the history of the company took place in mid-December 2013.

Hochwald Group in figures

The Hochwald Group grew out of the Erbeskopf eG cooperative founded in 1932 in Thalfang, Rhineland-Palatinate. Consumers in more than 100 countries now appreciate the group's dairy and sausage products. In 2013, Hochwald took in more than 2.2 billion kilograms of raw milk – supplied by almost 5,300 farmers across the group – and turned it into milk and other dairy products. Annual revenue for the most recent year amounted to €1.5 billion, including collaborative partnerships. Hochwald Foods employed an average of around 1,700 employees in 2013.

Jörg Puzio,
Corporate Customer
Relationship Manager,
WGZ BANK
Andreas Möse,
Member of the
Management Board,
ifm electronic gmbh
Michael Marhofer,
Chief Executive Officer,
ifm electronic gmbh
Thorsten Winkelsett,
Head of Department,
Mittelstand Corporate Customers,
South Westphalia,
WGZ BANK
(From left to right)

Made in Germany for the world

When two German inventors joined forces at the end of the 1960s, they would never have guessed that 45 years later their creation would have turned into a leading global **measurement technology manufacturer** with some 4,800 employees, 115,000 customers **around the world**, and an unremitting passion for research and development. Today, the destiny of **ifm electronic gmbh** is in the hands of the founders' sons.

Electronic components can nowadays only be produced at reasonable cost in the Far East – or so the myth would have us believe. The reality is somewhat different: To date, ifm electronic gmbh has been producing nine out of ten of its products at its four plants in Germany – two in Tettnang, one in Kressbronn, and one in Wasserburg, all four sites being close to Lake Constance. However, the company's engineering and industrial customers, who number around 115,000 in total, now come from more than 70 countries around the globe. The company, which is based in the completely renovated Glückaufhaus building in Essen and in Tettnang on Lake Constance, is a typical Mittelstand success story in Germany. When the two founders Robert Buck and Gerd Marhofer joined forces in 1969, they possessed little more than paper and pencil, a heap of good ideas, and a couple of prototypes that they had built themselves.

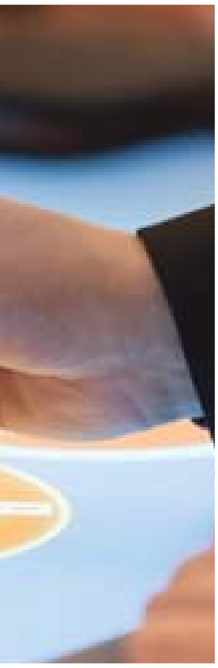
FROM ELEVATORS TO COFFEE MACHINES

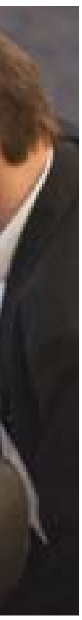
The very first product, known as 'efector', an inductive proximity switch, was a resounding success in Germany. Today, ifm (an abbreviation of Ingenieurs-gesellschaft für Messtechnik, measurement technology engineering company) is one of the major global players when it comes to precision measurement, control, or regulation in industrial or engineering applications. The sensors, systems, and control units produced by ifm are used in elevators, surveillance cameras, industrial robots, and also in apparently simple everyday equipment such as coffee machines.

"The key capital in the business is represented by the employees and their insatiable appetite for progress," emphasizes Michael Marhofer, Chief Executive Officer. The 45-year-old son of one of the founders now heads the company and is responsible for finance and sales. At the end of 2013, Marhofer was chosen as Entrepreneur of the Year in the capital goods industry category of awards presented by auditing and consulting firm Ernst & Young. It is one of the world's most prestigious awards for outstanding business performance. At his side – and how could it be otherwise in this story of the Buck and Marhofer families – is Martin Buck, born in 1970; together they form the second generation of ifm entrepreneurs. Martin Buck is primarily responsible for production and development.

CLOSE TO THE CUSTOMER

For decades, ifm has succeeded in remaining well ahead of the competition based on a commitment to extensive R&D activities. More than 650 employees apply their brains to new ideas day in day out on behalf of the company. This commitment is reflected in the huge number of active patents, of which there are currently well over 600. ifm has also formed many partnerships with universities and research institutes. At least as important in order to be successful in fiercely competitive global markets is the sales team: ifm electronic proudly





presents its capabilities year after year with one of the largest stands at the world's biggest industrial trade fair, the Hannover Messe. It has also been able to demonstrate its products to prominent political figures, such as the German chancellor and the Russian president in 2012. Around 1,150 ifm sales employees are on hand to offer help and advice to customers worldwide. Local experts are best acquainted with regional circumstances and ensure that customers are managed in a relationship that is both customized and based on trust. They put into practice the company's tagline: 'ifm electronic – close to you'.

WGZ BANK has been offering close support to ifm since the end of 2010. The collaboration began with a short-term line of credit but has now been stepped up considerably. "What impresses us is ifm's entirely organic growth, its global reach, and its determination to take a chance on something new," says Jörg Puzio, corporate customer relationship manager with responsibility for ifm in the South Westphalia team at WGZ BANK. Today, WGZ BANK is supporting innovation-focused ifm with a long-term loan, finance for operating resources, and foreign exchange management services. "The expertise and absolute dependability of WGZ BANK are impressive," according to Andreas Möse, a member of the Management Board at ifm and the first point of contact for the bank team. "In just a few years of collaboration, the confidence has become so great that we are asked for our opinion even in regard to far-reaching strategic issues. We are delighted – but at the same time it is a challenge for us," reports Puzio. In this case, two partners made for each other appear to have found each other.

ifm electronic in figures

ifm electronic gmbh was established in 1969. The company now has approximately 4,800 employees (including the head office in Essen), of which around 1,800 are employed in the GmbH limited company itself. Worldwide, ifm supplies just under 115,000 customers in more than 70 countries with sensors, electronics systems, and control units. In 2012, ifm electronic generated gross revenue for the year of €617 million, and in 2013 €634 million. The company has more than 600 active patents and, while operating as an international company, manufactures almost 90 percent of its high-tech products in Germany.

Improving life

NACHHALTIG

For more than 60 years, the INTERBODEN Group has been constructing residential and commercial real estate – primarily in North Rhine-Westphalia – with more than simply an economic purpose in mind. The Ratingen-based group headed by architect Dr. Reiner Götzen, which specializes in urban quarter development, at the same time feels that it has a long-term obligation to satisfy social and environmental objectives – and acts accordingly.

According to Dr. Reiner Götzen, who studied architecture at university, social cohesion is demonstrated very specifically by where and how people live. “We have no wish to see segmentation among people or in towns or cities, and we deliberately avoid tailoring our range of residential properties precisely to the needs of just one target group,” he says, explaining a core objective of the INTERBODEN Group. Götzen, a father of three, adds that no one wants to live just among his or her own kind. Since 1995, Götzen (who was born in 1951) has headed up the company founded by his father Heinrich in 1950.

Dr. Rainer Götzen,
Managing Director, INTERBODEN Group
Jörg Liersch,
Real Estate Customer
Relationship Manager, WGZ BANK
(From left to right)

Most of the crucial advances that Reiner Götzen has brought about at INTERBODEN have been in the period since the turn of the millennium. In the last few years, the Ratingen-based real estate group has carried out pioneering projects, particularly in connection with residential construction – including, for example, the conversion of the former St. Raphael convent in Aachen-Laurensberg into apartments, a supremely sublime combination of protected historical architecture and cutting-edge design incorporating energy efficiency.

NO LIVING SPACE COMES OFF THE PEG

In the case of 'Quartis Les Halles', INTERBODEN also gave one of the districts in the neighboring city of Düsseldorf a complete facelift. On three sites, it constructed 26 individual residential buildings comprising approximately 430 rented and owner-occupied units with a total of over 38,000 square meters of living space. Each individual ensemble is unique with its own architecture, materials, colors, and design, as you would normally find in structures that have evolved naturally. According to Götzen, whose hobbies include skiing and listening to live classical music, "This development picks up on the colorful, creative, and diverse aspects of Düsseldorf-Pempelfort's inner-city location and transfers them to individual living spaces for urban lifestyle groups." "Each facade reflects the variety of apartment layouts rolled into one – from the traditional three-room apartment and maisonette to a loft-type open-plan design." In the urban developments constructed by the INTERBODEN Group, young families therefore feel just as much at home as affluent singles or older people delighted with the accessibility features in the houses and apartments.

RESIDENTS **HAVE** THEIR **OWN APP**

"The main idea, which was to use different types of construction and living space to attract a diverse range of occupiers from various age groups, has worked out well," sums up Götzen, six years after completion of the state-of-the-art neighborhood on the site of an old rail freight depot in the heart of Düsseldorf. Reiner Götzen's approach to managing the development also includes encouraging the residents to network among themselves. A key facility in Quartis Les Halles is the service point – the main point of contact for all residents, offering a broad range of services. It is the hub of the neighborhood. Another service known as 'Animus', a kind of 'mini Facebook', has also been available for about two years now to owners and tenants in the buildings. They can use computers, tablets, or smartphones to access the service point and reserve cycles for a weekend excursion, report a minor fault in the underground parking doors, or even arrange to go out with the nice neighbors for an evening at the Italian round the corner.

Putting themselves out and looking after others appears to be part of the Götzen family DNA. Even Reiner Götzen's wife, Helene, an Austrian by birth and a former aid worker, is involved. In 2006, together with her husband, she set up a charitable foundation with the name 'SORRISO', which means 'smile' in Portuguese. The charity provides support for street children in Brazil.

One of the factors that has always motivated Reiner Götzen, with all due regard to his own economic interests, has been the desire to embolden people and create *Lebenswelten*, 'living environments'. That is why he set up the Institut für Lebenswelten® in 1998. This research and development think tank designs 'building blocks for planning and marketing neighborhoods worth living in'.

COMMON VALUES

Fair, honest, and people-focused – this is Reiner Götzen's approach, and the approach he also expects from his business partners. WGZ BANK has supported the INTERBODEN Group since 1989 as the group has pursued its vision of creating new living environments. "We share the same values. Quite simply, the chemistry at a personal level is right too," according to real estate expert Jörg Liersch, who for ten years has been the relationship manager with responsibility for INTERBODEN, a company in which all the staff, from secretary to boss, are on first-name terms. Liersch is also pleased to note that the third generation of Götzen managing directors is already warming up in preparation. Thomas Götzen, who is 32 years old and studied economics, specializing in real estate, has already been working in the family business for a number of months.

INTERBODEN in figures

In post-war Germany, where there was a huge need for new housing, Heinrich Götzen established his architectural practice of the same name in 1950. In 1966, the firm became the real estate development company INTERBODEN. Today, the company is based in Ratingen and employs around 100 people. There are six pillars to the business: the architectural practice, a unit for project development and the sale of housing construction, project development for 'work, retail and themed environments', real estate management, customer services, and the Institut für Lebenswelten® research institute. Revenue for the year in 2013 amounted to approximately €50 million.

Whether sachertorte, 'Yes' cakes, stollen, or baumkuchen, the delights produced by **Kuchenmeister GmbH** have been enjoyed by generations of customers since the company was founded in 1884 – the year in which WGZ BANK was also established. Despite all the changes in the world in the meantime, the family-managed business from Soest has always remained true to itself – and that is precisely why it has been successful.

KuchenMeister®

Backe, backe, Kuchenmeister

There are good customer appointments. There are very good customer appointments. And there are mouth-watering customer appointments. Corporate customer relationship manager Christoph Kuhlmann from the Münster branch of WGZ BANK always especially looks forward to his regular visits to Kuchenmeister GmbH in Soest. "Visitors are always offered sweet tasty nibbles such as milk rolls, Yes cakes, slices of *stollen*, waffles, or pieces of *baumkuchen*," reports Kuhlmann, who has still managed to keep in shape despite his visits to main plant at Soest over many years.

The business relationship with WGZ BANK's Münster branch goes back to 1996. Christoph Kuhlmann is only the second corporate customer relationship manager at WGZ BANK to have responsibility for Kuchenmeister – demonstrating once again the high degree of continuity in the personnel responsible for advising small and medium-sized enterprises. Kuchenmeister also receives support from the local cooperative bank, Volksbank Hellweg eG, which takes care of the payments processing for the business. In addition, experts at VR Corporate Finance GmbH advise Kuchenmeister on strategic issues.

THE WORLD'S NUMBER ONE *STOLLEN* PRODUCER

Kuchenmeister has long been a bakery empire, currently employing around 1,000 people at three sites in Germany. In 2013, it produced 90,000 tonnes of cake and pastry products and invested more than €28 million in new production buildings, plant, and machinery. Among other things, the company is the world's leading producer of *stollen*. Besides its own branded products, Kuchenmeister's output also includes private label products for leading discounters and supermarkets as well as products on behalf of major multinationals such as Dr. Oetker.

It requires the best available machinery to produce ten thousand tonnes of cakes and pastries each year while meeting the strictest quality standards. WGZ BANK in collaboration with the company's principal bank, Volksbank Hellweg eG, stands ready to provide support for all expansion and replacement investment decisions. However, despite the advanced technology used in the plants and multi-shift operations, Kuchenmeister has to date avoided becoming an anonymous production line. Many master bakers and confectioners work in the plants. "And the lettering 'sacher' really is still added by hand to each of our cakes at the end of the production process," explains Managing Director and master industrial production manager

Hans-Günter Trockels, who has led the family business since 1995, the fourth generation at the helm. He is supported by his brothers: Thomas, a graduate in business administration who is responsible for finance and financial planning & control, and Uwe, a skilled master confectioner responsible for purchasing the raw materials.

TRADI

The three Trockels brothers have very different interests at a personal level – one of them collects art, another prefers fast cars, and the third skiing downhill at breathtaking speed.

Kuchenmeister in figures

The small bakery from 1884 is now one of the leading international producers of cakes and pastries based in Germany, employing more than 1,000 people. The annual production of 90,000 tonnes of cakes and pastries requires several million eggs alone each day. The product range comprises more than 50 groups of items consisting of over 500 individual products.

ONE FAMILY, ONE OBJECTIVE

Nevertheless, they still share the common objective of ensuring that the business founded by their great-grandfather Julius Trockels as a small bakery in 1884 continues on its growth trajectory. Occasionally, their father Günter Trockels still comes by to the head office.

His three sons are expecting great things in the future from the frozen cakes business and international markets. The company has been expanding abroad since the middle of the 1970s and holds equity investments in production companies outside Germany. Kuchenmeister is also a well-known brand far beyond Germany's borders.

Ten years ago however, Kuchenmeister discovered that growth can sometimes be too fast. At that point, the business was growing at a rapid rate and its acquisitions included a number of production companies from Südzucker AG.

"Even in this difficult period, WGZ BANK remained firmly at our side. We won't forget that," emphasizes Thomas Trockels.

TION

Thomas Trockels,
Finance, Financial Planning and Control,
Kuchenmeister GmbH

Christoph Kuhlmann,
Corporate Customer Relationship Manager,
WGZ BANK

Hans-Günter Trockels,
Managing Director, Kuchenmeister GmbH

(From left to right)

WASCH TAG AM LAUFENDEN BAND

Small and medium-sized enterprises can become successful market leaders only if they have a firm belief in themselves and in their own innovative strength. This is exactly the situation in the case of Mr. Wash Autoservice AG, which for the last 50 years has been applying advanced technology as well as blood, sweat, and tears to looking after that object of German devotion: the motor car.

Mr.Wash

Andreas Greiwe,
Corporate Customer Relationship Manager, WGZ BANK
Richard Enning,
Chief Executive Officer, Mr. Wash Autoservice AG
(From left to right)

INNO

The most valuable item that Dr. Joseph Enning brought back home to Germany at the beginning of the 1960s following a number of years spent in the USA did not fit in his suitcase. It was the vision of a fully automated car wash. At that time, this required a fair amount of audacity and foresight. Germany was in the midst of the economic miracle and it was almost obligatory for the head of any German family to wash his own car himself, Saturday after Saturday, in his own parking space, on the street, or even – nowadays a complete environmental no-no – on the banks of a river.

True to Say's law, a principle of classical economics according to which the creation and sale of any product itself generates demand for other products, Joseph Enning put his idea into practice. In 1964, he opened one of Germany's first automated car washes in Düsseldorf. When the young business took over three further car washes in Hamburg a few months later, this paved the way for today's Mr. Wash Autoservice AG, which centrally manages car wash facilities located throughout Germany.

Arterial road is the favored location

Currently, the company operates at more than 30 sites in prime locations throughout the country, mainly though in northern and western Germany. Its head office is situated in Essen. Although the 'AG' in the business name may indicate a stock corporation, Mr. Wash has so far remained a family business. Half a century after it was founded, the company's destiny is now in the hands of the second generation, namely Chief Executive Officer Richard Enning. The corporate tagline is 'Good clean car – good mood'. The high-tech car washes with the yellow lettering on a red background are located on major arterial roads. Enning explains this choice of prime sites: "If you want to wash cars, you must go where the cars are. You cannot expect them to come to you."

Coffee for customers

Other than being able to access sites quickly, Enning believes there are two further factors critical to the success of the business: top quality and rapid service. This applies not only to the traditional car wash part of the business, but also to

VATIV

the interior valeting service that Mr. Wash offers its customers at major sites. Interior valeting on the conveyor always takes exactly twelve minutes. At the different activity points along the conveyor, Mr. Wash employees clean the windows, seats, and fittings, and smarten up the carpet. In the meantime, the driver can sit back and have a coffee. At most of the sites, the company also has its own discount filling station (tagline: 'No shop – no wait!') and offers a full oil change under the 'mac oil' brand.

Regular capital investment in new car washes, valeting facilities and filling stations, not to mention the refurbishment of existing sites, makes significant demands on funds. "The capital requirements are a significant feature of our balance sheet and funding structure," in the words of Richard Enning.

WGZ BANK has been supporting Mr. Wash since 2008. "We have been extremely impressed by the company's successful business model, innovative capabilities, and the high-quality full-service offering at the car wash facilities, which are all in good locations. We are very happy to support the company in its well-thought-out expansion strategy," says Andreas Greiwe, corporate customer relationship manager with responsibility for Mr. Wash. Chief Executive Officer Enning appreciates both the 'regional proximity' and the 'personal relationship' offered by the bank. This also applies to his partners at VR Equitypartner GmbH, which is jointly owned by WGZ BANK and DZ BANK.

Mr. Wash AG in figures

Established in 1964 and based in Essen, Mr. Wash now owns more than 30 car wash facilities throughout Germany. In the most recent figures, annual revenue amounted to just under €300 million, generated by around 800 employees. In purely statistical terms, at least one in every seven passenger cars registered in Germany passes through a car wash operated by Mr. Wash AG. That equates to more than six million vehicles a year.

Silent shareholding since 2011

WGZ BANK arranged the contact with VR Equitypartner when Mr. Wash needed follow-up financing at the end of 2011 to replace a previous standard mezzanine facility with another provider. Enning quickly decided in favor of the specially tailored silent shareholding offered by VR Equitypartner.

Wolfgang Callies,
Managing Director,
SWB Holding GmbH
Bruno Mayer,
Managing Director,
Stahlwerke Bochum GmbH
Michael Fiege,
Corporate Customer
Relationship Manager,
South Westphalia team,
WGZ BANK
Stephan O. Mayer,
Managing Director,
SWB Holding GmbH
(From left to right)

Not ready for the scrap heap

MUT

For **Bruno Mayer,** life as an entrepreneur only really began in earnest at the age of 65. In mid-2006, he plucked up courage and, together with **Wolfgang Callies,** took over **Stahlwerke Bochum GmbH** in a management buyout (MBO). Today, the business has established itself in a lucrative niche market. It supplies customers in more than **40 countries around the globe.** Based on its specialized steel products, the company has bucked the trend in every crisis in the industry. Mayer's son Stephan has also been on board for some time now – ensuring that the business will remain under family control in the future.

Dynamic, tough and hard-wearing. The qualities that describe the product from Stahlwerke Bochum GmbH (SWB) could also be said to apply to the Managing Director: Bruno Mayer is an extremely engaging, extremely likeable, and also extremely persistent businessman. When he acquired all the SWB shares in July 2006 with business partner and financial expert Wolfgang Callies he was already 65 years old. At that age, other executives have long been planning their retirement – or have already been on the golf course for a number of years. Not Bruno Mayer. He is now 72 and it was, in his own words, "a matter close to my heart to get started again with the company that I had already led without interruption from the launch in 1988 as a salaried executive of ThyssenKrupp."

GIVE ME **MY PLANT** BACK

Otherwise, Mayer and Callies, now 49, would have had to stand on the sidelines and watch 'their' company be sold – and possibly steered into a very unsettled future. This is because the private equity firm that had come in during the autumn of 2004 following the sale by

ThyssenKrupp quickly decided in 2006 that it wanted to offload its 85.5 percent shareholding again. Callies and Mayer decided to gamble on assuming the full risk – and opted for a second, all-encompassing management buyout. In 2004, they had only become semi-independent by acquiring 14.5 percent of the shares, but two years later they acquired a majority holding in their company. A short time later, 'Give me my plant back' appeared as a headline in the *brand eins* business magazine, which was impressed by the persistence and perseverance of the two executives. In the 2006 bidding war, in which Callies and Mayer had to compete against numerous other prospective financial investors, other parties perhaps had more capital but the two executives at the head of the company had the benefit of the more personal and thus best case. Ultimately, they knew the business, each individual employee, and the customers back to front.

To date, art and culture aficionado Mayer has been the strategist and the sales-oriented 'foreign minister' for the company. In this limited industry sector comprising just a few hundred potential customers, contacts are everything. Mayer knows them all and they all know him. Far earlier than many of the competitors, Mayer and his partner Callies recognized just how lucrative the global business in recycled base materials would become. SWB has managed to escape from cyclical industry trends – since 1988, the business has never been in the red. SWB develops and produces extremely robust perishable steel tools for use in reprocessing, crushing/shredding, and recycling machinery. The blow bars produced in Bochum crush natural stone and building rubble, whereas the hammers, anvils, grills, and caps are used in automotive shredders with up to 10,000 bhp. All the tools have extreme crushing or shredding capability and a high degree of abrasion resistance.

WGZ BANK, PARTNER FROM THE VERY BEGINNING

Tough and resilient are the defining characteristics of SWB's steel products, mirroring the nature of the collaboration with WGZ BANK, which has evolved on the basis of trust. Since the first MBO in 2004 and above all since the huge gamble two years later, WGZ BANK has been SWB's loyal partner and principal bank. WGZ BANK financed both transactions and was the source of the company's borrowings amounting to millions of euros. VR Equitypartner GmbH also provided SWB with mezzanine capital amounting to €3 million.

"From the very first day, Bruno Mayer and Wolfgang Callies impressed us with their drive and their straightforward businesslike approach," says Michael Fiege, WGZ BANK's corporate customer relationship manager responsible for SWB from the beginning. The senior managers at the company meet with the bank's experts at least twice a year. A new participant in the meetings is Mayer's son Stephan, who is now also a shareholder. Stephan Mayer, who is in his mid-40s and has inherited his father's entrepreneurial genes, joined the company five years ago and is responsible for the operating business. The company has been owned entirely by Mayer, Mayer, and Callies since June 30, 2013 – the date on which they repaid the last installments relating to the borrowings and mezzanine capital. Nonetheless, "we will remain loyal to our reliable bank," emphasizes Callies. As Mayer underlines, "The collaboration is exemplary." WGZ BANK has supported SWB with finance for capital investment projects and operating resources, and has helped the company with a major land purchase; it also manages SWB's foreign payments and enters into interest-rate and currency hedging arrangements.

SWB in figures

Stahlwerke Bochum (SWB) was established in 1988. The company originally formed part of ThyssenKrupp but since 2006 has been owned entirely by the managing directors. In the past year, this German Mittelstand business with approximately 140 employees generated revenue of more than €30 million. The cast tools and components, manufactured from the hardest grade of steel and highly resistant to wear, are supplied to customers in more than 40 countries. Direct exports account for some 70 percent of output.

Everything under control

Volksbank Wipperfürth-Lindlar eG
Menschen im Mittelpunkt.

Probably the most important task of any cooperative bank is to make lending available to small and medium-sized enterprises. However, in order to ensure that this does not give rise to any hidden risks that a local bank would be unable to bear, **Volksbank Wipperfürth-Lindlar eG** relies on the expertise and the special analysis and risk management services provided by WGZ BANK.

In the Oberberg region, your word is still your word. And deals are still sealed with a handshake. Nowhere more so than in Wipperfürth. The town has a population of 23,000 and lies to the north-east of Cologne, half an hour away by car. Since March 19, 2012, the town has been granted the privilege of including the designation *Hansestadt* in its name – belated acknowledgement of the centuries-old Hanseatic tradition of trade and commerce in the town, which lies on the river Wupper.

However, the economic structure of Wipperfürth has seen considerable changes since the days of the old Hanseatic Conventions. Nowadays, the business environment comprises mainly small and medium-sized enterprises and businesses involved in skilled trades. Dominant industries are engineering, automotive supply, and plastics in addition to a buoyant local agricultural economy.

“Overall, there is a balanced mix of industries,” according to Franz-Günter Fehling. Together with his fellow member of the Board of Managing Directors Helmut Vilmar, he heads up Volksbank Wipperfürth-Lindlar eG and also knows most of the local small and medium-sized businesses as customers of the bank. The bank’s total assets at the end of 2013 amounted to €430 million. With 105 employees, four standard and five self-service branches, Volksbank Wipperfürth-Lindlar eG has a significant presence in the Oberberg region.

RISKY CONCENTRATIONS

However, the lending business is not immune from risk, even in the Oberberg region, particularly in the case of loans to businesses in which the numbers quickly turn out to be higher than expected. The greatest risk in this case arises from any portion of the loan that is not covered by collateral. Then there is concentration risk, which arises when too much credit risk is concentrated in a small number of businesses or companies in a particular industry.

Up to 2006, the members of the Board of Managing Directors of Volksbank Wipperfürth-Lindlar and their in-house experts managed the credit risk in their corporate banking business themselves as best they could using their own resources. Fehling and Vilmar immediately seized the opportunity when they heard about WGZ BANK's offer to support member banks with the management of credit risk. "The recognition and management of credit risk is becoming increasingly important, especially for regionally-based banks, so that these banks do not take on risk beyond their risk-bearing capacity. Furthermore, there is considerably greater competition than there was ten or 15 years ago and the margins are correspondingly lower. Loans must be precisely costed and priced in line with the risk involved," says Vilmar. Currently, Volksbank Wipperfürth-Lindlar looks after approximately 1,400 corporate customers; it also has around 15,300 retail customers.

MAJOR ASSISTANCE WHETHER SMALL OR LARGE

In 2006, Volksbank Wipperfürth-Lindlar was one of the first member banks to opt for WGZ BANK's credit risk management tool. There are now around 35 banks that regularly arrange to have a credit risk report. "Some local cooperative banks in the territory covered by WGZ BANK are increasingly using a customized credit portfolio analysis on a temporary basis – for example, following a growth phase or a merger – to optimize strategic bank management or to integrate the results into their overall strategic planning. Our analysis tool helps all banks to obtain a comprehensive overview of the key risk drivers and focus on managing the risk," explains Thomas Heyer, a senior manager responsible for advising on strategic bank management in the Member Banks division at WGZ BANK.

Franz-Günter Fehling is full of praise for the tool: "We would not have been able to do this with our limited in-house resources. There has been a significant improvement in the quality of credit reporting since 2006." Every three months, the senior managers at Volksbank Wipperfürth-Lindlar receive a 35-page report with detailed tables and charts showing all the trends and key figures from the bank's lending business, including a comparison with other local cooperative banks. Fehling and Vilmar say that the aspect of the reports providing the greatest degree of immediate insight is the credit value-at-risk: It enables them to identify the most significant risk drivers in the credit portfolio at a glance – and can thus provide them with information that they can use in future lending and in the lending terms and conditions that they might then apply.

SPARRING WITH EXTERNAL EXPERTS

This service costs just €2,000 per quarter. It saves Volksbank Wipperfürth-Lindlar a huge amount of time and, what is more, provides the bank with risk reports compliant with the German Minimum Requirements for Risk Management (MaRisk) that can also be used for reporting to the Supervisory Board. The icing on the cake is that external experts at WGZ BANK can act as 'sparring partners' for the bank. "When we, as external experts, obtain an overview, it helps to make the analysis of a member bank's overall portfolio much more objective," according to Katja Jäger, an expert in strategic bank management analysis in the Member Banks division at WGZ BANK. Nevertheless, this service only ever involves an opinion, never an attempt to influence. The local bank alone is responsible for specifying the risk strategy.


ZIELE UND ANSPRECHPARTNER
Ihre Ansprechpartner rund um das Thema Gesamtbanksteuerung
Strat. Steuerung
Controlling
Operative Steuerung
Repräsentanten
Verantwortung für die Gesamtkundenbeziehung / Banksteuerung
- Zentraler Ansprechpartner Gesamtbanksteuerung
Beratung Gesamtbank-planung und Risikosteuerung
Analysten Gesamtbank-steuerung
WGZ BANK
Die Initiativbank
Beratung Spezialthemen
Beratung Eigenanlagen

NÄHE

Thomas Heyer,
Strategic Bank Planning and Risk Management Advisor, WGZ BANK

Frank Enneper,
Head of Corporate Management,
Volksbank Wipperfürth-Lindlar eG

Franz-Günter Fehling,
Member of the Board of Managing Directors,
Volksbank Wipperfürth-Lindlar eG

Helmut Vilmar,
Member of the Board of Managing Directors,
Volksbank Wipperfürth-Lindlar eG

Katja Jäger,
Strategic Bank Management Analyst,
WGZ BANK

(From left to right)

Franz-Günter Fehling,
Member of the Board of Managing Directors,
Volksbank Wipperfürth-Lindlar eG
Herbert Kemmerich,
Managing Director, Jokey Plastik Wipperfürth GmbH
Helmut Vilmar,
Member of the Board of Managing Directors,
Volksbank Wipperfürth-Lindlar eG
(From left to right)

In addition to using the credit risk reports service, Volksbank Wipperfürth-Lindlar has for a number of years also relied on WGZ BANK expertise and tools to help it manage interest-rate risk and optimize its own portfolio. "We also participate in almost every new tranche issued as part of the VR Circle risk-sharing arrangements," adds Fehling.

The local cooperative banks can use VR Circle to achieve further reductions in credit concentration risk. The local cooperative banks each transfer a concentration of lending into a shared pot and then invest in this well-diversified pool of lending exposures to small and medium-sized enterprises. This relieves the pressure on the bank's own lines – it reinforces the function as a principal bank and enables the bank to grant new corporate loans. "However, the arrangements in this case simply amount to an artificial transfer of risk. They do not in any way constitute a sale of loans and advances. The original lending relationship remains unaffected and is still between the customer and the local cooperative bank concerned," offers WGZ BANK expert Heyer by way of clarification.

Does better analysis of a bank's own lending policy combined with VR Circle lead to more loans for small and medium-sized enterprises? There is no doubt that this is true in the case of Volksbank Wipperfürth-Lindlar. Since 2006, the volume of lending granted by the bank has grown by 40 percent – without any overall increase in the proportion of unsecured lending. "Moreover, the number of loan defaults since 2006 has declined markedly," adds Helmut Vilmar delightedly.

The success of Volksbank Wipperfürth-Lindlar based on smart software and astute transfer of loans and advances could lead to an assumption that, in lending business too, computers are turning out to be far superior to humans. Helmut Vilmar plays down any such thoughts: "Over the next 20 to 30 years, people will continue to be a significant factor in the lending business; the smart tools will just be there to help in the decision-making." He believes that the key factors in lending decisions will continue to be both the figures and the people, specifically the personality and vision of the businesspeople involved. There is of course good reason why a key component of the mission statement at Volksbank Wipperfürth-Lindlar is 'focusing on people' (*Menschen im Mittelpunkt*).

Volksbank Wipperfürth-Lindlar eG in figures

Total assets: €430 million in 2013

Employees:	105
Branches:	4
Self-service branches:	5
Corporate customers:	1,400
Retail customers:	15,300

Loans to these businesspeople at the focus of the bank's attention are contributing to the flourishing businesses of many of the successful small and medium-sized enterprises in the Oberberg region. One such enterprise is Jokey Plastik Wipperfürth GmbH, a family business that has been producing plastic packaging, primarily tubs and buckets, for the filling industry for more than 40 years. Jokey has more than 1,700 employees, 14 production facilities, and annual revenue of €420 million and is one of the global market leaders – but has nevertheless always remained faithful to its roots in the Oberberg region. This is also reflected in its close connections with Volksbank Wipperfürth-Lindlar. Herbert Kemmerich, Chief Executive Officer in the senior management team of three, is full of praise: "The thing about our principal bank that we especially appreciate is the bank's detailed understanding of our concerns, which forms part of the support that the bank provides."


MADE
BY
MITTELSTAND
DANKE!

Forward-looking HR activities

The year under review proved to be a very challenging year for HR activities at WGZ BANK. We were faced with the task of satisfying the requirements arising from the remuneration regulations and coping with the enormous pressures caused by the limited implementation time available to design HR policies and processes. In addition, we have to continue the process of adjusting to more intensive control mechanisms and checks, and to more extensive reporting and notification requirements.

At the same time, we still had to fulfill our original HR division responsibilities, namely to organize the targeted professional development of employees, inspire them to carry out their duties, and continue to attract highly qualified specialists from the market to join WGZ BANK. We need employees with commitment, specialist skills, and qualifications we can count on. In this regard, expert knowledge is taking on increasing importance. For this reason, we specifically nurture high-potential employees in house and offer all employees the opportunity to expand and develop their knowledge during every stage of their professional lives. We make use of the latest professional development and career options, and tailor types of work and working time models to the different stages of an employee’s life.

Specialist career path

Following the completion of a successful piloting phase, we introduced a specialist career path in the bank from July 2013 onwards as an alternative to the management career path option.

In 2012, we had focused particularly on managers and their professional development (basic skills and qualifications for group leaders, 270 degree feedback process for managers), whereas in the year under review we concentrated on the development of specialists without management responsibilities. The introduction of the specialist career path means that we can offer our employees a different path that they can follow in their professional and personal further development. In a management career path, the focus is on developing leadership and management skills, but the emphasis in the specialist career path is on building up and consolidating specialist knowledge and methodological skills. The core objective is to offer our skilled employees an attractive alternative to a management career path and to work together with them for as long and as successfully as possible. Our hope is that this will give the bank a long-term advantage in the marketplace in terms of skills. The introduction of the specialist career path will be staggered over the individual departments, with completion scheduled for the end of 2015.

270 degree feedback

Leadership and management skills are a key factor in successful business performance. Executive management development is therefore a mainstay of our HR activities.

One example of this is the 270 degree feedback system introduced in 2012. A total of 56 managers with approximately 470 employees for whom the managers were responsible passed through the system in 2012 and 2013. Following a manager self-assessment and third-party appraisal based on a comprehensive, structured questionnaire, the results are discussed in a joint team workshop with an external facilitator. The open, constructive dialog between the managers and their teams is a further step in our feedback culture and has been found to be extremely valuable by the participants to date. A further 105 managers and approximately 540 employees will take part in this feedback process in 2014 and 2015.

Future challenges for HR development

New regulatory conditions mean that HR activities need to be flexible. To meet the enhanced requirements, the main changes made by the bank are that HR development has been reorganized and the associated strategy refined. Even greater focus is now being placed on issues such as talent management, succession planning, and needs-based HR development for special target groups such as trainees, women, and older employees. Management tools such as employee appraisals are also becoming more important because they will take much more of a central role in the regulatory requirements for remuneration arrangements in the future.

Investment in continuing professional development

Employees deliver first-rate performance when their tasks are compatible with their capabilities and they are given the opportunity to undertake professional development.

In the year under review, a great number of employees once again took part in a variety of continuous professional development activities. We regularly offer training sessions in methodology and social skills. We organize specialist seminars in collaboration with particular departments, as required. Language courses and e-learning opportunities in various subjects complete the range of available options. The total expense on skills training in 2013 amounted to €885,000 (2012: €1,106,000). This decline was attributable to a drop in the use of expensive management training courses and greater emphasis on inhouse seminars. The average training expense per employee in 2013 therefore amounted to €695 (2012: €888).

HR activities geared to stage of life

Employee needs change continuously depending on the stage that the employee has reached in his or her life and professional career. Employees bringing up small children or looking after a relative dependent on care have particular requirements for flexibility in their professional lives. An important aspect of this is a more flexible approach to working hours. The two sides – company and employee – must be accommodating with each other with regard to the desired working conditions, responsibilities, and development targets.

Flexible working hours

In the year under review, 190 employees equating to 15 percent of the workforce had part-time contracts. Remote working was an option used by 164 employees to enable them to accommodate professional and personal obligations; the number of employees in this category is rising. At the end of the year, 33 employees were on parental leave; the proportion accounted for by fathers taking parental leave is increasing steadily. Based on detailed discussions prior to the birth and regular contact thereafter, we have been able to welcome the vast majority of new parents back to work within two years.

Age management

Demographic change is already having a substantial impact on some of our HR activities. At the end of 2013, 378 of our 1,268 employees were 50 or older. This equates to 30 percent of the workforce. These experienced employees need to be motivated over the long term and offered specific professional development. It is also becoming increasingly important to design customized programs for the transition to retirement.

As part of our age management approach, we offer our experienced key personnel aged 50 or above the opportunity to participate in special seminars known as 'PePe' operated by the Rhineland-Westphalia Cooperative Academy (RWGA) to help the participants maintain and develop the skills they have acquired through experience. Key areas covered by the seminars include health, change, and relationship management.

Our managers can also attend a 'Managing in a generational mix' seminar to learn more about generation-related differences in people management and team behavior.

Once employees reach the age of 60 they are generally entitled to reduce their working hours to 80 percent, thereby freeing up an extra day in which they can pursue their personal interests. Long-standing employees in this age group are also for the first time given an opportunity, if they so wish, to devote four working days a month to a voluntary or charitable activity. From an employer's perspective, this gives us the opportunity to start succession planning as early as possible, thereby safeguarding the transfer of knowledge. Support for voluntary activities is also consistent with the spirit of our policy on sustainability and corporate social responsibility.

Recruiting new employees

Another of the challenges faced by our HR activities is to keep attention focused on young talent. Even though WGZ BANK is classified as a 'significant bank' under the German Regulation Governing Remuneration at Institutions (InstitutsVergV), its profile as a specialized institution among the younger potential applicants in the jobs market could certainly be improved. In order to better position the bank as an employer of choice for the target groups of university graduates and school-leavers, it is critical to select the right approach channels and take into account the different motivations of these groups and their expectations of potential employers. More than ever before, the new generation of employees attaches great importance to personal development and a work-life balance. The bank has produced four new employee video presentations in which younger employees and a member of the Board of Managing Directors describe the different ways of joining WGZ BANK and the career paths on offer. The videos provide authentic insights into the working environment at the bank and offer a sense of what it means to be part of the WGZ BANK team.

University marketing and trainee programs

With a view to attracting the brightest minds, our marketing to universities has focused on specific activities at the universities in the territory covered by our business. For example, we took part in Absolventenkongress in Cologne (one of Germany's biggest graduate job fairs) and also in the recruitment fairs at universities in Düsseldorf, Münster, and Dortmund. The objective is not only to recruit graduates with appropriate skills and qualifications, but also to attract and retain suitable students at an early stage by offering internships or positions as temporary student assistants. In 2013, we recruited a total of 13 new general trainees. Eight general trainees came to the end of their training programs and were transferred to full employment contracts. In the case of the specialist trainee program, we were able to offer full employment contracts to five specialist trainees following completion of their on-the-job training; two new specialist trainees joined the bank.

Vocational training

In 2013, eleven out of 1,170 applicants were given the chance to begin their vocational careers at WGZ BANK when they were offered a training place at the bank following the successful completion of their final school examinations. The 2013 training year group included six banking professionals, four students on our integrated study and work experience program, i.e. trainees who are simultaneously undertaking studies at the FOM University of Economics & Management in Düsseldorf and undergoing Chamber of Industry and Commerce banking training, and one IT specialist. Following a one-week familiarization phase, the trainees then pass through their mandatory and optional areas of activity. They receive optimum preparation for examinations with additional seminars at the Rhineland-Westphalia Cooperative Association (RWGV), RWGV Genokolleg (RWGV's cooperative business college), and at local chambers of industry and commerce. They also attend inhouse classes during the entire period of the training. Four years ago we set up a trainee mentoring system with the objective of building a relationship with future trainees before they even begin their training at WGZ BANK. Trainees in their second year make contact with the new trainees and organize initial familiarization meetings.

Recruitment events for school-leavers

From schoolroom to WGZ BANK: Once again in 2013, WGZ BANK presented itself as a potential employer to a large number of young people close to school-leaving age. In 2013, we jointly hosted a careers advice fair with Berufsnavigator GmbH at two Düsseldorf schools. Some 100 seniors from the Friedrich-Rückert-Gymnasium and the Theodor-Fliedner-Gymnasium made the most of the opportunity to obtain advice from experts on career options. WGZ BANK also had its own stand at the EINSTIEG fair in Cologne, the Parentum fair in Düsseldorf, and the Vocatium fair in Münster and Düsseldorf.

Change in the number of employees

The number of positions available to be filled at WGZ BANK fell from 100 in 2012 to 79 in 2013. This decrease was largely attributable to a decline in staff turnover.

At the end of 2013, WGZ BANK had 1,078 full-time employees (end of 2012: 1,061) and 190 part-time employees (end of 2012: 182), including 32 trainees (end of 2012: 30). The total number of employees in the team was therefore 1,268.

Sustainability at WGZ BANK: Thinking about tomorrow today

'Sustainability' has probably been one of the most frequently used terms over the last few years. This alone demonstrates the extent to which this issue has become socially relevant. No entity is in a better position or has greater justification for claiming that its activities are sustainable than German cooperatives, especially the local cooperative banks. From the very beginning, sustainability has also formed part of the cooperative DNA at WGZ BANK.

In offering our advisory and financial services, we focus on the notion of shared, long-term success and sustainable relationships with our customers based on partnership – and at the same time take into account social and environmental wellbeing as well as the particular interests of the people and businesses in the region concerned.

For us, sustainability is a guiding force in all our activities – and this was the case long before the concept assumed its present general social relevance. The corporate culture at WGZ BANK has been shaped by traditional principles of conduct. Principles such as fairness, transparency, personal responsibility, and helping people to help themselves never become outdated at all and, particularly as a consequence of the experiences over the last few years, have now enjoyed a renaissance – among shareholders, customers, business partners, employees, potential job applicants, and the general public.

We have always aimed to act in accordance with these sustainable principles. And we will continue to do so in the future. It is a requirement that we impose on every employee – from the Chief Executive Officer to the trainee. We firmly believe that it is only possible to be successful and maintain a position in the market over the long term if all actions are honest and undertaken with the best of intentions in the interests of the customer.

A position in which day-to-day banking practice is at all times both sustainable and irreproachable from an ethical perspective represents a noble aim and highly valued principle – and at the same time a challenge that must be repeatedly faced afresh. In 2013, with a view to even greater transparency internally and vis-à-vis third parties, WGZ BANK therefore developed an ethics policy for all employees.

The comprehensive code of ethics and conduct issued by WGZ BANK at the same time emphasizes the importance of the ten principles in the United Nations Global Compact covering human rights, labor standards, the environment, and the fight against corruption. As long ago as 2008, we became an active member of this program, which is the world's foremost voluntary initiative in the area of corporate social responsibility. In the annual progress report required by the UN Global Compact, WGZ BANK provides information on its sustainability activities. Sustainability is not a static condition that, once achieved, is in place forevermore. Rather, we see it as a perpetual task. Particularly in the case of a long-established traditional bank like WGZ BANK, sustainability is not about headline-grabbing short-term effects, but about high-value processes of change conceived with a view to the long term.

In addition, WGZ BANK increasingly treats sustainability as an integral component of its active management of reputational risk. For a systemically important bank like WGZ BANK, the bank's reputation is taking on an increasingly significant role – in the dialog with shareholders, customers, business partners, the general public, and the staff. At the same time, as a bank's emphasis on the sustainability of its activities grows, so does the potential fall from grace. At WGZ BANK, reputation is an important intangible asset that must be specially protected, preserved, and gradually enhanced to safeguard ongoing profitability and thereby the continued existence of the group as a going concern. Sustainability policies and action plans help to protect the reputation of the bank.

THE GLOBAL COMPACT

WE SUPPORT

Sustainability is not an end in itself. This is demonstrated not least by trends in the market for sustainable investments, which has seen steady growth in interest from institutional and retail investors. Indicators used in decision-making by investors focusing on sustainability include various sustainability ratings. For some years now, the three independent sustainability rating agencies – oekom research, Sustainalytics, and imug – have been regularly assessing the sustainability performance of WGZ BANK. The WGZ BANK Group has been awarded prime status by oekom research, certifying that the bank has been adjudged to be above average in terms of environmental and corporate social responsibility.

Sustainability ratings for WGZ BANK

Independent sustainability rating agencies assess the extent to which the economic activities of businesses are sustainable. Three prestigious sustainability rating agencies – oekom research, Sustainalytics, and imug – regularly assess WGZ BANK and have judged the bank to have above-average social and environmental performance.

Corporate Responsibility Prime rated by oekom research

Oekom corporate rating for the WGZ BANK Group:
Prime investment status – grade C

Sustainalytics rating for WGZ BANK:
Score of 72

imug rating for WGZ BANK :
Mortgage Pfandbriefe: Positive
Unsecured bonds: Neutral

The sections below explain the key areas of sustainability management at WGZ BANK in more detail.

Sustainability-related financing and services

It is especially in the design of its own products and services that WGZ BANK has the opportunity to act sustainably. For WGZ BANK, the key to sustainable activities lies in its core business, the provision of finance.

Lending business

For some time now, WGZ BANK has been following sustainability guidelines when making lending decisions. The sustainability guidelines were most recently updated in 2012. In accordance with these principles, we only extend loans when, in our view, there is a good balance between environmental, social, and financial factors. When we receive loan applications, our experts therefore check not only the long-term financial stability of the business model, the integrity of the shareholders or partners, and the management of the business, but also the possible environmental and socio-economic implications of the project concerned.

In the year under review, the sustainability guidelines originally drawn up for the lending business were extended to cover investment business: since then, the standards set out in the sustainability guidelines have also been applied when reviewing all existing investments and when planning new exposures in own-account trading operations. Based on the ten principles in the UN Global Compact, we only invest if equal weight is given to the environmental, social, and financial factors in the potential investment. A project was initiated during the summer of 2013 to add further details to the sustainability guidelines for both the lending business and the investment business and to extend the scope of application for the guidelines.

Finance for renewable energies

In 2013, WGZ BANK continued the rapid expansion of its renewable energies business line. The value of the bank's overall energy business portfolio is heading toward €1 billion. WGZ BANK and its member banks are therefore a key funding provider for the switch to renewable energy sources in Germany.

Despite political debate surrounding further development of the switch to renewable energy sources and, more specifically, reform of the German Renewable Energy Sources Act (EEG), WGZ BANK and its member banks in the region once again generated a significant volume of new business in this segment. In 2013, new finance commitments for renewable energies projects amounted to about €300 million, up by approximately 50 percent year on year. The majority of the new business involved wind farms. In the year under review, WGZ BANK financed 77 wind farms with a total capacity of 177 MW, compared with 38 wind farms in 2012. In the future, the 77 installations will supply around 88,000 households with electricity.

As for photovoltaics, WGZ BANK provided funding for 27 new projects in 2013 with a total power output of 40.5 MW, equating to the electricity needs of just under 9,400 households. However, since the drop in the feed-in tariff in Germany at the end of 2012, this segment has become significantly less attractive to investors.

The experience of the bank in 2013 in relation to the provision of project finance for renewable energies was universally good. There was not one single default – and none is anticipated. The bank's customers also include proliferating energy cooperatives and we are helping the energy cooperatives in our territory, which number more than 100, by offering financial advice. Most of these cooperatives involve local people, thereby making a significant contribution to the implementation of Germany's switch to renewable energies at a local level.

It is not only the number of renewable energies projects that has been rising significantly over the last few years, the size of the individual projects has been growing from year to year too. In this scenario, small individual cooperative financial institutions sometimes come up against their limits. In 2013, WGZ BANK therefore significantly stepped up its collaboration with the member banks to provide syndicated finance led by WGZ BANK. It is one of our key principles that local projects should continue to be financed in the future from local sources as far as possible. Syndicated finance is therefore put together not only within the Volksbanken Raiffeisenbanken cooperative financial network, but also with the involvement of other local banking groups at the project location concerned. This is an ideal way of incorporating the regional policy interests of local authorities and project initiators.

We expect to see the strong demand for renewable energies funding continue in 2014, primarily for wind energy projects. Generally speaking, the business outlook for the wind energy sector, and therefore also for the funding providers, looks very good for the next few years. Almost all local authorities in Germany's Rhineland and Westphalia regions are working on designating new sites. In our opinion, the key points of an EEG reform agreed by the German cabinet in January 2014 will not lead to a disproportionate contraction in demand.

Increased demand for development loans to support energy efficiency

The number of development loans brokered by WGZ BANK once again increased in 2013, driven primarily by the volume of energy efficiency and environmental projects.

Besides companies planning to restructure their production processes to conserve resources and enhance energy efficiency, private individuals are now also increasingly tapping into development programs. Their aim is to renovate housing or owner-occupied apartments to incorporate energy efficiency or to plan new builds so that they are as energy-efficient as possible from the very beginning.

The performance of WGZ BANK's development finance business in conjunction with the housing construction programs run by Germany's KfW development bank (the two programs focusing on energy-efficient renovation of buildings and construction of new buildings to the German 'Effizienzhaus' or 'Passivhaus' sustainability standards) was significantly better than in 2012 with the total number of applications reaching 9,870 (up by 11.4 percent) and total volume climbing to €712.8 million (up by 19.2 percent).

There was also a further year-on-year increase in the bank's business involving the two KfW environmental programs for companies (KfW-Umwelt (environment) and KfW-Energieeffizienz (energy efficiency): Total applications reached 337 (up by 7.7 percent) with a total volume of €54.1 million (up by 39.1 percent). Businesses use these loans to finance projects aimed at significantly improving the environmental position – for example, by saving on materials or avoiding waste water – or at substantially enhancing energy efficiency, for example by using better compressed air and pumping technology.

The gradual reduction in the feed-in tariff for renewable energies resulted in a considerable drop in the demand for development products related to the financing of photovoltaic installations (KfW-Erneuerbare Energien Standard and Premium (renewable energies standard and premium). The 1,773 development loans brokered in the photovoltaics business equated to a contraction of 50 percent. The total volume of development lending in this segment declined by 22.4 percent to €309.4 million.

Nevertheless, in 2013, the cooperative banks in North Rhine-Westphalia were still able to maintain their position as leaders in the market for KfW's largest development programs for companies in terms of units: KfW-Unternehmerkredite (company loans) and KfW-Programme Erneuerbare Energien (funding for renewable energies).

As at December 31, 2013, the share of the market for the KfW-Erneuerbare Energien programs was 48 percent. In the case of the KfW environmental development programs for businesses – KfW-Umwelt and KfW-Energieeffizienz – the cooperative financial network accounted for the highest share of the market in North Rhine-Westphalia at 63 percent and 47 percent respectively. The local cooperative banks also held a dominant 68 percent share of the market in North Rhine-Westphalia in KfW-Unternehmerkredite development programs, which support general capital investment by SMEs. These significant market shares are testimony to the expertise that the cooperative financial network is able to place at the disposal of its customers in this important area of business.

Favorable financing terms through low interest rates on development loans

Beyond the development loans for environmental projects, development programs run by the federal and state governments in Germany continue to prove highly attractive to investors. Investors are offered the option of fixing the current very low interest rates for extended periods. In this case, WGZ BANK and its member banks actively help businesspeople and retail borrowers select suitable development loan opportunities and process the relevant customer applications.

Overall, WGZ BANK once again exceeded the excellent figures it had achieved for development loan applications in the previous year. The volume of applications for public-sector loans brokered and processed by the local cooperative banks in conjunction with WGZ BANK rose by 4.0 percent to almost €3.1 billion. The number of applications processed by WGZ BANK remained very high at 26,835, although this figure was slightly down year on year by 1.4 percent.

The total volume of the development lending portfolio rose by 3.9 percent to €13.5 billion, a new record level. The bulk of this portfolio comprises loans for customers of our member banks; there are also development loans for direct corporate customers of WGZ BANK. The trends in applications in 2013 can be broken down by commercial, agriculture, and housebuilding segments. The number of applications for commercial finance declined by 3.8 percent to 5,253 although the volume rose marginally by 0.7 percent to €1.59 billion. A significant proportion of these applications – albeit with a downward trend – continued to be accounted for by development subsidies related to renewable energies (photovoltaics, wind power, biomass, heat grids) and other environmentally-related capital investment.

There was a sharp increase in the demand for development programs aimed at business start-ups. Specifically, the bank processed 1,651 applications for business start-up and consolidation support in 2013, a rise of 4.7 per cent on 2012. The volume amounted to €232.1 million, up by 11.6 percent. A significant proportion was accounted for by the programs run by the regional banks NRW.BANK and Investment and Economic Development Bank of Rheinland-Pfalz (ISB).

The fall in the use of development program subsidies from Landwirtschaftliche Rentenbank was largely attributable to the receding willingness to invest in renewable energies projects. Following sharp growth in the brokered development programs from Landwirtschaftliche Rentenbank in previous years, 2013 saw the number of applications fall by 17.5 percent to 2,846 and the total volume decrease by 2.4 percent to €432.2 million.

In contrast, the performance of the house-building development finance business with retail customers exceeded the level achieved in 2012. Although there was a significant fall in demand from retail customers for development subsidies for photovoltaic installations, this was more than offset by a sharp rise in the number of applications in the housing programs for energy-efficiency projects and in the KfW-Wohneigentumsprogramm (home ownership). The development programs for retail customers are particularly attractive because of their extremely low interest rates fixed over long periods. The cooperative banks in our territory brokered a total of 18,736 house-building development subsidy applications in 2013, equating to year-on-year growth of 2.4 percent. The total volume of these development programs rose by 12.4 percent to €1.07 billion.

The objective of WGZ BANK is to sustain, and ideally continue to consolidate, the market-leading position and substantial degree of expertise held by the Volksbanken Raiffeisenbanken cooperative financial network in the key finance business of renewable energies. This is why WGZ BANK advises, trains, and provides information for its member banks. It also assists with the work carried out locally by the cooperative banks by supplying appropriate information material that can be used by advisors discussing development subsidies with businesses and retail customers.

Three years ago, WGZ BANK also started to confer a development subsidy award known as the No. 1 VR Development Bank of the Year prize. This award is intended to recognize particularly successful activities in the development subsidy business. The prize is awarded to the three member banks (in their respective size categories) that have placed the most development subsidy business through WGZ BANK with the development banks. The winners of the development award in 2013 were Raiffeisenbank Kehrig eG, Volksbank Lüdinghausen-Olfen eG, and VR-Bank Kreis Steinfurt eG. This prize emphasizes the key role of the local cooperative banks as the first port of call for customers seeking tailored, affordable capital investment finance in all segments.

Finance for social-purpose real estate

The provision of finance for social-purpose real estate also forms part of the sustainable economic and social development activities of WGZ BANK. The huge demand in Germany for state-of-the-art retirement and care homes designed with the needs of the residents in mind, for assisted living facilities, for schools, universities, and childcare centers, and for hospitals, medical centers, and practices continues unabated.

At the end of December 2013, WGZ BANK had made loan commitments with a total value of €558 million in support of the development of social-purpose real estate, a slight year-on-year decrease of €8 million or 1 percent. However, compared with the figure as at the end of December 2011, this still represented growth of €160 million or 40 percent.

Corporate environmental protection

Further significant reduction in electricity consumption

Environmental management within the bank also makes an active contribution to environmental protection to complement the approach taken in the finance business. In 2013, the aggregate outcome of many different individual measures implemented to save energy was a further significant reduction in electricity consumption – the fourth year in a row this has been achieved. Consumption was cut by 1,084,986 kWh, which equates to a reduction of 14.0 percent. The bank was only able to attain this excellent outcome by ensuring that the planned measures were consistently implemented. The greatest savings were attributable to a number of intelligent building technology solutions. These included the replacement of existing water pumps by more efficient, electronically controlled pumps and the use of automated heating and ventilation control when windows are open. The cut in electricity consumption combined with the increased proportion of renewable energies in the energy mix used by the local utility company led to a reduction in CO_2 emissions of 15.4 percent or 575,116kg.

Following the slight rise in the consumption of district heating in 2012, we were able to decrease consumption in 2013 by 55,000 kWh or 1.0 percent. As the weather has a significant impact on the consumption of district heating, a weather-based adjustment was applied. Following this adjustment, the year-on-year reduction amounted to 413,900 kWh or 7.6 percent.

Water consumption in 2013 rose by 3,221m^3 or 7.5 percent compared with 2012. This increase was attributable to a number of factors including a greater cooling requirement in 2013 in connection with air conditioning systems. Some systems required fresh water for after-cooling requirements. To achieve a significant improvement in this regard, the circulating air cooling units and heat exchangers in Data-processing Center 2 will be replaced by more efficient components that use fewer resources in 2014. The air conditioning systems are a major source of water consumption but cannot be the sole cause of the rise in consumption. Further options for cutting water consumption are being drawn up based on an analysis of possible causes.

As in the case of electricity consumption, paper consumption was also reduced for the fourth year in succession. In 2013, consumption was down by 196kg or 0.4 percent.

In the year under review, WGZ BANK in collaboration with its energy supplier organized a free information event for employees on the subject of saving energy at home. The exceedingly positive feedback illustrates the extent of the need for information in this regard. At the same time, we were therefore able to help motivate employees to save energy both within the bank and at home.

Positive impact from waste management

The waste management system introduced in 2011 has resulted in a long-term reduction in the quantity of waste. An inspection of the business was carried out prior to the introduction of the system in order to highlight any weak points. This was followed by an analysis of the waste logistics system and a review of waste segregation arrangements. Various improvement ideas were drawn up and implemented in collaboration with external cleaning service providers.

The volume of recyclable waste was cut for the third year in a row, the reduction in 2013 amounting to 3,120kg or 1.4 percent. Regular checks on the actual fill levels of non-recyclable waste containers helped to bring about a further year-on-year reduction of 36,398kg, a decrease of 25 percent.

Other action planned

WGZ BANK will continue to press ahead with optimizing the bank's internal environmental management system in the future. In 2014, we will be aiming to obtain recertification by ECOPROFIT. ECOPROFIT is a Germany-wide project to promote environmental management in companies and municipal establishments. WGZ BANK has been an active member of the City of Düsseldorf's ECOPROFIT Club since 2012. The purpose of the forum is to encourage businesses to share information. The objective is to accumulate and forward knowledge, and to develop ideas, particularly for cutting CO_2 emissions. Information relating to energy savings is also shared in external training sessions that have been regularly attended by the inhouse technicians at WGZ BANK since 2013. Further action plans to reduce energy consumption will be implemented in 2014. These include continuing to replace lamps with LED technology and using automated heating and ventilation control when windows are opened. One particularly fruitful course of action will be to replace circulating air cooling units and heat exchangers with more efficient components that use fewer resources. This will enable us to cut water consumption and electricity consumption at the same time.

Environmental data

	Unit	2013	2012	2011
Electricity consumption	kWh	6,654,755	7,739,741	8,020,728
per employee	kWh	5,588	6,499	6,678
District heating consumption	kWh	5,260,500	5,315,500	4,918,000
per employee	kWh	4,417	4,463	4,095
Water consumption	m^3	46,392	43,171	37,723
per employee	m^3	39.0	36.2	31.4
Paper consumption	kg	52,724	52,920	60,190
per employee	kg	44.3	44.4	50.1
Recyclable waste*	kg	215,980	219,100	283,255
per employee*	kg	181	184	236
Non-recyclable waste	kg	109,194	145,592	181,990
per employee	kg	92	122	152
CO_2 emissions	kg	3,147,699	3,722,815	3,857,970
per employee	kg	2,642.9	3,125.8	3,212.3

* The figure for recyclable waste in 2012 for the first time included the specific weight of the different waste components. The figures for prior years have been restated accordingly in the interests of improving the comparison.

Corporate citizenship

For many years, WGZ BANK has not only supported its home region economically, it has also been heavily involved in social projects and the arts as a source of sponsorship and donations. The bank made a total of €1.1 million available for corporate social responsibility activities in 2013.

The section below describes selected examples illustrating the diversity of WGZ BANK's corporate citizenship.

Music

The partnership with Deutsche Oper am Rhein, which has bases in both Düsseldorf and Duisburg, is an illustration of WGZ BANK's corporate philosophy of combining economic growth with good corporate citizenship.

WGZ BANK has been a sponsor of Deutsche Oper am Rhein's opera company since the 2010/2011 season. In the 2012/2013 season, the bank doubled its support and extended it to cover Martin Schläpfer's Ballett am Rhein ballet company. At the end of 2013, the successful partnership was renewed with guaranteed sponsorship for a further three seasons up to 2016.

WGZ BANK also renewed its sponsorship of the Ruhr Piano Festival, which it has been supporting since 1996. Around 65 concerts are staged in the period from the beginning of May to the end of July each year, featuring the talents of top international pianists.

Art

For 29 years now, WGZ BANK has been building up a significant collection of contemporary art with particular links to its home region. The management of the collection, which is professionally organized and takes a long-term approach, focuses on nurturing young artists from colleges and academies of fine art in North Rhine-Westphalia. The strategic concept underlying WGZ BANK's art collection is to provide employees, the general public and, not least, future generations with an insight into contemporary art, especially the evolution of modern art since 1984.

In the autumn of 2013, WGZ BANK hosted a sponsored exhibition with the title 'Aus freiem Sinn' (Spontaneity), the bank's fifth such exhibition to date in the 'Contemporary Art' series, which was launched in 2004. The exhibition, held in the convention hall at WGZ BANK in Düsseldorf, comprised a total of 100 works produced by 15 talented young artists from the Academy of Fine Arts Münster. A comprehensive catalog was also available. For the first time, the exhibition featured two installations directly integrated into the exhibition location itself. The general public was given free access to the exhibition. WGZ BANK's sponsored exhibition of works from young artists is an annual event.

Details about art at WGZ BANK are actively communicated both internally and outside the bank. The bank publishes a comprehensive book about its collection, issues catalogs, conducts guided tours, and organizes discussions about art. All publications and events are offered not only to the bank's employees but also to any guests and visitors interested in art.

As in previous years, employees at WGZ BANK were offered the opportunity to attend a preview of the 'Aus freiem Sinn' exhibition. On the day prior to the opening proper, employees were given exclusive access to the exhibition, with artists and curators in attendance. An accompanying program of events included further tours, special guided visits, and discussions. The exhibition also formed part of a master's degree course for students at the Center for International Arts Management (CIAM) in Cologne.

The permanent collection at WGZ BANK is open to the public, although visitors must take a guided tour. A number of curator-led tours through the collection were held in 2013 for art lovers among our guests and visitors.

WGZ BANK – together with its art collection – also supports exhibitions at well-established museums or organized by other supporters of the arts. One example is the Ludwig Museum in Cologne. The Ludwig Museum is compiling a catalog of paintings and other works by the artist Bernard Schultze, who died in Cologne in 2005. The art collection at WGZ BANK, which contains important paintings by Schultze, is being used as part of the comprehensive research work for the catalog, which the museum plans to publish in 2015. In the 1990s, the artist had personally hung his works at WGZ BANK in Münster and Düsseldorf.

NRW initiative prize

WGZ BANK and the North Rhine-Westphalia newspapers in the Funke media group (Westdeutsche Allgemeine Zeitung (WAZ), Neue Ruhr / Neue Rhein-Zeitung (NRZ), Westfälische Rundschau (WR), Westfalenpost (WP)) awarded the NRW initiative prize for the sixth time in 2013. With total prize money of €30,000, this award is aimed at predominantly family-run small and medium-sized enterprises in North Rhine-

Westphalia. It is awarded in recognition of special achievements in three fields: renewable energies and environmental protection, creation of new jobs in North Rhine-Westphalia, and corporate citizenship in North Rhine-Westphalia.

LED Linear GmbH, located in Neukirchen-Vluyn, took first place for creating numerous jobs in North Rhine-Westphalia. The business has grown rapidly in the last five years. The number of employees in Germany (subject to full social security contributions) has risen from two to 62; 25 new jobs were created in 2013 alone. New employees are always selected on the basis of potential and character. As a consequence, older and long-term unemployed applicants have also been offered permanent positions with the company.

Second prize went to Gelsenkirchen-based Norres Schlauchtechnik GmbH for its exceptional level of corporate social responsibility. The Managing Director, Burkhard Mollen, actively promotes partnership between people with disabilities and able-bodied people. Norres employs over 200 people, including ten people with physical and mental disabilities who are employed in the production department. They are fully integrated into the production process and are able to work for the most part without assistance.

Hagen-based KB Schmiedetechnik GmbH was awarded third prize, likewise for its outstanding corporate citizenship in North Rhine-Westphalia. The company's own day center for both disabled and able-bodied children and the adjacent therapy center look after the physiological and intellectual development of the children of the company's own employees and of employees at neighboring businesses. In addition, KB Schmiedetechnik employees themselves use the healthcare services offered by the therapy practice. Both the day center and the therapy center are also open to the public.

Ruhr Initiative Group

One of the objectives of the Ruhr Initiative Group is to improve economic and financial literacy among young people in the region. As an active member of the group, WGZ BANK has been promoting this initiative for a number of years. Once again in 2013, WGZ BANK supported the annual 'Dialog mit der Jugend' events for schoolchildren with both financial assistance and the direct involvement of bank staff. In January 2013, around 60 young people from three high schools – Gymnasium Märkische Schule Wattenscheid in Bochum, Carl-Humann Gymnasium in Essen, and Gesamtschule Fröndenberg – met in Düsseldorf to participate in a discussion of current economic and financial issues with members of the WGZ BANK Board of Managing Directors Dr. Christian Brauckmann and Michael Speth.

sozialgenial

In 2013, WGZ BANK extended its sponsorship agreement with the 'Aktive Bürgerschaft' association for a further five years. This competence center for civic engagement is itself the sponsor of the initiative known as 'sozialgenial – schoolchildren get involved'. In this project, young people learn while still at school that social responsibility, personal initiative, and shared responsibility pay off. The initiative, which was launched in 2009, also promotes education and work opportunities for young people – a major asset in an age when there is an increasing shortage of skilled labor in Germany. Underlying 'sozialgenial' is the principle of service learning, which gives schoolchildren the opportunity to combine traditional studies with social responsibility.

The 'sozialgenial' initiative is now available in almost 15 percent of all schools in North Rhine-Westphalia for children in year five and above. Between the launch in 2009 and the end of 2013, around 30,000 schoolchildren at 500 schools in North Rhine-Westphalia were involved in the project. The number of projects is now well in excess of 1,000.

WGZ BANK Foundation

Since it was established in 2009, the WGZ BANK Foundation has set itself the objective of improving the economic, socio-political, and vocational education of young people as well as supporting training and professional development in economic sciences. In 2013, the WGZ BANK Foundation continued to focus on two specific areas of activity: the summer academies in the Rhineland and Westphalia regions and the award of the Foundation's own sponsorship prize.

The summer academies held in the Warendorf and Neuwied districts in each case offer individual personal help to around 30 schoolchildren in need of special support. The help covers both school work and personal development. The aim of helping the children to help themselves is for them to pass their final school examinations and secure a place on a training or apprenticeship scheme. The noticeable feature of this initiative is the commitment of the young people involved and their willingness to give up three weeks of their summer holidays for the summer camp. Each participant then receives follow-up educational support for a period of one year. The WGZ BANK Foundation works in close partnership with Leuphana University in Lüneburg, government employment agencies in the region, and individual local member banks to deliver the project.

The progress achieved in subjects such as mathematics and reading, and the personal commitment of the young people involved, is acknowledged with the award of personal certificates on completion of the academy. Based on the excellent level of collaboration between the project partners and on the successes achieved, the WGZ BANK Foundation will again support two summer academies in the Rhineland and Westphalia regions in 2014. In 2015, it is planned to switch the geographical location to continue to enhance the awareness of this successful strategy and to allow schoolchildren in other regions to enjoy the benefits of this outstanding program.

In 2013, the WGZ BANK Foundation awarded its sponsorship prize for the third time, recognizing initiatives and ideas for projects to improve socio-political, economic, or vocational education and training.

The prize was awarded in June 2013, and first place went to the Youth and Politics Association in Bielefeld for its 'Local politics and school' initiative. The project was nominated by Bielefelder Volksbank eG. The association aims to get schoolchildren interested in local politics. The 'Focus on careers through school-based enterprises' initiative from the high school Gemeinschaftshauptschule Lohmarer Strasse in Troisdorf was proposed by VR-Bank Rhein-Sieg eG and awarded second prize. Since 2006, the school has been developing a systematic concept based around a business run by schoolchildren and has incorporated this as a fixed component of the curriculum. Third place went to a project nominated by Volksbank Kleverland eG: 'The school magazine' published by the Karl Kisters Realschule in Kleve-Kellen.

A special prize was also awarded for the first time in 2013. This went to Collegium Augustinianum Gaesdonck in Goch for its initiative 'Schoolchildren for schoolchildren – Gaesdonck school company'. This project, which was proposed by Volksbank an der Niers eG, was particularly impressive because it successfully combined the design of a firm run by young people and a high degree of social responsibility.

In awarding the sponsorship prize, the WGZ BANK Foundation aims not only to provide financial support but also to give a much higher public profile to the winning initiatives and to the personal dedication of those involved in the projects.

Raiffeisen Association

Following the founding of the German Friedrich Wilhelm Raiffeisen Association in 2012, supported to a large degree by WGZ BANK, the association commenced operations during the year under review. Werner Böhnke, until mid-2013 chief executive officer of WGZ BANK, acts as chairman of the association, the objective of which is to safeguard the intellectual legacy of Friedrich Wilhelm Raiffeisen, promote the cooperative principle, and interpret the principle for the modern age. In a ceremony in May 2013 at Montabaur Castle marking the 125th anniversary of the death of the social reformer, the association paid tribute to Raiffeisen's achievements, the impact of which can still be seen today. The keynote address before 200 guests from the cooperative world, politics, academia, and business was given by Bundestag President Professor Norbert Lammert. In a subsequent panel discussion, the highly distinguished members of the panel chaired by Professor Theresia Theurl, Director of the Cooperative Movement Institute (IfG) at the University of Münster, discussed the importance of Raiffeisen's ideas in today's world.

At the end of 2013, the Raiffeisen Association and the German Hermann Schulze-Delitzsch Association submitted a joint application in Rhineland-Palatinate (but on a cross-state basis) requesting that the 'cooperative principle' be recognized by UNESCO as intangible cultural heritage. Former Bundestag President and German minister Professor Rita Süssmuth is sponsoring the application.

Outlook

WGZ BANK underlines its commitment to the model of sustainable development, which combines economic prosperity with social justice and the conservation of natural resources for the benefit of future generations. Sustainable development is only possible if economic entrepreneurship is combined with social and environmental responsibility. As a cooperative bank, we have from the very beginning taken into account the impact of our banking activities on the environment and society. In the future, we will continue to monitor our products, services, and underlying processes to assess their social and environmental implications and to introduce improvement measures if required.

Furthermore, in our role as an active corporate citizen, we will also continue to offer support for society in our region.

WGZ BANK Group

WGZ BANK has been the central institution to what are now 192 local cooperative banks in Germany's Rhineland and Westphalia regions since 1884. It also has a tradition as a partner to small and medium-sized enterprises in the Rhineland and Westphalia regions and offers tailored financial services to its corporate customers. For capital market partners (banks, institutional customers, major corporate customers), WGZ BANK is a service provider in the trading of cash deposits, foreign exchange, and derivatives, and also takes an active part in the business of issuing securities and undertaking syndicated transactions. In addition, WGZ BANK acts as a bridge to the international markets for its local cooperative banks.

Branches

WGZ BANK Düsseldorf	**WGZ BANK** Koblenz	**WGZ BANK** Münster

WL BANK AG Westfälische Landschaft Bodenkreditbank is the largest subsidiary of WGZ BANK. As a highly competitive mortgage bank, it acts as a proactive partner to the local cooperative banks, the housing sector, and commercial investors, offering a comprehensive range of products for these customer groups. WL BANK is also the center of expertise for public-sector customers within the WGZ BANK Group.

WGZ Immobilien + Treuhand GmbH is a wholly-owned subsidiary of WGZ BANK. Its real estate services encompass advice and operational support for local authorities, the private sector, and companies in the cooperative financial network in the areas of site development, surveying, and the management and marketing of real estate.

WGZ BANK Ireland plc, headquartered in Dublin, is a wholly-owned subsidiary of WGZ BANK. It is predominantly involved in international capital markets business.

WGZ BANK Group business volume in 2013: €91.8 billion

Member banks 2013 combined total assets: €185.7 billion

Number of members in 2013: 3.0 million

Domestic long-term equity investments

Bausparkasse Schwäbisch Hall AG

Börse Düsseldorf AG

CardProcess GmbH

Deutscher Genossenschafts-Verlag eG

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

GAD eG

Münchener Hypothekenbank eG

R+V Versicherung AG

Service-Direkt Telemarketing
Verwaltungsgesellschaft mbH

Union Investment Group

VR-BankenService GmbH

VR Corporate Finance GmbH

VR Equitypartner GmbH

VR ImmoConsult GmbH

VR-LEASING AG

VR Mittelstandskapital
Unternehmensbeteiligungs AG

VR-NetWorld GmbH

VR VertriebsService GmbH

Foreign long-term equity investments

DZ PRIVATBANK S.A.
Strassen, Luxembourg

Cooperation partners

Banco Espírito Santo S.A.
Lisbon, Portugal

Banco Popular Español
Madrid, Spain

Natixis Banques Populaires Caisses d'Epargne
Paris, France

Fédération des caisses Desjardins du Québec
Montreal, Canada

Rabobank Nederland
Utrecht, Netherlands

Raiffeisen Bank International AG*
Vienna, Austria

* Strategic partnership with the RBI Group and its subsidiaries in central and eastern Europe

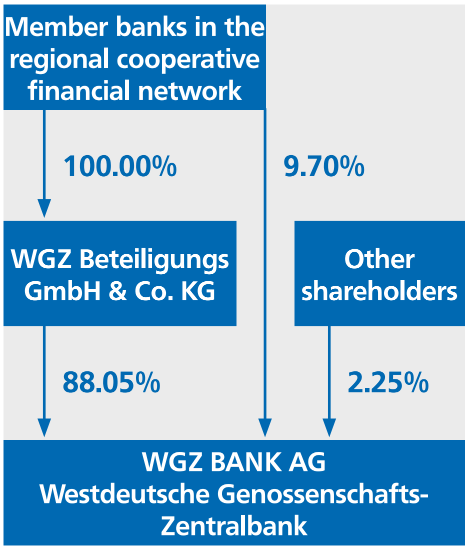
2013 management report of WGZ BANK and the WGZ BANK Group

I. Introduction

Besides WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, the **WGZ BANK Group** consists of WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster, and WGZ BANK Ireland plc, Dublin, plus two further subsidiaries. The main operating segments in which the WGZ BANK Group offers products and services are member banks, corporate customers, capital market partners & trading, and real estate customers.

The parent company WGZ BANK and the member banks constitute the regional cooperative financial network. The member banks are the 192 local cooperative banks in North Rhine-Westphalia, Koblenz, and Trier. One of the main strategic objectives of WGZ BANK is promoting and increasing the competitiveness of the member banks, which are both its customers and its shareholders. WGZ BANK has branches at its Düsseldorf headquarters and in Koblenz and Münster, from where it serves the member banks and other customers.

For the most part, the affiliated member banks have pooled their shareholdings in WGZ BANK in WGZ Beteiligungs GmbH & Co. KG, Düsseldorf. This equity investment company's sole purpose is the management and acquisition of WGZ BANK shares for the member banks. It is obliged to promote the commercial interests of its shareholders – the member banks – and to assist WGZ BANK in fulfilling its duties as set out in its Articles of Association. WGZ BANK's share capital remains unchanged at €649.4 million. The shareholder structure of WGZ BANK as at December 31, 2013 was as follows:



II. Business activities

WGZ BANK

As an initiative-led institution, WGZ BANK sees itself – through the prism of its cooperative banking remit to provide development finance – as a driving force in the development of innovative products, services, and technological processes.

WGZ BANK acts as the central institution for its affiliated local cooperative banks, providing traditional central institution functions in funding business, investment business, payments processing, corporate banking, securities business with customers, and the arrangement of public-sector development loans in its role as a decentralized partner.

As before, the sustained phase of low interest rates along with further growth in regulatory requirements were the main challenges faced by the institutions associated with WGZ BANK in 2013. This was reflected in the business that they did together. Low interest rates resulted in a reduction in fixed-term deposits and funding deposits. However, the take-up of advisory services from WGZ BANK within the framework of strategic bank management increased significantly – one of the reasons being the growth in regulatory requirements. The focus was on advice on optimized asset allocation and comprehensive advice on own-account investing. Besides the support provided with strategic bank management, there was also close cooperation in areas relevant to customer business, particularly in connection with the switch to the new European payments processing standard, the Single Euro Payments Area (SEPA).

Handling 1.34 billion transactions in 2013, WGZ BANK is one of the largest providers of payments processing services in Germany. WGZ BANK gives member banks and corporate customers comprehensive, largely automated support based on optimized processes for the latest German, European, and global payments processing products. This product portfolio is complemented by a broad range of debit and credit cards and by documentary business.

In 2012, WGZ BANK began to have its processes externally certified, with considerable success. This procedure was extended to cover other payments processing services in 2013. Demand remains strong for the service modules developed in recent years, which offer the local cooperative banks additional assistance with their front-office and back-office activities. Product innovations, such as electronic support for payment inquiries and enhanced functions for embargo and sanction monitoring, make it easier for the local cooperative banks to run their day-to-day business and comply with legal requirements. One of the challenges faced by the member banks is that the bank transfer and direct debit products used in Germany for payments processing must be fully migrated to SEPA products by February 1, 2014 (with a transitional period until August 1, 2014). WGZ BANK is actively helping the member banks with the marketing of this migration by providing extensive communications materials. Representatives from WGZ BANK spoke at approximately 400 customer events and employee training courses, receiving extremely positive feedback thanks to their professional presentations geared to the individual target group. The IT systems for processing SEPA transactions, which were developed in close cooperation with GAD, successfully went live a few years ago.

WGZ BANK is also involved in a pilot project to trial the use of cellphones to pay for goods in stores (mPayment) in collaboration with a large local cooperative bank and DG VERLAG. The project is helping us to pinpoint the parameters that are the key to success in this highly promising market. This information will benefit all local cooperative banks in the future.

As far as the corporate customer business is concerned, companies in Germany are continuing to maintain the good business performance they have delivered in recent years thanks to increasing demand from abroad, a thriving domestic economy and, consequently, generally stable utilization of production capacity. They have made further improvements to their profitability and balance sheets. Nevertheless, they are still reluctant to invest in expanding their business. The main areas of capital expenditure are measures to improve the use of resources, such as rationalization of production and energy management. Spending on research and development remains at a high level, as does investment in continuing professional development for staff.

There was a decline in demand for funding – particularly for funding from banks – during the reporting year. However, WGZ BANK and its member banks together managed to increase their volume of business and market share again.

The positive trend in the development lending business over recent years continued in 2013. The volume of applications for public-sector loans brokered and processed by the local cooperative banks in conjunction with WGZ BANK rose by 4.0 percent to just short of €3.1 billion. The number of applications remained at a high level (26,835 processed applications in WGZ BANK's territory), although this represented a small year-on-year decrease of 1.4 percent. The lion's share of the loans arranged were taken out for the purpose of energy efficiency and environmental measures by companies – but also by private individuals in relation to house building.

Investors made use of the extremely favorable interest rates offered by development programs – not only those related to the environment – in order to secure good terms over a longer period.

WGZ BANK actively helps its member banks with advising on and processing applications for government-funded financial assistance in order to identify the best products for investors from among the development loans available.

The strong levels of market share underline how frequently development loan products are discussed with customers and are included in the finance for capital expenditure projects. The Volksbanken Raiffeisenbanken cooperative financial network is, for example, the market leader in North Rhine-Westphalia in KfW's largest development programs for companies in terms of units: KfW-Unternehmerkredite (company loans) and KfW-Programme Erneuerbare Energien (funding for renewable energies).

WGZ BANK's development lending volume grew by 3.9 percent to €13.5 billion in 2013.

There were no major changes to development programs at the start of the year. However, the new German government will adopt radical measures this year in connection with the revision of the German Renewable Energy Sources Act (EEG) that are highly likely to impact on development programs in the banking sector. Issues relating to the switch to renewable energy sources are expected to remain a focus of public-sector development loans in the future.

Very low rates of return in the bond markets meant that equity segments did particularly well. There was a noticeable upturn in equity trading activity. This was mainly due to the strong performance of the DAX 30 index, which gained approximately 23 percent last year.

The trading activities of WGZ BANK were again successful in all relevant markets in 2013. WGZ BANK investment certificates, which offer adequate returns with a manageable level of risk, did very well as an alternative to investing in bonds or investing directly in equities and were up by 70 percent compared with 2012. Across Germany as a whole, WGZ BANK's issues of express investment certificates were ranked second.

On currency markets, the euro proved more stable than most other currencies in 2013 owing to increasingly optimistic economic forecasts. WGZ BANK was also very active in this area, acting as a reliable partner to its customers and member banks in the currency markets.

The volatility of the interest-rate market decreased last year. Given the interest-rate situation, the volume of new bond issues only remained stable in the corporate segment. There was a decline in new issues of both bank bonds and covered bonds.

WGZ BANK provided ongoing support to the cooperative banks in their securities business with customers, helping them with their competitive positioning. The focus was on ensuring a mixture of sales channels, taking into account customers' need for advice but also online interaction with customers at home and, increasingly, interaction via mobile devices.

In 2013, WGZ BANK again staged investor conferences as a platform for dialog between issuers and investors. Finally, we also held more in-depth presentations for our institutional clients.

WGZ BANK offers extensive custody services and custodian bank services to banks and institutional clients. Besides managing direct customers' custody accounts, WGZ BANK also performs a custodian bank function for securities funds and real estate funds in accordance with the German Capital Investment Code (KAGB). Highly specialist add-on services, such as preparing customized asset reports based on various risk calculations and key figures, round off the portfolio that WGZ BANK offers as a professional provider of custody services and custodian bank services.

As at the end of 2013, WGZ BANK was the custodian bank for investment fund assets totaling €22.4 billion in 13 mutual and 62 special funds. Overall, WGZ BANK looked after 115 managed units from eight different fund management companies. In mid-2013, WGZ BANK began offering a new service as a custodian bank for closed-end investment funds.

There were no transactions with related parties on a non-arm's-length basis in 2013.

Companies in the WGZ BANK Group

The largest subsidiary in the WGZ BANK Group is **WL BANK**, which has four sites. It is a partner to the local cooperative banks, above all in the long-term real estate loans business. The mainstay of this real estate finance business is residential property. In line with the WGZ BANK Group's firm focus on the customer, WL BANK is the main account manager for public-sector customers. It predominantly looks after local authority loans business but also public-private partnership projects. WL BANK has access to favorable funding options thanks to its maximum AAA rating from credit rating agency Standard & Poor's for its mortgage Pfandbriefe and public-sector Pfandbriefe.

WGZ BANK uses its network of other subsidiaries to provide its different customer groups with the services they need. **WGZ BANK Ireland plc** operates the international capital markets business and offers funding to the local cooperative banks in the regional cooperative financial network.

VR Unternehmerberatung GmbH, Düsseldorf, a joint venture with DZ BANK AG Deutsche Zentral-Genossenschaftsbank AG (DZ BANK), Frankfurt am Main, provides additional services for small and medium-sized corporate customers, including advice on mergers and acquisitions, structuring, and acquisition finance plus help with finding investors.

Real estate activities in the key areas of site development, structural engineering, surveying, and facility management are carried out by companies in the **WGZ Immobilien + Treuhand Group**.

Phoenix Beteiligungsgesellschaft mbH, Düsseldorf, holds long-term equity investments of WGZ BANK.

III. Business performance of WGZ BANK

Economic conditions improved throughout 2013. However, austerity measures introduced in crisis-hit countries of the eurozone continued to hold back the German economy with the result that gross domestic product (GDP) achieved only moderate growth of 0.4 percent. Although the number of unemployed people (3.0 million) and the unemployment rate (6.9 percent) rose slightly year on year, both figures continue to be at a historically low level. Despite the European Central Bank (ECB) continuing to pursue an expansionary monetary policy, the rate of inflation in Germany remained at a low 1.5 percent owing to falling energy prices. Companies therefore enjoyed largely stable economic conditions in Germany in 2013.

The sovereign debt crisis eased considerably in 2013, not least thanks to the ECB president's promise that the ECB would do everything in its powers to save the euro, but also due to the subsequent establishment of the OMT bond buying program. Although this has not eliminated the causes of the crisis, it has provided time in which to implement reforms. Provided that the crisis-affected countries use this time that they have been granted to rigorously implement reforms aimed at fiscal consolidation, it will be possible to achieve a viable solution to the sovereign debt crisis. The efforts to reform in Portugal, Spain, Ireland, and Greece are already showing signs of success. However, the hesitant implementation of planned reforms in Italy is regarded as problematic. Reforms are also starting to fall by the wayside in France, a central pillar of the eurozone. As a result, the risk of a worsening of the sovereign debt crisis has not gone away.

Against this background, the financial services sector faced increasing regulatory requirements. Preparing for the rules of Basel III, which came into force on January 1, 2014, was again one of this sector's main challenges in 2013. In addition, extensive new data requirements were introduced at the end of last year in preparation for the transfer of responsibility for European banking supervision to the ECB.

WGZ BANK nevertheless performed well, despite this extremely difficult and volatile background. It succeeded in consolidating its market position and continued to strengthen its close collaborative relations with customers. As expected, it was unable to repeat the exceptionally strong level of operating profit generated in 2012, which had primarily been driven by positive developments in financial markets during the second half of the year. Nevertheless, the operating profit achieved in 2013 was satisfactory and much better than forecast.

Results of operations and appropriation of profits

WGZ BANK's net operating income in 2013 was satisfactory overall and much higher than forecast, particularly in light of the challenging economic conditions. At 47.7 percent, the cost/income ratio remained below the strategic target of 50 percent.

Net interest income fell by €6.7 million to €184.4 million, above all due to lower early-redemption penalties compared with the previous year. However, income from profit transfers increased significantly, climbing by €13.1 million to €22.3 million. Income from shares and other variable-income securities and income from long-term equity investments and shares in affiliated companies were virtually unchanged year on year at €84.1 million. A tax sharing agreement was concluded with WL BANK in 2013. The intercompany allocation of profit to WGZ BANK made on the basis of this agreement amounted to €15.4 million in the year under review and was reported under profit transfers.

Net fee and commission income came to €109.5 million, a year-on-year rise of €6.6 million. The increase primarily resulted from growth in payments processing and in derivatives and guarantee business.

Net trading income amounted to €80.0 million, which was down by €51.4 million compared with 2012. Gains and losses on trading activities returned to normal levels in the reporting year, having been exceptionally positive in the previous year due, in particular, to benign trends in the capital markets during the second half of 2012.

Administrative expenses rose by a moderate 2.6 percent to €229.1 million in 2013. This rise was attributable to an increase in wages and salaries as a result of hiring new employees and, in particular, to salary increases under collective bargaining agreements, but also to higher social security contributions and retirement provision expenses. Consultancy costs also went up, mainly in connection with meeting regulatory requirements under Basel III, the German Minimum Requirements for the Design of Recovery Plans (MaSan), and other standards. The average number of employees in 2013 was slightly higher year on year at 1,226 employees. Depreciation expense on property, plant, and equipment and amortization expense on intangible assets amounted to €9.5 million, which was down slightly compared with 2012.

Including the other net operating income of €0.4 million (2012: expense of €6.5 million), WGZ BANK's operating profit before allowances for losses on loans and advances declined by €37.5 million to €251.6 million. This decrease was predominantly attributable to the level of net trading income.

The level of net allowances for losses on loans and advances deteriorated by €13.9 million year on year to €36.9 million. Although the net amount of fair value gains and losses on loans and advances improved, market conditions adversely affected the fair value gains and losses on securities in the liquidity reserve.

WGZ BANK generated a net loss from other business of €41.1 million. This essentially consisted of a net loss from long-term equity investments (primarily due to the restatement of the value of the long-term equity investment in VR Equitypartner GmbH, Düsseldorf) and the transfer of losses in relation to the write-down of the carrying amount of Phoenix Beteiligungsgesellschaft mbH's investment in VBI Beteiligungsgesellschaft. By contrast, fair value gains and losses on securities in the banking book amounted to a net gain.

After taking into account a tax expense of €63.0 million (including the expense resulting from the allocation of tax from WL BANK), net income fell by €21.9 million year on year to €110.6 million. From net income, the Board of Managing Directors and the Supervisory Board have added €22.1 million to the reserves provided for by the Articles of Association and €11.8 million to other revenue reserves. In addition, the Board of Managing Directors and the Supervisory Board propose to the Annual General Meeting that WGZ BANK's reported distributable profit of €76.7 million be appropriated to pay a standard dividend of €5.00 per share plus a bonus dividend of €1.00 per share. Taking into account the fully dividend-bearing new shares issued in connection with the 2014 capital increase, the total dividend payout will be €42.9 million if all the new shares are placed.

As at the balance sheet date, WGZ BANK's total capital ratio pursuant to the Solvency Regulation (SolvV) was 15.7 percent (December 31, 2012: 13.9 percent) and its Tier 1 capital ratio was 14.1 percent (December 31, 2012: 12.6 percent). Taking account of both the appropriation of profits already implemented and the proposed appropriation, WGZ BANK's regulatory capital amounted to €2.5 billion. This resulted in a total capital ratio for WGZ BANK pursuant to SolvV of 16.6 percent and a Tier 1 capital ratio of 14.9 percent.

The operating profit reported in 2013 is proof positive of the success of WGZ BANK's business model even in an exceptionally difficult market environment. The forecasts made in 2012 are compared with actual business performance in the Outlook section.

Balance sheet

The total assets of WGZ BANK fell to €51.4 billion, a decrease of €0.3 billion compared with December 31, 2012.

Loans and advances to affiliated banks rose by €0.6 billion to €15.8 billion. This increase was mainly attributable to receivables repayable on demand and to maturities of between one year and five years. Loans and advances to other banks also went up, rising by a total of €0.2 billion to €6.0 billion. The decline in receivables repayable on demand was more than offset by the increase in receivables repayable within three months. Loans and advances to customers were at roughly the same level as December 31, 2012 at €8.3 billion.

The securities line item advanced by €0.4 billion to €8.5 billion. Financial assets held for trading went down by €1.6 billion to €9.6 billion, primarily due to a decrease in derivatives in the trading book. The carrying amount of long-term equity investments and paid-up shares in cooperatives plus shares in affiliated companies was virtually unchanged year on year.

In interbank business, deposits from other banks grew by €0.5 billion to €16.8 billion. The main reason for this was an increase in liabilities repayable within one year to five years and liabilities repayable after more than five years. Deposits from member banks rose by €0.2 billion to €10.2 billion in 2013. This gain was due, in particular, to an increase in deposits repayable on demand and to deposits repayable after three months to one year. By contrast, there was a decline in deposits repayable within three months. Amounts owed to other depositors advanced by €1.6 billion to €6.1 billion compared with December 31, 2012. There were particularly significant increases in liabilities repayable on demand and those repayable within three months.

Debt certificates including bonds declined by €0.1 billion to €8.2 billion.

Financial liabilities held for trading were down by €2.5 billion to €6.1 billion as at December 31, 2013. The greatest year-on-year decreases were registered by repo transactions reported under this line item and by derivative financial liabilities held for trading.

As in the previous year, WGZ BANK's liquidity remained at a comfortable level throughout the reporting period.

IV. Business performance in the WGZ BANK Group

WGZ BANK's consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The group's business performance is influenced significantly by WGZ BANK and WL BANK, which together make up more than 95 percent of the group's total unconsolidated assets. Individual companies are reported on an unconsolidated basis.

Financial performance of the group

As expected, the WGZ BANK Group's operating profit fell considerably in the year under review but was higher than forecast. The exceptionally good level of operating profit in the previous year had been, above all, the result of the positive performance in the capital markets during the second half of 2012 and was therefore not expected to be as high in 2013. The group reported a profit after taxes of €227.2 million in 2013, compared with €380.7 million in 2012. Given the challenging market conditions that prevailed, we are satisfied with this result on the whole.

The WGZ BANK Group's net interest income including current income from shares and other variable-yield securities and income from long-term equity investments went down by €17.9 million to €468.3 million. Of this decrease, €16.4 million was attributable to current income. This was mainly the result of the dividend to be collected twice in 2012 on the basis of the profit-and-loss transfer agreement concluded between DZ BANK AG and R+V Versicherung AG. Including current income, net interest income at WGZ BANK advanced by €18.7 million and at WL BANK by €10.3 million. WGZ BANK Ireland plc reported a decrease in net interest income of €11.7 million.

Expenses for allowances for losses on loans and advances in the WGZ BANK Group amounted to €8.1 million, compared with €1.6 million in 2012. Whereas allowances for losses on loans and advances contracted by an encouraging €9.1 million year on year at WL BANK, they were up by €14.4 million at WGZ BANK.

The net fee and commission income earned by the WGZ BANK Group came to €67.4 million, which was an improvement of €8.4 million compared with 2012. This positive trend was due, in particular, to the increase in net fee and commission income at WGZ BANK, which was primarily attributable to higher fees and commissions from payments processing.

Under IFRS, gains and losses on trading activities in the WGZ BANK Group – which also comprise the marking-to-market of derivatives plus financial instruments voluntarily recognized at fair value – equated to a gain of €152.0 million, a considerable year-on-year decrease of €120.2 million. The WGZ BANK Group's exceptionally good level of operating profit in the previous year had been caused, above all, by an easing of the sovereign debt crisis and the positive performance in the financial markets in 2012. As expected, it was therefore not possible to repeat this result in 2013.

The following table provides an overview of the WGZ BANK Group's exposure to securities of sovereign and subsovereign issuers in Portugal, Ireland, Italy, Greece, and Spain:

DEC. 31, 2013 € MILLION	Notional amount	Cost	Carrying amount (IFRS)[2]	Fair value	Impairment
At amortized cost					
Greece	0.0	0.0	0.0	0.0	0.0
Ireland	80.0	79.6	82.7	85.3	0.0
Italy	40.0	40.3	40.9	43.4	0.0
Portugal	45.0	45.0	46.2	44.6	0.0
Spain	335.8	336.5	346.6	352.2	0.0
Total	**500.8**	**501.4**	**516.4**	**525.5**	**0.0**
Available for sale					
Greece	0.0	0.0	0.0	0.0	0.0
Ireland	0.0	0.0	0.0	0.0	0.0
Italy	72.0	75.9	77.8	77.8	0.0
Portugal	210.0	190.6	167.2	167.2	0.0
Spain	95.0	92.2	93.9	93.9	0.0
Total	**377.0**	**358.7**	**338.9**	**338.9**	**0.0**
Fair value option					
Greece	0.0	0.0	0.0	0.0	
Ireland	97.4	107.4	114.4	114.4	
Italy	1,077.3	1,119.4	1,146.3	1,146.3	
Portugal	135.0	133.3	108.8	108.8	
Spain	648.8	645.5	619.8	619.8	
Total	**1,958.5**	**2,005.6**	**1,989.3**	**1,989.3**	
Total					
Greece	0.0	0.0	0.0	0.0	0.0
Ireland	177.4	187.0	197.1	199.7	0.0
Italy	1,189.3	1,235.6	1,265.0	1,267.5	0.0
Portugal	390.0	368.9	322.2	320.6	0.0
Spain	1,079.6	1,074.2	1,060.3	1,065.9	0.0
Total	**2,836.3**	**2,865.7**	**2,844.6**	**2,853.7**	**0.0**

[1] Carrying amounts and fair values incl. accrued interest.

DEC. 31, 2012 € MILLION	Notional amount	Cost	Carrying amount (IFRS)[2]	Fair value	Impairment
At amortized cost					
Greece	0.0	0.0	0.0	0.0	0.0
Ireland	95.0	95.8	98.3	99.5	0.0
Italy	40.0	40.3	41.0	41.8	0.0
Portugal	45.0	45.1	46.2	46.8	0.0
Spain	390.8	391.7	396.8	392.7	0.0
Total	**570.8**	**572.8**	**582.2**	**580.9**	**0.0**
Available for sale					
Greece	0.0	0.0	0.0	0.0	0.0
Ireland	40.0	38.8	41.0	41.0	0.0
Italy	72.0	75.9	74.8	74.8	0.0
Portugal	245.0	225.2	220.0	220.0	0.0
Spain	95.0	92.2	83.8	83.8	0.0
Total	**452.0**	**432.0**	**419.6**	**419.6**	**0.0**
Fair value option[1]					
Greece	0.0	0.0	0.0	0.0	
Ireland	64.5	53.7	56.4	56.4	
Italy	1,135.4	1,123.5	1,113.0	1,113.0	
Portugal	135.0	133.3	117.2	117.2	
Spain	680.6	677.3	631.4	631.4	
Total	**2,015.5**	**1,987.8**	**1,918.0**	**1,918.0**	
Total					
Greece	0.0	0.0	0.0	0.0	0.0
Ireland	199.5	188.3	195.7	196.9	0.0
Italy	1,247.4	1,239.6	1,228.8	1,229.7	0.0
Portugal	425.0	403.5	383.3	384.0	0.0
Spain	1,166.5	1,161.2	1,112.0	1,107.9	0.0
Total	**3,038.3**	**2,992.6**	**2,919.8**	**2,918.5**	**0.0**

[1] The notional amount includes CDSs (net position) of €11.2 million (Ireland), €85 million (Italy), and €27.0 million (Spain).
[2] Carrying amounts and fair values incl. accrued interest.

Gains and losses arising on hedging transactions, which mainly related to portfolio hedge accounting used by WL BANK, amounted to a loss of €35.9 million (2012: loss of €16.9 million). This increase was due to the larger volume of derivatives in portfolio hedges compared with the previous year.

Gains and losses on investments deteriorated from a loss of €19.1 million to a loss of €86.6 million. This change was mainly attributable to impairment losses of €63.0 million recognized for VR Equitypartner. Gains and losses on investments at WGZ BANK equated to a gain of €1.9 million, an improvement of €52.8 million. In 2012, this item had included expenses arising from an income subsidy to VR Leasing. WL BANK achieved an improvement of €12.8 million, resulting in a loss of €15.2 million. Gains from the sale of securities, in particular promissory notes, were offset by continued high losses caused by repurchased liabilities. WGZ BANK Ireland plc contributed to net profit with a year-on-year improvement of €14.6 million in gains and losses on investments to a net gain of €2.4 million.

The WGZ BANK Group's administrative expenses were up slightly year on year, rising by €5.4 million to €284.3 million. This change was largely attributable to a higher level of other administrative expenses at all group companies, but also to increased staff expenses at WL BANK. The average number of employees in the group increased from 1,561 to 1,571.

Including other net operating income of €16.8 million (2012: €36.1 million), the WGZ BANK Group reported an operating profit before taxes of €306.1 million (2012: €551.6 million).

The year-on-year fall in operating profit meant that the income tax expense went down by €91.3 million to €78.8 million.

After taxes, the net profit for the year was €227.2 million (2012: €380.7 million). The forecasts made in 2012 are compared with actual business performance in the Outlook section.

Consolidated balance sheet

As at the end of 2013, the WGZ BANK Group's total assets stood at €90.9 billion, a year-on-year drop of €5.2 billion. The volume of business, which comprises total assets and contingent liabilities, fell by €5.1 billion to €91.8 billion.

The group's loans and advances to banks were down by €1.4 billion to €23.0 billion as at December 31, 2013. The bulk of the decrease (€1.0 billion) was attributable to WL BANK and was mainly due to maturities and sales in the public-sector banks segment. Loans and advances to customers declined by €0.5 billion to €37.0 billion due, in almost equal measure, to decreases at WGZ BANK and WL BANK.

The portfolio of financial assets held for trading contracted by €1.8 billion to €8.2 billion, partly owing to interest-rate trends. Both WGZ BANK and WL BANK reported decreases in financial assets held for trading, of €1.2 billion and €0.8 billion respectively.

The long-term equity investments and securities portfolio item, which mainly consists of the securities portfolio, reduced by €1.4 billion to €20.6 billion. Small increases at WGZ BANK and WGZ BANK Ireland plc of €0.2 billion and €0.1 billion respectively were more than offset by a decrease of €1.7 billion at WL BANK. The contraction of WL BANK's securities portfolio was caused by the reduction of the sovereign portfolio and, in particular, by the scaling back of the portfolio of subsovereign issuers.

Deposits from banks decreased by €2.2 billion to €36.0 billion mainly due to the fall in sale and repurchase agreements, whereas amounts owed to other depositors advanced by €1.8 billion to €21.9 billion. This increase largely resulted from the growth of amounts owed to other depositors at WGZ BANK, which were up by €1.6 billion owing, in particular, to a rise in fixed-term accounts and notice accounts.

Debt certificates including bonds fell by €2.5 billion to €22.8 billion as at December 31, 2013. The decline was essentially attributable to a decrease of €2.4 billion at WL BANK that mainly affected the public-sector Pfandbrief segment.

The portfolio of financial liabilities held for trading contracted by €1.7 billion to €4.9 billion as at the reporting date. This was attributable in almost equal measure to WGZ BANK (decrease of €1.0 billion) and WL BANK (decrease of €0.9 billion) and was mainly the result of interest-rate-related reductions in interest-rate derivatives. Subordinated capital fell by €0.1 billion year on year to €0.6 billion because subordinated liabilities that became due at WGZ BANK and WL BANK in 2013 were not replaced with new placements. Moreover, no new subordinated capital was raised in the reporting year.

The group's equity increased by €0.2 billion to €3.3 billion. This rise was primarily due to the net profit reported for the year plus the reversal of impairment losses in the revaluation reserve. Net non-operating income totaled €26 million.

As at the balance sheet date, the WGZ BANK Group's total capital ratio pursuant to SolvV was 13.6 percent (December 31, 2012: 11.4 percent) and its Tier 1 capital ratio was 12.2 percent (December 31, 2012: 10.4 percent). Taking account of both the appropriation of profits already implemented and the proposed appropriation, the WGZ BANK Group's regulatory capital amounted to €2.6 billion. This resulted in a total capital ratio for the WGZ BANK Group pursuant to SolvV of 14.8 percent and a Tier 1 capital ratio of 13.1 percent.

The group's contingent liabilities grew from €835.8 million to €902.0 million. The increase was predominantly attributable to a rise in contingent liabilities arising from guarantees and indemnity agreements.

Financial position

The liquidity situation of WGZ BANK and the WGZ BANK Group is stable and remains comfortable. This is reflected in, among other things, the liquidity ratio pursuant to the German Liquidity Regulation (LiqV), which stood at 2.53 (regulatory minimum: 1.0) as at December 31, 2013. The average for the year was 2.54. This key figure expresses the ratio of cash to payment obligations.

A large volume of unencumbered collateral eligible for funding was available at all times as a liquidity buffer for the group's short-term liquidity requirements. WGZ BANK did not borrow any funds from the ECB in 2013; the subsidiaries did to a limited extent, but only with short-term maturities.

The WGZ BANK Group was able to meet its long-term funding requirements at all times by issuing unsecured bonds and promissory notes and, in the case of WL BANK, by issuing Pfandbriefe. Total sales in 2013 were considerably in excess of amounts maturing in this period.

Events after the balance sheet date

As permitted by the authorization from the Annual General Meeting granted on June 22, 2010 and in accordance with article 6 of the Articles of Association of WGZ BANK, the Board of Managing Directors of WGZ BANK decided on February 11, 2014 to increase the share capital of €649,400,000 by up to €64,940,000 to up to €714,340,000 by issuing up to 649,400 new registered no-par-value shares subject to transfer restrictions ('New Shares'), each with an imputed share of the capital of WGZ BANK amounting to a nominal €100.00 in return for cash contributions. The statutory subscription right was granted in the ratio 10:1. On February 18, 2014, the Supervisory Board approved this increase in the share capital, which used part of the authorized capital of €200,000,000. Dividends are payable on the New Shares from January 1, 2013.

The subscription deadline had not expired as at the preparation date of the annual financial statements, which means that the precise number of shares for which a dividend will be distributed is not yet known. As a result, the amounts relating to the appropriation of profits may vary.

There were no further events of particular significance after the balance sheet date.

WGZ BANK's net assets were largely unchanged year on year. The total assets of the WGZ BANK Group contracted owing to the scaling back of WL BANK's assets. This reduction was deliberate and mainly affected local authority loans and foreign Pfandbriefe. The liquidity situation of WGZ BANK and the WGZ BANK Group remained comfortable during the reporting period. We regard the operating performance of WGZ BANK and the WGZ BANK Group in 2013 as satisfactory overall, especially when all the different aspects and influences are taken into account. As expected, it was not possible to repeat the level of operating profit seen in 2012, which had been boosted by positive non-recurrent items. Nevertheless, the operating profit achieved was well above the budgeted figure. This business performance means WGZ BANK is able to distribute a generous dividend to its shareholders for 2013.

V. Risk report

Risk can arise in the form of credit risk, market risk, liquidity risk, operational risk, and other risk. To control this risk, the WGZ BANK Group has established a comprehensive risk management system as an integral element of strategic bank management and of management of the group as a whole.

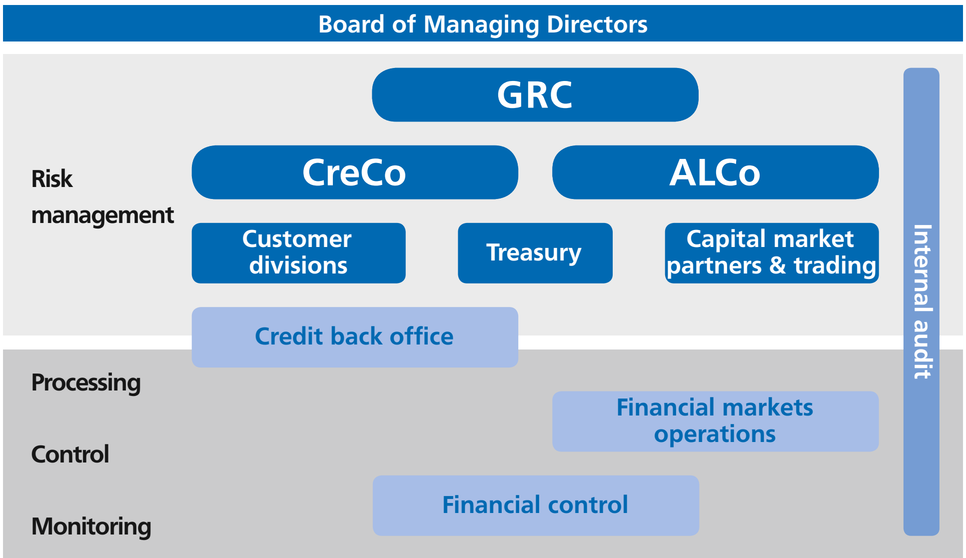
Risk management system of the WGZ BANK Group

The Board of Managing Directors of WGZ BANK bears **overall responsibility for the risk strategies and the risk management system of the WGZ BANK Group**. Below this level is the group risk committee (GRC), which consists of members of the Board of Managing Directors and divisional managers at WGZ BANK plus the senior management of the subsidiaries. While the group companies are responsible for their own risk management, the GRC coordinates and monitors the group's risk management activities and the advancement of risk management concepts and processes at group level. The main overarching elements of risk management in the group are therefore the group's risk strategy, the groupwide GRC, and regular risk reporting at group level on the risk-bearing capacity and changes in risk in respect of the main risk types.

In December 2013, WGZ BANK and WL BANK announced that they would apply the waiver pursuant to section 2a (1) of the German Banking Act (KWG) to WL BANK. This means that, as a domestic group company, WL BANK does not apply the requirements set out in sections 10, 13, and 25a (1) sentence 3 no. 1 KWG. Despite using the exempting provisions under the waiver, WL BANK will – as a mortgage bank – continue to comply with the regulatory capital requirements in its internal management and operate its own risk management system aligned with the groupwide risk management methods of WGZ BANK.

The risk management systems of the companies in the WGZ BANK Group are tightly integrated with the risk management system at group level. The decentralized units receive centralized support in the form of methods and tools. These units' compliance with groupwide standards is also monitored centrally. Responsibility for day-to-day risk management is decentralized but subject to the stipulations of the parent company and lies with the group units in which the risk arises. Pursuant to section 25a (1a) KWG in conjunction with AT 4.5 of the Minimum Requirements for Risk Management (MaRisk), WL BANK is fully and consistently integrated into the risk management system – particularly strategic, planning, and risk-bearing-capacity processes – and the internal control system at group level. The structures, methods, and processes in the other subsidiaries are closely aligned with the parent company's risk management system and are reconciled with it.

That is why risk management at WGZ BANK is the focus of this risk report. Within the risk management system of the WGZ BANK Group and the individual group companies, risk management – in other words, actively influencing risk – is kept separate from other functions (back office and risk control). This separation of functions applies up to Board of Managing Directors level.



Below the Board of Managing Directors and alongside the GRC, there are two **committees** with central responsibility for managing the main risk categories at WGZ BANK. Both committees consist of members of the Board of Managing Directors and divisional managers. The asset liability committee (ALCo) is in charge of managing market risk and liquidity risk, while the credit committee (CreCo) is responsible for the centralized management of credit risk.

The decentralized units that assume and can influence risk are responsible for **day-to-day management**. At WGZ BANK, the treasury and capital market partners & trading divisions are responsible for market risk. Credit risk is the responsibility of the credit back-office division and the following customer divisions: member banks, corporate customers, and capital market partners & trading. The credit back-office division is responsible for analyzing and monitoring credit risk from the lending business at individual transaction level and from long-term equity investments at WGZ BANK. If there are only long-term equity investments, the usual monitoring required in the lending business is carried out by the long-term equity investment management and client portfolio support department in the central services division. Within the treasury division, the active credit portfolio management (ACPM) unit holds management responsibility and P&L responsibility for the centralized and proactive management of credit risk in WGZ BANK's portfolio. To this end, ACPM has assumed the material risk from the traditional customer lending business of the corporate customers and capital market partners & trading divisions. In addition, ACPM has its own exposures in the money markets and capital markets. ACPM is responsible for implementing the management standards laid down by CreCo at overall bank level. CreCo has defined parameters for ACPM that set the limits for the risk content of ACPM's overall portfolio and of particular asset classes. The treasury division also manages liquidity risk. All of the decentralized units are responsible for managing their own operational and other risk. However, certain subrisks in these categories are primarily managed by central divisions, such as human resources, organization and operations, central services, and legal affairs.

The risk control function pursuant to AT 4.4.1 MaRisk is carried out by WGZ BANK's financial control and planning division. This function is headed up by the divisional manager for financial control and planning, who is also an executive vice president of WGZ BANK. As part of its risk control function, the financial control and planning division independently **quantifies, monitors,** and **communicates risk** and refines the methods used for these tasks. It also monitors credit risk in the WGZ BANK Group's portfolio. The various decision makers and the Board of Managing Directors are kept abreast of the risk position via daily, monthly, and quarterly reports.

The **internal audit** division, which forms part of the bank's internal control function, monitors the propriety and integrity of risk management on behalf of the Board of Managing Directors. Based on an audit plan focusing on the different risk aspects, internal audit regularly audits risk management, reports on its findings to the Board of Managing Directors, and tracks the elimination of any weaknesses identified.

In addition to the various centralized and decentralized organizational guidelines, a **group risk manual** sets out the responsibilities, processes, and methods for risk management in the WGZ BANK Group. Employees can access the handbook via the intranet.

Risk management in the WGZ BANK Group and the individual group companies is subject to an **ongoing process of refinement**.

In 2013, the focus was on fulfilling the requirements of the 2012 amendment of MaRisk. As with earlier amendments to MaRisk, WGZ BANK implemented the new requirements as part of a project. It set up the MaRisk compliance and risk control functions on the basis of existing structures. The bulk of the work to implement the new version of MaRisk related to technical concepts for the liquidity transfer pricing system. In line with regulatory expectations, further activities to implement these requirements are planned for 2014.

In addition, the capital planning process is being expanded to meet the requirements in the 2012 amendment of MaRisk and a bank-wide process is being set up to analyze the impact of changes to organizational processes and structures.

In 2013, a new asset class was defined for the WGZ BANK Group in order to improve how it manages credit risk. The asset class serves as the primary criterion used to break down the WGZ BANK Group's credit portfolio into homogeneous subsegments. It therefore provides an important basis for managing, monitoring, and limiting credit risk at portfolio level. The refinements made mainly relate to a more granular breakdown of the main asset classes into asset subclasses and differentiation levels. Nine subsegments have been introduced for the new real estate asset class. They are oriented to the main customer groups in the real estate lending business.

The setting of portfolio-based limits has also been expanded, building on the new asset class concept. Guidelines for each asset class have been introduced for the WGZ BANK Group as a whole and for the three individual institutions, WGZ BANK, WL BANK, and WGZ BANK Ireland plc. They are used to manage the overall structure of the WGZ BANK Group's credit portfolio and serve as a starting point for the refinement of the management guidelines in the three group companies.

The main enhancements to the methods used to quantify credit risk in 2013 related to the implementation of two new loss-given-default (LGD) models for the banks and countries segments – which is now used consistently throughout the WGZ BANK Group to help assess risk-bearing capacity – and the introduction of a new rating system for open-ended real estate funds, for which we have requested IRBA approval. With regard to market risk, preparations were made for the Capital Requirements Regulation (CRR I) in 2013, above all to enable the WGZ BANK Group to meet the enhanced quality requirements placed on internal models and their validation.

So that WL BANK can make use of the exemptions provided by the waiver pursuant to section 2a KWG, strategic and operational planning processes were integrated even more tightly throughout the group. In addition, WGZ BANK's right to issue instructions to and monitor WL BANK was extended. The framework within which WL BANK can assume risk was also narrowed by introducing additional limits set by the group's Board of Managing Directors and the GRC, e.g. at subportfolio level and in respect of certain aspects of individual risk types. The scope and frequency of reporting on WL BANK's risk situation to the group's Board of Managing Directors was extended.

Since mid-2013, WGZ BANK has focused on conceptual issues of reputational risk management so that it can satisfy external requirements. The aim is to establish standardized groupwide methods and processes for measuring and managing reputational risk.

Risk strategy

As the Board of Managing Directors for the group as a whole, the Board of Managing Directors of WGZ BANK defines a **groupwide risk strategy** that is binding on all group companies. The risk strategy describes the fundamental strategic approach to dealing with risk in the WGZ BANK Group. The subsidiaries flesh out the group strategy with their own strategies that are derived from, and consistent with, the group strategy.

The material risks in the WGZ BANK Group are the risk types specified in MaRisk: counterparty risk (credit risk), market risk, liquidity risk, and operational risk. In addition, the Board of Managing Directors has defined equity risk and reputational risk as material risks for WGZ BANK and the WGZ BANK Group. A comprehensive annual risk inventory check is conducted to identify the material risks. Responsibility for formally defining the material risks for WGZ BANK and the WGZ BANK Group lies with the Board of Managing Directors.

To contain and monitor risk and the associated concentrations of risk, the WGZ BANK Group has defined risk tolerances for all material risk types at all relevant management levels. These are decided upon by WGZ BANK's Board of Managing Directors for the group and the group companies. If necessary, they are specified in more detail by the group companies' senior management or committees or officers appointed for this role. The risk tolerances, which are both quantitative and qualitative, document the extent to which the senior management is willing to assume risk. A quantitative risk tolerance is any measurable value that is limited by a particular threshold. By contrast, qualitative limits tend to be based on content-related or structural requirements.

The utmost priority for risk management in the WGZ BANK Group is not exceeding the group's risk-bearing capacity, i.e. its ability to deal with risks that materialize using its own financial resources.

Credit risk is deliberately assumed in the WGZ BANK Group in order to generate income. The extent of credit risk is contained by imposing not only specific limits but also structural requirements, subportfolio limits, and overall portfolio limits. Structural requirements and subportfolio limits also help to limit concentrations of risk. Besides quantitative limits, minimum quality requirements (e.g. minimum ratings) also apply as an expression of risk tolerance. These requirements must be observed when assuming credit risk. Examples of limits are credit policies, country limits, a rules-based system for determining bank limits, and a framework for transactions of the ACPM unit. Moreover, the WGZ BANK Group has defined strategies for scaling back some portfolios, predominantly those containing government bonds of European periphery countries and those containing securitizations.

The credit risk of a group company must remain within the risk limit defined by the group company's senior management in the context of its risk-bearing-capacity analysis. The limit set by the group company's senior management is capped by a sublimit that was defined by the WGZ BANK Board of Managing Directors for the group companies on the basis of the credit risk limit for the group. This limit applies to both default risk and migration risk.

Besides these limits based on the value at risk (VaR), mandatory country limits are defined for each country at group level and for the individual group companies.

In 2013, asset-class-specific limits were introduced on the basis of the expected shortfall with a confidence level of 95 percent for the WGZ BANK Group and the individual institutions within the group. The purpose of this was to extend credit risk management at portfolio level in the WGZ BANK Group to complement the credit value-at-risk limits resulting from risk-bearing capacity. The GRC has the authority to adjust the limits. WGZ BANK's asset-class-specific limits are broken down by subportfolio and form part of the credit risk strategy. WL BANK also has subportfolio limits for default risk.

Within the framework created by the VaR limit and the country limits, and depending on their individual business strategy, the group companies further contain their credit risk and thus the related concentrations of risk by imposing structural requirements regarding the relevant regions, counterparty categories, and credit ratings.

Market risk is also deliberately assumed in the WGZ BANK Group in order to generate income. This risk is contained using VaR limits at group level and associated sublimits at individual institution level, some of which are also broken down by subportfolio and/or individual risk category. Market risk is also contained by restricting the possible risk types, markets, and products in the risk strategies of the group and the group companies. These steps also help to limit concentrations of risk.

The most important categories of market risk for the WGZ BANK Group are general interest-rate risk and spread risk. All banks in the group deliberately assume maturity transformation risk within the set limits in order to generate additional income. Compared with other years, however, the WGZ BANK Group's open interest-rate positions were only on a small scale in 2013 owing to uncertainty about future interest rate trends. Another material type of market risk is credit spread risk arising from trading securities and the treasury portfolio. In addition, WGZ BANK and, to a lesser extent, WGZ BANK Ireland plc assume currency risk. Equity price risk is essentially only assumed by WGZ BANK.

The WGZ BANK Group divides its **liquidity risk** into short-term operational liquidity risk (ensuring it can meet its payment obligations at all times), long-term structural liquidity risk (ensuring long-term funding), and market liquidity risk (risk of not being able to reverse or close out transactions, or only being able to do so at a loss, due to insufficient market depth or due to market disruption). These types of liquidity risk primarily result from day-to-day banking activities. The first two types, however, can be assumed or accepted deliberately, for example to minimize the cost of obtaining liquidity or to generate additional income from liquidity maturity transformation.

The aim of day-to-day liquidity management in the individual group companies is to ensure they can meet their payment obligations at all times (in order to contain operational liquidity risk). In doing so, they have to comply with regulatory requirements. The parent company and group companies may also set additional internal limits that are stricter than the regulatory requirements. A liquidity buffer consisting of liquid securities, some of which must be eligible as collateral with central banks, also helps to ensure payment obligations can be met at all times.

The aim of managing structural **liquidity risk** is to ensure the funding of medium- and long-term assets, to continuously optimize funding costs, and to permanently safeguard funding sources. Analysis of funding sources also helps to limit concentrations of risk.

Operational risk is implicitly assumed with every banking-related activity. The WGZ BANK Group's risk strategy here is aimed exclusively at containing, minimizing, and transferring risk. Operational risk is not assumed deliberately in order to generate income.

The group companies contain and minimize operational risk primarily by defining responsibilities (taking separation of functions requirements into consideration) and processes in organizational handbooks. There are also emergency plans for certain events that are particularly risk-relevant. All of the group companies keep a close eye on IT security and, where relevant, activities that they have outsourced. To transfer risk, the group companies have taken out insurance policies for certain aspects of operational risk.

The WGZ BANK Group considers **other risk** to consist primarily of equity risk and reputational risk. Its approach for handling these two types of risk is to define responsibilities and processes. These processes ensure such risks can be identified and assessed and enable prompt mitigating action to be taken.

Following the 2013 risk inventory check, the Board of Managing Directors of WGZ BANK found that **strategic risk** was not a material type of risk for the WGZ BANK Group because the aspects of strategic risk that were analyzed were either insignificant in terms of the amount of loss or already covered by other risk types (e.g. credit or liquidity risk). The analysis of whether strategic risk is immaterial is validated annually.

Risk-bearing capacity

The framework for **risk management throughout the group** is provided by regular risk reporting at group level showing the group's risk-bearing capacity and changes in risk in respect of the individual risk types. This risk reporting is based on monthly reports from the subsidiaries about their risk-bearing capacity and any changes in risk, which they submit to WGZ BANK's financial control and planning division. The risk-bearing capacity analysis for the WGZ BANK Group covers WGZ BANK, WL BANK, WGZ BANK Ireland plc, and WGZ Immobilien + Treuhand.

Risk-bearing capacity is understood as the group's – and its individual group companies' – ability to deal with risks that materialize using its own financial resources. As part of the groupwide risk-bearing capacity concept, the aggregate risk cover is determined in the group companies and risk limits are defined at group level. These risk limits are then used to set sublimits for the group companies that are regularly compared against the risk potential. The capacity to assume risk must be ensured at group level and at individual institution level.

Under its risk-bearing capacity concept, the WGZ BANK Group analyzes two different risk exposure scenarios: a going concern scenario and a maximum exposure scenario. The going concern scenario describes the situation in a negative normal year in which risks materialize beyond the extent that would constitute a normal year but do not jeopardize the company's ability to continue as a going concern. The potential risks to be analyzed are shown as VaR with a confidence level of 95 percent. In contrast, the maximum exposure scenario describes a situation in which the risks that materialize are so extreme that they jeopardize the company's ability to continue as a going concern. In this scenario, the risks are shown with a confidence level of 99.9 percent. The confidence level is derived from WGZ BANK's external rating. It also reflects the risk tolerance of the Board of Managing Directors. A holding period of one year applies in both exposure scenarios. The risk potential for operational risk is determined using the Basic Indicator Approach pursuant to the Solvency Regulation (SolvV).

Aggregate risk cover 1, which is assigned to the going concern scenario, comprises only funds that, if used up, would not jeopardize the ability to continue as a going concern. Such funds are primarily hidden reserves. A particular focus here is to maintain a minimum level of regulatory capital. The more broadly defined aggregate risk cover 2, which is assigned to the maximum exposure scenario, comprises all funds that, if used up, would not jeopardize the fulfillment of the claims of non-subordinated lenders. It therefore includes the bulk of liable capital (including Tier 1 capital). Besides the recognition of hidden reserves, aggregate risk cover 2 also includes hidden liabilities.

Based on its attitude to risk, the Board of Managing Directors derives individual risk limits for credit risk, market risk, liquidity risk, and operational risk from each aggregate risk cover. These limits provide the framework for a comprehensive system of more differentiated risk limits for credit risk, market risk, and liquidity risk that are defined by the responsible functions and committees at regular intervals, taking market trends into consideration.

The financial control and planning division submits a monthly report on risk-bearing capacity, the risk limits, and their current utilization to the WGZ BANK Group's Board of Managing Directors for each of the material group companies and for the group as a whole. The reports also indicate whether the limits have been exceeded so that the Board of Managing Directors can make management decisions as necessary. There were no limit overruns at group level in 2013. At individual institution level, the group's Board of Managing Directors approved four temporary limit overruns. These were mainly due to the recovery of prices for securities from Europe's periphery and the associated rise in market-value-based default risk. In the maximum exposure scenario, WL BANK suffered a risk coverage shortfall at individual institution level. There was no shortfall in the capacity to assume risk at group level.

The Supervisory Board receives a condensed report on the group's risk-bearing capacity at all of its meetings.

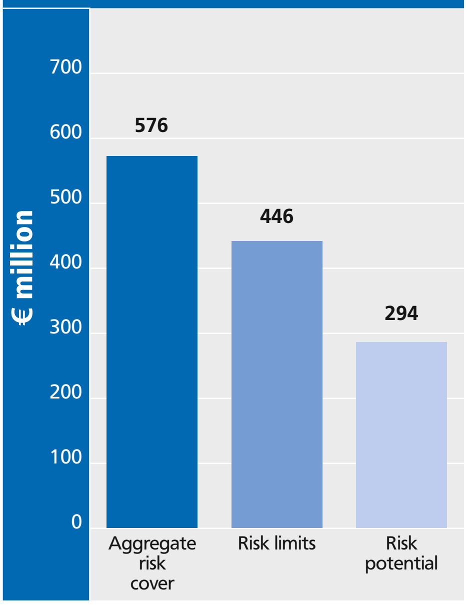
In 2013, analysis of the ability to assume risk was enhanced in relation to the inclusion of risk potential. The basis for LGD estimates in the banks and countries segments used to quantify counterparty risk was redesigned. In addition, a new process was introduced as of December 31, 2013 to determine the risk in relation to borrowers in default from fluctuations in LGD or in proceeds from the recovery of collateral. In the process to quantify market risk, the credit spread risk from the cover assets of WL BANK in the maximum exposure scenario was previously determined by calculating a credit spread increase of 100 basis points. During the reporting year, the risk measurement method was switched to a VaR metric from WGZ BANK's internal market risk model.

The aggregate risk cover, risk limits, and potential risks for the WGZ BANK Group were as follows as at December 31, 2013:

Going concern scenario

€ million	Dec. 31, 2013	Highest value 2013	Lowest value 2013	subord.: Dec. 31, 2012
Aggregate risk cover 1	**575.5**	**575.5**	**489.3**	**493.0**
Risk limits	**445.5**			**451.0**
- Credit risk	297.5	297.5	282.5	292.5
- Market risk	86.8	104.4	86.8	104.4
- Liquidity risk	15.0	15.0	11.0	10.0
- Operational risk	46.2	46.2	43.1	44.1
Risk potential	**294.1**			**308.2**
- Credit risk	211.4	239.2	211.4	231.4
- Market risk	38.1	50.4	33.8	33.4
- Liquidity risk	0.9	1.3	0.8	1.4
- Operational risk	43.7	43.8	41.8	42.0

Risk-bearing capacity of the WGZ BANK Group in a going concern scenario as at Dec. 31, 2013

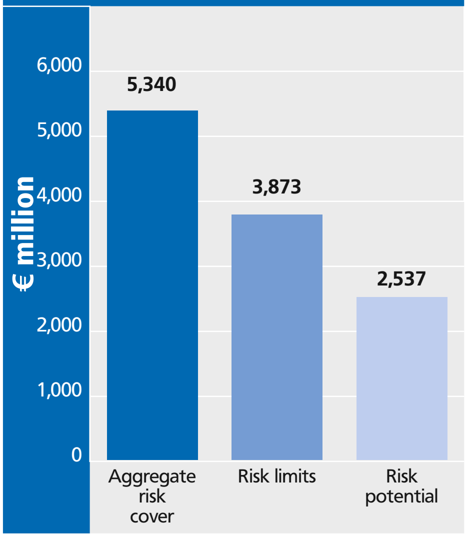


In the going concern scenario, there was an increase in aggregate risk cover 1 on December 31, 2013 compared with the same date a year earlier.

The decrease in risk potential over the course of the year was predominantly attributable to credit risk. The reasons for this were the impact of the amended method for LGD estimates in the banks and countries segments (as described above) and, in particular, a significant reduction in credit risk. As far as market risk was concerned, however, there was a small drop in interest-rate risk and spread risk. Liquidity risk also declined, while there was a small rise in the value measured for operational risk.

Maximum exposure scenario € million	Dec. 31, 2013	Highest value 2013	Lowest value 2013	subord.: Dec. 31, 2012
Aggregate risk cover 2	**5,340.0**	**5,433.9**	**5,148.3**	**5,203.4**
Risk limits	**3,873.0**			**3,481.0**
- Credit risk	1,975.5	1,975.5	1,827.4	1,910.5
- Market risk	1,737.3	1,737.3	1,391.3	1,413.4
- Liquidity risk	75.0	75.0	70.5	68.5
- Operational risk	85.2	85.2	85.1	88.6
Risk potential	**2,537.2**			**2,397.2**
- Credit risk	1,315.5	1,399.2	1,315.5	1,386.2
- Market risk	1,135.6	1,135.6	809.4	922.8
- Liquidity risk	4.1	8.2	3.5	9.4
- Operational risk	82.0	82.0	78.4	78.8

Risk-bearing capacity of the WGZ BANK Group in a maximum exposure scenario as at Dec. 31, 2013



Overall, the WGZ BANK Group's aggregate risk cover 2 increased in 2013, mainly because of the increases in accrued profit and hidden reserves. There was an improvement in hidden liabilities owing to the reversal of impairment losses on securities. The increase in risk potential over the course of the year was almost exclusively attributable to the aforementioned change of method for quantifying WL BANK's credit spread risk (market risk). By contrast, there were decreases in the WGZ BANK Group's credit risk and liquidity risk. The value measured for operational risk rose slightly.

Stress tests

Stress testing is an integral element of risk management in the WGZ BANK Group. Along with numerous stress tests for specific types of risk, the WGZ BANK Group has a groupwide stress testing program for all types of risk. The program includes historical and hypothetical scenarios as well as reverse stress tests. Stress testing assesses exceptional yet plausible events that could occur (e.g. a severe economic downturn) and therefore supplements risk measurement in the risk-bearing capacity analysis.

The impact on financial performance, capacity to assume risk, and the regulatory Tier 1 capital ratio and total capital ratio is ascertained for the defined scenarios. The results of stress testing are critically examined, including from the perspective of the WGZ BANK Group's ability to sustain risk. The Board of Managing Directors receives reports on the results of the stress tests every quarter.

In 2013, the scenarios with the most severe impact on the WGZ BANK Group were those that assumed a substantial deterioration in the sovereign debt crisis, a repeat of the Lehman Brothers crisis, and a major Europe-wide recession.

Credit risk

Credit risk is the most significant risk category. It comprises counterparty and migration risk from the lending business, counterparty and issuer risk from trading activities, and country risk. The WGZ BANK Group's risk management in respect of credit risk is based on the credit risk strategy approved by the Board of Managing Directors and credit policies for the customer and product segments. The GRC coordinates the management and monitoring of all credit risk across the group. At WGZ BANK, these functions are performed at a detailed level by the CreCo. Adhering to the defined guidelines and with support from the credit back-office division, the market divisions bear primary responsibility for managing their own subportfolios and monitoring individual transactions within these portfolios. At overall bank level, responsibility for managing the material subportfolios lies with ACPM, the active credit portfolio management unit. Lending and credit control are governed by rules set out in the organizational handbooks, with strict separation of front- and back-office functions.

Credit risk from the lending business

Credit risk management at specific exposure level is based on a credit approval process that includes a rating-based assessment of the creditworthiness of each customer and an assessment of the credit structure, sectoral risk, and country risk. The approval process for group companies and other single borrowers looks at the creditworthiness and the total exposure of the single borrower unit.

Lending decisions in the risk-relevant lending business are reached on the basis of two votes (cast by the relevant customer division and the credit back-office division) as defined by the authorization rules, which are based on ratings and volume. Standardized processes and binding rules are applied to ensure that the carrying amounts of collateral are consistently measured and constantly reviewed.

All loans are subject to a process of continuous monitoring. A credit control check is conducted at least once a year and includes a review of the borrower's financial circumstances, an up-to-date evaluation of other information relevant to the lending decision, and updating of the borrower's credit rating. Permanent credit control is concerned with adherence to credit agreements, activities to identify risks at an early stage, and daily, IT-based monitoring of compliance with credit limits.

The main tools for early detection of lending exposures with a possibly heightened credit risk are the watch list plus other criteria that identify intensive exposures at an early stage. An important element of this process is the prompt involvement of the restructuring department in dealing with intensive loans that may become non-performing loans later on in the event that the credit rating worsens further. The aim is to efficiently manage intensive and non-performing loans by taking rapid corrective action in order to preserve value and minimize losses.

The market-independent restructuring department checks whether an allowance needs to be recognized for losses on the lending exposure identified as having a heightened risk.

Counterparty and issuer risk from trading activities

Daily **monitoring of credit risk from trading activities** at WGZ BANK, including IT-supported monitoring of limits, is the responsibility of the credit risk control department, part of the financial control and planning division. The credit risk from these activities is contained by limiting the exposures of each counterparty by product category, residual maturity, and risk type.

The limits are imposed as part of the regular credit approval process to ensure that the total lending exposure of each single borrower is processed and monitored consistently by combining these limits with the other credit risks of the bank in the credit back-office division on a borrower-specific basis.

The responsible members of the Board of Managing Directors and other decision-makers receive daily reports on the entire portfolio of credit risk from trading activities and on compliance with the limits. A monthly report provides a comprehensive presentation and analysis of credit risk from trading activities.

The introduction of clearing through central counterparties (CCPs) and the conclusion of further bilateral netting and collateral agreements led to a fall in WGZ BANK's counterparty risk arising on over-the-counter (OTC) derivatives in 2013. The effect of bilateral netting and collateral agreements on counterparty risk had also been taken into account in the measurement of credit risk in previous years.

In addition, separate monitoring of banking book portfolios and trading book portfolios was introduced in 2013 in the context of limiting issuer risk from trading activities at WGZ BANK.

Credit rating

The basis for the approval, monitoring, and management process for credit risk is the customer's individual **credit rating** and the corresponding lending exposure. As a rule, this involves analyzing different indicators of the customer's creditworthiness annually and on an ad-hoc basis to create a credit rating statement. To this end, the WGZ BANK Group's fundamental credit-rating analysis is supported by mathematical/statistical rating systems that are used as standard throughout the cooperative financial network to determine the probability of default and have been approved by the regulators for the internal ratings-based approach (IRBA).

The rating systems that have been approved for the IRBA are:

- VR rating for banks,
- VR rating for countries,
- VR rating for SMEs,
- VR rating for large and medium-sized companies,
- VR rating for major corporate customers,
- VR rating for commercial real estate finance – investors, building contractors, project developers, and house-building companies,
- VR rating for retail-customer building loans,
- Rating for local and regional government (LRG),
- Rating for business customers, freelancers, and investors (WL BANK's GFI rating).

WL BANK's GFI rating system received IRBA approval in December 2013.

Since 2013, WGZ BANK has assessed the credit risk attaching to open-ended real estate funds (OIF), which are subject to the requirements of the German Investment Act (InvG) and the Austrian Real Estate Investment Fund Act (ImmoInvFG), using a special rating system based on probability of default (PD). This system, known as the OIF rating, was developed collaboratively by the cooperative financial network. WGZ BANK applied for IRBA approval for it in 2013.

WGZ BANK has obtained approval to use the IRBA simple risk weighting (slotting approach) for specialized financial services (project, equipment and cash-flow finance).

The rating systems, which were developed in line with SolvV requirements, use a standardized procedure to process data from annual financial statements and creditworthiness information (some of which is qualitative), supplemented by a qualified analysis process run by credit and sector experts.

The credit rating process results in the customer being assigned an individual **probability of default** (PD), which determines the rating class on the VR master scale. This individual default probability is then reflected in, among other things, the risk-adequate pricing of the loan. In addition, the default probabilities provide the main basis for analysis and management of the credit portfolio.

VR master scale:

Rating class	Average default rate (%)	Default rate range (%)
0A	0.01	]0.0000-0.0165]
0B	0.02	]0.0165-0.0248]
0C	0.03	]0.0248-0.0331]
0D	0.04	]0.0331-0.0414]
0E	0.05	]0.0414-0.0580]
1A	0.07	]0.0580-0.0829]
1B	0.10	]0.0829-0.1243]
1C	0.15	]0.1243-0.1865]
1D	0.23	]0.1865-0.2797]
1E	0.35	]0.2797-0.4195]
2A	0.50	]0.4195-0.6293]
2B	0.75	]0.6293-0.9440]
2C	1.10	]0.9440-1.4159]
2D	1.70	]1.4159-2.1239]
2E	2.60	]2.1239-3.1858]
3A	4.00	]3.1858-4.7788]
3B	6.00	]4.7788-7.1681]
3C	9.00	]7.1681-10.7522]
3D	13.50	]10.7522-16.1283]
3E	30.00	]16.1283-100.0000[

Besides the PD rating, another important factor in quantifying the credit risk is the loss given default (LGD). The loss rates specified by SolvV and CRR I are generally used to calculate risk-weighted assets in the reporting system. WL BANK uses the LGD grading process for borrowers such as customers who are assessed using the VR rating systems for commercial real estate finance and retail-customer building loans for the purposes of retail business and using WL BANK's GFI rating. The LGD grades of customers assigned to the IRBA asset class for retail business are also included in the IRBA-based calculation of capital requirements. However, for the purposes of internal risk management, in particular in the credit portfolio model, internal LGD estimates are used for the different asset classes and product groups. These estimates are largely derived from internal or external loss data using statistical models. In 2013, two new models for estimating customers' individual loss rates were introduced for the banks and countries segments. These models had been developed in 2012 and 2013 as part of a groupwide LGD project.

Credit portfolio risk

Credit risk management at portfolio level is predominantly based on the quarterly credit risk report for the WGZ BANK Group prepared by the financial control and planning division's credit risk control department. The report contains an overall view of credit risk broken down by relevant risk characteristics and concentrations of risk.

Further reports on portfolios and subportfolios are produced that analyze any portfolios that currently require observation and also contain in-depth information about special concentrations of risk. These reports, which appear at regular intervals or on an ad-hoc basis, are aimed at the Board of Managing Directors, the Supervisory Board's risk committee, and the divisional managers responsible for managing the portfolios. Management decisions are made by the GRC or CreCo.

One of the ways in which concentrations of counterparty risk are quantified is using the credit portfolio model. Concentrations are also shown using other statistical measurements, e.g. the Herfindahl-Hirschman Index. They are sometimes analyzed in more detail using stress scenarios. The analyses contained in the reports and any recommendations for action ensure that portfolio risk is identified at an early stage, enabling measures to be initiated in a prompt and targeted manner.

In the following tables relating to the WGZ BANK Group's credit portfolio, the allocation to a portfolio segment is based on the distinguishing features of the individual counterparty (legally independent borrower). Geographical segmentation is based on the home country of the borrower, unless the credit risk is attributable to a different country from a business perspective.

Overview of the composition of counterparty risk in the WGZ BANK Group, broken down by rating class, as at December 31, 2013:

Credit rating	Range of default probability	Overall portfolio				
		Dec. 31, 2013		Dec. 31, 2012		
		Exposures + open commitments	Proportion (%)	Exposures + open commitments	Proportion (%)	Year-on-year change
0A-0E	0.00%-0.06%	51,768	56	55,248	55	-3,480
1A-2A	0.06%-0.63%	34,378	37	36,097	36	-1,719
2B-2E	0.63%-3.19%	5,707	6	6,694	7	-987
3A-3E	3.19%-100.00%	860	1	1,181	1	-321
4A-4E	100.00%	379	0	442	0	-63
Unrated		53	0	87	0	-34
Total		**93,146**	**100%**	**99,750**	**100%**	**-6,604**

Exposures + open commitments (€ million)

The table shows that the rating structure for counterparty risk in the WGZ BANK Group remains very good overall. Investment-grade rating classes (0A-0E and 1A-2A) now account for 93 percent of the portfolio – a slight improvement on December 31, 2012. The decrease in the overall exposure (including open commitments) is due, in particular, to the revised presentation of trading activities. The exposure definition used in credit risk reporting now reflects all hedging instruments and collateral items. This provides a more accurate view of financially relevant credit risk exposure and replaces the previous definition, which was based on the regulatory view. As a result of this change, there were decreases in the exposures in the derivative, repo, and securities lending and borrowing businesses. Furthermore, CDS protection buyer exposures are fully taken into consideration.

The WGZ BANK Group's portfolio was broken down into the following main asset classes as at December 31, 2013:

Credit rating	Range of default probability	Asset classes, as at Dec. 31, 2013						
		Sovereigns	Specialized service providers in the cooperative sector	Real estate finance	Corporates	Financials	ABSs	Total
0A-0E	0.00%-0.06%	23,650	22,290	657	1,055	4,117	0	**51,768**
1A-2A	0.06%-0.63%	3,584	0	17,973	7,111	5,296	414	**34,378**
2B-2E	0.63%-3.18%	1,259	0	1,246	2,799	188	214	**5,707**
3A-3E	3.19%-100.00%	21	8	192	279	186	174	**860**
4A-4E	100.00%	0	0	159	189	0	31	**379**
Unrated		0	0	46	6	0	0	**53**
Total		28,513	22,298	20,274	11,439	9,788	834	93,146

Exposures + open commitments (€ million)

The salient features of the portfolio are explained in greater detail below from a concentration of risk perspective:

- Sovereigns: This asset class mainly reflects WL BANK's public-sector finance and local-authority business. It also includes the WGZ BANK Group's total exposure arising from public-sector bonds of European periphery countries (Portugal, Ireland, Italy, Greece, and Spain), which amounts to €2.8 billion and is held almost entirely by WL BANK. A table showing a breakdown of this exposure is provided in the management report under 'Business performance'. In line with the strategy to scale back this exposure, the notional amount of the portfolio decreased by around €200 million in 2013. Over the past three years, the exposure has therefore decreased by approximately €1.2 billion in total.

- Specialized service providers in the cooperative financial network: Credit exposure to member banks and other specialized service providers in the cooperative financial network is particularly significant to WGZ BANK due to its cash-pooling function as the central institution and the integration between the entities in the network.

- Real estate finance: The focus of the WGZ BANK Group's business means it is also heavily involved in real estate finance. This exposure increased again in the year under review. Customers in this segment are predominantly served by WL BANK (exposure of approximately €16.6 billion), while a smaller proportion is attributable to WGZ BANK (exposure of approximately €3.7 billion). The overall exposure relates almost exclusively to domestic business and is spread throughout Germany, although the largest proportion is accounted for by North Rhine-Westphalia. In terms of the type of property, more than two thirds of the portfolio is residential real estate, with most of the remainder being used for commercial purposes. The conservative standards applied in lending decisions are reflected in the portfolio's good credit rating structure, with more than 90 percent being investment grade. Another key criterion for assessing the quality of the portfolio is the loan-to-mortgage value, which is the ratio of the loan amount to the mortgage lending value. The average exposure-weighted loan-to-mortgage value is just over 60 percent for the portfolio as a whole, which underlines the good collateralization situation. The proportion of loans with a loan-to-mortgage value of more than 80 percent was less than 20 percent.

The following table shows the breakdown of the WGZ BANK Group's Corporates asset class by sector:

Sector	As at Dec. 31, 2013	
	Exposures + open commitments	Proportion (%)
Energy supply	1,421	12
Wholesale	1,155	10
Metal production and processing	860	8
Food and animal feed manufacturing	834	7
Vehicle and engine manufacturing	717	6
Engineering	675	6
Information and communications	663	6
Banking and insurance	648	6
Retail	578	5
Chemicals manufacturing	479	4
Pharmaceuticals manufacturing	300	3
Provision of services	305	3
Transport and warehousing	294	3
Construction	268	2
Other	2,242	20
Total	11,439	100%

Exposures + open commitments (€ million)

Credit portfolio model

WGZ BANK uses its proprietary **credit portfolio model** to measure and manage counterparty risk at portfolio level. This simulation-based model is based on the CreditMetrics™ method and looks at all default risk from the lending business and from trading activities.

In the credit portfolio model, defaults are simulated on the basis of risk units (obligors). The term 'obligor' essentially corresponds to a regulatory 'single borrower' unit within the meaning of section 19 (2) KWG but is sometimes extended to include individual borrowers in accordance with WGZ BANK's internal regulations.

The credit portfolio model provides information about the statistical loss distribution of the portfolio, from which the key risk indicators Credit Value-at-Risk (CVaR) and Expected Shortfall (ESF) can be calculated for various confidence levels (95 percent and 99.9 percent) with a one-year risk horizon. The lower the cluster risks or correlations are between borrowers, the higher the diversification effects are that are taken into account in the model. ESF enables the overall risk to be broken down by individual borrower and can be aggregated in order to analyze the risk in subportfolios. This means that the figures generated by the portfolio model provide a solid foundation for portfolio-based analysis of concentration risk, which is carried out, in particular, as part of quarterly risk reporting. The findings of the credit portfolio model are used in the risk-bearing capacity analysis at group level and individual institution level and in the setting of limits for counterparty risk at subportfolio level.

The key figures Expected Loss and CVaR for the WGZ BANK Group were as follows as at December 31, 2013:

€ million	Expected loss [1]		Credit value-at-risk 95% [2]	
Asset classes	Dec. 31, 2013	(%)	Dec. 31, 2013	(%)
Corporates	28.8	43	90.3	43
Real estate finance	11.4	17	29.8	14
Financials	8.4	13	34.0	16
Sovereigns	4.9	7	39.9	19
Specialized service providers in the cooperative sector	2.3	3	13.4	6
ABSs	11.3	17	4.4	2
WGZ BANK Group	**67.1**		**211.6**	
of which WGZ BANK	43.5		165.6	

[1] In accordance with calculation method for internal risk management.
[2] Distribution of credit value-at-risk weighted by expected shortfall amount.

Internal risk measurement carried out by the credit portfolio model does not cover German local authorities, German development banks, loans and advances with a German guarantee obligation, certain supranational borrowers, and loans that are already in default.

Stress tests

Credit risk stress tests are an integral element of the WGZ BANK Group's cross-risk stress testing and are carried out in addition to the various scenarios covered by the cross-risk stress tests. They relate to the Financials asset class and, based on the crisis in Iceland, analyze the impact of the simultaneous default of multiple banks in one country, assuming no government bailout is made. For each scenario, the potential impairment losses are calculated and compared with the relevant aggregate risk cover.

Country risk

The WGZ BANK Group's system for measuring risk and for documenting, assessing, and managing **country risk** covers all countries except the Federal Republic of Germany.

Based on a system of country limits, all countries are now categorized as target countries, non-target countries, offshore countries, or excluded countries (negative list). Taking account of the risk-bearing capacity of the WGZ BANK Group, the credit back-office division calculates a risk-oriented guideline figure for each target country using the individually calculated default probability (based on the VR rating system for countries) and certain key economic figures.

This guidance figure is compared with the consolidated limit requirement of the market divisions and subsidiaries, providing the basis for discussion in the cross-divisional 'country limits' working group, in which WL BANK and WGZ BANK Ireland plc are also represented. The country limits working group draws up a proposal for the country limit, taking into account other quantitative and qualitative criteria examined by the credit back-office division as part of its country analysis. This proposal may not exceed the guidance figure by more than 25 percent; there is no lower limit for the proposal.

A ceiling has been defined for non-target countries, with the maximum individual limit for each country being measured using only the rating class. Moreover, concentration risk is avoided by setting structure limits.

Guided by the credit back-office division, the country limits working group regularly reviews the country limits for target and non-target countries and presents its findings to the GRC so that it can reach a decision.

The financial control and planning division reports regularly on changes in country risk and on compliance with country limits.

The following table shows the regional distribution of counterparty risk as at December 31, 2013:

Region	Overall portfolio				
	Dec. 31, 2013		Dec. 31, 2012		
	Exposures + open commitments	Proportion (%)	Exposures + open commitments	Proportion (%)	Year-on-year change
Germany	79,196	85	81,577	82	-2,381
Eurozone	8,720	9	10,704	11	-1,984
EU – excl. eurozone	1,801	2	2,963	3	-1,162
Rest of Europe	1,188	1	1,388	1	-200
Rest of world	2,241	2	3,118	3	-877
Total	**93,146**	**100%**	**99,750**	**100%**	**-6,604**

Exposures + open commitments (€ million)

Allowances for losses on loans and advances

Allowances for losses on loans and advances are recognized in line with expectations regarding likely defaults in the credit portfolio.

Specific loan loss allowances are recognized for all loans for which there are measurable indications of impairment, making it likely that the bank will probably suffer a material default. The credit back-office division holds primary responsibility for recognizing specific loan loss allowances and coordinating processes. Regular, systematic credit checks are carried out to calculate the allowances required on an ongoing basis. Specific loan loss allowances are recognized for defaults, while provisions are recognized for off-balance-sheet obligations. Active risk management keeps allowances for losses on loans and advances in check. Above all, intensive restructuring support is provided in order to minimize default in the credit portfolio.

General loan loss allowances are an estimate of the inherent losses in the credit portfolio owing to imponderables and uncertainties in calculating defaults. The estimates exclude those lending exposures for which specific loan loss allowances have already been recognized. General loan loss allowances for latent credit risk (in accordance with HGB) in respect of loans and advances were previously measured using average actual past defaults. In the year under review, this method was replaced with a forward-looking process based on credit structure data (expected loss). Under IFRS however, portfolio loan loss allowances in the consolidated financial statements continue to be based on the loss identification period (LIP), the loss given default (LGD), and the probability of default (PD).

Country risk loan loss allowances are recognized for lending exposures in countries whose financial or political situation – owing to transfer risk or currency conversion risk – give rise to serious doubt that borrowers there will be able to meet their contractual repayment obligations. General loan loss allowances and provisions are recognized in respect of country risk. The calculation is based on the individual exposure and adjusted for various defined influencing factors (including maturity, collateral, and rating class). This ultimately results in the basis of measurement for the country risk loan loss allowances. Until the legal requirements have been finalized, WGZ BANK will be guided by the ranges for general loan loss allowances for country risk published annually by the National Association of German Cooperative Banks (BVR).

In 2013, WGZ BANK again adhered to the strict standards in its **risk provisioning policy** and fully covered all acute and latent risk. Allowances for losses on loans and advances reported in the separate financial statements amounted to €12.4 million as at December 31, 2013. They mainly consisted of all changes to specific loan loss allowances affecting the income statement, allowances for losses on loans and advances for general loan loss allowances, and country risk loan loss allowances. At group level, allowances for losses on loans and advances came to a net figure of €8.1 million and included changes to specific and portfolio loan loss allowances affecting the income statement plus provisions for off-balance-sheet lending business. For details of the changes in allowances for losses on loans and advances in 2013, please refer to the information and breakdown provided in the notes.

Market risk

As the divisions responsible for its day-to-day management, market risk may only be assumed by the capital market partners & trading division (trading book) and treasury division (banking book) at WGZ BANK. Within the scope of its management responsibility, the asset liability committee (ALCo) of WGZ BANK uses the risk limit for market risk defined by the Board of Managing Directors to specify differentiated risk limits for the trading book and banking book. These limits are mandatory for the operational managing units. The divisional manager for capital market partners & trading splits the limit for the trading book between the interest rates – currency, equities, and derivatives departments.

ALCo splits the limit for the banking book between general interest-rate, spread, currency, and equity price risk. In addition, the Board of Managing Directors defines a warning limit in respect of market risk for scenario analyses and stress tests for extreme market changes, both for the trading book and for the portfolio as a whole, which comprises the trading book and the banking book. Examples of such stress tests, which are calculated on either a daily or a monthly basis, are hypothetical scenarios such as a sharp rise in yield curves and credit spreads or historical scenarios such as the collapse of Lehman Brothers in 2008. Ongoing monitoring is performed by the financial control and planning division's market risk control department.

Daily reports on the market risk situation are prepared for decision-makers that also contain statements on limit/warning limit utilization and, in the event of limits being exceeded, form part of the escalation process. A summarized overview plus detailed analysis of the risk and earnings situation are provided in the monthly reports submitted to the bank's decision-makers and Board of Managing Directors. The daily and monthly reports also help to identify risks at an early stage.

Market risk in the trading book

WGZ BANK is the only entity in the WGZ BANK Group with a trading book.

Trading book exposures of WGZ BANK are marked to market or marked to model each day based on independent data sources. Measurement adjustments are calculated each month in accordance with circular 13/2011. Market risk in the trading book is calculated daily from the individual end-of-day positions using the parametric variance-covariance model developed by WGZ BANK on the basis of the **value-at-risk** method. A confidence level of 95 percent and a holding period of one day are used for internal management purposes.

The regulators have approved WGZ BANK's risk measurement model as an **internal model** as defined by SolvV for calculating the capital requirements for general interest-rate risk (including the sector/rating approach for credit spread risk), general and specific equity price risk, currency risk, volatility risk, theta risk, and commodity risk. This approval also extends to calculating the risk amount for potential crises. The additional factor for determining the capital charges for the capital requirements pursuant to section 314 (3) sentence 2 SolvV was set to zero by the German Federal Financial Supervisory Authority (BaFin) at the end of 2005.

The internal model and its parameters are continually adjusted to changes in the market and business performance. The model's parameters are calculated recursively using exponential weighting, which enables lengthy historical periods to be analyzed for risk factors. Weighting was chosen that is based on an effective historical observation period of at least one year, as required by SolvV. The parameters for the risk amount for potential crises are calculated from an uninterrupted twelve-month period with equal weighting, also in line with SolvV requirements. The period selected is reviewed regularly and, if required, on an ad-hoc basis.

The average potential risk amount (VaR) with a confidence level of 99 percent and a holding period of ten days for the year was minus €4.95 million with a minimum value of minus €2.52 million and a maximum value of minus €7.13 million. As at December 31, 2013, the risk amount stood at minus €5.04 million.

The average risk amount for potential crises (stressed VaR) with a confidence level of 99 percent and a holding period of ten days for the year was minus €6.07 million with a minimum value of minus €3.53 million and a maximum value of minus €11.24 million.

As at December 31, 2013, the risk amount for crises stood at minus €5.42 million.

Backtesting is carried out daily to review the forecasting quality of the calculated value-at-risk for market risk. This involves comparing hypothetical changes in fair value (clean backtesting) and actual changes in fair value (dirty backtesting) against the calculated potential risk amount (VaR with a confidence level of 99 percent and a holding period of one day). Regulatory backtesting did not reveal any instances of the forecast risk value being exceeded in 2013. Besides daily backtesting, statistical tests and analysis are conducted at least once a year to verify the adequacy of the internal model.

For internal management purposes, risk in the trading book is also shown as VaR with a confidence level of 95 percent and a holding period of one day, broken down into interest-rate risk, spread risk, equity price risk, currency risk, and volatility risk. The values-at-risk were as follows in 2013:

VaR 95 percent, 1 day € million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2012
Interest-rate risk	0.53	1.79	1.13	1.42
Spread risk	0.61	1.77	1.18	0.96
Equity price risk	0.02	0.46	0.08	0.09
Currency risk	0.02	0.19	0.08	0.08
Volatility risk	0.03	0.28	0.07	0.05

Scenario analyses for extreme market changes **(crisis scenarios/stress tests)** are conducted every day. The stress tests include both historical and hypothetical stress tests and are calculated for the entire trading book and for selected subportfolios. The stress test warning limit remained at €63.5 million throughout 2013 and was not exceeded on any day during the year. Maximum utilization was 97 percent.

Stress tests help to identify **concentrations of risk**. These occur when a small number of risk factors can potentially produce large losses. The stress test warning limit is therefore a means of containing concentrations of risk. Furthermore, the monthly reports include extensive qualitative descriptions that enable concentrations of risk to be identified.

Market risk in the banking book

Among the market risks in the banking book, the most significant ones are **general interest-rate risk** (risk resulting from a change in the swap/Bund interest-rate curve) and **spread risk** (risk resulting from the change in issuer-specific interest-rate curves). The treasury portfolio contains high-risk assets and liabilities resulting from customer business on the one hand and treasury's own portfolio on the other. Depending on its assessment of the opportunities and risks, ALCo specifies target ranges for the treasury committee each month in respect of the risks to be assumed within the banking book's market risk limits. The treasury committee's shorter-term strategic decisions must be within these ranges. Day-to-day management is the responsibility of the treasury division.

Risk is measured daily using WGZ BANK's internal model and in accordance with the **value-at-risk** method. Correlations within the banking book and between the banking and trading books are taken into account. In addition, various crisis scenarios/stress tests are calculated for all types of market risk each day. The impact of an ad-hoc interest-rate increase of one percentage point, the effects of a twist/shift of the swap and Bund interest-rate curves, and the impact of the interest-rate shocks defined by the regulators (plus or minus 200 basis points) are also calculated daily for interest-rate risk in the banking book. Simulation calculations are also produced for ALCo meetings that show the effects of various interest-rate scenarios on gains or losses under the mark-to-market/mark-to-model methods and on the income statement.

The values at risk for general interest-rate risk and spread risk (excluding the banking book) were as follows at WGZ BANK during the course of 2013:

VaR 95 percent, 1 day € million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2013
General interest-rate risk	0.98	3.33	2.05	2.24
Spread risk	1.35	2.72	1.91	1.36

Owing to uncertainties surrounding interest rates, interest-rate risk exposure remained cautious throughout 2013. The VaR for general interest-rate risk was well below the VaR limit of €4.5 million at all times; the VaR for spread risk (excluding the banking book), which is relevant to risk-bearing capacity, was well below the VaR limit of €6.0 million at all times. As at December 31, 2013, the spread risk in the banking book came to €1.96 million (VaR 95 percent, one day). It is not taken into consideration in operational management although it is in the maximum exposure scenario for the risk-bearing-capacity analysis.

Currency risk and equity price risk were of minor significance during 2013. The average utilization of the equities VaR limit of €1 million over the year was €0.17 million (maximum: €0.50 million; minimum: €0.00 million). The average utilization of the currency VaR limit of €0.5 million over the year was €0.06 million (maximum: €0.14 million; minimum: €0.00 million).

Treasury's overall VaR limit of €12 million was exceeded on four days in 2013 owing to high levels of market volatility.

The defined stress tests (hypothetical and historical scenarios) are applied to the trading portfolio and the overall portfolio. Each day, a total of eight market risk stress tests (not including the cross-risk stress tests) are applied to the overall trading and treasury portfolio. During 2013, the scenario involving a hypothetical, significant widening of credit spreads generally gave the worst result.

The warning limit of €200 million defined for the overall portfolio was exceeded on 17 days in 2013, each time by less than 1 percent. The exposures were then reduced and brought back within the limit.

The results for the interest rate shocks defined by the regulators (plus or minus 200 basis points) were also far below the specified threshold of 20 percent of liable capital on each working day.

Market risk in the WGZ BANK Group

All banks in the **WGZ BANK Group** assume **market risk** and take responsibility for doing so. The subsidiaries' risk measurement and management methods are closely based on those of the parent company. In addition to monthly reporting on risk-bearing capacity, WGZ BANK's financial control and planning division reports to the WGZ BANK Board of Managing Directors each quarter on the market risk of the individual companies and of the group as a whole. It also provides daily and monthly reports in respect of WL BANK.

The values at risk for general interest-rate risk and spread risk were as follows at WL BANK and WGZ BANK Ireland plc during the course of 2013:

WL BANK:

VaR 95 percent, 1 day € million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2013
General interest-rate risk	0.31	0.76	0.57	0.49
Spread risk	0.34	0.88	0.58	0.34

WGZ BANK Ireland plc:

VaR 95 percent, 1 day € million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2013
General interest-rate risk	0.22	0.43	0.33	0.34
Spread risk	2.71	5.43	3.98	2.71

Liquidity risk

Liquidity risk is the risk of not being able to fully meet current or future payment obligations at the time they fall due **(operational liquidity risk)**, not being able to obtain sufficient liquidity at the expected conditions **(structural liquidity risk)**, or not being able to reverse or close out transactions, or only being able to do so at a loss, due to insufficient market depth or due to market disruption **(market liquidity risk)**.

Market liquidity risk is monitored using the tools for managing market risk, in particular scenario calculations for unusual fluctuations in market prices and for the default of a large market participant. The management of market liquidity risk falls within the remit of those responsible for managing the relevant portfolios.

At WGZ BANK, the treasury division is responsible for the day-to-day management of **operational and structural liquidity risk**. The general parameters and medium- to long-term positioning are decided upon by the higher-level ALCo.

The treasury division's liquidity management/funding department **ensures operational liquidity (short-term liquidity)**, i.e. ensures that payment obligations can be met from day to day.

It analyzes the inflows and outflows of liquidity expected over the course of the day. The financial control and planning division assists the liquidity management/funding department by providing detailed daily analysis of the current liquidity position. The analyses showed that WGZ BANK always had ample liquidity over 2013 as a whole. A substantially larger liquidity buffer than the anticipated outflows of liquidity on the following day was made available at all times.

Liquidity gaps and excesses of liquidity are always offset by means of appropriate arrangements by the liquidity management/funding department, in particular to avoid unwanted accumulation of negative daily liquidity balances. Negative daily liquidity balances are contained and monitored on a daily basis using graduated warning limits. Adjustment of the warning limits is linked to the amount of funding available through central banks. The warning limits for managing operational liquidity were not exceeded in 2013.

Changes in the daily liquidity balance in 2013

€ million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2013
Daily liquidity balance	**-1,419**	**2,285**	**143**	**1,701**
Warning limit 1	-3,776	-4,389	-4,053	-4,076
Warning limit 2	-4,721	-5,487	-5,066	-5,096
Warning limit 3	-5,665	-6,584	-6,079	-6,115

An extensive stress test is used to monitor operational liquidity risk over the next seven and 30 days. A bank-related stress scenario, a scenario caused by the market, and a scenario combining both causes are used to stress-test the inflows and outflows of liquidity. These are limited using a liquidity buffer conforming to MaRisk, the scope of which is also based on various stress scenarios. The liquidity buffer remaining after application of each scenario is presented to the Board of Managing Directors as part of group risk reporting. Throughout 2013, the stress-tested liquidity buffer was significantly larger than the stress-tested net outflow of liquidity over the subsequent seven and 30 days.

The equity and liabilities on WGZ BANK's balance sheet are mainly euro-denominated deposits from member banks in the form of overnight deposits, time deposits, and promissory notes as well as WGZ BANK bearer bonds predominantly held by member banks. Moreover, the deposits from banks reported under equity and liabilities are dominated by development loans borrowed from development banks and passed on to member banks. The main sources of funding at WL BANK are bearer bonds and Pfandbriefe. WGZ BANK Ireland plc predominantly obtains its funding by raising time deposits and entering into sale and repurchase agreements, primarily with the parent company.

Structural liquidity (medium- and long-term liquidity) is managed on the basis of the funding matrices that are available each day and that are supplemented with liquidity outflows modeled from global limits. With global limits, a notional customer-specific maturity date is assumed that exceeds the future regulatory requirements on run-off factors for the liquidity coverage ratio (LCR). Future cash flows are computed for swaps using forward curves; floaters in the lending business are recalculated each time the conditions are adjusted. The maturity structure derived from the cash flows serves as the basis for differentiated liquidity gap analyses.

Structural liquidity risk is calculated on the basis of maturity-related spread premiums (liquidity spreads) on the interest-rate curve, which simulate an increase in current funding costs. A potential rise in liquidity spreads is calculated both idiosyncratically and using market-driven factors.

In the idiosyncratic scenario, it is assumed that the funding costs go up by 50 and 67 basis points while the interest rate for liquidity falls by 3.5 basis points. The additional funding costs are then discounted to net present value and, using a warning limit, are contained and monitored on a daily basis.

WGZ BANK uses risk measurement based on market data to calculate liquidity value-at-risk (LVaR). This computes a potential spread increase between WGZ BANK's rating-based funding curve and the euro swap curve with a confidence level of 95 percent and a holding period of one day. This increase is compared against WGZ BANK's current funding requirements, and the potential additional interest rate cost is calculated.

If a future liquidity gap appears to be emerging, WGZ BANK eliminates the shortfall by placing its own issues and/or raising the internal transfer prices for liquidity. At WGZ BANK and WL BANK, the LVaR with a confidence level of 95 percent and a holding period of one day remained at zero throughout 2013, which meant there was no structural liquidity risk. At WGZ BANK Ireland plc, the LVaR with a confidence level of 95 percent and a holding period of one day ranged between €0.1 million and €0.26 million, amounting to €0.12 million as at December 31, 2013.

To ensure a **liquidity buffer**, WGZ BANK holds securities and bonds eligible as collateral with central banks in its treasury and trading portfolios. Besides these securities, public-sector loans that are eligible as collateral with central banks (credit claims submission procedure) are also taken into consideration.

Changes in the liquidity buffer in 2013

€ million	Minimum value	Maximum value	Mean value	Value as at Dec. 31, 2013
Liquidity obtainable from central banks ('liquidity buffer')	**8,628**	**10,585**	**9,491**	**9,877**

The banks in the WGZ BANK Group have a large portfolio of unencumbered securities eligible as collateral with central banks. The portfolio of WGZ BANK, which is shown in the table above, ranged between €8,628 million and €10,585 million in 2013. During the same period, WL BANK's portfolio eligible as collateral with the ECB – exclusive of cover funds – ranged between €146 million and €517 million, while the portfolio at WGZ BANK Ireland plc ranged between €981 million and €2,042 million.

For the purposes of managing **liquidity risk attaching to foreign currency exposures**, WGZ BANK assumes that all of the foreign currencies being analyzed can be converted without restriction. There is no issuing activity in foreign currencies. Instead, the currency risk is eliminated using currency swaps.

A **report** on the key risk indicators for structural and operational liquidity is prepared daily, enabling unscheduled changes to be identified as soon as possible and incorporated into management activities quickly. The special process to be followed in the event of the warning limits being exceeded is defined in writing in escalation procedures. The results of all scenario calculations were significantly below the defined warning limits in 2013.

Monthly reports provide the liquidity management/funding department with information about stress scenarios and other facts relevant to liquidity, including the amount of liquidity buffer and the diversification of funding and liquidity use (avoidance of concentrations of risk). The Board of Managing Directors is notified of the WGZ BANK Group's liquidity situation on a quarterly basis as part of group risk reporting.

Further information about WGZ BANK's liquidity situation is also provided by the **liquidity ratio pursuant to the Liquidity Regulation (LiqV)**. In 2013, this ratio ranged from **2.32** to **2.81** and was therefore well above the regulatory minimum of 1.0 at all times. The corresponding figure for WL BANK was between 1.5 and 4.69 in 2013.

WGZ BANK has business continuity plans in place for **liquidity crises** that were drawn up by the treasury division and have been agreed with the financial control and planning division. The plans distinguish between bank-specific crises and systemic crises. A bank-specific crisis is a crisis at WGZ BANK or one of its direct business partners while the market as a whole continues to operate normally. A systemic crisis is a liquidity crisis that affects all the providers and recipients of liquidity in the market. It is generally assumed that, in the event of a crisis, WGZ BANK would have better funding options than other banks owing to its role as a cooperative central institution.

The **subsidiaries** WL BANK and WGZ BANK Ireland plc are responsible for managing their own liquidity risk within the limits set by the WGZ BANK Board of Managing Directors, with overall coordination being performed by the GRC (liquidity risk is insignificant in the other subsidiaries). The method they use for structural liquidity risk is the same as that of the parent company. To support liquidity management in the WGZ BANK Group, WGZ BANK's financial control and planning division submits quarterly reports on liquidity risk to the WGZ BANK Board of Managing Directors, the GRC, and WGZ BANK's treasury division.

Operational risk

The WGZ BANK Group understands **operational risk** to be potential future events with a negative impact on the group resulting from the inadequacy or failure of internal processes, people, or systems or as a consequence of external events. This definition extends to legal risk but not strategic risk or reputational risk.

Management of operational risk in the WGZ BANK Group has been decentralized at group company level and within the individual divisions of WGZ BANK. At WGZ BANK, the following divisions with central responsibility use their specialist knowledge to provide assistance with the management of the different types of operational risk: human resources (HR risk), legal affairs (legal risk), and organization and operations (risk related to buildings, technology, and IT systems). The subsidiaries can also call on these divisions if required. Responsibilities are set out in guidelines applicable to the overall bank and in the divisions' task distribution plans.

WGZ BANK has an emergencies handbook with division-specific emergency plans and associated business continuity plans for particular business-critical events (e.g. attack, building fire, failure of mission-critical IT systems, loss of key service providers).

A written set of procedural rules helps to limit **operational risk in business processes**. These rules contain authorization guidelines, process descriptions, and task allocation plans for all material business lines and processes, including the related internal control system.

Management of **personnel-related operational risk** includes regular planning so that the divisions have the necessary number and quality of staff available. The quality of staff is ensured using careful recruitment processes and by providing employees with ongoing skills training tailored to their tasks and individual needs. All activities are closely coordinated between the various divisions and human resources. Key HR figures are determined regularly, e.g. staff turnover, to identify adverse trends at an early stage so that prompt action can be taken.

The organization and operations division is in charge of managing **IT-related operational risk** at WGZ BANK. A comprehensive set of rules governs the procurement of hardware & software and the development and implementation of software. The rules are based on the IT strategy and focus on compliance with defined security standards. The running of the material IT applications has been outsourced to the GAD cooperative data center in Münster, which has the necessary backup systems, disaster recovery plans, and business continuity plans. A number of IT applications run in WGZ BANK's secure computer rooms. Physically separate backup systems are located in a dedicated, fully equipped alternative data center in a separate area of the building. Alternative workstations have also been set up in a separate area of the building that can be used temporarily for trading and trading back-office processes. Business continuity plans are in place for all critical processes in case they fail.

To contain risk associated with the **outsourcing of material activities and processes**, guidelines applicable to the overall bank define a standardized framework for dealing with existing and planned outsourcing. The core aspects of minimizing risk related to the outsourcing of material activities and processes are a detailed risk analysis and the preparation of contingency plans.

Besides the emergency handbook and division-specific business continuity plans, WGZ BANK has set up special crisis teams to contain **risk resulting from external events**. These teams are called up and take the necessary action in accordance with a defined procedure. The bank has taken out typical insurance policies as protection against any financial consequences of external events.

WGZ BANK primarily safeguards against **legal risk** by using standardized, legally validated contracts and forms that are updated on an ongoing basis in accordance with developments in the legal system. In all other cases, WGZ BANK's legal affairs division formulates or checks the drafting of contracts. This division also represents WGZ BANK in the event of unavoidable legal disputes.

Coordinated by the financial control and planning division, WGZ BANK conducts a bank-wide, structured **self-assessment** each year to identify and assess existing operational risk. It was extended to include WL BANK in 2013. Once the self-assessment is complete, the Board of Managing Directors of WGZ BANK receives a report on the results. There were no particular abnormalities in the risk situation last year.

A **central loss database** documents any loss resulting from operational risk. The Board of Managing Directors of WGZ BANK is notified of the situation regarding loss from operational risk on a quarterly basis as part of group risk reporting. It receives ad-hoc reports in the event of special occurrences of loss.

The aforementioned arrangements for containing operational risk similarly apply in the **group companies**. For some aspects of their IT operations, they use external service providers. They obtain assistance from central functions of WGZ BANK – mainly the legal affairs and human resources divisions – in respect of other risk types. The group companies report regularly to WGZ BANK's financial control and planning division on loss that occurs in connection with operational risk. This information is also included in the groupwide risk reporting to WGZ BANK's Board of Managing Directors.

Equity risk

At WGZ BANK, **equity risk** is considered to be the risk arising from its long-term equity investments, e.g. no dividend payment, a drop in the enterprise value of the long-term equity investments, or write-downs to the carrying amount of an investment.

WGZ BANK's long-term equity investments are essentially focused on companies in the cooperative financial network in order to foster and consolidate cooperation within the network. The long-term equity investments held by the other group companies are insignificant owing to their small carrying amounts.

Risk in the portfolio of long-term equity investments is managed by the long-term equity investment management & client portfolio support department in the central services division at WGZ BANK. A thorough process of credit control and creditworthiness checks on the investee company is conducted before entering into long-term equity investments. The credit rating of existing long-term equity investments is reviewed regularly. The limits for long-term equity investments are incorporated into the limits for the overall lending relationship with the individual company or individual group.

Reputational risk

The WGZ BANK Group regards its reputation as a significant intangible asset that must be protected, maintained, and successively improved in order to ensure sustained profitability and thus the group's ability to continue as a going concern. **Reputational risk** refers to the risk of a loss of reputation – i.e. a deterioration in how stakeholders perceive the bank – owing to negative occurrences relating to the bank's reputation in connection with the WGZ BANK Group's general business activities. A decline in the bank's reputation may also lead to a consequential risk in other types of risk. For example, a poorer reputation may have an impact in the form of higher liquidity costs and thus would affect structural liquidity risk. Protecting the WGZ BANK Group's external image is one of the main management tasks of the central services division at WGZ BANK, which coordinates decentralized reputational risk management.

The WGZ BANK Group takes a variety of steps to proactively manage its reputation. Comprehensive sets of rules governing sustainability, environmental protection within the company, complaints management, recognition of and compliance with human rights, equal treatment of male and female employees, and fair working conditions plus ethical principles and codes of conduct are designed to avoid damage to the bank's reputation, among other objectives. The steps taken to prevent fraud also help to avoid reputational risk.

VI. Main features of the internal control and risk management system in the accounting process

WGZ BANK's operational and organizational structure is thoroughly documented in the OrgPortal, which is updated on an ongoing basis. The new OrgPortal replaced the existing electronic organizational handbook (eOHB) last year. It contains organization charts, task allocation plans, authorization guidelines, and procedural guidelines (process descriptions, process diagrams, other rules). Applying the principle of separation of functions, the overall bank's organizational structure is split into customer divisions, product divisions, back-office divisions, and central services and operational divisions. The compliance, money-laundering prevention, and data protection functions report directly to the Board of Managing Directors. Clear authorization rules and job descriptions define responsibilities and accountability.

Besides measures related to the organizational structure, procedural measures also help to ensure an effective internal control system. The finance division carries out its day-to-day accounting work and prepares internal monthly accounts as well as the quarterly, half-year, and annual financial statements in accordance with HGB based on the cooperative financial network's accounting policies. The key features of the internal control system are the double-checking principle and prompt validation of figures thanks to close cooperation between the finance division and financial control and planning, the involvement of the relevant divisions, and continuous reconciliation of the general ledger and subledgers. Period-end closing work is documented transparently and the statutory record retention periods are observed.

The finance division is involved in the new product process pursuant to MaRisk, ensuring the process is shown correctly in the accounts.

The bank uses the RWB product (accounting system for banks) for its accounting processes. Data from the operational business lines in the ZIS software package is transferred to RWB directly. Business data from the upstream trading/processing systems and other feeder systems is transferred to RWB via the NIV product (standardization and integration process). Production operations take place in the data center of our network partner GAD. Standard software is also used alongside proprietary software, some of which was developed on the basis of Microsoft Office applications. The proprietary software, which is subject to a regulated software development process, is documented in detail and categorized by risk relevance.

Rules for accessing ZIS and the other applications have been clearly defined in accordance with employees' authorization levels.

Consolidated financial reporting process

WGZ BANK's finance division is responsible for preparing the consolidated financial statements including the combined management report. However, the segment information is compiled by WGZ BANK's financial control and planning division. The reports are prepared on the basis of data taken from the separate financial statements of the individual subsidiaries included in the consolidated financial statements in accordance with the standardized group accounting guidelines. This data is captured using a groupwide reporting tool and is sent to WGZ BANK's finance division after being audited by the subsidiary's auditor. The material subsidiaries' separate financial statements and IFRS reconciliations are based on an internal control system comparable to that of the parent company. Within the finance division, the data is imported into and processed in IDL WinKons, the standard software used by the group. After determining and carrying out the necessary consolidation steps, the division prepares the consolidated financial statements. The processes and individual process steps as well as the checks to be performed are set out in process descriptions and the bank's OrgPortal. These checks ensure that the descriptions and information provided in the financial statements follow International Financial Reporting Standards. In particular, they include checks for accuracy and completeness, IT-supported checks, and a variety of validation analyses and investigations carried out throughout the preparation phase by the responsible staff and managers. The finance division requests the data and information it requires from the consolidated subsidiaries to prepare the combined management report for WGZ BANK and the WGZ BANK Group. It then compiles the reports after validating the data and information.

Internal audit

The internal audit division at WGZ BANK conducts regular and topic-specific audits from a risk perspective, particularly in relation to the integrity, effectiveness, and adequacy of risk management in general and of the internal control system specifically. It reports directly to the Board of Managing Directors. Internal audit is responsible for auditing and evaluating all processes and activities of the bank and its branches. As it also acts as the group's internal audit function, it performs the same tasks for the subsidiaries of WGZ BANK.

VII. Outlook

The global economy rallied during 2013. The increasing pace of growth over the year was primarily due to the economic recovery in industrialized countries, which was fuelled in no small part by the central banks' expansionary monetary policies. Moreover, uncertainty in Europe surrounding the continuation of the eurozone dissipated, leading to a decrease in spreads on bonds from crisis-hit countries (Portugal, Ireland, Italy, Greece, and Spain). Nevertheless, the impact of the austerity measures taken by the crisis-stricken countries put the brake on economic growth in the eurozone. The German economy was affected too, generating moderate growth of just 0.4 percent as a result of the ongoing recession in a number of crisis-hit eurozone countries in 2013. There was a small year-on-year rise in the number of people unemployed in Germany, which increased to 3.0 million in 2013. The unemployment rate was 6.9 percent, up by 0.1 of a percentage point compared with 2012. Overall, however, unemployment in Germany remained at a historically low level. Furthermore, German inflation contracted to 1.5 percent on the back of falling energy prices and only moderate economic growth compared with the previous year. The year-on-year decrease in inflation in the eurozone, which was caused by a subdued economic performance and high unemployment in Europe, was even sharper. Inflation stood at 0.8 percent in 2013, which was well below the ECB's target of 2.0 percent. So there was still no sign of the rise in inflation expected in light of the ECB's policy of low interest rates in 2013.

Further improvements in the global economy are expected in 2014. The World Bank forecasts that the world's economy will expand by 3.2 percent this year, thereby continuing to pick up pace. Besides the emerging markets, the developed industrialized countries will also provide strong growth stimulus in 2014 and will start making a greater contribution to global economic growth again, having focused on cost-cutting programs in recent years. Economic output in the eurozone will also return to growth, following the contraction seen over the last few years. The ifo Institute of Economic Research predicts that the eurozone's gross domestic product (GDP) will go up by 0.7 percent in 2014, with momentum primarily coming from the expected faster growth of the German economy. The improved situation in the labor market, sharp rises in earnings, and low interest rates will fuel German economic growth, which Deutsche Bundesbank estimates at 1.7 percent for 2014. As before, the expected upturn depends on the sovereign debt crisis not flaring up again in the eurozone.

In 2014, the banking sector will continue to feel the effects of national and international regulatory measures introduced in response to the sovereign debt crisis. One major change is the planned transfer of responsibility for European banking supervision to the ECB at the end of the year. Before assuming the role of European banking regulator, the ECB intends to request data from the banks. This, along with on-site asset quality reviews of systemically important banks and the subsequent stress test, will create particular challenges for the banking industry. Moreover, the new requirements arising from the implementation of Basel III – particularly stipulations regarding capital adequacy – will also keep banks occupied in 2014.

The significant tightening of banking regulation in Europe will also impact on WGZ BANK in 2014. The ever-increasing amount of regulatory requirements will tie up significant resources at WGZ BANK, too. Nonetheless, we are confident that we can successfully rise to the challenge of the new requirements. Although the general parameters are challenging overall, we must not lose sight of the reason for our business – serving our members and customers. WGZ BANK will maintain its successful course and continue to focus on providing transparent and fair banking. Despite all the imponderables and risks in the current environment, we are confident about 2014, to which this outlook relates. The following presentation of segment performance refers to the WGZ BANK Group as a whole.

WGZ BANK registered a sharp rise in demand for support services from member banks in 2013, one of the main reasons being the growth in regulatory requirements. However, there was a reduction in fixed-term deposits and funding deposits in this customer segment over the year as a whole. We will continue with the many different activities in this segment this year and will remain a complete solution provider for our member banks, in respect of both end-customer business and own-account investing. To this end, we will offer new products and advisory services to support the member banks. Two examples are the mobile payment pilot project and the expansion of IT platforms for handling development lending business. Customer satisfaction will always be our priority, however. We aim to improve on our already very high level of customer satisfaction in 2014.

At €19.0 million, operating profit in the member banks customer segment in 2013 was on a par with 2011. As expected, this was below the 2012 level, which had been boosted by positive non-recurrent items. We anticipate operating profit for 2014 at roughly the same level as 2013 given that administrative expenses are predicted to rise at a slightly above-average rate.

We believe the pace of growth in the corporate customer segment will remain weak in 2014, even though we and our member banks together achieved a further increase in the volume of business and market share last year against a backdrop of challenging market conditions. Companies face uncertainties in the form of strong volatility in the supply of commodities, rising wages and energy costs, and fragile financial and export markets. In addition, we anticipate muted demand for borrowing in view of companies' good levels of internal finance and the growing significance of alternative forms of funding. Competition is likely to intensify again, especially in respect of SME business. To tackle these challenges, we want to continue to step up our joint credit business with the member banks and remain a reliable partner for our direct customers. Improving customer satisfaction will be our top priority here.

The segment's operating profit for 2013 of €91.7 million was slightly below the level of the previous year but higher than we had forecast. This was mainly due to allowances for losses on loans and advances being much lower than estimated. We expect this segment's operating profit to decline significantly in 2014 as risk costs return to normal.

Although the international capital markets entered a period of minor correction at the start of 2014, we assume that the easing of the sovereign debt crisis and the expansionary monetary policies of the central banks will continue to provide a stable environment for the capital markets this year. However, the challenges for the capital market partners & trading segment in 2014 will again be the historically low interest rates, rising regulatory requirements (including EMIR and FATCA), and increased competition – particularly as a result of shadow banking. The capital markets ability to function continues to be restricted by the sovereign debt crisis. Moreover, a lack of trust among market participants means the interbank market is still not fully functional.

Particularly in light of past experience, we know that it is difficult to forecast what will happen in this segment in the future. That is why we take a cautious approach in our planning for this segment. As expected, operating profit returned to normal at €53.3 million in 2013, having been at a very good level in 2012. Based on our conservative approach to planning, we expect this segment's operating profit to again fall sharply in 2014.

Conditions in the real estate segment are favorable at the moment. Overall, real estate prices are rising. This is particularly true for properties in major urban centers, leading to an increasing divide between real estate prices in different regions. We expect this trend to continue in 2014. The ongoing phase of low interest rates is also having a positive impact on the real estate market: Firstly, low interest rates make real estate finance attractive and. Secondly, real estate is gaining in importance as an investment because it offers protection against inflation. Overall, muted to moderate growth is predicted for this market, which will remain fiercely competitive.

The segment's operating profit for 2013 of €51.3 million was slightly above the level of the previous year and far higher than our forecast. This highly encouraging trend is attributable to various one-off items, particularly during the second half of last year. We generated more new business and with better margins than anticipated. Non-recurrent items, such as early redemption fees, commitment interest, and default interest also had a positive impact on segment performance. The level of net allowances for losses on loans and advances in 2013 was also much more positive than expected. In light of the many one-off items in 2013, the segment's operating profit is likely to fall sharply in 2014 and thereby return to normal levels.

Our overall forecast for 2014 for the treasury and investment segments is essentially a constant or slightly higher level of operating profit (excluding the effect of remeasurements of long-term equity investments).

Given the very strong level of operating profit achieved in 2012, the subsequent return to normal levels in 2013, and our cautious assessment of the markets, our 2014 planning for the WGZ BANK Group assumes that earnings performance will decline slightly in 2014.

The analysis of the individual segments essentially also applies to the performance of WGZ BANK. However, the real estate segment relates only to WL BANK. In view of the performance of the segments as described above, we are cautiously optimistic about WGZ BANK's future business performance overall. Owing, above all, to the extraordinarily high net gains on trading activities in 2012, our conservative planning for 2014 anticipates that WGZ BANK's performance will continue to normalize as it did in 2013. Many economic research institutes are predicting a further upturn in the economy in 2014. We have reflected this in our forecasts for WGZ BANK's business performance. However, increasing competition – especially in corporate banking – will adversely affect WGZ BANK's operating profit, as described above. In addition, the sovereign debt crisis in parts of the eurozone will continue to be a cause for concern for the banking industry and thus WGZ BANK in 2014. Our planning is based on the assumption that the sovereign debt crisis will continue to ease this year.

Düsseldorf, April 4, 2014
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg – Chief Executive Officer –	Uwe Berghaus	Dr. Christian Brauckmann
Karl-Heinz Moll	Michael Speth	

Report of the Supervisory Board

In the year under review, the Supervisory Board carried out the tasks required of it by law and the Articles of Association and continuously monitored WGZ BANK's management team. It was always able to ascertain the bank's current situation from the reports and explanations provided by the Board of Managing Directors at their joint meetings. In addition, the Supervisory Board and the Board of Managing Directors held in-depth discussions on particularly important projects and the strategy of WGZ BANK. The Board of Managing Directors provided the Supervisory Board with regular, timely, and comprehensive reports – both written and verbal – on business performance and material transactions.

At the Supervisory Board's six regular meetings, the Board of Managing Directors presented detailed information about the progress of business at WGZ BANK and in the WGZ BANK Group as well as about significant loan and investment exposures, planning, the risks assumed, risk management, and major projects. During the year under review, the committees established by the Supervisory Board regularly held meetings at which they discussed and adopted resolutions. Each committee chairman reported on the committees' work during the regular Supervisory Board meetings.

Following the audit committee's preliminary audit, on which the committee's chairman provided a report, the Supervisory Board itself reviewed the 2013 annual financial statements and management report of WGZ BANK and the WGZ BANK Group as well as the proposal for the appropriation of profit. There were no grounds for complaint. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which was elected as the auditor by the Annual General Meeting on June 18, 2013, audited the annual financial statements of WGZ BANK and the WGZ BANK Group, including the bookkeeping system, and issued an unqualified opinion.

Representatives of the auditors attended both the Supervisory Board meeting held on May 7, 2014 to adopt the financial statements and the preparatory meeting on April 24, 2014 to report in detail on their findings to the Supervisory Board. It approved the annual financial statements of WGZ BANK and the WGZ BANK Group on this basis. The financial statements have therefore been adopted.

The Supervisory Board also approved and agreed to the Board of Managing Directors' proposal for the appropriation of profit.

The Supervisory Board would like to thank the members of the Board of Managing Directors and the employees of WGZ BANK for their hard work and achievements last year.

Düsseldorf, May 7, 2014
The Supervisory Board

Dieter Philipp
– Chairman of the Supervisory Board –

WGZ BANK
annual financial statements for 2013

ASSETS	€ million	€ million	**€ million**	Dec. 31, 2012 € million		
1. Cash and cash equivalents						
a) Cash on hand		1.6			1.5	
b) Balances with central banks		307.9	**309.5**		53.6	55.1
of which:						
with Deutsche Bundesbank		*307.9*		*53.6*		
2. Loans and advances to banks						
a) Repayable on demand		2,489.6			3,711.6	
b) Other loans and advances		19,400.6	**21,890.2**		17,371.3	21,082.9
of which:						
to affiliated banks	*15,844.4*			*15,231.1*		
3. Loans and advances to customers			**8,285.8**			8,347.4
of which:						
secured by mortgages on real estate	*2,209.8*			*1,880.9*		
local authority loans	*784.1*			*1,098.3*		
4. Bonds and other						
fixed-income securities						
a) Money market instruments						
aa) from public-sector issuers	-			-		
of which:						
eligible as collateral at Deutsche Bundesbank	-			-		
ab) from other issuers	-	-		15.0	15.0	
of which:						
eligible as collateral at Deutsche Bundesbank	-			*15.0*		
b) Bonds						
ba) from public-sector issuers	3,611.5			3,106.5		
of which:						
eligible as collateral at Deutsche Bundesbank	*3,595.4*			*3,095.7*		
bb) from other issuers	4,836.3	8,447.8		4,939.4	8,045.9	
of which:						
eligible as collateral at Deutsche Bundesbank	*3,475.4*			*3,609.0*		
c) Own bonds		0.8	**8,448.6**		-	8,060.9
Par value	*0.8*			-		
5. Shares and other variable-yield securities			**0.9**			9.9
Carried forward:			**38,935.0**			37,556.2

EQUITY AND LIABILITIES	€ million	€ million	**€ million**	Dec. 31, 2012 € million		
1. Deposits from banks						
a) Repayable on demand		6,001.2			5,635.1	
b) With agreed maturity or notice period		20,992.8	**26,994.0**		20,639.8	26,274.9
of which:						
from affiliated banks	*10,226.8*			*10,038.8*		
2. Amounts owed to other depositors						
a) Savings deposits		-			-	
b) Other amounts owed to other depositors						
ba) Repayable on demand	2,827.5			2,495.9		
bb) With agreed maturity or notice period	3,320.5	6,148.0	**6,148.0**	2,054.7	4,550.6	4,550.6
3. Debt certificates including bonds						
a) Bonds issued		8,173.9			8,317.6	
b) Other debt certificates		-	**8,173.9**		-	8,317.6
of which:						
commercial paper	-			-		
own acceptances and promissory notes outstanding	-			-		
3a. Trading securities			**6,062.9**			8,586.0
4. Trust liabilities			**4.5**			5.4
of which:						
trust loans	*4.5*			*5.4*		
5. Other payables			**136.9**			137.8
6. Deferred income and accrued expenses			**56.2**			66.2
7. Provisions						
a) Provisions for pensions and other post-employment benefits		113.4			108.7	
b) Provisions for taxes		50.7			41.8	
c) Other provisions		61.9	**226.0**		56.2	206.7
8. Subordinated liabilities			**517.4**			537.4
9. Profit-sharing rights			**-**			-
of which:						
maturing within two years	-			-		
10. Fund for general banking risks			**819.1**			809.4
of which:						
fund under section 340e (4) HGB	*48.4*			*38.7*		
Carried forward:			**49,138.9**			49,492.0

ASSETS	€ million	€ million	**€ million**	Dec. 31, 2012 € million		
Brought forward:			**38,935.0**			37,556.2
5a. Trading securities			**9,620.2**			11,185.9
6. Long-term equity investments and paid-up shares in cooperatives						
a) Long-term equity investments		1,778.5			1,815.9	
of which:						
in banks	*777.8*			*777.8*		
in financial services institutions	*27.9*			*27.9*		
b) Paid-up shares in cooperatives		3.0	**1,781.5**		3.0	1,818.9
of which:						
in local cooperative banks	*0.3*			*0.3*		
in financial services institutions	-			-		
7. Shares in affiliated companies			**789.1**			789.1
of which:						
in banks	*625.9*			*625.9*		
in financial services institutions	-			-		
8. Trust assets			**4.5**			5.4
of which:						
trust loans	*4.5*			*5.4*		
9. Intangible assets			**10.1**			8.6
10. Property, plant and equipment			**48.0**			51.7
11. Other assets			**139.0**			180.8
12. Prepaid expenses and accrued income			**32.3**			38.1
Total assets			**51,359.7**			51,634.7

EQUITY AND LIABILITIES	€ million	€ million	€ million	Dec. 31, 2012 € million		
Brought forward:			49,138.9			49,492.0
11. Equity						
a) Subscribed capital		649.4			649.4	
b) Capital reserves		369.7			369.7	
c) Revenue reserves						
ca) Statutory reserve	354.0			354.0		
cb) Reserves provided for by the articles of association	170.7			148.6		
cc) Other revenue reserves	600.3	1,125.0		538.5	1,041.1	
d) Distributable profit		76.7	2,220.8		82.5	2,142.7
Total equity and liabilities			51,359.7			51,634.7
1. Contingent liabilities						
a) Contingent liabilities arising from rediscounted bills	-			-		
b) Liabilities under guarantees and indemnity agreements	3,095.6	3,095.6		3,601.5	3,601.5	
2. Other obligations						
Irrevocable loan commitments		4,323.7			4,713.0	

EXPENSES	€ million	€ million	€ million	2012 € million		
1. **Interest expense**			**765.9**			885.2
2. **Fee and commission expenses**			**90.0**			79.0
3. **General and administrative expenses**						
a) Staff expenses						
aa) Wages and salaries	96.6			96.0		
ab) Social security, post-employment and other employee benefit expenses	19.7	116.3		19.1	115.1	
of which:						
post-employment benefit expenses	*6.7*			*6.6*		
b) Other administrative expenses		103.3	**219.6**		98.6	213.7
4. **Amortization and write-downs on intangible assets, and depreciation and write-downs on property, plant and equipment**			**9.5**			9.7
5. **Other operating expenses**			**9.5**			14.2
6. **Allowances for and write-downs on losses on loans and advances and certain securities, and additions to provisions for losses on loans and advances**			**36.9**			23.0
7. **Addition to fund for general banking risks**			**-**			100.0
8. **Write-downs on long-term equity investments, shares in affiliated companies, and securities treated as fixed assets**			**28.9**			-
9. **Expenses from the transfer of losses**			**19.7**			23.1
10. **Extraordinary expenses**			**-**			41.1
11. **Income taxes**			**63.2**			34.2
12. **Other taxes not included under item 5**			**-0.2**			0.6
13. **Net income for the year**			**110.6**			132.5
Total expenses			**1,353.6**			1,556.3

INCOME	€ million	€ million	€ million	2012 € million	
1. Interest income from					
a) Lending and money market business		760.7		862.4	
b) Fixed-income securities and book-entry securities		189.6	**950.3**	213.9	1,076.3
2. Current income from					
a) Shares and other variable-yield securities		0.0		1.0	
b) Long-term equity investments and paid-up shares in cooperatives		84.1		83.4	
c) Shares in affiliated companies		-	**84.1**	-	84.4
3. Income from profit-pooling, profit-transfer and partial profit-transfer agreements			**22.3**		9.2
4. Fee and commission income			**199.5**		181.9
5. Net trading income			**80.0**		131.4
6. Income from the reversal of write-downs on losses on loans and advances and certain securities, and from the reversal of provisions for losses on loans and advances			**-**		-
7. Income from the reversal of write-downs on long-term equity investments, shares in affiliated companies, and securities treated as fixed assets			**-**		65.4
8. Other operating income			**9.9**		7.7
9. Extraordinary income			**7.5**		-
Total income			**1,353.6**		1,556.3
1. Net income for the year			**110.6**		132.5
2. Profit brought forward from 2012			**-**		-
			110.6		132.5
3. Additions to revenue reserves					
a) To statutory reserve		-		-	
b) To reserves provided for by the articles of association		22.1		26.5	
c) To other revenue reserves		11.8	**33.9**	23.5	50.0
4. Distributable profit			**76.7**		82.5

I. Basis of preparation

The annual financial statements of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, (WGZ BANK) have been prepared in accordance with the requirements of the German Commercial Code (HGB) and the Statutory Order on the Accounts of Banks and Financial Services Institutions (RechKredV). The annual financial statements also comply with the provisions of the German Stock Corporation Act (AktG) and the articles of association of WGZ BANK. WGZ BANK has made use of available options to include disclosures in the notes to the financial statements rather than on the balance sheet and income statement.

II. Accounting policies

The accounting policies applied in 2013 were essentially the same as those used in 2012.

General loan loss allowances for latent credit risk in respect of loans and advances were previously measured using average actual past defaults. In the year under review, this method was replaced with a forward-looking process based on credit structure data (expected loss).

As in WGZ BANK's internal management accounting system, internal interest-rate derivative transactions between the trading and non-trading portfolios are recognized and measured in the same way as external transactions, but are reported on a net basis under the relevant balance sheet items.

Expenses arising in connection with investments are offset against the corresponding investment income; likewise, fair value gains and losses on the measurement of loans and advances and the securities in the liquidity reserve, including repurchased own issues, are reported as a net figure.

Liabilities and contingent liabilities are only recognized on the balance sheet if a review of the relevant risk situation shows that the occurrence of a loss will be highly probable. The risk that a liability will crystallize is assessed in the same way as the assessment of credit risk on loans and advances. In order to cover specific risks arising from guarantees, indemnity agreements, and irrevocable loan commitments, the bank recognizes provisions of an appropriate amount and reduces the liabilities shown on the balance sheet by a corresponding sum.

The balance sheet is prepared with the inclusion of a partial appropriation of the net income for the year.

Fixed assets

Assets used to support business operations over the long term are measured in accordance with the rules applicable to fixed assets. Intangible assets are carried at cost and, where applicable, reduced by amortization based on estimated useful life. Similarly, property, plant and equipment is measured at cost and, if depreciable, reduced by depreciation based on the estimated useful life of the asset concerned. Shares in affiliated companies, other long-term equity investments, and paid-up shares in cooperatives are carried at the lower of cost and fair value.

Bonds and other fixed-income securities intended to be held to maturity are recognized at the lower of cost and nominal amount. Within these portfolios, securities with a total carrying amount of €368.9 million (excluding pro rata interest) are not recognized at the lower fair value of €346.3 million because WGZ BANK does not expect the impairment to be permanent given the excellent credit ratings of the securities concerned and the information available to the bank at the present time.

Current assets

Cash and cash equivalents are stated at their nominal amounts; loans and advances to banks and customers, other loans and advances, and other non-trading assets are carried at their principal amounts. Differences between the principal amount and the amount disbursed are recognized under prepaid expenses or deferred income (depending on the nature of the difference) and apportioned pro rata over the term of the loan.

As dictated by prudent business practice, adequate allowances are recognized for losses on loans and advances to banks and customers that could arise in connection with all identifiable individual and country risks. Latent credit risk in respect of these loans and advances is taken into account in the form of general loan loss allowances. WGZ BANK also recognizes non-tax-deductible allowances for general banking risks as permitted by section 340f HGB.

Securities in the liquidity reserve, which do not form part of trading securities, are recognized and measured strictly at the lower of cost and fair value. Fair values are determined by reference to current market prices or by using valuation methods based on the latest data for market parameters, such as yield curves, spreads, and volatility. Securities with a nominal value of €83.1 million within the overall securities portfolio and a portion of credit derivatives (in which WGZ BANK is the protection seller) with a nominal value of €165.5 million are recognized together with credit derivatives in which WGZ BANK is the protection buyer as micro-hedges in order to hedge issuer default risk. Hedge effectiveness is achieved by closely matching hedged items and hedging instruments in terms of credit risk and maturity. In application of section 254 HGB, gains and losses on measurement of specific hedged items and hedging instruments are initially recognized in accordance with the HGB imparity principle, i.e. unrealized losses are recognized, but any unrealized gains are not recognized. Fair value gains and losses on hedges are recognized on the balance sheet under other assets up to a maximum amount of the gains and losses on hedged items, the amount recognized as at December 31, 2013 being €1.8 million. Non-trading credit derivatives in which WGZ BANK is the protection buyer and for which hedge accounting is not applied are measured individually and in accordance with the imparity principle.

Liabilities

Liabilities are recognized at the settlement amount. Differences between notional amounts and amounts disbursed are recognized under prepaid expenses or deferred income (depending on the nature of the difference) and apportioned pro rata over the term of the liability. Capital-related bonds, in which interest payments or repayments of principal are not solely subject to interest-rate risk, are recognized at their nominal amounts, with any related options being recognized and measured separately.

Provisions

Provisions are recognized at the settlement amount. Provisions for pensions and other post-employment benefits include future changes in wages, salaries, and pension benefit payments; other provisions include future changes in prices and costs. Pension provisions are calculated using the projected unit credit method based on actuarial principles, the key parameters being a discount rate of 4.91 percent, annual growth in wages and salaries of 3.0 percent, an annual increase in pension benefits of 2.0 percent, and an annual employee turnover rate of 5.0 percent. The calculations use the 2005 G mortality tables published by Professor Klaus Heubeck. Based on the requirements of the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) [Institute of Public Auditors in Germany] set out in its accounting principle IDW AcP HFA 30, no. 65, the discount rate of 4.91 percent is the discount rate published by Deutsche Bundesbank on September 30, 2013. In accordance with section 253 (2) sentence 2 HGB, this discount rate equates to the average market interest rate for the past seven years published by Deutsche Bundesbank for an assumed residual maturity of 15 years.

No requirement to recognize a provision arises from the measurement of interest-linked contracts in the banking book (non-trading) at present value taking into account closure costs, administrative expenses, and risk costs within the meaning of IDW AcP BFA 3. All on-balance-sheet and off-balance-sheet interest-linked financial instruments that are not trading securities are measured on the basis of the bank classification documented in internal risk management. Transactions without fixed repayment agreements are included in the calculation using modeled fictional maturity dates. Suitable money market and capital market rates are used to calculate the closure costs of surplus amounts with different maturity dates. Administrative expenses are determined using contribution margins relating to individual transactions and using cost-center accounting. Risk costs are included on the basis of the future losses expected for the residual maturities.

Other provisions that are recognized for more than one year are discounted using the average market interest rate over the preceding seven years for matching maturities as specified by section 253 (2) sentence 1 HGB. Other provisions are recognized at an adequate level and factor in contingent liabilities and anticipated losses.

Deferred taxes

As permitted by section 274 (1) sentence 2 HGB, WGZ BANK elects not to recognize excess deferred tax assets (largely resulting from the non-tax-deductible allowances for general banking risks in accordance with section 340f HGB) after offsetting against deferred tax liabilities. If the excess deferred tax assets were to be recognized, they would be measured on the basis of a tax rate of 31.4 percent.

Trading securities

Trading securities comprise bonds and other fixed-income securities, shares and other variable-yield securities, promissory notes, registered bonds, fixed-term foreign currency deposits (placed and accepted), bonds issued (largely investment certificates), and derivatives such as interest-rate, currency, credit, and equity derivatives including internal interest-rate derivatives arranged between trading securities and the banking book. The internal criteria for the classification of financial instruments as trading securities are unchanged on those applied in 2012.

Financial instruments held as trading securities are measured at fair value in accordance with section 340e (3) HGB. Fair value gains and losses are reduced by a value-at-risk adjustment of €7.0 million (based on a confidence level of 99 percent, a holding period of 10 days, with volatilities and correlations computed recursively over an observation period of more than 250 days). The value-at-risk adjustment, which is determined with the help of mathematical models, describes the potential loss from a risk exposure and is based on regulatory requirements specified in the German Solvency Regulation (SolvV). The fair values of the financial instruments are determined by reference to current market prices or by using generally accepted valuation models and methods based on the latest data for market parameters, such as yield curves, spreads, and volatility. Unsecured, positive fair values are adjusted on the basis of probabilities of default for the counterparties involved. The computation of fair values is consistent with the valuation models used in the internal risk management system.

In addition to realized gains and losses and fair value gains and losses, the net trading income includes fee and commission income, net interest income, and dividend income in connection with trading assets and trading liabilities – adjusted for imputed funding and investment interest – together with gains and losses arising from currency translation.

Section 340e (4) HGB includes a requirement for an annual addition to the fund for general banking risks pursuant to section 340g HGB, the current level of this addition being specified as at least 10 percent of net trading income. This addition is included in the figure reported for net trading income.

Currency translation

Transactions denominated in foreign currency are translated in accordance with section 256a HGB in conjunction with section 340h HGB. Fixed assets denominated in foreign currency are translated into euros at the rate prevailing on the date of purchase. Receivables and payables denominated in foreign currency, together with any anticipated spot transactions, are translated at the reference rates specified by the European Central Bank (ECB) or the open market middle rates on the balance sheet date or the last trading day. Currency risk arising in connection with banking book on-balance-sheet transactions denominated in foreign currency is passed on to trading securities by means of internal transactions, regardless of the residual maturity of the underlying transaction. The foreign currency positions are treated and managed as independent trading securities irrespective of their origin (trading book or banking book). Given these arrangements, all banking book on-balance-sheet transactions denominated in foreign currency are classified as specifically covered within the meaning of section 340h HGB and the gains and losses from currency translation are recognized in net trading income in accordance with section 340e (3) HGB. Currency forwards are measured at the forward rates prevailing on the balance sheet date. Anticipated currency option transactions are measured using generally accepted, standardized option pricing models (mainly Garman-Kohlhagen).

III. Balance sheet disclosures – assets –

	€ million	Dec. 31, 2012 € million
Loans and advances to banks		
Breakdown by residual maturity:		
Repayable on demand	2,489.6	3,711.6
Up to three months	3,525.6	1,774.8
Between three months and one year	1,581.6	1,353.9
Between one year and five years	5,799.4	5,545.0
More than five years	8,494.0	8,697.6
Total	21,890.2	21,082.9
of which attributable to:		
Affiliated banks	15,844.4	15,231.1
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	2.9	360.2
Affiliated companies	3,079.3	1,388.8
Other long-term investees and investors	192.2	219.4
Loans and advances to customers		
Breakdown by residual maturity:		
Up to three months	1,064.6	1,164.5
Between three months and one year	706.2	825.3
Between one year and five years	3,337.4	3,158.8
More than five years	2,482.2	2,462.2
No fixed maturity	695.4	736.6
Total	8,285.8	8,347.4
of which attributable to:		
Affiliated companies	42.3	58.3
Other long-term investees and investors	86.8	109.9
Bonds and other fixed-income securities		
Listed on a stock exchange	7,547.9	7,137.5
Not listed on a stock exchange	900.7	923.4
Marketable	8,448.6	8,060.9
of which attributable to:		
Securities maturing in subsequent year	1,296.4	1,073.4
Affiliated companies	254.5	307.5
Other long-term investees and investors	14.9	7.5
Securities subject to sale and repurchase agreements (repos)	641.7	1,561.7

	€ million	Dec. 31, 2012 € million
Shares and other variable-yield securities fixed-income securities		
of which:		
Listed on a stock exchange	0.3	9.2
Not listed on a stock exchange	0.0	0.7
Marketable	0.3	9.9
Trading securities		
Derivatives	2,703.7	3,824.0
Receivables	2,450.5	2,608.2
Bonds and other fixed-income securities	4,468.0	4,753.2
Shares and other variable-yield **securities fixed-income securities**	5.0	5.6
Value-at-risk adjustment	-7.0	-5.1
Total	9,620.2	11,185.9
of which attributable to:		
Affiliated companies	817.2	1,621.0
Other long-term investees and investors	112.7	138.4
Foreign currencies	1,484.5	1,350.5
Securities pledged as collateral	484.4	766.4
Long-term equity investments and paid-up shares in cooperatives		
of which:		
Listed on a stock exchange	-	-
Not listed on a stock exchange	3.4	3.4
Marketable	3.4	3.4
Shares in affiliated companies		
of which:		
Listed on a stock exchange	-	-
Not listed on a stock exchange	-	-
Marketable	-	-
Trust assets		
Loans and advances to banks	4.5	5.4
Loans and advances to customers	0.0	0.0

	€ million	Dec. 31, 2012 € million
Intangible assets		
Purchased concessions,		
industrial and		
similar rights and assets, including		
licenses for such rights and		
assets	5.9	6.5
Payments in advance	4.2	2.1
Total	10.1	8.6
Property, plant and equipment		
Land and buildings used		
for own operations	43.3	45.7
Office furniture and equipment	4.7	6.0
Total	48.0	51.7
Other assets		
Entitlements from long-term equity		
investments and affiliated companies	48.5	34.7
Premiums on other option purchases	5.1	5.4
Tax assets	68.4	121.6
- of which relating to		
corporation tax credits	49.8	61.0
Adjustment relating to		
hedge accounting	1.8	0.7
Other	15.2	18.4
Total	139.0	180.8
Prepaid expenses and accrued income		
of which attributable to:		
Premiums on loans and advances	8.2	17.2
Discounts on liabilities	4.7	4.1
Upfront payments on interest-rate		
derivatives	16.7	14.5

	€ million	Dec. 31, 2012 € million
Subordinated assets		
are included in:		
Other loans and advances to banks	90.8	90.8
- of which attributable to affiliated		
companies	90.0	90.0
Bonds and other		
fixed-income securities	-	10.0
Trading securities	13.2	11.1
Assets denominated in		
foreign currency		
with a value equivalent to	1,973.1	1,817.0

IV. Balance sheet disclosures – equity and liabilities –

	€ million	Dec. 31, 2012 € million
Deposits from banks		
Breakdown by residual maturity:		
Repayable on demand	6,001.2	5,635.1
Up to three months	1,572.8	2,374.7
Between three months and one year	2,490.8	2,113.9
Between one year and five years	7,599.2	7,205.5
More than five years	9,330.0	8,945.7
Total	26,994.0	26,274.9
of which attributable to:		
Affiliated banks	10,226.8	10,038.8
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	65.0	0.3
Affiliated companies	231.8	35.1
Other long-term investees and investors	936.5	794.9
Amounts owed to other depositors		
Breakdown by residual maturity:		
Repayable on demand	2,827.5	2,495.9
Up to three months	2,783.0	1,597.3
Between three months and one year	145.6	60.1
Between one year and five years	115.4	130.8
More than five years	276.5	266.5
Total	6,148.0	4,550.6
of which attributable to:		
Affiliated companies	119.2	117.6
Other long-term investees and investors	135.0	11.0
Debt certificates including bonds		
a) Bonds issued	8,173.9	8,317.6
b) Other debt certificates		
Breakdown by residual maturity:		
Up to three months	-	-
Between three months and one year	-	-
Between one year and five years	-	-
More than five years	-	-
Total	8,173.9	8,317.6
of which attributable to:		
Bonds issued maturing in subsequent year	1,551.2	2,108.2
Affiliated companies	-	-

A disproportionate amount of time, effort, and expense would be required to determine disclosures on debt certificates including bonds in respect of other long-term investees and investors. For this reason, no such disclosures have been made.

	€ million	Dec. 31, 2012 € million
Trading securities		
Derivatives	2,627.2	3,782.9
Liabilities	2,468.1	3,802.6
Debt certificates including bonds	967.6	1,000.5
Total	6,062.9	8,586.0
of which attributable to:		
Affiliated companies	93.6	185.1
Other long-term investees and investors	128.5	198.0
Foreign currencies	1,565.4	1,382.5
Trust liabilities		
Deposits from banks	4.5	5.4
Other payables		
Transfer of losses from affiliated companies	19.7	23.1
Accrued interest for subordinated liabilities	12.1	13.0
Variation margin	1.2	0.8
Premiums on other option sales	1.9	1.5
Other	102.0	99.4
Total	136.9	137.8
Deferred income and accrued expenses		
Premium on bonds issued	38.5	45.4
Discounts on loans and advances	15.6	19.5
Other	2.1	1.3
Total	56.2	66.2
Other provisions		
Staff-related	22.5	23.7
For losses on loans and advances	18.9	14.2
For anticipated losses in connection with derivatives	7.7	6.2
Other	12.8	12.1
Total	61.9	56.2

	€ million	Dec. 31, 2012 € million
Subordinated liabilities	**517.4**	537.4
of which attributable to:		
Affiliated companies	**-**	-
Other long-term investees and investors	**15.0**	10.0
Expenses incurred in connection with subordinated liabilities		
Expenses	**31.4**	33.2

As at December 31, 2013, the subordinated liabilities comprised 54 registered promissory notes and three bearer bonds. WGZ BANK did not take on any subordinated liabilities in the year under review. In the event of insolvency, the capital will only be repaid after all amounts due to non-subordinated creditors have first been settled. There are no agreements and no plans to convert these liabilities to equity; there is no early redemption obligation. The total amount of subordinated liabilities includes one bond, the value of which exceeds 10 percent of the total amount. This bond is a subordinated bearer bond with a value of €72.4 million and a coupon of 6.5 percent, and will mature in 2024. The remaining subordinated liabilities have original maturities of between 10 and 20 years with an average coupon of 5.94 percent.

	€ million	Dec. 31, 2012 € million
Profit-sharing rights	**-**	-

WGZ BANK did not issue any new profit-sharing rights in the year under review.

	€ million	Dec. 31, 2012 € million
Equity		
Subscribed capital		
Balance as at January 1, 2013	**649.4**	649.4
Additions	**-**	-
Balance as at December 31, 2013	**649.4**	649.4
Capital reserves		
Balance as at January 1, 2013	**369.7**	369.7
Additions	**-**	-
Balance as at December 31, 2013	**369.7**	369.7
Revenue reserves		
Statutory reserve	**354.0**	354.0
Reserves provided for by the articles of association	**170.7**	148.6
of which: addition from net income for the year	**22.1**	26.5
Other revenue reserves	**600.3*)**	538.5
of which: addition from distributable profit for prior year	**50.0**	2.8
of which: addition from net income for the year	**11.8**	23.5
	1,125.0	1,041.1
Distributable profit	**76.7**	82.5
of which: from profit brought forward	**-**	-
Total	**2,220.8**	2,142.7

*) Before the addition from the net income for 2013 in accordance with the proposed appropriation of profits.

WGZ BANK's subscribed capital comprises share capital of €649,400,000.00. It is divided into 6,494,000 registered no-par-value shares (subject to transfer restrictions), each with an imputed share of the capital amounting to €100.00. The articles of association authorize the Board of Managing Directors, subject to the approval of the Supervisory Board, to increase the share capital of WGZ BANK over a period of five years from June 22, 2010 on one or more occasions by a total of up to €200,000,000.00 by issuing new shares in return for capital contributions.

	€ million	Dec. 31, 2012 € million
Liabilities denominated in foreign currency with a value equivalent to	**3,111.8**	2,328.4
Assets transferred as collateral		
In connection with deposits from banks:		
Receivables assigned to cover liabilities related to funds designated for special purposes	**13,466.5**	12,964.4
In connection with amounts owed to other depositors:		
Pledged as collateral for open-market operations, exchange-traded forward transactions, and in relation to collateral agreements as part of OTC trading business	**2,750.8**	1,915.8
Contingent liabilities		
Arising from guarantees and indemnity agreements	**3,095.6**	3,601.5
Other obligations		
Irrevocable loan commitments to banks	**2,158.0**	2,325.2
Irrevocable loan commitments to customers	**2,165.7**	2,387.8

After reviewing the risk situation in connection with guarantees and indemnity agreements, WGZ BANK is not currently expecting any of these contingent liabilities to crystallize. Provisions in an appropriate amount have been recognized for specific risks associated with liabilities reported below the line on the balance sheet, and the items below the line have been reduced accordingly.

V. Income statement disclosures

Income from profit-pooling, profit-transfer and partial profit-transfer agreements

For the first time, this line item contains corporation tax and trade tax gains allocated to the tax groups amounting to €15.4 million. A corresponding amount is recognized as a tax expense.

Other net operating income

Other net operating income included a negative amount of €5.9 million arising from discounting and the unwinding of the discount in connection with the measurement of provisions.

Expenses from the transfer of losses

Expenses from the transfer of losses related solely to Phoenix Beteiligungsgesellschaft mbH.

Write-downs on long-term equity investments, shares in affiliated companies, and securities treated as fixed assets

This line item included €35.0 million arising from the write-down on the long-term equity investment in VR Equitypartner GmbH.

Net extraordinary income

Extraordinary income amounting to €7.5 million related to an income subsidy paid to VR-LEASING AG in the previous year.

VI. Other financial obligations and letters of comfort

Other financial obligations

WGZ BANK is a member of the protection scheme operated by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks]. This scheme comprises a guarantee fund and a guarantee network. As a participant in the guarantee network, WGZ BANK has entered into a guarantee obligation, the value of which is ten times the basic contribution to the guarantee fund (€41.8 million). Other contingencies and commitments that do not appear on the balance sheet are not material to any assessment of the financial position of WGZ BANK. Such contingencies and commitments relate to balancing arrangements in collateral pooling agreements, liability obligations under articles of association, and liability up to a certain level in connection with shares in cooperatives.

Letters of comfort

Subject to the exclusion of political risk, WGZ BANK has given undertakings that it will ensure WL BANK AG Westfälische Landschaft Bodenkreditbank and WGZ BANK Ireland plc will be able to meet their obligations, such undertakings being in proportion to WGZ BANK's direct holdings in these entities.

VII. Derivatives

COUNTERPARTY STRUCTURE	Positive fair values € million
OECD central governments and stock exchanges	136.7
OECD banks	2,036.9
OECD financial services institutions	43.7
Other companies, private individuals	184.8
Non-OECD central governments	-
Non-OECD banks	0.2
Non-OECD financial services institutions	-
Total	2,402.3

The positive fair values reflect the maximum counterparty risk as at the balance sheet date. They are the total of all positive contract fair values and exclude any offsetting of negative contract fair values, deduction of collateral, or weighting based on credit rating. As at the balance sheet date, the loan equivalent exposure (LEQ) calculated in accordance with the SolvV regulatory provisions and relevant to counterparty risk amounted to €2,520 million. After factoring in credit rating weightings, this represents less than 3 percent of the positions subject to capital charges as defined by SolvV.

WGZ BANK has entered into the transactions listed in the following table for the most part in order to hedge fluctuations in interest rates, exchange rates or other types of changes in market prices as part of its trading activities. The listed transactions also include some of the transactions used to hedge interest-rate and exchange-rate fluctuations in connection with general banking business.

PRODUCT STRUCTURE AND NOMINAL AMOUNT	Nominal amount by time to maturity				Fair value	
	Up to 1 year € million	1-5 years € million	> 5 years € million	Total € million	Negative € million	Positive € million
Interest-linked contracts	**11,593.9**	**32,320.2**	**31,874.6**	**75,788.7**	**2,080.8**	**1,850.3**
of which attributable to:						
OTC products						
Interest-rate swaps (same currency)	10,578.4	30,623.3	30,073.5	71,275.2	2,000.1	1,800.8
Interest-rate options – call	30.1	511.0	775.0	1,316.1	-	47.2
Interest-rate options – put	294.2	1,135.9	1,026.1	2,456.2	79.3	0.3
Exchange-traded products						
Interest-rate futures	691.2	50.0	-	741.2	1.4	2.0
Currency-linked contracts	**54,156.0**	**1,070.3**	**25.6**	**55,251.9**	**475.1**	**420.9**
of which attributable to:						
OTC products						
Forward forex transactions	53,717.2	997.1	25.6	54,739.9	470.4	416.2
Forex options – call	186.5	36.6	-	223.1	0.2	4.7
Forex options – put	252.3	36.6	-	288.9	4.5	0.0
Share-/index-linked contracts	**291.9**	**886.3**	**52.7**	**1,230.9**	**20.0**	**58.8**
of which attributable to:						
OTC products						
Share/index swaps	7.0	634.7	52.7	694.3	3.1	31.2
Share/index options – call	68.0	82.3	-	150.3	-	26.7
Share/index options – put	151.0	153.6	-	304.6	16.3	-
Exchange-traded products						
Share/index futures	14.6	0.2	-	14.8	0.0	0.3
Share/index options – call	2.3	2.4	-	4.7	-	0.5
Share/index options – put	48.9	13.2	-	62.1	0.6	-
Other contracts	**1,281.9**	**3,428.0**	**994.3**	**5,704.2**	**50.1**	**72.2**
of which attributable to:						
OTC products						
Cross-currency swaps	13.3	275.5	849.3	1,138.1	24.9	24.7
Credit default swaps – protection buyer	487.0	902.6	7.5	1,397.1	21.1	4.4
Credit default swaps – protection seller	781.6	2,249.9	137.5	3,169.0	4.1	43.1
Exchange-traded products						
Precious metal futures	-	-	-	-	-	-
Total for all contracts	**67,323.7**	**37,704.8**	**32,947.1**	**137,975.6**	**2,626.0**	**2,402.3**
of which attributable to:						
OTC products	66,566.7	37,639.0	32,947.1	137,152.8	2,624.0	2,399.4
Exchange-traded products	757.0	65.7	-	822.8	2.0	2.9
Contingency risks assumed in connection with credit default swaps	440.3	1,671.6	132.5	2,244.4	1.6	31.9

The following table shows a list of derivatives not recognized at fair value where such derivatives are not subject to hedge accounting in accordance with section 254 HGB. The derivatives in this case are assigned to the banking book and are measured strictly at the lower of cost and market.

PRODUCT STRUCTURE AND NOMINAL AMOUNT	Nominal amount by time to maturity				Fair value	
	Up to 1 year € million	1-5 years € million	> 5 years € million	Total € million	Negative € million	Positive € million
Interest-linked contracts	**196.0**	**3.1**	**-**	**199.1**	**0.1**	**6.7**
of which attributable to:						
OTC products						
Interest-rate swaps (same currency)	85.1	3.1	-	88.2	-	6.2
Exchange-traded products						
Interest-rate futures	110.9	-	-	110.9	0.1	0.5
Other contracts	**530.1**	**1,909.7**	**135.0**	**2,574.8**	**6.7**	**33.0**
of which attributable to:						
OTC products						
Credit default swaps – protection buyer	81.2	238.1	2.5	321.8	5.2	0.9
Credit default swaps – protection seller	440.3	1,671.6	132.5	2,244.4	1.6	31.9
Exchange-traded products						
Share/index futures	8.6	-	-	8.6	-	0.2
Total for all contracts	**726.1**	**1,912.8**	**135.0**	**2,773.9**	**6.8**	**39.7**
of which attributable to:						
OTC products	606.6	1,912.8	135.0	2,654.4	6.7	39.0
Exchange-traded products	119.5	-	-	119.5	0.1	0.7

VIII. Statement of changes in fixed assets

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	Intangible assets € million	Land and buildings € million	Office furniture and equipment € million
Cost	43.6	92.1	49.7
Additions	5.6	-	1.7
Reclassifications	0.0	-	0.0
Disposals	-0.5	-	-9.0
Cumulative amortization/depreciation	-38.6	-48.8	-37.7
Carrying amounts as at the balance sheet date	10.1	43.3	4.7
Amortization/depreciation expense in the year under review	4.2	2.4	2.9

INVESTMENTS	Long-term securities € million	Long-term equity-investments and paid-up shares in cooperatives € million	Shares in affiliated companies € million
Cost	1,756.7	1,818.9	789.1
Changes (net)	-397.8	-37.4	0.0
Carrying amounts as at the balance sheet date	1,358.9	1,781.5	789.1

The changes in the carrying amount of investments are reported on a net basis in accordance with section 34 (3) sentence 2 RechKredV.

IX. List of shareholdings

NAME AND REGISTERED OFFICE		Shareholding (%)	Equity (€ million) in the most recent year for which figures are available	Net profit/loss (€ million)
a) Affiliated companies				
1. WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster	*1)	90.92	355.1	*2)
2. WGZ BANK Ireland plc, Dublin, Ireland	*1)	100.00	335.5	27.3
3. WGZ Immobilien + Treuhand GmbH, Münster		100.00	1.3	*2)
4. WGZ Immobilien + Management GmbH, Münster		100.00	0.0	*2)
5. Phoenix Beteiligungsgesellschaft mbH, Düsseldorf	*7)	100.00	108.3	*2)
6. IMPETUS Bietergesellschaft mbH, Frankfurt am Main	*8)	100.00	54.1	*2)
7. GENO-Beteiligungsgesellschaft mbH, Düsseldorf		100.00	1.1	0.0
b) Other companies				
1. DZ Holding GmbH & Co. KG, Neu-Isenburg	*3)	35.88	1,307.5	22.2
2. Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall	*1)	15.00	1,812.3	*4)
3. R+V Versicherung AG, Wiesbaden	*1)	15.80	1,911.7	*4)
4. Union Asset Management Holding AG, Frankfurt am Main	*1)	17.72	466.8	188.1
5. Union Investment Real Estate GmbH, Hamburg	*1)	5.50	55.0	29.1
6. VR-LEASING AG, Eschborn	*1)	16.54	211.1	3.8
7. VR Unternehmerberatung GmbH, Düsseldorf		50.00	1.5	0.2
8. VR Equitypartner GmbH, Frankfurt am Main		22.00	59.2	*4)
9. VR Mittelstandskapital Unternehmensbeteiligungs AG, Düsseldorf		20.00	12.1	0.1
10. DZ PRIVATBANK S.A., Strassen, Luxembourg	*1)	19.04	674.2	45.6
11. Volksbank Romania S.A., Bucharest, Romania	*1) *5)	8.14	260.2	-184.8
12. Service-Direkt Telemarketing Verwaltungsgesellschaft mbH, Stuttgart		42.83	6.3	0.7
13. GGB-Beratungsgruppe GmbH, Stuttgart		23.13	-1.1	-1.9
14. CardProcess GmbH, Karlsruhe	*1)	10.10	28.2	2.0
15. Heinsberger Volksbank Aktiengesellschaft, Heinsberg		25.00	12.2	0.4
16. Treuhand- und Finanzierungsgesellschaft für Wohnungs- und Bauwirtschaft mbH -Treufinanz-, Düsseldorf		33.14	3.1	-0.2
17. Kapitalbeteiligungsgesellschaft für die mittelständische Wirtschaft in Nordrhein-Westfalen mbh -KBG-, Neuss		23.60	1.4	0.0
18. GAF Active Life 1 Renditebeteiligungs-GmbH & Co. KG, Nidderau	*6)	32.10	69.0	-6.7
19. GAF Active Life 2 Renditebeteiligungs-GmbH & Co. KG, Nidderau	*6)	31.61	67.6	-1.6
20. GMS Management und Service GmbH, Nidderau	*6)	33.33	0.1	0.0

*1) Long-term equity investments in large corporations and publicly listed companies where the investment equates to more than 5 percent of voting rights.
*2) The net profit/loss has been transferred to WGZ BANK.
*3) The company has a shareholding of 6.64 percent in DZ BANK AG held on behalf of WGZ BANK.
*4) Profit transfer agreement with DZ BANK AG.
*5) Indirect investment via VBI Beteiligungs GmbH, Vienna, Austria.
*6) Indirect investment via IMPETUS Bietergesellschaft mbH.
*7) The company has a shareholding in VBI Beteiligungs GmbH held on behalf of WGZ BANK.
*8) The company holds shares in GAF 1 and 2 and GMS on behalf of WGZ BANK.

X. Other disclosures

Disclosure pursuant to section 20 AktG

In accordance with section 20 (4) AktG, WGZ Beteiligungs GmbH & Co. KG, Düsseldorf, submitted notification in a letter dated October 5, 2005 that it held a direct controlling interest in WGZ BANK.

Members of the Supervisory Board and the Board of Managing Directors

Supervisory Board

Dieter Philipp, *Chairman*	Honorary President of the German Association of Skilled Trades; President of the Aachen Chamber of Skilled Trades
Franz Lipsmeier, *Deputy Chairman*	Full-time member of the Board of Managing Directors of
	Volksbank Delbrück-Hövelhof eG
Johannes Berens	Bank Director (ret.)
Peter Bersch	Full-time member of the Board of Managing Directors of
	Volksbank Bitburg eG
Werner Böhnke	Bank Director (ret.) (from June 18, 2013)
Martin Eul	Full-time member of the Board of Managing Directors of Dortmunder Volksbank eG (from June 18, 2013)
Ludger Hünteler	Employee of WGZ BANK
Manfred Jorris	Employee of WGZ BANK
Hannelore Kurre	Employee of WGZ BANK (until June 18, 2013)
Ina Maßmann	Employee of WGZ BANK (from June 18, 2013)
Franz-Josef Möllers	Honorary President of the Westphalia-Lippe Agricultural Association (until June 18, 2013)
Manfred Wortmann	Full-time member of the Board of Managing Directors of Volksbank Hellweg eG (until June 18, 2013)

Board of Managing Directors

Hans-Bernd Wolberg, *Chief Executive Officer (from June 18, 2013)*	Full-time member of the Board of Managing Directors
Uwe Berghaus	Full-time member of the Board of Managing Directors
Werner Böhnke, *Chief Executive Officer (until June 18, 2013)*	Full-time member of the Board of Managing Directors
	(until June 18, 2013)
Dr. Christian Brauckmann	Full-time member of the Board of Managing Directors
Karl-Heinz Moll	Full-time member of the Board of Managing Directors
Michael Speth	Full-time member of the Board of Managing Directors

Mandates held by the members of the Board of Managing Directors and employees on the statutory supervisory bodies of major corporations

Board of Managing Directors of WGZ BANK

Hans-Bernd Wolberg	
Group companies:	
WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster	Chairman of the Supervisory Board
Other major corporations:	
BAG Bankaktiengesellschaft, Hamm	Member of the Supervisory Board
VR-LEASING AG, Eschborn	Deputy Chairman of the Supervisory Board
Dr. Christian Brauckmann	
Other major corporations:	
Deutsche WertpapierService Bank AG, Frankfurt am Main	Member of the Supervisory Board
Karl-Heinz Moll	
Group companies:	
WGZ BANK Ireland plc, Dublin, Ireland	Chairman of the Board of Directors
Other major corporations:	
DZ PRIVATBANK (Schweiz) AG, Zurich, Switzerland	Deputy Chairman of the Board of Directors
DZ PRIVATBANK S.A., Strassen, Luxembourg	Deputy Chairman of the Supervisory Board
Union Asset Management Holding AG, Frankfurt am Main	Deputy Chairman of the Supervisory Board
R+V Versicherung AG, Wiesbaden	Member of the Supervisory Board
Michael Speth	
Group companies:	
WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster	Member of the Supervisory Board

Employees of WGZ BANK

Rolf Hermes	
Group companies:	
WGZ BANK Ireland plc, Dublin, Ireland	Member of the Board of Directors
Klaus Wellner	
Other major corporations:	
Volksbank Romania S.A., Bucharest, Romania	Member of the Supervisory Board

Total remuneration paid to the members of decision-making bodies

A total amount of €111 thousand was paid to the members of the Supervisory Board in the form of remuneration and attendance fees. The equivalent amount paid to the members of the Advisory Council was €227 thousand. The total remuneration paid to the members of the Board of Managing Directors in the year under review in return for the fulfillment of their responsibilities was €3.799 million. The amount of cash remuneration is set out in the 2013 disclosure report pursuant to section 7 of the German Regulation Governing Remuneration at Institutions (InstitutsVergV). A sum of €2.283 million was paid to former members of the Board of Managing Directors and their surviving dependants. The provision for pensions and post-employment benefits in respect of this group of persons amounts to €27.923 million, which covers all the associated obligations in full.

Loans and advances to members of decision-making bodies

No loans or advances had been made to members of decision-making bodies as at the balance sheet date.

Average number of employees

	Female	Male	Total
Düsseldorf	446	681	1,127
Koblenz	6	12	18
Münster	25	56	81
	477	749	1,226
Staff in vocational training and management trainees	19	19	38

Auditor fees

The total fees invoiced by the independent auditor, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, have not been disclosed as permitted by section 285 no. 17 HGB. Please refer to the disclosures in the consolidated financial statements of WGZ BANK for the relevant information.

Düsseldorf, March 25, 2014
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

Audit opinion (translation)

We have audited the annual financial statements, comprising the balance sheet, the income statement, and the notes to the financial statements, together with the bookkeeping system and the management report of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, for the financial year from January 1 to December 31, 2013 (the management report having been combined with the group management report). The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law and the supplementary provisions of the articles of association are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

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

Our audit has not led to any reservations.

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

Düsseldorf, April 7, 2014
PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Mark Maternus	pp Marc Lilienthal
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility statement

"To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, and the management report, which is combined with the group management report, includes a fair review of the development and performance of the business and the position of WGZ BANK AG, together with a description of the principal opportunities and risks associated with the expected development of WGZ BANK AG."

Düsseldorf, March 25, 2014
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

WGZ BANK consolidated financial statements for 2013 in accordance with International Financial Reporting Standards

I. Consolidated balance sheet

ASSETS	Note	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (%)
1. Cash and cash equivalents	7, 32	318.4	60.5	> 100.0
2. Loans and advances to banks	8, 33	22,966.5	24,321.7	-5.6
3. Loans and advances to customers	8, 33	37,006.9	37,482.9	-1.3
4. Allowances for losses on loans and advances	9, 34	-193.1	-221.6	-12.9
5. Fair value changes of the hedged items in portfolio hedges of interest-rate risk	6, 35	87.7	315.7	-72.2
6. Derivatives used for hedging (positive fair values)	6, 36	494.5	567.8	-12.9
7. Financial assets held for trading	10, 37	8,198.5	9,960.2	-17.7
8. Long-term equity investments and securities portfolio	11, 38	20,615.1	21,968.9	-6.2
9. Companies accounted for using the equity method	12, 39	948.9	1,009.6	-6.0
10. Intangible assets	14, 40	11.9	11.1	7.2
11. Property, plant and equipment	14, 40	61.8	66.2	-6.6
12. Investment property	14, 40	0.0	0.0	0.0
13. Tax assets	15, 41	68.9	116.7	-41.0
14. Deferred tax assets	15, 41	289.7	315.3	-8.1
15. Other assets	16, 42	50.0	107.1	-53.3
Total assets		90,925.7	96,082.1	-5.4

LIABILITIES	Note	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (%)
1. Deposits from banks	8, 43	35,973.2	38,155.6	-5.7
2. Amounts owed to other depositors	8, 43	21,911.4	20,127.6	8.9
3. Debt certificates including bonds	17, 43	22,789.9	25,333.2	-10.0
4. Fair value changes of the hedged items in portfolio hedges of interest-rate risk	6, 44	215.6	298.9	-27.9
5. Derivatives used for hedging (negative fair values)	6, 45	910.0	1,480.6	-38.5
6. Financial liabilities held for trading	10, 46	4,870.6	6,592.2	-26.1
7. Provisions	18, 19, 47	244.9	230.8	6.1
8. Tax liabilities	15, 48	50.8	42.0	21.0
9. Deferred tax liabilities	15, 48	0.0	0.0	0.0
10. Other liabilities	16, 49	39.9	46.7	-14.6
11. Subordinated capital	20, 50	646.3	721.4	-10.4
12. Equity	22, 51	3,273.1	3,053.1	7.2
Subscribed capital		649.4	649.4	0.0
Capital reserves		369.7	369.7	0.0
Retained earnings		2,268.7	2,083.9	8.9
Revaluation reserve		-83.4	-113.7	-26.6
Other reserves recognized via other comprehensive income		7.3	8.7	-16.1
Distributable profit attributable to the group		76.7	82.5	-7.0
Non-controlling interests		-15.3	-27.4	-44.2
Total equity and liabilities		90,925.7	96,082.1	-5.4

II. Consolidated income statement

	Note	€ million	2012 € million	Change (%)
1. Interest income	52	**2,389.7**	2,696.4	-11.4
2. Interest expense	52	**1,921.4**	2,210.2	-13.1
3. Net interest income	52	**468.3**	486.2	-3.7
4. Allowances for losses on loans and advances	53	**-8.1**	-1.6	> 100.0
5. Net interest income after allowances for losses on loans and advances		**460.2**	484.6	-5.0
6. Fee and commission income		**177.6**	162.9	9.0
7. Fee and commission expenses		**110.2**	103.9	6.1
8. Net fee and commission income	54	**67.4**	59.0	14.2
9. Gains and losses arising on hedging transactions	55	**-35.9**	-16.9	> 100.0
10. Gains and losses on trading activities	56	**152.0**	272.2	-44.2
11. Gains and losses on investments	57	**-86.6**	-19.1	> 100.0
12. Profit/loss from companies accounted for using the equity method	58	**16.5**	14.6	13.0
13. Administrative expenses	59	**284.3**	278.9	1.9
14. Other net operating income	60	**16.8**	36.1	-53.5
15. Operating profit/loss		**306.1**	551.6	-44.5
16. Income taxes	61	**78.8**	170.1	-53.7
17. Other taxes	61	**0.1**	0.8	-87.5
18. Net profit/loss		**227.2**	380.7	-40.3
19. Net profit/loss attributable to non-controlling interests		**9.8**	6.0	63.3
20. Net profit/loss after net profit/loss attributable to non-controlling interests		**217.4**	374.7	-42.0
21. Change in retained earnings		**140.7**	292.2	-51.8
22. Distributable profit attributable to the group		**76.7**	82.5	-7.0

III. Statement of comprehensive income

	2013 € million	2012 € million
Net profit/loss	**227.2**	**380.7**
Balance of income and expenses recognized in other comprehensive income	**26.0**	**35.9**
Amounts not reclassified to the income statement	**-7.0**	**-29.5**
Change in retained earnings	**-8.0**	**-29.5**
Remeasurements of the net liability in connection with defined benefit plans	-11.6	-43.0
Deferred taxes	3.6	13.5
Change in other reserves recognized via other comprehensive income	**1.0**	**0.0**
Income and expenses with associates recognized in other comprehensive income	1.3	0.0
Deferred taxes	-0.3	0.0
Amounts reclassified to the income statement	**33.0**	**65.4**
Change in revaluation reserve	**32.7**	**49.0**
Unrealized gains and losses on available-for-sale financial instruments	50.4	51.1
Deferred taxes	-15.9	-18.7
Gains and losses reclassified to the income statement following the sale of available-for-sale financial instruments	-7.4	0.2
Deferred taxes	2.3	0.0
Reclassification to the income statement of gains and losses arising from impairment losses/reversals of impairment losses on available-for-sale financial instruments	3.1	19.7
Deferred taxes	0.2	-3.3
Change in other reserves recognized via other comprehensive income	**0.3**	**16.4**
Income and expenses with associates recognized in other comprehensive income	0.3	23.0
Deferred taxes	0.0	-6.6
Total comprehensive income/loss	**253.2**	**416.6**
Attributable to:		
Shareholders of WGZ BANK	**241.1**	407.2
Non-controlling interests	**12.1**	9.4

The total comprehensive income/loss for the WGZ BANK Group comprises the income and expenses recognized in both the income statement and other comprehensive income. The tax effects relating to the individual components of income and expenses recognized in other comprehensive income are shown in note 61.

IV. Statement of changes in equity

2012 € million	Note	Subscribed capital	Capital reserves	Retained earnings	Revaluation reserve for available-for-sale financial instruments	Other reserves recognized via other comprehensive income[1]	Distributable profit attributable to the group	Equity before non-controlling interests	Non-controlling interests	**Total equity**
Balance as at Jan. 1, 2012		**649.4**	**369.7**	**1,809.6**	**-158.9**	**-7.7**	**50.1**	**2,712.2**	**-37.1**	**2,675.1**
Net profit/loss							374.7	374.7	6.0	380.7
Other comprehensive income/loss	22			-29.1	45.2	16.4		32.5	3.4	35.9
Total comprehensive income/loss				**1,780.5**	**45.2**	**16.4**	**424.8**	**407.2**	**9.4**	**416.6**
Appropriation to retained earnings	22			305.0			-305.0	0.0		0.0
Dividends paid	53						-37.3	-37.3		-37.3
Changes in scope of consolidation	3			-1.6				-1.6	0.3	-1.3
Balance as at Dec. 31, 2012		**649.4**	**369.7**	**2,083.9**	**-113.7**	**8.7**	**82.5**	**3,080.5**	**-27.4**	**3,053.1**

2013 € million	Note	Subscribed capital	Capital reserves	Retained earnings	Revaluation reserve for available-for-sale financial instruments	Other reserves recognized via other comprehensive income[1]	Distributable profit attributable to the group	Equity before non-controlling interests	Non-controlling interests	**Total equity**
Balance as at Jan. 1, 2013		**649.4**	**369.7**	**2,083.9**	**-113.7**	**8.7**	**82.5**	**3,080.5**	**-27.4**	**3,053.1**
Net profit/loss							217.4	217.4	9.8	227.2
Other comprehensive income/loss	22			-5.2	30.3	-1.4		23.7	2.3	26.0
Total comprehensive income/loss				**-5.2**	**30.3**	**-1.4**	**217.4**	**241.1**	**12.1**	**253.2**
Appropriation to retained earnings	22			190.7			-190.7	0.0		0.0
Dividends paid	53						-32.5	-32.5		-32.5
Changes in scope of consolidation	3			-0.7				-0.7		-0.7
Balance as at Dec. 31, 2013		**649.4**	**369.7**	**2,268.7**	**-83.4**	**7.3**	**76.7**	**3,288.4**	**-15.3**	**3,273.1**

[1] Relates to differences from currency translation and changes in equity (recognized in other comprehensive income) in connection with investments accounted for using the equity method.

Further disclosures can be found in notes 22 and 51. From an economic perspective, the subordinated capital of €646.3 million (December 31, 2012: €721.4 million) should be included as part of equity.

V. Statement of cash flows

	Note	€ million	2012 € million
Net profit/loss		**227.2**	380.7
Non-cash items included in net profit/loss and reconciliation to cash flows from operating activities			
Allowances and reversal of allowances for losses on loans and advances, impairment losses and reversal of impairment losses on loans and advances, additions and reversals on provisions for losses on loans and advances	34, 53	10.1	3.1
Amortization/depreciation, impairment losses, and reversal of impairment losses on property, plant and equipment, intangible assets and investments	40, 59	11.2	12.5
Gains and losses on the disposal of property, plant and equipment, intangible assets and investments	27, 57	-7.4	-99.2
Changes in other non-cash items		51.7	170.7
Other adjustments (net)	17, 41, 48	306.5	-1,518.4
Subtotal		599.3	-1,050.6
Changes in assets and liabilities from operating activities after adjustment for non-cash transactions			
Loans and advances to banks	8, 33	1,355.2	118.4
Loans and advances to customers	8, 33	472.3	-992.7
Financial assets held for trading	10, 37	1,761.7	-1,441.4
Other assets from operating activities	3, 6, 9, 14, 16, 25, 35, 36, 40, 42	320.7	98.6
Deposits from banks	8, 43	-2,182.4	944.8
Amounts owed to other depositors	8, 43	1,783.8	191.9
Financial liabilities held for trading	10, 46	-1,721.6	828.0
Debt certificates including bonds	17, 43	-2,543.2	-889.4
Other liabilities from operating activities	3, 6, 16, 19, 20, 25, 44, 45, 47, 49	-649.6	661.8
Interest and dividends received	52	2,389.7	2,696.4
of which dividends from companies accounted for using the equity method	12, 39, 58	16.7	3.0
Interest paid	52	-1,921.4	-2,210.2
Income taxes paid	15, 41, 48, 61	-6.3	13.4
Cash flows from operating activities		**-341.8**	-1,031.0
Proceeds from the sale of investments	11, 38, 57	4,998.9	6,020.1
Proceeds from the sale of property, plant and equipment	13, 40	0.0	4.1
Payments for the purchase of investments	11, 38, 57	-4,289.6	-4,835.5
Payments for the purchase of property, plant and equipment	13, 40	-2.0	-2.6
Proceeds from the sale of consolidated entities		0.0	0.0
Payments for the acquisition of consolidated entities		0.0	-0.2
Cash flows from investing activities		**707.3**	1,185.9
Dividends paid	51	-32.5	-37.3
Changes in subordinated capital	20, 50	-75.1	-108.6
Cash flows from financing activities		**-107.6**	-145.9
Cash and cash equivalents as at December 31, 2012		**60.5**	51.5
Cash flows from operating activities		-341.8	-1,031.0
Cash flows from investing activities		707.3	1,185.9
Cash flows from financing activities		-107.6	-145.9
Effects from changes in exchange rates, scope of consolidation, and measurement		0.0	0.0
Cash and cash equivalents as at December 31, 2013		**318.4**	**60.5**

VI. Notes

Basis of preparation

WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Ludwig-Erhard-Allee 20, 40227 Düsseldorf, Germany, has prepared its consolidated financial statements in accordance with the provisions of the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The consolidated financial statements meet the requirements of all the standards and interpretations subject to mandatory application in 2013 and are based on Regulation (EC) 1606/2002 of the European Parliament and of the Council of July 19, 2002, and on the regulations implementing IFRS in EU law. The consolidated financial statements also comply with the interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) valid on the date that the consolidated financial statements were prepared. In addition, national regulations as determined by section 315a (1) HGB have been applied. The figures in WGZ BANK's consolidated financial statements are stated in millions of euros. The financial statements form an integral part of the annual financial report within the meaning of section 37v of the German Transparency Directive Implementing Act (TUG) in conjunction with section 37y no. 1 German Securities Trading Act (WpHG).

The consolidated financial statements comprise the consolidated balance sheet, the consolidated income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows, the notes, and, as an integral component, segment information. The group management report, which is additionally required pursuant to section 315a HGB in conjunction with section 315 HGB, also includes the report on the opportunities and risks of future development (risk report) and complies with the German accounting standard GAS 20.

Key sources of estimation uncertainty

Application of the accounting policies specified under IFRS and IFRIC provisions requires the accounting entity to make a large number of estimates and assumptions that are forward-looking and that, by their very nature, may differ from the circumstances that actually materialize at a later point. Assumptions and estimates are necessary mainly in calculating pension and other provisions (note 47; particularly long-term trends in the levels of salaries and pension benefit payments, changes in average life expectancy), measuring allowances for losses on loans and advances (note 34; particularly both sector-specific and macroeconomic trends), determining fair values for derivatives (notes 36, 37, 44, and 45; particularly as regards changes in volatility and other parameters), applying valuation models for financial instruments that are not listed in an active market (note 28; particularly in relation to changes in credit ratings and interest rates), and budgeting in relation to the recoverability of deferred tax assets. All estimates and assumptions are regularly reviewed. They are based on historical experience and/or forecasts regarding the occurrence of future events that appear to be reasonable from the perspective of prudent business practice, given the prevailing circumstances.

Changes to accounting policies (IAS 8)

The separate financial statements of the entities included in the consolidated financial statements have been prepared using uniform accounting policies applicable to the entire WGZ BANK Group and are based on the same reporting date as that used by the parent company.

IFRS 13 was applied for the first time. This standard defines the term 'fair value' and stipulates a standardized framework and standardized methods for measuring fair value. The main impact was the standard's requirement for enhanced disclosures in the notes to the financial statements. It also impacted, to a small extent, on the re-evaluation of the levels to which loans are assigned (note 28). Within net interest income, the fair values of derivatives used as hedges that are designated as portfolio hedges are amortized from the date of designation. The amortization amounts were insignificant, both in the reporting period and in prior periods.

When euro-denominated interest-rate derivatives are discounted, the discount factors are no longer derived from the 6-month swap curve and are instead derived from the Eonia curve. This switch resulted in a €9 million reduction in net gains on trading activities for the group.

In the reporting year, more detail was added to the statement of comprehensive income about the income and expenses with associates recognized in other comprehensive income.

(1) Basic principles

Financial reporting in the WGZ BANK Group is based on the principle that the business will continue in existence as a going concern. Income and expenses are recognized under the accrual method, i.e. they are recognized in the period to which they relate from a financial perspective. Dividends are recognized when they are received. An asset is only recognized if it is probable that the future economic benefits will accrue to the company and if the cost of the asset can be reliably measured. A liability is recognized on the balance sheet if it is probable that there will be an outflow of resources in order to meet a present obligation and the settlement amount can be reliably measured. Fee and commission income and expenses are recognized when the service is performed. Fees and commissions related to trading activities are reported under gains and losses on trading activities.

(2) International Financial Reporting Standards applied

All standards and interpretations subject to mandatory application in the year under review have been applied, provided that they are relevant to WGZ BANK.

Relevant standards and interpretations

The consolidated financial statements of WGZ BANK for the year ended December 31, 2013 are based on the IASB framework and on the following IAS/IFRS standards and SIC/IFRIC interpretations:

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Reporting Period
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 28	Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 3	Business Combinations
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRS 13	Fair Value Measurement
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
SIC 12	Consolidation – Special Purpose Entities

Irrelevant standards and interpretations

The following standards and interpretations are not relevant: IAS 11, 20, 26, 27, 29, 33, 34, 40, and 41; IFRS 1, 2, 4, 5, and 6; SIC 7, 10, 13, 15, 21, 25, 27, 29, 31, and 32; IFRIC 1, 4, 5, 6, 7, 12, 13, 15, 16, 17, 18, 19, and 20.

Initial application of standards and interpretations

The following new accounting standards and interpretations have been decided upon by the IASB, adopted by the EU, and were required to be applied for the first time in the year under review:

- IFRS 13: Fair Value Measurement

- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine.

The IASB published IFRS 13 in May 2011. This standard was adopted by the EU in December 2012 and was required to be applied for the first time for the 2013 financial year. It defines the term 'fair value' and stipulates a standardized framework and standardized methods for measuring fair value. The standard includes a three-level hierarchy based on the type of measurement parameters used. WGZ BANK has applied the requirements of the standard, in particular by increasing the disclosures in note 28.

IFRIC 20 is not relevant to WGZ BANK.

The following amendments to accounting standards have been decided upon by the IASB, adopted by the EU, and were required to be applied for the first time in the year under review:

- Amendments to IFRS 1: Government Loans

- Amendments to IFRS 1: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

- Amendments to IFRS 7: Offsetting Financial Assets and Financial Liabilities

- Amendments to IAS 1: Presentation of Items of Other Comprehensive Income

- Amendments to IAS 12: Income Taxes – Deferred Tax: Recovery of Underlying Assets

- Amendments to IAS 19: Employee Benefits

- Improvements to IFRSs (May 2012).

In December 2011, the IASB published amendments to IFRS 7 relating to offsetting financial assets and financial liabilities. The EU adopted these amendments in December 2012. Because there are still considerable discrepancies between the offsetting criteria under IFRS and US GAAP, the amendments to IFRS 7 include comprehensive disclosure requirements relating to rights of set-off that do not lead to offsetting under IFRS. WGZ BANK has met these disclosure requirements in note 66.

WGZ BANK had adopted the amendments to IAS 1 concerning the presentation of items of other comprehensive income and the amendments to IAS 19 regarding employee benefits in its 2012 consolidated financial statements ahead of the mandatory application date.

The Improvements to IFRSs published in May 2012 had to be applied for the first time for the 2013 financial year. Of the standards relevant to the consolidated financial statements of WGZ BANK, the following were affected by these improvements: IAS 1, IAS 16, IAS 32, and IAS 34. This has not had any material impact on the consolidated financial statements of WGZ BANK.

The other amendments are not relevant to WGZ BANK's consolidated financial statements.

Standards and interpretations adopted by the EU but not yet applied

The following accounting standards and interpretations have been published or amended by the IASB and adopted by the EU, but were not yet required to be applied in the year under review:

- IFRS 10: Consolidated Financial Statements

- IFRS 11: Joint Arrangements

- IFRS 12: Disclosure of Interests in Other Entities

- Amendments to IFRS 10, 11, and 12: Transitional Provisions

- Amendments to IFRS 10, 12, and IAS 27: Investment Entities

- Amendments to IAS 27: Separate Financial Statements

- Amendments to IAS 28: Investments in Associates and Joint Ventures

- Amendments to IAS 32: Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

- Amendments to IAS 36: Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets

- Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting.

In May 2011, the IASB published three new standards (IFRS 10, 11, and 12), which were adopted by the EU in December 2012. The standards specify adoption from 2013. However, following a recommendation from the Accounting Regulatory Committee (ARC), they came into force with a different first-time adoption date. They are therefore not required to be adopted until the 2014 financial year.

IFRS 10 includes a new definition of control. According to IFRS 10, there are three prerequisites for control: power, rights to variable returns, and the ability to use power to affect the amount of variable returns. SIC 12 will cease to apply once IFRS 10 comes into force. In the future, IAS 27 will only contain the unchanged provisions relating to the accounting treatment of investments in subsidiaries, joint ventures, and associates in separate financial statements in accordance with IFRS. This is not expected to have any material impact on the consolidated financial statements of WGZ BANK.

IFRS 11 comprises provisions for the future on the accounting treatment of joint ventures and joint operations. The existing pro-rata consolidation option will be removed as a result. In the future, joint ventures will have to be accounted for using the equity method in accordance with IAS 28, the scope of which has been extended accordingly. This is not expected to have any material impact on the consolidated financial statements of WGZ BANK. VR Unternehmerberatung GmbH, Düsseldorf, a joint venture with DZ BANK AG since August 2010, is accounted for using the equity method.

IFRS 12 brings together and extends the existing disclosure requirements relating to subsidiaries, joint ventures, associates, and non-consolidated special-purpose entities. This will require additional disclosures to be made in the notes to WGZ BANK's consolidated financial statements.

In June 2012, the IASB published amendments to IFRS 10, 11, and 12 relating to transitional provisions for the initial application of the standards adopted by the EU in April 2013. According to IFRS 10, the consolidation decision must be made at the start of the reporting period in which the standard is adopted for the first time. All three standards include exemptions for comparative disclosures relating to previous periods. Adoption of the amendments is required from the 2014 financial year.

The amendments to IAS 32 published in December 2011 and adopted by the EU in December 2012 contain additional application guidelines that set out specific requirements regarding how to present the offsetting of financial assets and financial liabilities. They are required to be applied from the 2014 financial year.

The amendment to IAS 36 published by the IASB in May 2013 and adopted by the EU in December 2013 clarifies that the recoverable amount for an asset based on fair value less costs of disposal must only be disclosed if it is impaired. Adoption of the amendments is required from the 2014 financial year.

In June 2013, the IASB published amendments to IAS 39 relating to the continuation of hedge accounting in the event of novation. The EU adopted these amendments in December 2013. As a result, it is possible to continue hedge accounting even if the hedge is novated to a central counterparty, provided that certain criteria are met. Adoption of the amendments is required from the 2014 financial year.

The other amendments are not relevant to WGZ BANK's consolidated financial statements.

Standards and interpretations not yet adopted by the EU and not yet applied

The following standards published or amended by the IASB have not yet been adopted by the EU and therefore do not yet need to be applied:

- IAS 19: Defined Benefit Plans: Employee Contributions

- IFRS 9: Financial Instruments

- IFRS 14: Regulatory Deferral Accounts

- IFRIC 21: Levies

- Annual Improvements to IFRSs: 2010-2012 Cycle

- Annual Improvements to IFRSs: 2011-2013 Cycle.

In November 2009, the IASB published IFRS 9 Financial Instruments (phase 1: classification and measurement) and added further provisions in October 2010 covering the accounting treatment of financial liabilities. Rules on hedge accounting were published in November 2013. The initial application date has now been postponed until 2018. It is still impossible to predict the impact of IFRS 9 on the WGZ BANK Group because of the outstanding final provisions, agreement on which forms part of the IASB project to revise IAS 39.

In May 2013, the IASB published IFRIC 21, which deals with the recognition of levies imposed by a government that are not income taxes, and when they must be recognized. It is anticipated that IFRIC 21 will have to be applied for the first time for the 2014 financial year, provided it is incorporated into EU law.

(3) Scope of consolidation

As at December 31, 2013, the following four (December 31, 2012: seven) companies were included in the consolidated financial statements in addition to WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank:

	Shareholding (%)
WL BANK AG Westfälische Landschaft Bodenkreditbank, Münster	90.92
WGZ BANK Ireland plc, Dublin, Ireland	100.00
IMPETUS Bietergesellschaft mbH, Frankfurt am Main	100.00
Phoenix Beteiligungsgesellschaft mbH, Düsseldorf	100.00

Entities in which WGZ BANK directly or indirectly holds more than 50 percent of voting rights or is otherwise able to exercise control are fully consolidated.

There was a change in the scope of consolidation compared with December 31, 2012 in that WGZ Immobilien + Treuhand GmbH, Münster, WGZ Immobilien + Management GmbH, Münster, and GENO-Beteiligungsgesellschaft mbH, Düsseldorf, which had previously been fully consolidated, were deconsolidated because these companies are not material to the consolidated financial statements of WGZ BANK. As a result of this deconsolidation, the scope of consolidation now correlates with the companies consolidated for regulatory purposes.

The reporting date for all fully consolidated entities is December 31.

All transactions with related parties have been entered into on an arm's-length basis.

(4) Procedures of consolidation

The acquisition of subsidiaries is accounted for using the acquisition method from the point at which control is obtained. At this point, the assets and liabilities are remeasured. Any difference between the cost of the investment and the value of the remeasured proportion of equity attributable to the acquirer must either be recognized as goodwill under intangible assets or, if the difference is a negative amount, recognized directly in profit or loss. Goodwill must be tested for impairment once a year. Currently, no goodwill is reported on WGZ BANK's consolidated balance sheet because, as permitted by the rules, the bank has retained the netting of goodwill and reserves relating to acquisitions before the transition to IFRS. As part of the consolidation process, any holdings in group companies attributable to third parties are reported separately within equity as non-controlling interests. Subsidiaries sold during the course of a year are recognized in the consolidated income statement until the date of disposal.

A joint venture is a contractual agreement between two or more partners for the joint operation of an economic activity. Joint ventures are accounted for using the equity method (unless they are not material) and reported under companies accounted for using the equity method. As in the case of acquisitions of subsidiaries, any goodwill is also determined on the acquisition date of joint ventures. The goodwill included in the carrying amount of an investment is tested for impairment if there is any cause to suspect impairment.

An associate is an entity over which the group can exercise significant influence, but that is neither a subsidiary nor a joint venture. Associates are accounted for using the equity method (unless they are not material) and reported under companies accounted for using the equity method. Again, as in the case of acquisitions of subsidiaries, any goodwill is determined on the acquisition date of an associate. The goodwill included in the carrying amount of an investment is tested for impairment if there is any cause to suspect impairment.

Loans, advances, other receivables, deposits, other liabilities, contingent liabilities, intercompany gains and losses, income and expenses between the entities included in the consolidation are eliminated. If required, deferred taxes at country-specific tax rates are recognized for remeasurement and consolidation adjustments recognized in profit or loss.

(5) Classification of financial instruments

Under IAS 39, all financial instruments must be recognized on the balance sheet and measured according to their classification. The following describes the classifications selected in the WGZ BANK Group:

- Loans and receivables

This category comprises non-derivative financial assets with fixed or determinable payments for which there is no active market. These assets are measured at amortized cost. Premiums and discounts are recognized in profit or loss under net interest income over the term of the loan using the effective interest method.

- Held-for-trading financial assets and financial liabilities

In addition to primary instruments held for trading purposes in pursuit of short-term gain (such as interest-bearing securities, shares, and promissory notes), this category also includes derivatives that are not categorized as hedging instruments. These instruments are measured at fair value through profit or loss. Fair value gains and losses are reported under gains and losses on trading activities. Interest and dividends related to held-for-trading financial instruments are also recognized under gains and losses on trading activities.

- Held-to-maturity financial assets

This category consists of non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity and for which there is an active market. Assets in this category are measured at amortized cost using the effective interest method in which premiums and discounts are allocated over the life of the financial asset concerned and recognized in profit or loss under net interest income.

- Available-for-sale financial assets

This category comprises a portfolio of equities, several individually designated portfolios held by the parent company and WGZ BANK Ireland (comprising asset-backed securities (ABSs) and bank bonds), a portfolio of bonds held by WL BANK, and all non-derivative financial assets that have not been allocated to any of the other aforementioned categories. In particular, this category includes unlisted long-term equity investments in addition to interest-bearing securities, shares, and promissory notes. These financial instruments are measured at fair value, both on acquisition and subsequently. Exceptions are unlisted equity instruments for which a fair value cannot be reliably determined. These equity instruments are measured on acquisition, and subsequently, at cost net of any necessary impairment losses. Fair value gains and losses are recognized in other comprehensive income under the change in revaluation reserve after taking into account deferred taxes. Interest and dividends related to available-for-sale financial assets are recognized in net interest income.

■ Other financial liabilities

This category includes all other financial liabilities that are not held for trading or voluntarily measured at fair value. They are measured at amortized cost. Premiums and discounts are recognized in profit or loss under net interest income over the term of the liability using the effective interest method.

■ Exercising the fair value option

Under IAS 39, a financial instrument can be voluntarily measured at fair value and any changes in fair value recognized in profit or loss in order to avoid or significantly reduce an accounting mismatch. Accordingly, the WGZ BANK Group exercises this fair value option for loans, money market transactions (particularly those denominated in foreign currency), and debt certificates including bonds that would otherwise be measured at amortized cost. If this approach were not taken, an accounting mismatch would arise from these transactions in conjunction with derivatives and securities that have to be measured at fair value in accordance with IAS 39.

Voluntary measurement at fair value in profit or loss is also possible if there is a documented strategy for the management and measurement of changes in the value of a portfolio of financial instruments based on fair value and information determined on this basis is forwarded directly to the Board of Managing Directors. This involves specific portfolios of securities that do not form part of financial assets held for trading, that are managed on the basis of fair value, and whose performance is regularly reported to the decision-making bodies.

Thirdly, fair value measurement can be used if the financial instrument includes one or more embedded derivatives requiring bifurcation. The fair value option has therefore been applied to promissory notes and registered securities that do not form part of financial assets held for trading, debt certificates including bonds, and issued promissory notes and registered securities that represent structured products, provided that the embedded derivatives require bifurcation.

The financial instrument concerned continues to be reported under its original item. Fair value gains and losses are reported under gains and losses on trading activities. Interest income, dividend income, and interest expense in connection with financial instruments voluntarily measured at fair value are reported in net interest income.

■ Reclassifications

As a result of the amendments to IAS 39 and IFRS 7 issued in October 2008 and then adopted by the EU, financial instruments (with the exception of derivatives) that are designated as at fair value through profit or loss and that are no longer intended to be sold or repurchased in the near future may in rare circumstances be reclassified. The sovereign debt crisis, which led to the disappearance of active markets in individual segments and to a substantial widening of credit spreads, was considered to be one such circumstance. Financial assets originally held for trading may be reclassified to available-for-sale financial assets, held-to-maturity financial assets, or to loans and receivables, provided that the assets satisfy the criteria for the category concerned. Financial instruments in the category available-for-sale financial assets that currently could already be reclassified to held-to-maturity financial assets if there were a corresponding intention to retain the asset concerned can now also be reclassified to loans and receivables if there is a positive intention and ability to hold the financial instruments for the foreseeable future or to maturity and the criteria for the loans and receivables category are satisfied on the date of reclassification. Financial instruments for which the fair value option has been exercised may not be reclassified. Information on financial instruments reclassified in WGZ BANK's consolidated financial statements can be found in note 26.

(6) Recognition and measurement of financial instruments

A financial instrument is recognized on the balance sheet when a group company becomes a party to the contractual arrangements for the financial instrument concerned. In the WGZ BANK Group, financial instruments are recognized on the settlement date. This does not include derivatives, which are all recognized on the trade date. On initial recognition, a financial instrument is measured at its fair value. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

Subsequent measurement of financial instruments recognized at fair value in the WGZ BANK Group is based on the existing three-level hierarchy specified in IAS 13.9. In this hierarchy, the best evidence of the fair value of the financial instrument is deemed to be the quoted price in an active market. If no transactions took place on the balance sheet date, the last available price prior to the balance sheet date should be used subject to possible adjustments if there have been changes in general parameters. If there is no active market for the financial instrument, the fair value should be derived using valuation methods based on the most recent transactions involving one and the same financial instrument between knowledgeable, willing parties in arm's-length transactions or otherwise based on a comparison with the latest fair value for another, largely identical financial instrument. If this is not possible either, the fair value is determined by using generally accepted industry-standard valuation models. As far as possible, these models use observable market data as the basis for the valuation.

In the WGZ BANK Group, the fair value of financial instruments is based first and foremost on market prices (Level 1 input as defined by IFRS 13.72). In the case of financial instruments that are not listed or that are not traded in liquid markets, the present value method or other suitable valuation model is used for subsequent measurement of the instrument. The fair value of interest-rate swaps is determined on the basis of present values of cash flows discounted using up-to-date swap curves. Options are measured with variants of generally accepted option pricing models, depending on the underlying instrument involved (the main models being Black-Scholes, Garman-Kohlhagen). The fair value of credit derivatives is measured using the probability of default for reference assets based on credit spreads. Financial instruments that are repayable on demand, i.e. cash on hand and current-account balances, are recognized at their nominal amounts.

The lack of market liquidity in many product areas as a consequence of the sovereign debt crisis has created a situation in which quoted prices for these financial instruments do not represent appropriate evidence of fair value and therefore cannot be used. In such cases therefore, the WGZ BANK Group makes use of alternative business management valuation models. Bonds in inactive markets of this type are valued by means of a present-value model (DCF method) that relies exclusively on observable market parameters (Level 2 input). The criteria used for determining whether a market is inactive include, in particular, a substantial widening of the bid/offer spread, unusual price movements and low trading volumes, or low-frequency price updates. The discount rates used in the DCF method are based on the risk-free yield curve on the balance sheet date and a risk-adjusted premium that gives a weighting to the spread for the country concerned and to the rating-related CDS spread depending on the extent to which market liquidity has disappeared. Certain structured products for which there was no active market on the balance sheet date have also been valued using DCF methods provided by external valuation agencies (Moody's Wall Street Analytics, ABSnet). Decisions as to whether markets are inactive are made on the basis of analyses and assessments by units familiar with the markets and then verified and confirmed by senior management. These analyses and assessments show that there have been inactive markets since 2007 or 2008 for collateralized debt obligations (CDOs), residential mortgage-backed securities (RMBSs), and asset-backed securities (ABSs) held by the WGZ BANK Group, and these financial instruments have in the meantime been valued using appropriate models. The methods used for the valuation are described in valuation guidelines. The structured products held as at December 31, 2013 are largely valued on the basis of non-observable parameters (Level 3 input as defined by IFRS 13.72). The input parameters used to estimate the future cash flows (adjusted for defaults) include liquidity spreads, redemption forecasts, and assumptions about the probability and financial impact of defaults. Fair values determined in this way are verified via internal control structures and validated by comparing the instruments against products with similar terms. A sensitivity analysis is also conducted based on the discount rates used.

The present-value method (DCF method) and all other valuation models applied in the WGZ BANK Group that largely rely on input factors directly or indirectly observable in the market are classified as Level 2 inputs as defined by IFRS 13.72; otherwise, methods are classified as Level 3. Quantitative disclosures on valuations in accordance with the three-level fair value measurement hierarchy are presented in note 28.

■ Impairment of financial assets

WGZ BANK accounts for identifiable credit risks in respect of loans and advances by recognizing specific and portfolio loan loss allowances in an appropriate amount. Provisions are recognized to cover the credit risk arising in connection with off-balance-sheet transactions (loan commitments and guarantees). At every balance sheet date, tests are conducted on the basis of uniform groupwide standards to establish whether there is objective evidence indicating any impairment of financial assets. Objective evidence of impairment is deemed to include situations in which a debtor is facing significant financial difficulties, a debtor's equity has been used up, a debtor's solvency is clearly in jeopardy, a debtor's debt service capacity is under strain or inadequate, or a debtor's profits are likely to be insufficient or non-existent now and/or in the future.
Allowances for losses on loans and advances are recognized as a separate line item on the assets side of the consolidated balance sheet and are clearly shown to be deducted from the loans and advances to banks and customers. The allowances for losses on loans and advances and the provisions recognized in the year in question are reported on the consolidated income statement under allowances for losses on loans and advances. Irrecoverable loans and advances are written off immediately

in profit or loss. Any receipts relating to loans and advances previously impaired are also recognized in profit or loss. If an allowance for losses on loans and advances has already been recognized, this allowance is utilized if a loan or advance cannot be recovered.

In the case of loans recognized at amortized cost, the amount of the specific loan loss allowance to be recognized in profit or loss is derived from the difference between the carrying amount and the present value of the estimated future cash flows calculated using the original effective interest rate. Cash flows from the recovery of any collateral that has been furnished are also included. In the case of receivables with similar credit risk characteristics, the allowances are estimated on the basis of historical experience of default rates. Changes to the estimated recoverable amount based on new circumstances result in the recognition of an adjustment in profit or loss to the allowances for losses on loans and advances. The amortized cost must not be exceeded as a consequence of any such adjustments. If an allowance has been recognized for a loan or advance, interest income is no longer recognized on the basis of the contractual terms and conditions or the amounts received; instead, interest income is determined and recognized on the basis of the present value of the asset by unwinding the discount at the next balance sheet date.

Portfolio loan loss allowances are recognized for impairment of loans and advances identified at the balance sheet date where such impairment cannot be individually identified and allocated owing to a number of imponderables. Country risk relating to lending exposures in regions with serious transfer risks or currency conversion risks is factored into the allowances for losses on loans and advances at both specific and portfolio levels.

In the case of debt instruments classified as available-for-sale financial assets, the objective evidence sought by impairment tests is the same as that for loans and advances. If such evidence of impairment exists, the cumulative unrealized loss recognized in other comprehensive income is reclassified to profit or loss. If the impairment ceases to exist in subsequent periods as a result of a change in circumstances, the impairment loss recognized in profit or loss is reversed.
Impairment losses are recognized for securities classified as held-to-maturity financial instruments and for securities reclassified to loans and receivables under the IAS 39 exemptions issued by the IASB in October 2008 provided that there is appropriate objective evidence of impairment on the balance sheet date. A loss equivalent to the difference between the carrying amount of the asset and the present value of the estimated future cash flows is recognized in the income statement under gains and losses on investments.

Equity instruments classified as available-for-sale financial assets are assumed to be permanently impaired if there has been a significant deterioration in the financial and legal circumstances of the entity concerned. Any increase in the fair value of such equity instruments following the recognition of an impairment loss must be recognized in other comprehensive income rather than in profit or loss. Increases in the fair value of equity instruments following recognition of an impairment loss are not recovered where the equity instruments are measured at cost because their fair value can no longer be reliably determined.

■ Hedge accounting

To complement the use of the fair value option, the WGZ BANK Group applies fair value hedge accounting to hedge the exposure to changes in fair value associated with assets and liabilities reported on the balance sheet. Hedging activities focus on the hedging of interest-rate risk using interest-rate swaps as the hedging instrument. For each individual hedge, IAS 39 requires evidence demonstrating whether the hedge is suitable, both retrospectively and prospectively, for eliminating a substantial proportion of the risk inherent in the hedged item (assessment of hedge effectiveness).

WGZ BANK only applies micro-hedge accounting. The measurement of a hedged item reflects changes in fair value attributable to the hedged risk. These changes in fair value are recognized in profit or loss under gains and losses arising on hedging transactions in the same way as the changes in fair value for the derivatives. The adjustment of the hedged item's carrying amount that this entails (hedge adjustment) is amortized over time through net interest income. The interest-rate swaps used for hedging are measured at fair value and reported as a separate item on the balance sheet under derivatives used for hedging, either on the assets side or liabilities side depending on whether the fair values are positive or negative. Hedged items comprise loans and advances, promissory notes, or issued bearer bonds measured at amortized cost.

Portfolio hedge accounting is also used for a portfolio at WL BANK to hedge interest-rate risk. The changes in fair value for the hedged items attributable to the hedged risk and the changes in fair value for the hedges relating to this portfolio are recognized in the income statement under gains and losses arising on hedging transactions. On the balance sheet, the fair values of the derivatives used for hedging and the adjustment of the carrying amounts for the hedged items in portfolio hedges attributable to the hedged risk are reported under separate items, either on the assets side or liabilities side as appropriate. The adjustments to carrying amounts are amortized through net interest income. The portfolio consists of Pfandbriefe, local authority loans, mortgage loans, and securities as hedged items, together with hedging instruments, which comprise solely interest-rate swaps.

■ Financial guarantee contracts

In accordance with IAS 39, a financial guarantee contract is defined as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due under the applicable terms of a debt instrument. The obligation is initially recognized at fair value on the date the offer of the financial guarantee contract is accepted. At the inception of the contract, this fair value is often nil if the obligation is balanced out by the premium; subsequent measurement may result in the recognition of a provision, where appropriate.

■ Embedded derivatives

Under IAS 39, derivatives embedded in financial instruments must be bifurcated from the host contract and accounted for separately, in particular, if the economic risks of the embedded derivative are not closely related to those of the host contract. On the other hand, bifurcation is not permitted if there are close economic links. If various risk factors mean that bifurcation is necessary, the derivative must then be recognized at fair value. No bifurcation is necessary if the entire instrument has already been accounted for at fair value. The WGZ BANK Group regularly applies the fair value option for these types of financial instruments with embedded derivatives. The entire, non-bifurcated instrument is therefore recognized as a financial asset or financial liability at fair value through profit or loss.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and balances with central banks. Balances must be recognized at amortized cost.

(8) Loans and advances to banks and customers, deposits from banks, amounts owed to other depositors

Loans and advances to banks and customers, deposits from banks, and amounts owed to other depositors must be recognized at amortized cost unless they are hedged items in a fair value hedge or the fair value option has been exercised. These items are reported on a net basis if this is supported by an enforceable right to offsetting.

(9) Allowances for losses on loans and advances

Allowances for losses on loans and advances, comprising both specific and portfolio loan loss allowances, are reported as a separate line item on the assets side of the consolidated balance sheet and as a deduction from the loans and advances to banks and loans and advances to customers.

(10) Financial assets/financial liabilities held for trading

Financial assets held for trading and financial liabilities held for trading include all derivatives that meet the definition set out in IAS 39 unless the derivatives form part of a portfolio hedge or a fair value hedge. Financial assets held for trading also include financial instruments classified as such, i.e. mainly fixed-income securities and promissory notes. All these assets and liabilities are recognized at fair value.

(11) Long-term equity investments and securities portfolio

All non-trading bonds and other fixed-income securities, shares and other variable-yield securities, long-term equity investments, and shares in subsidiaries that are not consolidated because they are of minor significance are reported under the long-term equity investments and securities portfolio item. However, material investments in associates and joint ventures are reported under companies accounted for using the equity method. Assets not listed on a stock exchange and whose fair value cannot be reliably determined are recognized at cost net of any necessary impairment losses. The latter assets comprise, in particular, investments in entities in the cooperative financial network. Securities classified as held-to-maturity financial instruments and securities reclassified to loans and receivables under the IAS 39 exemptions issued by the IASB in October

2008 are also recognized at amortized cost. The other financial assets reported under this item are recognized at fair value. Changes in fair value are recognized (after taking into account deferred taxes) under changes in the revaluation reserve in other comprehensive income unless the financial instruments form part of a hedge or the fair value option has been exercised.

(12) Companies accounted for using the equity method

Material associates are accounted for using the equity method. If there are indications of impairment as specified by IAS 39, the impairment loss requirement is determined in accordance with IAS 36.

(13) Securities lending, sale and repurchase agreements (repos)

In the case of securities lending, the lender continues to bear the market risk because the borrower is under an obligation to return the same type, quality, and quantity of securities to the lender. The lender continues to enjoy the current income and any pre-emptive rights during the period of lending. As the lender therefore continues to retain substantially all the risks and rewards, the securities are deemed not to have been derecognized. Conversely, borrowed securities are not recognized on the balance sheet.

The sale and repurchase agreements (repos) entered into by entities in the WGZ BANK Group are exclusively genuine repos. In genuine repos, the securities are not derecognized because the buyer is under an obligation to sell back the securities and the seller is under an obligation to buy them, rather than there simply being an entitlement on either side. The original seller continues to enjoy the current income and any pre-emptive rights during the period of the transaction. The risks and rewards therefore remain with the original seller.
Cash collateral received or furnished as part of these transactions is reported as a deposit or loan/advance (including interest). The securities continue to be measured on the basis of their classification in accordance with IAS 39.

(14) Non-financial assets

Intangible assets include internally generated software, recognized in an amount equivalent to the directly assignable development costs, purchased software and, in particular, works of art. These assets are measured at amortized cost. Software is amortized over three years on a straight-line basis. Works of art are generally not amortized or depreciated because they are assumed to have an indefinite useful life.

Property, plant and equipment includes land and buildings that are largely used by WGZ BANK itself (in contrast to investment property) and office furniture and equipment. Property, plant and equipment as well as investment property is measured at amortized cost. Investment property is real estate held for the purposes of generating rental income and/or capital appreciation. Buildings are depreciated on a straight-line basis over a useful life of 25 to 50 years; office furniture and equipment is depreciated over a useful life of 3 to 10 years, again on a straight-line basis.

Depreciation and amortization expenses are reported under administrative expenses on the income statement. If there are any indications of impairment, impairment losses are recognized to reduce the carrying amount to the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Gains or losses on disposal are recognized under other net operating income.

(15) Income tax assets and liabilities

Current and deferred income tax assets and liabilities are each reported separately under assets or liabilities as appropriate. Tax assets and liabilities are netted if there is an enforceable legal right to offsetting in such cases and the assets and liabilities relate to the same tax authority.

Current income tax assets and liabilities are determined at the prevailing tax rates that apply to the payment to be made to the tax authorities or the refund to be received. The changes in these items relating to the income statement are reported under the income taxes line item.

Deferred taxes are recognized using the balance sheet liability method as specified by IAS 12. This method focuses on the appropriate reporting of the amount of future tax assets and liabilities. Measurement differences between the tax base and carrying amounts under IFRS are multiplied by the income tax rate that is expected to be in force when the differences reverse in the future. Deferred taxes are measured on the basis of tax regulations in force or enacted as at the balance sheet date. If there are changes to the tax rate, existing deferred taxes are restated with a one-time adjustment. As specified by IAS 12, deferred taxes are not discounted. Adjustment amounts are posted to either the income statement or other comprehensive income, depending on how the deferred taxes concerned were originally posted. Deferred tax assets are recognized in respect of loss carryforwards if it is sufficiently probable that the group company in question will generate enough taxable income in subsequent periods to allow the loss carryforwards to be utilized.

Deferred tax assets are reviewed at every balance sheet date to establish whether they should be written down. This review requires management assumptions about the level of future taxable profit as well as other positive and negative variables. The actual utilization of deferred tax assets depends on whether there are opportunities to generate taxable profit in the future at levels that would enable the entity concerned to utilize tax loss carryforwards or temporary differences.

There could be a requirement to reduce the total amount recognized in respect of deferred tax assets if future taxable income and profits turn out to be lower than forecast or are reduced as part of group planning or if changes in tax legislation limit the use of tax loss carryforwards or tax reliefs in terms of either timing or amount. Conversely, the total amount recognized for deferred tax assets may need to be increased if future taxable income and profits prove to be greater than expected.

(16) Other assets/liabilities

Other assets/liabilities relate, in particular, to trade receivables and payables, receivables and payables relating to taxes other than income tax, prepaid expenses/accrued income, and deferred income/accrued expenses. Other liabilities also include interest liabilities in connection with subordinated capital and deductions from salaries to be paid over to the relevant authorities. All these items are recognized at amortized cost.

(17) Debt certificates including bonds

The debt certificates including bonds item comprises bonds issued and other transferable liabilities, provided that these liabilities are not subordinated. These financial instruments are measured at amortized cost or, if the fair value option has been exercised, at fair value.

(18) Provisions for pensions and other post-employment benefits

The pension provisions relate to defined benefit commitments within the meaning of IAS 19. The present value of the obligations in connection with these commitments is determined by independent actuaries in accordance with IAS 19 using the projected unit credit method, factoring in future increases in salaries and pension benefit payments, and taking into account forecasts regarding staff turnover. Generally accepted biometric data is used as the basis for estimating average life expectancy. The discount rate used to discount future payment obligations is the market interest rate for risk-free long-term bonds with a maturity equivalent to that of the defined benefit obligations. Actuarial gains and losses are recognized directly in consolidated equity under retained earnings. The return on plan assets is assumed to correspond to the interest rate used for the accounting of the obligations and is offset against the interest cost on the obligations in profit or loss.

(19) Other provisions

Other provisions are recognized for present legal and constructive obligations in the amount of the obligation that is expected to crystallize, provided that the payment requirement is probable and will lead to an outflow of resources. The timing or amount of the obligation is uncertain. The scope of the obligations can be estimated reliably. Provisions are only recognized in respect of obligations outside the group. Non-current provisions are discounted.

(20) Subordinated capital

Subordinated liabilities and profit-sharing rights issued by the WGZ BANK Group are reported under subordinated capital. Following initial recognition at cost, these items are recognized at amortized cost unless the fair value option is voluntarily selected. Accordingly, premiums and discounts are recognized in profit or loss under net interest income using the effective interest method.

(21) Trust activities

Trust activities in connection with the management or placement of assets for the account of third parties are not reported on the balance sheet. Fees and commissions relating to trust activities are recognized under net fee and commission income.

(22) Equity

Subscribed capital comprises the share capital of WGZ BANK. The premium achieved on the issuance of shares, i.e. the amount received in excess of the par value, is reported as capital reserves. Retained earnings comprise the statutory reserve, reserves provided for by the articles of association, and other reserves recognized from net profit. Actuarial gains and losses arising on defined benefit obligations are also reported under retained earnings. Revaluation reserves relate to the fair value gains and losses on available-for-sale financial assets (net of deferred taxes). Other reserves recognized via other comprehensive income comprise changes reported in other comprehensive income and currency translation relating to companies accounted for using the equity method. Non-controlling interests consist of shares in the equity of subsidiaries held by third parties.

(23) Currency translation

Monetary assets and liabilities denominated in foreign currency are translated into euros at the balance sheet date in accordance with IAS 21 and any differences recognized in profit or loss. Carrying amounts are translated using the reference rate published by the European Central Bank on the balance sheet date. Gains and losses are recognized under gains and losses on trading activities. Long-term equity investments, property, plant and equipment, and intangible assets acquired in foreign currency are translated into euros on the date of acquisition. Income and expenses denominated in foreign currency are translated at the relevant transaction rates. Unsettled forward transactions are measured at the forward rate on the balance sheet date. Currently, the WGZ BANK Group only consolidates annual financial statements of companies in which the functional currency is the euro.

(24) Non-current assets and disposal groups classified as held for sale

A non-current asset or disposal group is classified as held for sale if it is available for immediate sale in its present condition and there is a very high probability of a sale. IFRS 5 sets out a number of criteria in this regard that must be satisfied including that appropriate management decisions must have been made and completion of a sale must be expected within one year from the date on which the asset or disposed group is classified in this category. Non-current assets and disposal groups classified as held for sale are generally measured at the lower of carrying amount and fair value less costs to sell, whereby the carrying amounts of the assets and liabilities included in disposal groups are, except in the assessment of this lower amount, updated in accordance with the relevant IFRSs (although this does not include depreciation/amortization, which is not permitted). These assets and disposal groups are reported as separate items on the balance sheet. There were no assets or disposal group in this category on the consolidated balance sheet of the WGZ BANK Group as at December 31, 2012 or as at December 31, 2013.

Financial instruments disclosures

(25) Analysis of financial assets and liabilities

ASSETS AS AT DEC. 31, 2013 € million Measurement category	Amortized cost			Fair value			Hedging instruments	Financial instruments outside IFRS 7	Total
Classification category	Loans and receivables	Available-for-sale financial instruments[1]	Held-to-maturity financial instruments	Financial instruments held for trading	Available-for-sale financial instruments	Fair value option			
Cash and cash equivalents	318.4								318.4
Loans and advances to banks	20,919.6					2,047.0			22,966.5
Loans and advances to customers	29,654.3					7,352.6			37,006.9
Financial assets held for trading				8,198.5					8,198.5
Long-term equity investments and securities portfolio	92.9	997.0	2,054.4		824.0	16,646.8			20,615.1
Companies accounted for using the equity method								948.9	948.9
Other financial instruments	88.2						494.5		582.7
Financial instruments total	**51,073.4**	**997.0**	**2,054.4**	**8,198.5**	**824.0**	**26,046.4**	**494.5**	**948.9**	**90,637.0**
Other assets									288.7
Total assets									**90,925.7**

LIABILITIES AS AT DEC. 31, 2013 € million Measurement category	Amortized cost	Fair value		Hedging instruments	Financial instruments outside IFRS 7	Total
Classification category	Other financial liabilities	Financial instruments held for trading	Fair value option			
Deposits from banks	30,043.8		5,929.4			35,973.2
Amounts owed to other depositors	15,390.5		6,520.9			21,911.4
Debt certificates including bonds	12,285.9		10,504.0			22,789.9
Financial liabilities held for trading		4,870.6				4,870.6
Subordinated capital	307.8		338.5			646.3
Other financial instruments	215.6			910.0	186.4	1,312.0
Financial instruments total	**58,243.6**	**4,870.6**	**23,292.8**	**910.0**	**186.4**	**87,503.4**
Other liabilities						149.2
Equity						3,273.1
Total equity and liabilities						**90,925.7**

[1] Equity instruments for which a fair value cannot be reliably determined.

ASSETS AS AT DEC. 31, 2012 € million									
Measurement category	Amortized cost			Fair value			Hedging instruments	Financial instruments outside IFRS 7	Total
Classification category	Loans and receivables	Available-for-sale financial instruments[1)]	Held-to-maturity financial instruments	Financial instruments held for trading	Available-for-sale financial instruments	Fair value option			
Cash and cash equivalents	60.5								60.5
Loans and advances to banks	22,132.4					2,189.3			24,321.7
Loans and advances to customers	29,829.0					7,653.9			37,482.9
Financial assets held for trading				9,960.2					9,960.2
Long-term equity investments and securities portfolio	108.8	1,005.2	1,744.8		1,111.8	17,998.3			21,968.9
Companies accounted for using the equity method								1,009.6	1,009.6
Other financial instruments	319.7						567.8	0.0	887.5
Financial instruments total	**52,450.4**	**1,005.2**	**1,744.8**	**9,960.2**	**1,111.8**	**27,841.5**	**567.8**	**1,009.6**	**95,691.3**
Other assets									390.8
Total assets									**96,082.1**

LIABILITIES AS AT DEC. 31, 2012 € million						
Measurement category	Amortized cost	Fair value		Hedging instruments	Financial instruments outside IFRS 7	Total
Classification category	Other financial liabilities	Financial instruments held for trading	Fair value option			
Deposits from banks	31,956.2		6,199.4			38,155.6
Amounts owed to other depositors	13,724.2		6,403.4			20,127.6
Debt certificates including bonds	13,738.9		11,594.3			25,333.2
Financial liabilities held for trading		6,592.2				6,592.2
Subordinated capital	379.6		341.8			721.4
Other financial instruments	298.9			1,480.6	172.0	1,951.5
Financial instruments total	**60,097.8**	**6,592.2**	**24,538.9**	**1,480.6**	**172.0**	**92,881.5**
Other liabilities						147.5
Equity						3,053.1
Total equity and liabilities						**96,082.1**

1) Equity instruments for which a fair value cannot be reliably determined.

The difference between the carrying amount of financial liabilities that were voluntarily classified as at fair value through profit or loss (and included interest components) and the amount that the WGZ BANK Group had to pay when due was €1,013.2 million (December 31, 2012: €1,461.6 million).

(26) Reclassification of financial instruments

	€ million	Dec. 31, 2012 € million
Financial assets reclassified from 'held for trading' to 'loans and receivables':		
Amount of assets reclassified in the reporting period	**0.0**	0.0
Carrying amount of assets reclassified in the reporting period	**0.0**	0.0
Carrying amount of reclassified assets (cumulative)	**92.9**	108.8
Fair value of assets reclassified in the reporting period	**0.0**	0.0
Fair value of all reclassified assets (cumulative)	**86.4**	93.8
For assets reclassified in the reporting period: Fair value gains and losses recognized in the income statement	**0.0**	0.0
For assets reclassified in the reporting period: Fair value gains and losses recognized in the income statement (previous year)	**0.0**	0.0
For reclassified assets: Notional fair value gains and losses[1]	**10.4**	-0.4
For reclassified assets: Gains and losses actually recognized in the income statement	**1.9**	0.2

[1] If no reclassification had taken place.

The reclassifications were carried out in 2008 as a result of the financial crisis. The reclassification of financial instruments held for trading enabled WGZ BANK to avoid the recognition of changes in the fair value of these financial instruments under gains and losses on trading activities that would otherwise have been necessary since that time.

(27) Income statement analysis

CLASSIFICATION CATEGORY	Fair value option € million	Financial instruments held for trading € million	Available-for-sale financial instruments € million	Held-to-maturity financial instruments € million	Loans and receivables € million	Other financial liabilities € million
Net gains/losses	-281.3	433.3	-33.9	0.0	-5.1	-29.0
Net gains/losses, 2012	510.3	-238.1	122.2	0.0	-10.1	-29.0

The net gains and losses comprise fair value gains and losses and gains and losses on disposals for the assets and liabilities in each classification category together with interest and dividends related to held-for-trading financial assets and financial liabilities. Of the net gains and losses in connection with the fair value option, assets accounted for losses of €712.9 million (2012: gains of €1,073.1 million), and liabilities for gains of €431.6 million (2012: losses of €562.8 million). In the available-for-sale financial instruments category, gains of €50.4 million (2012: gains of €51.1 million) were recognized in other comprehensive income, whereas gains of €4.3 million (2012: losses of €20.0 million) were recognized under gains and losses on investments in profit or loss. Net gains and losses for the loans and receivables category are recognized in allowances for losses on loans and advances. If securities are assigned to this category, they are reported under gains and losses on investments. Net gains and losses for financial instruments classified as held to maturity are also recognized under gains and losses on investments.

The amounts reported as net interest income and net fee and commission income are not included in the net gains and losses.

Financial assets measured at amortized cost were subject to impairment losses of €44.8 million (2012: €49.2 million). These impairment losses were related to loans and advances. However, no impairment was identified for held-to-maturity financial instruments. No loss allowances were recognized for securities in the loans and receivables category in the reporting period (2012: €1.9 million). Loss allowances of €5.6 million (2012: €19.8 million) and reversals of impairment losses to the value of €6.1 million (2012: €0.0 million) were also recognized in the year under review for available-for-sale financial assets measured at fair value. In addition, the loss allowances specified in the statement of changes in non-current assets under long-term equity investments must be taken into account in both years.

Net interest income and net fee and commission income generated in connection with financial assets and financial liabilities not measured at fair value through profit or loss is shown in the following table:

	€ million	2012 € million
Financial assets		
Interest income	**1,619.5**	1,786.6
Fee and commission expenses	**24.7**	26.2
Financial liabilities		
Interest expense	**1,325.3**	1,589.4
Fee and commission income	**10.3**	10.0

Fee and commission income of €0.1 million (2012: €0.2 million) and fee and commission expenses of €0.1 million (2012: €0.1 million) were recognized as part of trust activities.

(28) Fair value of financial instruments

The following table shows a comparison between carrying amounts and fair values of financial instruments.

ASSETS	€ million		Dec. 31, 2012 € million	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	318.4	318.4	60.5	60.5
Loans and advances to banks	22,966.5	23,317.5	24,321.7	25,330.2
Loans and advances to customers	37,006.9	38,748.2	37,482.9	39,533.2
Derivatives used for hedging (positive fair values)	494.5	494.5	567.8	567.8
Financial assets held for trading	8,198.5	8,198.5	9,960.2	9,960.2
Long-term equity investments and securities portfolio	20,615.1	20,680.2	21,968.9	22,046.5
Companies accounted for using the equity method	948.9	948.9	1,009.6	1,009.6
Other financial instruments	88.2	88.2	319.7	319.7
Financial instruments total	**90,637.0**	**92,794.4**	**95,691.3**	**98,827.7**

LIABILITIES				
Deposits from banks	35,973.2	36,466.5	38,155.6	39,318.2
Amounts owed to other depositors	21,911.4	23,446.4	20,127.6	22,293.5
Debt certificates including bonds	22,789.9	23,187.8	25,333.2	26,105.7
Derivatives used for hedging (negative fair values)	910.0	910.0	1,480.6	1,480.6
Financial liabilities held for trading	4,870.6	4,870.6	6,592.2	6,592.2
Subordinated capital	646.3	684.1	721.4	768.3
Other financial instruments	402.0	402.0	470.9	470.9
Financial instruments total	**87,503.4**	**89,967.4**	**92,881.5**	**97,029.4**

The following table lists financial instruments for which a fair value cannot be reliably determined. The instruments concerned are largely investments within the cooperative financial network (not listed on a stock exchange). The only way a fair value could be established for these investments would be through specific sale negotiations. WGZ BANK has no intention of disposing of them. The instruments are measured at cost less any necessary impairment losses. As had been the case in 2012, there were no gains and loss on the sale of long-term equity investments in the reporting year.

CARRYING AMOUNT	**€ million**	2012 € million
Shares in unlisted corporations	**1,462.3**	1,532.9
Interests in partnerships	**480.2**	478.6
Paid-up shares in cooperatives	**3.4**	3.3
Total	**1,945.9**	2,014.8

The following summary shows the valuation methods used in the WGZ BANK Group for financial instruments measured at fair value:

FINANCIAL ASSETS AT FAIR VALUE AS AT DEC. 31, 2013 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Loans and advances to banks	0.0	2,047.0	0.0	2,047.0
Loans and advances to customers	0.0	7,348.8	3.8	7,352.6
Derivatives used for hedging (positive fair values)	0.0	494.5	0.0	494.5
Financial assets held for trading	2,909.2	5,289.3	0.0	8,198.5
Long-term equity investments and securities portfolio	13,006.1	3,802.9	661.8	17,470.8
Total financial assets measured at fair value	**15,915.3**	**18,982.5**	**665.6**	**35,563.4**

FINANCIAL ASSETS AT AMORTIZED COST AS AT DEC. 31, 2013 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Loans and advances to banks	0.0	21,270.5	0.0	21,270.5
Loans and advances to customers	0.0	30,950.7	444.9	31,395.6
Long-term equity investments and securities portfolio	2,185.3	1,013.0	11.1	3,209.4
Total financial assets measured at amortized cost	**2,185.3**	**53,234.2**	**456.0**	**55,875.5**
Total financial assets	**18,100.6**	**72,216.7**	**1,121.6**	**91,438.9**

INVESTMENT PROPERTY AT AMORTIZED COST AS AT DEC. 31, 2013 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Investment property	**-**	**0.0**	**0.0**	**0.0**

FINANCIAL LIABILITIES AT FAIR VALUE AS AT DEC. 31, 2013 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Deposits from banks	0.0	5,819.6	109.8	5,929.4
Amounts owed to other depositors	0.0	6,520.9	0.0	6,520.9
Debt certificates including bonds	2,561.3	7,942.7	0.0	10,504.0
Derivatives used for hedging (negative fair values)	0.0	910.0	0.0	910.0
Financial liabilities held for trading	32.5	4,838.1	0.0	4,870.6
Subordinated capital	0.0	338.5	0.0	338.5
Total financial liabilities measured at fair value	**2,593.8**	**26,369.8**	**109.8**	**29,073.4**

FINANCIAL LIABILITIES AT AMORTIZED COST AS AT DEC. 31, 2013 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Deposits from banks	0.0	30,537.1	0.0	30,537.1
Amounts owed to other depositors	0.0	16,925.5	0.0	16,925.5
Debt certificates including bonds	0.0	12,683.8	0.0	12,683.8
Subordinated capital	0.0	345.6	0.0	345.6
Total financial liabilities measured at amortized cost	**0.0**	**60,492.0**	**0.0**	**60,492.0**
Total financial liabilities	**2,593.8**	**86,861.8**	**109.8**	**89,565.4**

FINANCIAL ASSETS AT FAIR VALUE AS AT DEC. 31, 2012 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Loans and advances to banks	0.0	2,189.3	0.0	2,189.3
Loans and advances to customers	0.0	7,638.8	15.1	7,653.9
Derivatives used for hedging (positive fair values)	0.0	567.8	0.0	567.8
Financial assets held for trading	2,451.1	7,509.1	0.0	9,960.2
Long-term equity investments and securities portfolio	13,453.9	4,817.1	839.1	19,110.1
Total financial assets measured at fair value	**15,905.0**	**22,722.1**	**854.2**	**39,481.3**

[1] Prior-year figures restated.

FINANCIAL LIABILITIES AT FAIR VALUE AS AT DEC. 31, 2012 € million	Quoted market prices in an active market (Level 1)	Valuation methods, observable market parameters (Level 2)	Valuation methods, non-observable market parameters (Level 3)	Total
Deposits from banks	0.0	6,087.0	112.4	6,199.4
Amounts owed to other depositors	0.0	6,403.4	0.0	6,403.4
Debt certificates including bonds	0.0	11,594.3	0.0	11,594.3
Derivatives used for hedging (negative fair values)	0.0	1,480.6	0.0	1,480.6
Financial liabilities held for trading	35.3	6,556.9	0.0	6,592.2
Subordinated capital	0.0	341.8	0.0	341.8
Total financial liabilities measured at fair value	**35.3**	**32,464.0**	**112.4**	**32,611.7**

During the course of the year under review, there were changes within the valuation methods in accordance with the three-level hierarchy. These changes are shown in the following overview together with their impact on net profit/loss:

ASSETS RECONCILIATION AS AT DEC. 31, 2013 € million	Loans and advances to banks	Loans and advances to customers	Derivatives used for hedging (positive fair values)	Financial assets held for trading	Long-term equity investments and securities portfolio	Total
Level 1	**0.0**	**0.0**	**0.0**	**2,909.2**	**13,006.1**	**15,915.3**
of which still in Level 2 as at Dec. 31, 2012	0.0	0.0	0.0	184.9	802.7	987.6
of which still in Level 3 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0
Level 2	**2,047.0**	**7,348.8**	**494.5**	**5,289.3**	**3,802.9**	**18,982.5**
of which still in Level 1 as at Dec. 31, 2012	0.0	0.0	0.0	5.0	26.6	31.6
of which still in Level 3 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0
Level 3						
Fair value at start of period	0.0	15.1	0.0	0.0	839.1	854.2
Acquisition – fair value on acquisition	0.0	0.1	0.0	0.0	0.0	0.1
Switch to Level 3 – fair value on addition	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (disposal)	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (maturity/redemption)	0.0	-15.8	0.0	0.0	-200.2	-216.0
Fair value on derecognition (switch to Level 1)	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 2)	0.0	0.0	0.0	0.0	0.0	0.0
Total gains/losses for financial instruments in Level 3	0.0	4.4	0.0	0.0	22.9	27.3
of which held as at the balance sheet date	0.0	3.8	0.0	0.0	21.6	25.5
Change in fair value/payment against net interest income	0.0	0.0	0.0	0.0	-0.3	-0.3
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	-0.2	-0.2
Change in fair value/payment against gains and losses on trading activities	0.0	4.4	0.0	0.0	13.1	17.5
of which held as at the balance sheet date	0.0	3.8	0.0	0.0	13.0	16.8
Change in fair value/payment against gains and losses on investments	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value against revaluation reserve	0.0	0.0	0.0	0.0	10.1	10.1
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	8.9	8.9
Fair value at period end	**0.0**	**3.8**	**0.0**	**0.0**	**661.8**	**665.6**
Total fair values for financial assets						**35,563.4**

ASSETS RECONCILIATION AS AT DEC. 31, 2012 € million	Loans and advances to banks	Loans and advances to customers	Derivatives used for hedging (positive fair values)	Financial assets held for trading	Long-term equity investments and securities portfolio	Total
Level 1	**0.0**	**0.0**	**0.0**	**2,451.1**	**13,453.9**	**15,905.0**
of which still in Level 2 as at Dec. 31, 2011	0.0	0.0	0.0	28.4	1,452.2	1,480.6
of which still in Level 3 as at Dec. 31, 2011	0.0	0.0	0.0	0.0	0.0	0.0
Level 2	**2,189.3**	**7,638.8**	**567.8**	**7,509.1**	**4,817.1**	**22,722.1**
of which still in Level 1 as at Dec. 31, 2011	0.0	0.0	0.0	0.0	67.9	67.9
of which still in Level 3 as at Dec. 31, 2011	0.0	2.5	0.0	0.0	0.0	2.5
Level 3						
Fair value at start of period	0.0	1.3	0.0	0.0	1,083.4	1,084.7
Acquisition – fair value on acquisition	0.0	0.0	0.0	0.0	0.0	0.0
Switch to Level 3 – fair value on addition	0.0	15.1	0.0	0.0	0.0	15.1
Fair value on derecognition (disposal)	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (maturity/redemption)	0.0	0.0	0.0	0.0	-215.0	-215.0
Fair value on derecognition (switch to Level 1)	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 2)	0.0	-2.5	0.0	0.0	0.0	-2.5
Total gains/losses for financial instruments in Level 3	0.0	1.2	0.0	0.0	-29.2	-28.0
of which held as at the balance sheet date	0.0	1.2	0.0	0.0	-38.3	-37.1
Change in fair value/payment against net interest income	0.0	0.0	0.0	0.0	-1.8	-1.8
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	-1.7	-1.7
Change in fair value/payment against gains and losses on trading activities	0.0	1.2	0.0	0.0	-13.9	-12.7
of which held as at the balance sheet date	0.0	1.2	0.0	0.0	-23.1	-21.9
Change in fair value/payment against gains and losses on investments	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value against revaluation reserve	0.0	0.0	0.0	0.0	-13.5	-13.5
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	-13.5	-13.5
Fair value at period end	**0.0**	**15.1**	**0.0**	**0.0**	**839.1**	**854.2**
Total fair values for financial assets						**39,481.3**

1) Prior-year figures restated.

Given the predominantly positive changes in the market liquidity for different types of bonds, a volume of approximately €1.0 billion was switched from Level 2 input to Level 1 input, and roughly €32 million from Level 1 input to Level 2 input, during the year under review. The securities held by the WGZ BANK Group that are not traded in an active market and that are valued with a valuation method not solely based on observable market parameters (Level 3 inputs) are almost exclusively structured securities. The total volume subject to Level 3 input was reduced overall, mainly as a result of maturing instruments. Total fair value gains of €17.2 million (2012: losses of €14.5 million) were recognized in profit or loss for securities valued with Level 3 inputs.

There are no obvious reasonable alternative valuation methods for these securities that would produce significantly different results.

LIABILITIES RECONCILIATION AS AT DEC. 31, 2013 € million	Deposits from banks	Amounts owed to other depositors	Debt certificates including bonds	Derivatives used for hedging (negative fair values)	Financial liabilities held for trading	Subordi-nated capital	Total
Level 1	**0.0**	**0.0**	**2,561.3**	**0.0**	**32.5**	**0.0**	**2,593.8**
of which still in Level 2 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which still in Level 3 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Level 2	**5,819.5**	**6,520.9**	**7,942.7**	**910.0**	**4,838.1**	**338.5**	**26,369.7**
of which still in Level 1 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which still in Level 3 as at Dec. 31, 2012	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Level 3							
Fair value at start of period	112.4	0.0	0.0	0.0	0.0	0.0	112.4
Issuance – fair value on acquisition	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Switch to Level 3 – fair value on addition	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (maturity/redemption)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total gains/losses for financial instruments in Level 3	2.6	0.0	0.0	0.0	0.0	0.0	2.6
of which held as at the balance sheet date	2.6	0.0	0.0	0.0	0.0	0.0	2.6
Change in fair value/payment against net interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value/payment against gains and losses on trading activities	-2.6	0.0	0.0	0.0	0.0	0.0	-2.6
of which held as at the balance sheet date	-2.6	0.0	0.0	0.0	0.0	0.0	-2.6
Change in fair value/payment against gains and losses on investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value against revaluation reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value at period end	**109.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**109.8**

Total fair values for financial liabilities	**29,073.3**

LIABILITIES RECONCILIATION AS AT DEC. 31, 2012 € million	Deposits from banks	Amounts owed to other depositors	Debt certificates including bonds	Derivatives used for hedging (negative fair values)	Financial liabilities held for trading	Subordi-nated capital	Total
Level 1	**0.0**	**0.0**	**0.0**	**0.0**	**35.3**	**0.0**	**35.3**
of which still in Level 2 as at Dec. 31, 2011	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which still in Level 3 as at Dec. 31, 2011	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Level 2	**6,087.0**	**6,403.4**	**11,594.3**	**1,480.6**	**6,556.9**	**341.8**	**32,464.0**
of which still in Level 1 as at Dec. 31, 2011	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which still in Level 3 as at Dec. 31, 2011	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Level 3							
Fair value at start of period	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Issuance – fair value on acquisition	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Switch to Level 3 – fair value on addition	112.4	0.0	0.0	0.0	0.0	0.0	112.4
Fair value on derecognition (maturity/redemption)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value on derecognition (switch to Level 2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total gains/losses for financial instruments in Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value/payment against net interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value/payment against gains and losses on trading activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value/payment against gains and losses on investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in fair value against revaluation reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which held as at the balance sheet date	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fair value at period end	**112.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**112.4**
Total fair values for financial liabilities							**32,611.7**

The market data on which the measurements are based is taken from the relevant primary markets to which WGZ BANK has access. The relevant market for the equities traded by WGZ BANK is the Xetra exchange or, in exceptional cases, the local regional stock exchange. Exchange-traded derivatives are measured at their market price or on the basis of their market price. The interbank market is the primary market for all other products. Measurement is based on interbank prices or typical, transparent market data from the interbank market. Mid-market pricing is used for the measurement on the basis of typical mid-market rates.

The following table contains a sensitivity analysis that was carried out for all securities measured at fair value where measurement was not based on observable measurement parameters (Level 3 input as defined by IFRS 13.72). Within the WGZ BANK Group, these were exclusively ABSs and, to a minor extent, loans and advances to customers. Current market conditions make it difficult to forecast changes in credit spreads. The table therefore shows the impact of a widening of the credit spread for ABSs both by 50 basis points and by 100 basis points as well as the impact of a 50 percent reduction in early repayments. However, in the case of an ABS, the measurement of which reflects an expected recovery rate, the impact of a 50 percent reduction in this recovery rate is shown.

DEC. 31, 2013	Fair value € million	Fair value with spread + 50bp € million	Fair value with spread + 100bp € million	Early repayment decline of 50% € million	Recovery rate decline of 50% € million
ABSs (excluding expected recovery rate)	666.4	652.3	638.9	660.1	
ABSs (including expected recovery rate)	0.0				
Total	**666.4**				
DEC. 31, 2012					
ABSs (excluding expected recovery rate)	837.4	821.3	806.1	831.7	
ABSs (including expected recovery rate)	1.9				1.0
Total	**839.3**				

The market value of the loans and advances measured at fair value that are assigned to Level 3 would decrease by €0.2 million if the spread widened by 50bp. The bandwidth of the credit spreads on which the measurement of Level 3 assets was based was 19 to 1,065 basis points.

Nature and scope of risks arising from financial instruments

The following disclosures cover the risks arising in connection with financial instruments, the origin of such risks, existing risk exposures, the objectives, strategies, and methods involved in the management of these risks, and the measurement of these risks. Please also refer to the risk report within the management report.

(29) Maximum credit risk and credit quality

MAXIMUM CREDIT RISK AND COLLATERAL	Maximum credit risk € million	(%)	Risk-mitigating collateral € million	(%)	Maximum credit risk Dec. 31, 2012 € million	(%)	Risk-mitigating collateral Dec. 31, 2012 € million	(%)
Loans and advances to	**59,973.4**	**62.1**	**18,020.1**	**98.3**	**61,804.6**	**60.5**	**16,318.0**	**98.2**
banks	22,966.5	23.8	955.6	5.2	24,321.7	23.8	693.2	4.2
customers	37,006.9	38.3	17,064.5	93.1	37,482.9	36.7	15,624.8	94.0
Financial assets held for trading	**8,198.5**	**8.5**	**316.9**	**1.7**	**9,960.2**	**9.8**	**297.8**	**1.8**
Bonds and other fixed-income securities	4,231.5	4.4	0.0	0.0	4,422.7	4.3	0.0	0.0
Shares and other variable-yield securities	4.9	0.0	0.0	0.0	5.6	0.0	0.0	0.0
Promissory notes	133.7	0.1	0.0	0.0	233.1	0.2	0.0	0.0
Money market placements denominated in foreign currency	953.5	1.0	0.0	0.0	805.7	0.8	0.0	0.0
Derivatives	2,874.9	3.0	316.9	1.7	4,493.1	4.4	297.8	1.8
Hedging instruments	**494.5**	**0.5**	**0.0**	**0.0**	**567.8**	**0.6**	**0.0**	**0.0**
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	**87.7**	**0.1**	**0.0**	**0.0**	**315.7**	**0.3**	**0.0**	**0.0**
Long-term equity investments and securities portfolio	**20,615.1**	**21.3**	**0.0**	**0.0**	**21,968.9**	**21.5**	**0.0**	**0.0**
Bonds and other fixed-income securities	19,615.1	20.3	0.0	0.0	20,952.7	20.5	0.0	0.0
Shares not qualifying as long-term equity investments	3.0	0.0	0.0	0.0	11.0	0.0	0.0	0.0
Investment fund units	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term equity investments	997.0	1.0	0.0	0.0	1,005.2	1.0	0.0	0.0
Companies accounted for using the equity method	**948.9**	**1.0**	**0.0**	**0.0**	**1,009.6**	**1.0**	**0.0**	**0.0**
Contingent liabilities	**902.0**	**0.9**	**0.0**	**0.0**	**836.8**	**0.8**	**0.0**	**0.0**
Less assigned credit derivatives that mitigate the credit risk	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments	**5,570.4**	**5.8**	**0.0**	**0.0**	**5,882.2**	**5.8**	**0.0**	**0.0**
Allowances for losses on loans and advances	**-214.6**	**-0.2**	**0.0**	**0.0**	**-238.6**	**-0.2**	**0.0**	**0.0**
Total	**96,575.9**	**100.0**	**18,337.0**	**100.0**	**102,107.2**	**100.0**	**16,615.8**	**100.0**

WGZ BANK holds collateral in the form of mortgages on real estate, pledged loans and advances, assigned receivables, guarantees, together with pledged custody accounts and other accounts as security for financial assets. Collateral for loans and advances may only be recovered in the event of default. As at the balance sheet date, WGZ BANK had not recognized any assets acquired within the reporting period in connection with the recovery of collateral. This had also been the case at the end of 2012.

The quality of loans and advances is determined on the basis of internal rating systems. These systems comprise 20 rating categories (0A to 3E) for loans and advances not in default and five default categories (4A to 4E). The credit quality of bonds is sometimes derived from external ratings if no internal rating is available for the borrower. The following table shows a summary of the loans and advances and bonds classified to each of the rating categories:

	Probability of default (%) or classification criterion for loans and advances	Loans and advances to banks € million	Loans and advances to customers € million	Bonds € million	Dec. 31, 2012 Loans and advances to banks € million	Dec. 31, 2012 Loans and advances to customers € million	Dec. 31, 2012 Bonds € million
Not impaired							
Rating 0A to 0E	0.00-0.06	19,759.7	12,867.1	14,733.1	20,827.6	13,974.9	15,602.7
Rating 1A to 1E	0.06-0.42	2,692.4	18,014.2	6,776.6	2,833.8	16,047.2	7,259.3
Rating 2A to 2E	0.42-3.19	131.2	5,356.4	2,090.5	152.0	6,589.3	2,090.6
Rating 3A to 3E	3.19-100.00	165.6	379.8	215.8	246.2	389.6	367.1
Rating 4A	More than 90 days overdue	0.0	5.0	0.0	0.0	3.9	0.0
Unrated		217.6	71.0	0.7	262.1	75.0	14.3
Carrying amount		22,966.5	36,693.5	23,816.7	24,321.7	37,079.9	25,334.0
Impaired							
Carrying amount before specific loan loss allowance		0.0	313.4	33.5	0.0	403.0	72.3
of which rating 4B	Restructuring exposure	0.0	170.4	33.5	0.0	220.0	23.2
of which rating 4C	Exemption from interest	0.0	8.4	0.0	0.0	11.3	0.0
of which rating 4D	Insolvency	0.0	6.0	0.0	0.0	2.4	0.0
of which rating 4E	Compulsory winding-up	0.0	128.6	0.0	0.0	169.3	49.1
Unrated		0.0	0.0	0.0	0.0	0.0	0.0
Specific loan loss allowance		0.0	163.1	3.6	0.0	191.2	31.0
Carrying amount after specific loan loss allowance		0.0	150.3	29.9	0.0	211.8	41.3
Total		**22,966.5**	**36,843.8**	**23,846.6**	**24,321.7**	**37,291.7**	**25,375.4**

Of the non-impaired loans and advances to customers measured at amortized cost, €11.2 million was up to 90 days past due as at the balance sheet date (December 31, 2012: €7.0 million).

(30) Market risk

TOTAL POTENTIAL MARKET RISK		Dec. 31, 2012
	€ million	€ million
Interest-rate risk	**9.5**	5.6
Equity price risk	**0.3**	0.7
Spread risk	**2.4**	2.8
Other market risk	**0.2**	0.4
Total	**12.4**	9.5

The potential market risk disclosed above is calculated with a parametric variance-covariance model on the basis of the value-at-risk method. This model has been approved by the regulators as an internal model. Taking into account historical price fluctuations and correlations, value-at-risk quantifies the maximum potential loss from future market fluctuations within a specified holding period and for a given probability (confidence level). The values presented in the above table are based on a confidence level of 95 percent and a holding period of one day. Other market risks primarily comprise volatility risk and currency risk.

(31) Liquidity risk

€ million	Carrying amount	Total	Gross outflows (not discounted) < 3 months	3 to 12 months	> 12 months
Deposits from banks	35,973.2	35,982.2	10,936.6	4,377.5	20,668.1
Amounts owed to other depositors	21,911.4	21,911.4	6,200.1	467.1	15,244.2
Debt certificates including bonds	22,789.9	22,790.0	2,082.5	3,635.9	17,071.6
Derivatives used for hedging (negative fair values)	910.0	910.0	11.6	24.9	873.5
Financial liabilities held for trading	4,870.6	4,870.6	1,151.1	456.3	3,263.2
of which derivatives	3,865.0	3,865.0	349.7	270.4	3,244.9
Subordinated capital	646.3	646.3	42.9	12.2	591.2
Other financial liabilities	402.0	402.0	402.0	0.0	0.0
Loan commitments	0.0	5,570.4	5,570.4	0.0	0.0
Total	**87,503.4**	**93,082.9**	**26,397.2**	**8,973.9**	**57,711.8**

Dec. 31, 2012 € million	Carrying amount	Total	Gross outflows (not discounted) < 3 months	3 to 12 months	> 12 months
Deposits from banks	38,155.6	38,166.1	12,914.1	5,360.8	19,891.2
Amounts owed to other depositors	20,127.6	20,127.6	4,341.1	495.3	15,291.2
Debt certificates including bonds	25,333.2	25,333.3	1,031.7	5,422.9	18,878.7
Derivatives used for hedging (negative fair values)	1,480.6	1,480.5	16.0	7.7	1,456.8
Financial liabilities held for trading	6,592.2	6,592.2	1,136.9	290.6	5,164.7
of which derivatives	5,731.7	5,731.7	413.2	153.8	5,164.7
Subordinated capital	721.4	721.4	97.9	21.7	601.8
Other financial liabilities	470.9	470.9	470.9	0.0	0,0
Loan commitments	0.0	5,882.2	5,882.2	0.0	0.0
Total	**92,881.5**	**98,774.2**	**25,890.8**	**11,599.0**	**61,284.4**

The figures are based on contractually agreed cash flows. The WGZ BANK Group enjoyed ample long-term liquidity at all times in 2013. Further information can be found in the risk report within the management report.

Balance sheet disclosures – ASSETS –

(32) Cash and cash equivalents

	€ million	Dec. 31, 2012 € million
Cash on hand	1.7	1.5
Balances with central banks	316.7	59.0
Total	**318.4**	60.5

(33) Loans and advances

	€ million	Dec. 31, 2012 € million
Loans and advances to banks		
Breakdown by residual maturity:		
Repayable on demand	3,480.0	4,681.5
Up to three months	1,338.7	1,329.3
Between three months and one year	2,374.8	1,941.7
Between one year and five years	6,938.6	7,497.8
More than five years	8,834.4	8,871.4
Total	**22,966.5**	24,321.7
of which attributable to:		
Affiliated banks	16,368.3	15,615.1
DZ BANK AG	134.4	632.4
Other long-term investees and investors	190.4	217.6
Associates	66.8	77.4
of which money market placements denominated in foreign currency	1.0	10.3
Loans and advances to customers		
Breakdown by residual maturity:		
Up to three months	2,594.3	2,655.5
Between three months and one year	2,258.8	2,335.5
Between one year and five years	9,920.2	10,558.6
More than five years	22,177.3	21,859.2
No fixed maturity	56.3	74.1
Total	**37,006.9**	37,482.9
of which attributable to:		
Other long-term investees and investors	86.9	110.1
Associates	74.6	108.3
Joint ventures	4.5	4.4
Subsidiaries	0.0	0.0
of which money market placements denominated in foreign currency	0.0	0.0

(34) Allowances for losses on loans and advances

Allowances for losses on loans and advances comprise specific loan loss allowances for loans and advances in the category 'loans and receivables' and portfolio loan loss allowances – these allowances being reported separately on the assets side of the balance sheet – as well as provisions for losses on loans and advances.

	€ million	Dec. 31, 2012 € million
Specific loan loss allowances		
Loans and advances to banks	**0.0**	0.0
Loans and advances to customers	**163.1**	191.2
Portfolio loan loss allowances	**30.0**	30.4
Total allowances for losses on loans and advances	**193.1**	221.6
Provisions for losses on loans and advances	**21.4**	17.0
Total	**214.5**	238.6

The changes in the specific and portfolio loan loss allowances in the year under review and in 2012 were as follows:

	Specific loan loss allowances € million	Portfolio loan loss allowances € million	**Total € million**
Balance as at January 1, 2012	203.5	51.0	254.5
Utilizations	-40.3	0.0	-40.3
Reversals	-15.5	-22.1	-37.6
Unwinding of discount	-3.2	0.0	-3.2
Additions	46.7	1.5	48.2
Balance as at December 31, 2012/January 1, 2013	191.2	30.4	**221.6**
Utilizations	-27.1	0.0	**-27.1**
Reversals	-31.8	-5.8	**-37.6**
Unwinding of discount	-4.9	0.0	**-4.9**
Additions	35.7	5.4	**41.1**
Balance as at December 31, 2013	**163.1**	**30.0**	**193.1**

(35) Fair value changes of the hedged items in portfolio hedges of interest-rate risk

Fair value changes of the (asset) hedged items in portfolio hedges of interest-rate risk amounted to €87.7 million (December 31, 2012: €315.7 million). These changes resulted from changes in interest rates.

(36) Derivatives used for hedging (positive fair values)

	€ million	Dec. 31, 2012 € million
Positive fair values from micro fair value hedges	**23.3**	5.4
Positive fair values from portfolio fair value hedges	**471.2**	562.4
Total	**494.5**	567.8

(37) Financial assets held for trading

	€ million	Dec. 31, 2012 € million
Derivatives (positive fair values)		
Currency-linked contracts	**424.7**	457.6
Interest-linked contracts	**2,311.2**	3,880.1
Share-/index-linked contracts	**90.1**	86.7
Other contracts	**48.9**	68.7
	2,874.9	4,493.1
Bonds and other fixed-income securities		
Money market instruments from public-sector issuers	**0.0**	15.0
Money market instruments from other issuers	**16.5**	14.0
Bonds from public-sector issuers	**1,288.6**	1,895.4
Bonds from other issuers	**2,926.4**	2,498.3
	4,231.5	4,422.7
Shares and other variable-yield securities	**4.9**	5.6
Money market placements denominated in foreign currency	**953.5**	805.7
Promissory notes	**133.7**	233.1
Total	**8,198.5**	9,960.2

(38) Long-term equity investments and securities portfolio

	€ million	Dec. 31, 2012 € million
Bonds and other fixed-income securities	**19,615.1**	20,952.7
of which due after more than one year	**16,935.6**	18,106.6
Shares and other variable-yield securities	**3.0**	11.0
Investments	**991.9**	1,001.5
Paid-up shares in cooperatives	**3.4**	3.3
Investments in subsidiaries	**1.7**	0.4
Total	**20,615.1**	21,968.9

The following table shows the change in long-term equity investments and paid-up shares in cooperatives:

	Long-term equity investments and paid-up shares in cooperatives € million
Cost	
Balance as at Jan. 1, 2012	1,017.4
Additions	26.7
Disposals	-2.4
Balance as at Dec. 31, 2012	1,041.7
Additions	12.0
Disposals	-0.5
Balance as at Dec. 31, 2013	**1,053.2**
Impairment losses	
Balance as at Jan. 1, 2012	12.7
Additions	24.2
Balance as at Dec. 31, 2012	36.9
Additions	21.5
Disposals	-0.5
Balance as at Dec. 31, 2013	**57.9**
Carrying amount as at Dec. 31, 2012	1,004.8
Carrying amount as at Dec. 31, 2013	**995.3**

(39) Companies accounted for using the equity method

As at the balance sheet date, the consolidated financial statements included investments in 14 (December 31, 2012: 14) associates in which significant influence could be exercised based on the voting rights held. Of these associates, six (December 31, 2012: six) were accounted for using the equity method. WGZ BANK's holding in DZ PRIVATBANK S.A., Luxembourg, is 19.04 percent. As a result of the arrangement agreed between the shareholders that consent should be required for all key corporate decisions, WGZ BANK can exercise significant influence over DZ PRIVATBANK S.A.

With the exception of DZ Holding GmbH & Co. KG, which has a reporting date of August 31, all the other companies accounted for using the equity method have a reporting date of December 31. No interim financial statements for the period to December 31 were required for DZ Holding GmbH & Co. KG because there were no material transactions in the last four months of 2013.

The other associates are reported at amortized cost because together they are not material.

As at the balance sheet date, the consolidated financial statements also included two (December 31, 2012: two) joint ventures, one of which was accounted for using the equity method, as had also been the case in 2012. The other joint venture is reported at amortized cost because it is not material.

The following aggregated amounts were attributable to the WGZ Group based on the shareholdings in these associates and joint ventures:

	Associates	of which not equity-accounted	Associates	of which not equity-accounted
	Dec. 31, 2013[1] € million	Dec. 31, 2013[1] € million	Dec. 31, 2012 € million	Dec. 31, 2012 € million
Assets	3,653.0	10.6	4,184.6	10.1
Liabilities	2,917.2	3.6	3,471.6	3.5
Income	134.6	7.4	178.5	7.3
Profit/loss for the period	21.9	-0.3	40.5	0.0

	Joint ventures	of which not equity-accounted	Joint ventures	of which not equity-accounted
	Dec. 31, 2013[1] € million	Dec. 31, 2013[1] € million	Dec. 31, 2012 € million	Dec. 31, 2012 € million
Current assets	3.6	2.3	5.9	2.3
Non-current assets	0.0	0.0	0.0	0.0
Current liabilities	2.9	2.3	4.7	2.3
Non-current liabilities	0.0	0.0	1.2	0.0
Income	2.0	0.0	2.5	0.2
Expenses	1.9	0.0	2.4	0.2

[1] 2013 annual financial statements or latest available annual financial statements.

The changes in investments in companies accounted for using the equity method were as follows:

	Companies accounted for using the equity method € million
Cost	
Balance as at Jan. 1, 2012	865.7
Additions	154.3
Disposals	-10.4
Balance as at Dec. 31, 2012	1,009.6
Additions	7.1
Disposals	-4.8
Balance as at Dec. 31, 2013	**1,011.9**
Impairment losses	
Balance as at Jan. 1, 2012	0.0
Additions	0.0
Disposals	0.0
Balance as at Dec. 31, 2012	0.0
Additions	63.0
Disposals	0.0
Balance as at Dec. 31, 2013	**63.0**
Carrying amount as at Dec. 31, 2012	1,009.6
Carrying amount as at Dec. 31, 2013	948.9

(40) Intangible assets, property, plant and equipment, and investment property

	Purchased intangible assets € million	Internally generated intangible assets € million	Land and buildings € million	Office furniture and equipment € million	Investment property € million
Cost					
Balance as at Jan. 1, 2012	47.2	9.2	122.1	50.7	7.1
Additions	4.3	0.0	0.0	2.6	0.0
Disposals	-0.0	0.0	0.0	-2.5	-7.1
Balance as at Dec. 31, 2012	51.5	9.2	122.1	50.8	0.0
Additions	5.9	0.0	0.0	2.0	0.0
Disposals	-1.3	0.0	0.0	-9.8	0.0
Balance as at Dec. 31, 2013	**56.1**	**9.2**	**122.1**	**43.0**	**0.0**
Amortization, depreciation, and impairment losses					
Balance as at Jan. 1, 2012	36.5	6.9	59.0	43.8	1.9
Additions	4.4	1.8	2.9	3.4	0.1
Disposals	0.0	0.0	0.0	-2.4	-2.0
Balance as at Dec. 31, 2012	40.9	8.7	61.9	44.8	0.0
Additions	4.6	0.5	2.9	3.2	0.0
Disposals	-1.3	0.0	0.0	-9.5	0.0
Balance as at Dec. 31, 2013	**44.2**	**9.2**	**64.8**	**38.5**	**0.0**
Carrying amount as at Dec. 31, 2012	10.6	0.5	60.2	6.0	0.0
Carrying amount as at Dec. 31, 2013	**11.9**	**0.0**	**57.3**	**4.5**	**0.0**

The carrying amount of intangible assets with an indefinite useful life amounted to €1.1 million (December 31, 2012: €1.1 million). Rent income from investment property had totaled €0.3 million in the previous year, whereas operating expenses had amounted to €0.0 million.

(41) Income tax assets

	€ million	Dec. 31, 2012 € million
Current income tax assets	**68.9**	116.7
Deferred tax assets	**289.7**	315.3
of which relating to temporary differences	**285.8**	307.5
of which relating to tax loss carryforwards	**3.9**	7.8
Total	**358.6**	432.0

Following an impairment test conducted on deferred tax assets, the full amount of deferred tax assets that would otherwise be recognized in respect of temporary differences (€133.9 million) was reduced by an amount of €42.0 million (December 31, 2012: €49.3 million). As at the balance sheet date, the carrying amount of deferred tax assets recognized in other comprehensive income amounted to €49.6 million (December 31, 2012: €59.3 million). Deferred tax assets were recognized in connection with temporary differences in the following balance sheet items and in respect of as yet unused tax loss carryforwards:

	€ million	Dec. 31, 2012 € million
Loans and advances to banks and customers	**39.9**	134.5
Derivatives used for hedging (fair values)	**130.3**	286.2
Financial assets and financial liabilities held for trading	**465.1**	734.4
Deposits from banks and amounts owed to other depositors	**134.8**	198.8
Debt certificates including bonds	**38.9**	97.6
Provisions	**22.2**	16.3
Other balance sheet items	**64.4**	35.8
	895.6	1,503.6
Tax loss carryforwards	**3.9**	7.8
Adjustment of deferred tax assets carrying amount	**-42.0**	-49.3
Offsetting with deferred tax liabilities	**-567.8**	-1,146.8
Total	**289.7**	315.3

(42) Other assets

	€ million	Dec. 31, 2012 € million
Inventories	0.1	29.6
Trade receivables	0.0	2.0
Entitlements to reinsurance cover for pension schemes	12.7	10.9
Checks, bonds due, coupons, dividend certificates, and other collection papers received	0.4	4.1
Other	36.8	60.5
Total	**50.0**	107.1

The reason for the decline in inventories was the deconsolidation of the two real estate companies. As at December 31, 2012, inventories had included capitalized borrowing costs (at actual funding rates) of €0.2 million. Other assets are largely current, i.e. of a short-term nature.

Balance sheet disclosures – EQUITY AND LIABILITIES –

(43) Deposits from banks, amounts owed to other depositors, debt instruments including bonds

	€ million	Dec. 31, 2012 € million
Deposits from banks		
Breakdown by residual maturity:		
Repayable on demand	**5,916.7**	5,789.9
Up to three months	**5,581.3**	7,560.7
Between three months and one year	**4,310.0**	5,335.5
Between one year and five years	**8,937.3**	8,553.7
More than five years	**11,227.9**	10,915.8
Total	**35,973.2**	38,155.6
of which attributable to:		
Affiliated banks	**10,387.8**	10,411.2
DZ BANK AG	**975.6**	577.5
Other long-term investees and investors	**983.2**	856.3
Associates	**45.3**	57.2
of which money market deposits denominated in foreign currency	**31.0**	31.9
Amounts owed to other depositors		
Breakdown by residual maturity:		
Repayable on demand	**2,861.5**	2,532.8
Up to three months	**3,334.4**	1,801.7
Between three months and one year	**468.3**	496.2
Between one year and five years	**3,184.8**	2,883.3
More than five years	**12,062.4**	12,413.6
Total	**21,911.4**	20,127.6
of which attributable to:		
Other long-term investees and investors	**135.0**	11.0
Associates	**6.5**	7.8
Joint ventures	**1.0**	1.6
Subsidiaries	**0.0**	0.4
of which money market deposits denominated in foreign currency	**12.0**	10.5
Debt certificates including bonds		
a) Bonds issued	**22,789.9**	25,333.2
of which due after more than one year	**17,252.0**	14,067.0
b) Other debt certificates	**0.0**	0.0
of which due after more than one year	**0.0**	0.0
Total	**22,789.9**	25,333.2

(44) Fair value changes of the hedged items in portfolio hedges of interest-rate risk

Fair value changes of the (liability) hedged items in portfolio hedges of interest-rate risk amounted to €215.6 million (December 31, 2012: €298.9 million). These changes resulted from changes in interest rates.

(45) Derivatives used for hedging (negative fair values)

	€ million	Dec. 31, 2012 € million
Negative fair values from micro fair value hedges	**10.4**	48.7
Negative fair values from portfolio fair value hedges	**899.6**	1,431.9
Total	**910.0**	1,480.6

(46) Financial liabilities held for trading

	€ million	Dec. 31, 2012 € million
Derivatives (negative fair values)		
Currency-linked contracts	**481.4**	432.8
Interest-linked contracts	**3,307.3**	5,197.3
Share-/index-linked contracts	**51.7**	50.6
Other contracts	**24.6**	51.0
	3,865.0	5,731.7
Delivery commitments arising from short sales of securities	**0.0**	0.0
Money market deposits denominated in foreign currency	**1,005.6**	860.5
Total	**4,870.6**	6,592.2

(47) Provisions

DEC. 31, 2012 € MILLION	Opening balance	Utiliza-tions	Reversals	Deconso-lidation	Additions	Unwinding of discounts	Closing balance
Provisions for pensions and other post-employment benefits	**131.8**	**-7.4**	**0.0**	**0.0**	**41.2**	**6.4**	**172.0**
Other provisions	**68.8**	**-38.7**	**-19.9**	**0.0**	**46.8**	**1.8**	**58.8**
Other personnel provisions	15.5	-11.6	-0.9	0.0	18.0	0.0	21.0
Provisions for real estate development	19.1	-19.1	0.0	0.0	15.9	0.5	16.4
Provisions for losses on loans and advances	27.8	-3.7	-17.7	0.0	9.3	1.3	17.0
Provisions for the costs of litigation and legal redress	1.4	-0.4	-0.2	0.0	0.1	0.0	0.9
Residual provisions	5.0	-3.9	-1.1	0.0	3.5	0.0	3.5
Total	**200.6**	**-46.1**	**-19.9**	**0.0**	**88.0**	**8.2**	**230.8**

DEC. 31, 2013 € MILLION	Opening balance	Utiliza-tions	Reversals	Deconsol-idation	Additions	Unwinding of discounts	Closing balance
Provisions for pensions and other post-employment benefits[1]	**172.0**	**-9.4**	**0.0**	**-0.8**	**19.0**	**5.7**	**186.5**
Other provisions	**58.8**	**-33.9**	**-5.3**	**-16.2**	**53.4**	**1.6**	**58.4**
Other personnel provisions	21.0	-15.3	-2.2	-0.2	15.8	0.2	19.3
Provisions for real estate development	16.4	-15.8	-0.6	-15.8	15.8	0.0	-0.0
Provisions for losses on loans and advances	17.0	0.0	-1.9	0.0	4.9	1.4	21.4
Provisions for the costs of litigation and legal redress	0.9	0.0	-0.2	-0.1	4.8	0.0	5.4
Residual provisions	3.5	-2.8	-0.4	-0.1	12.1	0.0	12.3
Total	230.8	-43.3	-5.3	-17.0	72.4	7.3	244.9

[1] Expenses of €11.6 million were recognized in other comprehensive income (2013: €43.0 million).

The provisions for pensions and other post-employment benefits primarily comprise provisions to cover the defined benefit obligation in connection with the payment of occupational retirement pensions based on direct pension commitments. The nature and amount of the retirement pension to be paid to the beneficiaries is determined by the relevant pension rules (derived from a number of sources, including company agreement, pension provision regulations). These rules largely depend on the start date of the employment contract. The amount of pension benefits paid to employees is based on remuneration over the entire period of service.

Collectivist schemes

Legal framework

The entitlements of WGZ BANK Group employees to an occupational pension have been granted on the basis of a collectivist scheme set forth in company agreements. Some of the entitlements are direct pension entitlements and some are relief fund entitlements. The obligation in respect of the direct pension entitlements amounted to €172.2 million (2012: €163.9 million) and the obligation in respect of the relief fund amounted to €58.6 million (2012: €53.7 million).

Schemes open to newcomers

Under the employer-funded scheme (BV2002), which is currently open to newcomers, WGZ BANK makes capital-formation payments to its employees. The entitlement is structured as a defined contribution entitlement with accessory reinsurance. The amount of the benefit is therefore defined on the basis of life insurance contracts. This type of scheme with defined contributions and accessory reinsurance also allows employees to fund their pension provision by way of deferral of compensation. The resulting obligation amounted to €12.8 million (2012: €11.0 million).

Closed schemes

There are various older pension schemes in existence that, as far as currently active employees are concerned, have been fully harmonized with a defined contribution scheme.

The entitlements of active employees consist of defined contribution entitlements (cash balance plan) with final-salary-linked capital components from the harmonization of earlier final-salary-dependent pension entitlements. The benefit is paid out in the form of a lump sum but can also be paid in installments or in the form of a lifelong pension.

Besides the cash balance plan, some of the people with vested pension entitlements who have left the bank still have vested entitlements to a lifelong pension.

Most of these beneficiaries draw a lifelong pension, which, according to section 16 (1) German Occupational Pensions Act (BetrAVG), must be checked to ascertain whether it requires adjustment. In the past, this effectively meant that pensions increased in line with consumer prices. Former employees who are entitled to capital-formation benefits draw these benefits, partly in the form of a lump sum or installments that rise by 6 percent per year, and partly in the form of a lifelong pension.

Funding

The obligations in respect of BV2002 are funded by means of reinsurance policies, into which WGZ BANK pays the contribution entitlements. The pension benefits in respect of legacy entitlements are funded partly internally and partly through WGZ BANK's relief fund. Whereas the relief fund has now taken over the bulk of beneficiaries' retirement pension entitlements, WGZ BANK funds the benefits paid in respect of death and invalidity directly.

Risk aspects

WGZ BANK believes it has largely eliminated funding risk, accounting risk, adjustment risk, and longevity risk in the BV2002 by paying the contribution entitlements into reinsurance policies.

As far as legacy entitlements are concerned, the bank bears the adjustment risk arising on the lifelong benefits and on the salary-linked components of the vested entitlements to capital-formation benefits. Moreover, there are longevity risks arising on lifelong benefits, although these only arise for the vested entitlements to capital-formation benefits which the bank pays in the form of lifelong pensions.

WGZ BANK has reduced the accounting risk and funding risk through its contributions to the relief fund and the resulting cover funds held in the relief fund. Where benefits are direct pension entitlements or the relief fund has a cover shortfall, the obligations are covered by provisions.

Individual entitlements

The members of the Board of Managing Directors have final-salary-related individual entitlements to lifelong benefits, which are funded through a pension fund and a reinsured support fund. The members of the Board of Managing Directors appointed most recently were granted defined contribution cash balance plan entitlements governed by individual agreements. The former members of the Board of Managing Directors either are already receiving lifelong benefits or have vested entitlements to such pensions.

The defined benefit obligation is determined annually by independent actuaries using the projected unit credit method.

The following actuarial assumptions were used in the calculation of the obligation:

	Dec. 31, 2013 (%)	Dec. 31, 2012 (%)
Discount rate (%)	**3.14**	3.40
Expected increase in pensionable remuneration (%)	**3.00**	3.00
Expected increase in pensions (%)	**2.00**	2.00

The imputed retirement age, which is 65 in most cases, is factored into the calculation individually for each obligation. The valuation of defined benefit obligations uses the 2005 G mortality tables published by Professor Klaus Heubeck.

The interest rate for discounting is determined in accordance with the RATE: Link methodology. The data basis for the approach is the AA-rated corporate bond universe for the eurozone from Bloomberg. After standardization by means of the 'par bond' approach, the individual yields to maturity are grouped together in nine clusters. A cubic spline is then given as the best smooth approximation based on these nine clusters. An interest-rate curve is then derived from the yield curve using the bootstrapping method, on the basis of which the discount rate can be determined for a sample cash flow. The sample cash flow corresponds to a typical volume of defined benefit obligations, the duration of which is the same as the duration of the measured volume. By contrast with market performance, there was a slight decrease in the discount rate year on year because a more specific duration was taken into account. The fall in the discount rate resulted in an increase in defined benefit obligations of approximately €6.4 million.

Changes to actuarial assumptions affected the volume of defined benefit obligations in the WGZ BANK Group as follows:

DEFINED BENEFIT OBLIGATIONS	Dec. 31, 2013 (%)	Change (%)	Change (€ million)	Change (%)
Discount rate	**3.14**	+1.00	-24.6	-9.8
Discount rate	**3.14**	-1.00	29.5	11.8
Expected increase in pensionable remuneration	**3.00**	+0.50	1.4	0.6
Expected increase in pensionable remuneration	**3.00**	-0.50	-1.3	-0.5
Expected increase in pensions	**2.00**	+0.25	2.7	1.1
Expected increase in pensions	**2.00**	-0.25	-2.6	-1.0
Increase in life expectancy[1]			3.8	1.5
Reduction in life expectancy[1]			-3.7	-1.5
Increase in the age of retirement by 1 year			0.0	0.0
Decrease in the age of retirement by 1 year			-0.2	-0.1

1) Simulation with a 1-year change in the age of all beneficiaries.

In terms of sensitivity, a change in the retirement age results in countervailing effects for individual plans that largely offset one another.

As at the balance sheet date, the present value of the defined benefit obligation, the fair value of the plan assets, and experience adjustments relating to the plan assets and liabilities were as follows:

	2013 € million	2012 € million	2011 € million	2010 € million	2009 € million
Present value of the funded defined benefit obligation	78.5	70.5	51.9	53.8	52.0
Fair value of plan assets	-64.2	-62.4	-59.8	-60.7	-60.3
Deficit (+)/surplus (-)	**14.3**	8.1	-7.9	-6.9	-8.3
Present value of the unfunded defined benefit obligation	**172.2**	163.9	131.8	122.3	119.6
Experience adjustments relating to plan liabilities	3.6	-0.6	1.6	1.7	0.0

The following table shows the change in plan assets over the year under review and the breakdown of these assets as at the balance sheet date:

CHANGES IN PLAN ASSETS AT FAIR VALUE	**€ million**	Dec. 31, 2012 € million
Brought forward at January 1	62.4	59.8
Return on plan assets	2.1	3.2
Loss recognized in other comprehensive income	-1.3	0.0
Employer contributions	2.1	0.5
Pensions paid	-1.1	-1.1
Total	**64.2**	62.4
Breakdown of plan assets[1]		
WGZ BANK Unterstützungskasse e.V.		
Public-sector bonds[2]	11.5	11.9
Bearer bonds and Pfandbriefe issued by the WGZ BANK Group	25.3	26.1
Short-term loans and advances to WGZ BANK	9.5	9.1
R+V Pensionsfonds AG mathematical reserve	9.0	8.7
Versorgungskasse genossenschaftlich orientierter Unternehmen e.V (VGU) mathematical reserve	8.9	6.6
Total	**64.2**	62.4

1) Transactions with entities in the group are on an arm's-length basis.

2) Traded in an active market.

Employer contributions of €1.3 million are budgeted for 2014.

CHANGE IN PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION	€ million	Dec. 31, 2012 € million
Brought forward at January 1	234.4	183.7
Current service cost	7.2	5.5
Interest cost	7.8	9.6
Actuarial losses	10.4	43.6
of which resulting from experience adjustments	3.6	-0.6
of which resulting from changes to financial assumptions	6.8	44.2
Pensions paid	-8.4	-8.0
Disposal due to deconsolidation	-0.8	0.0
Balance as at December 31	**250.6**	234.4

Given the level of plan assets, the pension provisions recognized on the balance sheet are lower than the present value of the defined benefit obligation:

FUNDING POSITION	€ million	Dec. 31, 2012 € million
Present value of the unfunded defined benefit obligation	172.2	163.9
Present value of the funded defined benefit obligation	78.5	70.5
External plan assets	-64.2	-62.4
Total	**186.5**	172.0

The following table shows the change in the upper limit for plan assets specified in IAS 19.58 (b):

	€ million	Dec. 31, 2012 € million
Upper limit for plan assets as at January 1	**0.0**	0.6
Interest-related change	**0.0**	0.0
Impact from the changed upper limit	**0.0**	-0.6
Upper limit for plan assets as at December 31	**0.0**	0.0

The expense reported in the income statement arising from the funding of the pension provision and the income and expenses recognized in other comprehensive income can be broken down as follows:

	€ million	Dec. 31, 2012 € million
Expenses recognized on the income statement	**12.9**	**11.9**
Current service cost	7.2	5.5
Interest cost	5.7	6.4
Income and expenses recognized in other comprehensive income	**11.6**	**43.0**
Impact from the upper limit for plan assets	0.0	-0.6
Return on plan assets (excluding interest income)	1.2	0.0
Actuarial losses	10.4	43.6
Total	**24.5**	54.9

The current service cost is recognized as pension and other post-employment benefit expenses within administrative expenses and the interest expense is recognized within net interest income. Actuarial gains and losses and the expense related to the limitation of the plan assets are reported within retained earnings, taking account of deferred taxes, as remeasurements of the net liability in connection with defined benefit plans.

The weighted average duration of pension obligations in the WGZ BANK Group is 11.6 years. The expected future pension payments amount to €9.1 million for 2014 and €9.3 million for 2015.

Of the other provisions, an amount of €43.9 million (December 31, 2012: €37.1 million) had a maturity of less than one year.

(48) Tax liabilities

	€ million	Dec. 31, 2012 € million
Current income tax liabilities	50.8	42.0
Deferred tax liabilities	0.0	0.0
Total	**50.8**	42.0

Deferred tax liabilities were recognized in connection with the following balance sheet items:

	€ million	Dec. 31, 2012 € million
Loans and advances to banks and customers	**245.7**	493.6
Financial assets and financial liabilities held for trading	**139.5**	344.3
Long-term equity investments and securities portfolio	**78.8**	182.4
Deposits from banks and amounts owed to other depositors	**65.0**	78.1
Other balance sheet items	**38.8**	48.5
	567.8	1,146.9
Offsetting with deferred tax assets	**-567.8**	-1,146.9
Total	**0.0**	0.0

(49) Other liabilities

The other liabilities of €39.9 million (December 31, 2012: €46.7 million) comprised interest liabilities in connection with subordinated capital, obligations related to invoices not yet received, deductions from salaries to be paid over to the relevant authorities, and accrued expenses. Other liabilities are largely current, i.e. of a short-term nature.

(50) Subordinated capital

	€ million	Dec. 31, 2012 € million
Subordinated liabilities	**644.1**	684.1
of which due after more than one year	634.1	647.6
Profit-sharing rights	**2.2**	37.3
of which due after more than one year	0.0	2.1
Total	**646.3**	721.4

As at December 31, 2013, the subordinated liabilities comprised 74 registered promissory notes and three bearer bonds. No promissory notes or bearer bonds were issued during the year under review. The total amount of subordinated liabilities includes one bond, the value of which exceeds 10 percent of the total amount. This bond is a subordinated bearer bond with a value of €72.4 million and a coupon of 6.5 percent, and will mature in 2024. Subordinated capital is only repaid after amounts due to all other creditors have first been settled. Lender rights to terminate the loans are excluded.

As at December 31, 2012, the profit-sharing rights comprised two registered profit-participation certificates. WGZ BANK did not issue any new profit-sharing rights in the year under review.

(51) Equity

As at December 31, 2013, WGZ BANK's subscribed capital comprised share capital of €649,400,000.00, as was also the case as at December 31, 2012. The fully paid-up share capital is divided into 6,494,000 registered no-par-value shares (subject to transfer restrictions), each with an imputed share of the capital amounting to €100.00. Disclosures on shareholder structure can be found in the management report. The articles of association authorize the Board of Managing Directors, subject to the approval of the Supervisory Board, to increase the share capital of WGZ BANK over a period of five years from June 22, 2010 on one or more occasions by a total of up to €200,000,000.00 by issuing new shares in return for capital contributions. Please refer to note 79 about the current capital increase.

In the year under review, WGZ BANK paid from its reported distributable profit a standard dividend of €5.00 per share in respect of all 6,494,000 shares. This amounted to a total distribution of €32,470,000.00. The total distribution in 2012 was €37,340,500.00 (standard dividend of €5.00 plus a bonus dividend of €0.75). For the 2013 financial year, the Board of Managing Directors and the Supervisory Board propose to the Annual General Meeting that, of WGZ BANK's reported distributable profit, €42,860,400.00 be appropriated to pay a standard dividend of €5.00 and a bonus dividend of €1.00 for each of the 6,494,000 old no-par-value shares and each of the 649,400 new shares.

Income statement disclosures

(52) Net interest income

	€ million	2012 € million
Interest income from		
lending and money market business	**1,834.4**	2,047.5
fixed-income securities and bonds	**484.2**	563.5
unwinding of discount on provisions/allowances for losses on loans and advances	**3.5**	1.4
	2,322.1	2,612.4
Current income from		
shares and other variable-yield securities	**0.0**	1.0
long-term equity investments and paid-up shares in cooperatives	**67.6**	83.0
	67.6	84.0
Total interest income	**2,389.7**	2,696.4
Total interest expense	**1,921.4**	2,210.2
Total	**468.3**	486.2

(53) Allowances for losses on loans and advances

	€ million	2012 € million
Additions to specific loan loss allowances	**-35.7**	-46.7
Reversals of specific loan loss allowances	**31.8**	15.5
Additions to portfolio loan loss allowances	**-5.4**	-1.5
Reversals of portfolio loan loss allowances	**5.8**	22.1
Additions to provisions for losses on loans and advances	**-4.9**	-9.3
Reversals of provisions for losses on loans and advances	**1.9**	17.8
Direct impairment losses on loans and advances	**-3.7**	-1.0
Receipts from loans and advances previously impaired	**2.1**	1.5
Total	**-8.1**	-1.6

(54) Net fee and commission income

	€ million	2012 € million
Net fee and commission income from securities business	**17.1**	17.1
Net fee and commission income from payments processing	**42.6**	39.8
Net fee and commission income from loans and advances	**-10.5**	-14.7
Other net fee and commission income	**18.2**	16.8
Total	**67.4**	59.0

(55) Gains and losses arising on hedging transactions

	€ million	2012 € million
Change in the fair value of		
hedging instruments in micro hedges	**2.2**	-1.7
hedged items in micro hedges	**-5.2**	1.5
hedging instruments in portfolio hedges	**219.1**	-84.4
hedged items in portfolio hedges	**-252.0**	67.7
Total	**-35.9**	-16.9

(56) Gains and losses on trading activities

		2012
	€ million	€ million
Gains and losses on trading activities in derivatives	**364.5**	-440.2
Gains and losses on trading activities in bonds and other fixed-income securities	**28.8**	145.0
Gains and losses on trading activities in shares and other variable-yield securities	**6.0**	5.9
Gains and losses on trading activities in promissory notes	**4.8**	14.8
Gains and losses on exchange differences	**29.2**	34.8
Money market business denominated in foreign currency	**0.0**	1.6
Fair value gains and losses on financial instruments voluntarily measured at fair value	**-281.3**	510.3
Total	**152.0**	272.2

Of the fair value gains and losses on financial instruments voluntarily measured at fair value, gains of €48.2 million (2012: losses of €98.2 million) and cumulative losses of €53.0 million (2012: losses of €101.2 million) were attributable to the change in the credit risk associated with loans and receivables, and losses of €284.5 million (2012: losses of €96.1 million) and cumulative losses of €231.5 million (2012: gains of €53.0 million) were attributable to the change in credit risk in connection with financial liabilities. In the case of loans and receivables voluntarily measured at fair value, there was a total credit risk of €9,399.6 million (2012: €9,843.2 million) not mitigated by credit derivatives. The change in the credit risk for loans and receivables was derived from the amount allocated to each individual rating class as at the balance sheet date. The change in the credit risk for financial liabilities was calculated on the basis of the rating-related changes in spreads that occurred during the period under review. The calculation method was standardized for all products in the year under review. The change in respect of Pfandbrief issues was determined directly from the WGZ BANK Group's own funding curve, whereas it had been derived from the curves of the Association of German Pfandbrief Banks (vdp) for public-sector Pfandbriefe and mortgage Pfandbriefe in 2012. The prior-year amount has been restated accordingly. It is not possible to determine the extent to which the estimate has changed.

(57) Gains and losses on investments

		2012
	€ million	€ million
Fair value gains and losses on long-term equity investments	**-21.5**	-24.1
Gains and losses on the disposal of long-term equity investments and investments in subsidiaries	**0.2**	96.4
Fair value gains and losses on associates	**-63.0**	0.0
Gains and losses on the disposal of associates	**0.0**	-1.1
Fair value gains and losses on investment property	**0.0**	-0.1
Fair value gains and losses on non-current assets and disposal groups classified as held for sale	**0.0**	-0.1
Gains and losses on the disposal of available-for-sale securities	**7.4**	-0.2
Fair value gains and losses on available-for-sale securities	**0.5**	-19.8
Other gains and losses on investments	**-10.2**	-70.1
Total	**-86.6**	-19.1

Other gains and losses on investments included expenses resulting from the repurchase of liabilities of €37.1 million (2012: €32.1 million). The sale of promissory notes and securities held as assets generated income of €31.8 million (2012: €0.0 million). An income subsidy paid to VR-LEASING AG of €40.1 million had been included in the previous year.

(58) Profit/loss from companies accounted for using the equity method

Profit/loss from companies accounted for using the equity method comprises the pro rata net profit/loss from such investments, which in 2013 amounted to €16.5 million (2012: €14.6 million).

(59) Administrative expenses

	€ million	2012 € million
Staff expenses	**142.6**	141.5
of which wages and salaries	**119.5**	118.5
of which social security, post-employment, and other employee benefit expenses	**23.1**	23.0
Other administrative expenses	**130.5**	124.9
Depreciation and amortization expense	**11.2**	12.5
of which depreciation expense on property, plant and equipment	**6.1**	6.3
of which amortization expense on intangible assets	**5.1**	6.2
Total	**284.3**	278.9

(60) Other net operating income

	€ million	2012 € million
Income		
Revenue from non-banking subsidiaries	**23.2**	30.0
Reversal of provisions	**3.4**	2.2
Other income	**12.8**	31.6
	39.4	63.8
Expenses		
Acquisition of land and development costs	**18.7**	25.4
Inventory write-downs	**0.0**	1.1
Other expenses	**3.9**	1.2
	22.6	27.7
Total	**16.8**	36.1

(61) Taxes

		2012
	€ million	€ million
Current income tax	**63.0**	44.1
of which relating to prior years	**-10.4**	7.6
Deferred taxes	**15.8**	126.0
Income taxes	**78.8**	170.1

Current taxes for the year under review include corporation tax, the solidarity surcharge, trade tax, and income tax incurred outside Germany. The tax rate in Ireland was unchanged year on year at 12.50 percent.

Deferred taxes were recognized in 2013 in connection with a number of items, as follows: deferred tax asset of €19.2 million (2012: deferred tax asset of €56.0 million) for temporary differences or the reversal thereof in relation to the carrying amounts of assets and liabilities, deferred tax asset of €3.9 million (2012: deferred tax asset of €39.2 million) in relation to tax loss carryforwards, deferred tax asset of €0.0 million (2012: deferred tax liability of €0.1 million) as a result of changes in tax rates, and a deferred tax asset adjustment of minus €7.3 million (2012: €30.9 million). The tax rate of 31.36 percent (2012: 31.36 percent) applied in the calculation of deferred taxes in the year under review comprised a corporation tax rate of 15.00 percent (the rate that will apply when the temporary differences reverse), the solidarity surcharge of 5.5 percent of the corporation tax, and the average trade tax rate of 15.53 percent. The tax rates were the same as those that were applied in 2012. The current tax rate for the year was 31.36 percent (2012: 31.36 percent).

A net deferred tax asset of €9.8 million was recognized in other comprehensive income (2012: net deferred tax asset of €8.5 million). The tax effects relate to the following components:

	€ million			2012[1] € million		
	Amount before taxes	Tax expense/ income	Amount after taxes	Amount before taxes	Tax expense/ income	Amount after taxes
Remeasurement of the net liability in connection with defined benefit plans	-11.6	3.6	-8.0	-43.0	13.5	-29.5
Available-for-sale financial instruments	46.1	-13.4	32.7	71.0	-22.0	49.0
Proportion accounted for by income and expenses with associates recognized in other comprehensive income	1.6	-0.3	1.3	23.0	-6.6	16.4
Other comprehensive income/loss for the year	**36.1**	**-10.1**	**26.0**	51.0	-15.1	35.9

[1] Prior-year figures restated.

TAX RECONCILIATION	€ million	2012 € million	Change (%)
Profit/loss before taxes	**306.0**	550.8	-44.4
Tax rate (%)	**31.36**	31.36	
Expected income taxes	**96.0**	172.7	-44.4
Reasons for difference:			
Impact from tax-exempt income	**-3.5**	-47.3	-92.6
Tax effects from prior years	**-10.4**	-2.3	> 100.0
Use of loss carried forward	**0.0**	36.5	- 100.0
Changes in tax rates	**0.0**	-0.1	- 100.0
Distribution-related tax effects	**-0.6**	0.0	******
Different tax rates outside Germany	**-4.4**	-4.3	2.3
Non-deductible expenses	**3.6**	3.1	16.1
Impact from permanent differences	**2.5**	-20.4	> 100.0
Adjustment of deferred tax assets carrying amount	**-7.3**	30.9	> 100.0
Other differences	**2.9**	1.3	> 100.0
Income taxes	**78.8**	170.1	-53.7

Income tax payments of €6.3 million were made to German tax authorities. As in 2012, no income taxes were paid in Ireland.

The other taxes of €0.0 million (2012: €0.8 million) arose largely in connection with value added tax, payroll tax, and land tax.

Statement of cash flows disclosures

This statement of cash flows satisfies the requirements of IAS 7. It shows the breakdown and changes in cash and cash equivalents for the year under review, the items being classified into operating activities, investing activities, and financing activities.

Cash flows from operating activities comprise cash inflows and outflows in connection with loans and advances to banks and customers as well as those related to securities and other assets unless they form part of investing activities. In addition, inflows and outflows in connection with deposits from banks, amounts owed to other depositors, debt certificates including bonds, and other liabilities form part of cash flows from operating activities. Interest, dividends received, and income tax payments also fall within this category.

Cash flows from investing activities show the cash transactions in connection with property, plant and equipment and investments. Any changes in the scope of consolidation with an impact on cash are also reported in this category.

Cash flows from financing activities comprise the proceeds from capital increases and any receipts or payments arising from changes in subordinated capital. Cash outflows resulting from dividend payments are also shown in this category.

The reported balance of cash and cash equivalents reflects the cash and cash equivalents balance sheet item, comprising cash on hand and balances with central banks.

Segment information

(62) Segment disclosures

The segment information meets the requirements of IFRS 8. It is taken from the internal management information system, which forms the basis for strategic management of the bank and group.

The segments are based on the WGZ BANK Group's corporate strategy, which targets the following groups of customers: member banks, corporate customers, capital market partners, and real estate customers, the latter being a particular focus of WL BANK. The segment breakdown is also determined by the products and services offered to each of the customer groups.

The operating segments in the segment information are defined as follows:

- The member banks segment comprises the entire business with member banks, loans to customers of the member banks with guarantees from these banks, and business with high-net-worth private clients brokered by the member banks.
- The corporate customer segment comprises business with SME corporate customers acquired either directly or via the member banks and also includes the commercial real estate business.
- The capital market partners & trading segment includes the interbank business, business with institutional customers and corporate customers with access to the capital markets, and also includes the results of own-account trading.
- The real estate customer segment covers WL BANK's real estate loans business, together with the real estate services provided by WGZ Immobilien + Treuhand GmbH and WGZ Immobilien + Management GmbH.
- The treasury segment consists of the results of the treasury activities conducted by the individual group companies. They result from strategic transactions entered into by central planning, but not from customer business.

- The investment segment comprises the income from the investment of free capital not allocated to the other segments, together with the interest-free liabilities. Income and funding costs from long-term equity investments are also reported under this segment.

- The consolidation/reconciliation column contains items relating to the reconciliation from the internal reporting system to the annual financial statements required for external financial reporting purposes. These items result from differences between the valuation methods used in internal management reporting and those required by IFRS, especially with regard to portfolio loan loss allowances and pension provisions, as well as differences in the classification of income statement components. This column also includes all the effects from consolidation transactions in the group.

In the regional segment information, the components of profit or loss are broken down into Germany and other European countries. The allocation of items to these two segments is based on the location of the registered offices of the group companies.

There is no material cross-segment revenue in either of the two segment breakdowns.

Net interest income, which also includes current income, is allocated among the segments using the market interest method and forms the basis for decisions made by senior management. In order to ensure that the segments can be compared with economically independent units, the segments are also assigned the imputed interest income arising from the investment of the capital allocated to the segment concerned; a risk-free long-term capital market interest rate is used for this purpose. The gains and losses on trading activities reported for member banks and corporate customers are the components of securities and currency trading transactions related to trading on customer account. Allowances for losses on loans and advances include portfolio loan loss allowances in addition to net new specific loan loss allowances.

The administrative expenses allocated to the segments include both the direct costs of the segments and also a share of the overhead costs of the central services and operational divisions allocated on the basis of specific usage or an appropriate key.

The capital allocated to the individual segments is derived from the regulatory Tier 1 capital. Segment risk exposures are backed by capital at a rate of 5 percent in total. Similarly to internal capital management, this equates to the minimum Tier 1 capital requirement of 4 percent required by regulators plus an internal loading of 1 percentage point. System-related variances compared with the consolidated equity in accordance with HGB – average share capital for the year plus reserves at the beginning of the year – are allocated to the consolidation segment as reconciliation items.

The return on equity for each segment is the ratio of operating profit/loss to allocated capital. The nature of the system means that the return shown for the individual segments is heavily influenced by the calculation of the capital requirement, which in turn is closely linked to the regulatory requirements. In particular, the allocated capital in the case of the member banks segment is low compared with business volume. To a large degree this is caused by the fact that loans and advances to member banks only have to be backed by capital in the foreign subsidiaries. Furthermore, the activities in this segment are significantly focused on liabilities-side business and on services that do not tie up capital but are resource-intensive.

The high level of allocated capital in the investment segment reflects the investments in banks and financial institutions in the cooperative financial network held locally for the member banks. Regulatory requirements specify that these investments must be backed in full by liable capital.

The cost/income ratio is the ratio of administrative expense to the sum of net interest income, net fee and commission income, gains and losses on trading activities (including gains and losses arising on hedging transactions), gains and losses on investments, and other net operating income.

(63) Segment information by business segment

€ million		Member banks	Corporate customers	Capital market partners/ trading	Real estate	Treasury	Investment	Consolidation/ reconciliation	Group
Net interest income	2013	32.2	123.6	28.7	120.9	115.8	48.6	-1.5	468.3
	2012	39.8	133.5	33.1	114.8	99.7	48.2	17.1	486.2
Allowances for losses on loans and advances	2013	0.0	-10.2	0.0	4.5	0.0	0.0	-2.4	-8.1
	2012	0.0	-9.8	5.0	-4.7	0.0	6.8	1.1	-1.6
Net fee and commission income	2013	61.5	27.4	13.4	-27.0	-2.5	0.0	-5.4	67.4
	2012	60.2	24.5	11.4	-28.0	-1.6	0.0	-7.5	59.0
Gains and losses on trading activities and gains and losses arising on hedging transactions	2013	2.5	10.0	85.6	-17.9	39.2	0.0	-3.3	116.1
	2012	3.0	5.2	165.6	-8.5	99.2	0.0	-9.2	255.3
Gains and losses on investments	2013	0.0	0.0	0.0	0.0	-14.7	-77.0	5.1	-86.6
	2012	0.0	0.0	0.0	0.0	-95.2	76.1	0.0	-19.1
Profit/loss from companies accounted for using the equity method	2013	0.0	0.0	0.0	0.0	0.0	16.7	-0.2	16.5
	2012	0.0	0.0	0.0	0.0	0.0	14.6	0.0	14.6
Administrative expenses	2013	77.2	59.1	74.4	35.6	39.6	0.1	-1.7	284.3
	2012	73.5	57.6	69.0	34.0	36.7	0.0	8.1	278.9
Other net operating income	2013	0.0	0.0	0.0	6.4	1.7	0.2	8.5	16.8
	2012	0.0	0.2	0.0	7.4	2.0	3.0	23.5	36.1
Operating profit/loss	2013	19.0	91.7	53.3	51.3	99.9	-11.6	2.5	306.1
	2012	29.5	96.0	146.1	47.0	67.4	148.7	16.9	551.6
Allocated capital	2013	0.0	347.0	165.2	130.0	250.2	1,295.4	902.4	3,090.2
	2012	0.0	361.6	155.6	142.8	271.8	1,111.1	763.7	2,806.6
Cost/income ratio (%)	2013	80.2	36.7	58.3	43.2	28.4	****		47.5
	2012	71.4	35.3	32.8	39.7	35.3	****		33.5
Return on equity (%)	2013	****	26.4	32.2	39.5	39.9	-0.9		9.9
	2012	****	26.5	93.9	33.0	24.8	13.4		19.7

(64) Segment information by region

€ million		Germany	Other Europe	Consolidation / reconciliation	Group
Net interest income	2013	456.3	15.2	-3.2	468.3
	2012	450.5	26.9	8.8	486.2
Allowances for losses on loans and advances	2013	-8.1	0.0	0.0	-8.1
	2012	-2.7	0.0	1.1	-1.6
Net fee and commission income	2013	65.3	0.0	2.1	67.4
	2012	58.5	0.0	0.5	59.0
Gains and losses on trading activities and gains and losses arising on hedging transactions	2013	108.9	10.4	-3.2	116.1
	2012	252.4	12.3	-9.4	255.3
Gains and losses on investments	2013	-94.2	2.4	5.2	-86.6
	2012	-6.9	-12.2	0.0	-19.1
Profit/loss from companies accounted for using the equity method	2013	2.9	13.8	-0.2	16.5
	2012	5.1	9.5	0.0	14.6
Administrative expenses	2013	281.1	4.6	-1.4	284.3
	2012	275.7	4.4	-1.2	278.9
Other net operating income	2013	18.2	0.0	-1.4	16.8
	2012	33.6	0.0	2.5	36.1
Operating profit/loss	2013	268.2	37.2	0.7	306.1
	2012	514.8	32.1	4.7	551.6
Allocated capital	2013	3,311.7	345.0	-566.5	3,090.2
	2012	3,125.1	289.6	-608.1	2,806.6
Cost/income ratio (%)	2013	50.4	11.0		47.5
	2012	34.8	12.1		33.5
Return on equity (%)	2013	8.1	10.8		9.9
	2012	16.5	11.1		19.7

Other disclosures

(65) Sale and repurchase agreements (repos)

The WGZ BANK Group acts as both a protection buyer and a protection seller in sale and repurchase agreements (repos) and securities lending transactions. The relevant transactions were carried out on an arm's-length basis. The following tables show repos in which the WGZ BANK Group was the seller and buyer respectively, together with the related financial instruments for which derecognition/recognition was not permitted and the associated receivables and payables. In the case of financial instruments that are not derecognized, the market risk and rewards remain with the WGZ BANK Group in full.

SELLER	€ million		2012 € million	
	Carrying amount of the transferred financial assets	Carrying amount of the transferred financial liabilities	Carrying amount of the transferred financial assets	Carrying amount of the transferred financial liabilities
Type of transaction				
Sale and repurchase agreements (repos)	4,485.4	4,554.5	7,648.0	7,583.9
Securities lending	0.0	0.0	0.0	0.0
Total	**4,485.4**	**4,554.5**	7,648.0	7,583.9

BUYER	€ million		2012 € million	
	Transferred financial assets	Carrying amount of the associated receivables	Transferred financial assets	Carrying amount of the associated receivables
Type of transaction				
Sale and repurchase agreements (repos)	898.3	892.2	461.7	460.6
Securities lending	654.0	0.0	764.0	0.0
Total	**1,552.3**	**892.2**	1,225.7	460.6

(66) Offsetting and netting arrangements

Financial assets and financial liabilities must generally be presented on a gross basis, i.e. they should not be offset against each other. However, they must be netted if there is a legal right as at the reporting date to offset the amounts and there is the intention to settle on a net basis. As a rule, these requirements are not met if the financial assets and financial liabilities are only subject to the same legally enforceable global netting agreement. Nonetheless, this type of agreement reduces the risk arising from the aggregate exposure of financial instruments underlying any individual agreement. The same applies to agreements for the provision of collateral.

	Sale and repurchase agreements (repos) € million	Derivatives € million	Other financial instruments € million
ASSETS			
Gross amount of financial assets before offsetting	719.6	3,158.1	0.0
Gross amount of financial liabilities to be offset	0.0	0.0	0.0
Financial instruments	0.0	0.0	0.0
Cash collateral	0.0	0.0	0.0
Recognized net amount of financial assets	**719.6**	**3,158.1**	**0.0**
Gross amounts not offset against financial assets	**-703.8**	**-3,142.5**	**0.0**
Financial instruments	-699.1	-2,116.3	0.0
Financial collateral	-4.7	-1,026.2	0.0
Remaining net assets	**15.8**	**15.6**	**0.0**
LIABILITIES			
Gross amount of financial liabilities before offsetting	**3,573.6**	**4,628.9**	**0.0**
Gross amount of financial assets to be offset	0.0	0.0	0.0
Financial instruments	0.0	0.0	0.0
Cash collateral	0.0	0.0	0.0
Recognized net amount of financial liabilities	**3,573.6**	**4,628.9**	**0.0**
Gross amounts not offset against financial liabilities	**-3,534.9**	**-4,399.0**	**0.0**
Financial instruments	-3,505.4	-2,116.3	0.0
Financial collateral	-29.5	-2,282.7	0.0
Remaining net liabilities	**38.7**	**229.9**	**0.0**

(67) Collateral

The following overview shows a list of furnished collateral by balance sheet item and carrying amount. The items include collateral that may be sold or pledged by the recipient. The collateral has been furnished on an arm's-length basis in connection with securities lending. It also involves receivables assigned to cover liabilities related to funds designated for special purposes, mortgage Pfandbriefe passed to the lender to secure loans taken out in connection with the mortgage lending business, public-sector registered Pfandbriefe, and assigned loan receivables. Collateral has also been pledged for open-market operations, exchange-traded forward transactions, and in relation to collateral agreements as part of OTC trading business.

	€ million	Dec. 31, 2012 € million
Loans and advances to banks	**14,559.0**	14,540.0
Loans and advances to customers	**1,144.9**	1,138.5
Financial assets held for trading	**484.4**	766.4
Long-term equity investments and securities portfolio	**5,954.6**	5,683.0
Other	**10.0**	10.0
Total	**22,152.9**	22,137.9

(68) Contingent liabilities and other obligations

WGZ BANK is a member of the protection scheme operated by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks]. This scheme comprises a guarantee fund and a guarantee network. As a participant in the guarantee network, WGZ BANK has entered into a guarantee obligation, the value of which is ten times the basic contribution to the guarantee fund (€41.8 million). Other contingencies and commitments that do not appear on the balance sheet are not material to any assessment of the financial position of WGZ BANK. Such contingencies and commitments relate to balancing arrangements in collateral pooling agreements, liability obligations under articles of association, and liability up to a certain level in connection with shares in cooperatives. For reasons of practicability, it is not possible to include disclosures relating to estimated financial impact, the probability that such liabilities will crystallize, or the extent of possible reimbursement payments. The loan commitments are agreements forming part of standard banking business with customers.

	€ million	Dec. 31, 2012 € million
Contingent liabilities		
Arising from guarantees and indemnity agreements	**889.1**	824.0
Other contingent liabilities	**12.9**	12.8
Total	**902.0**	836.8
Other obligations		
Irrevocable loan commitments to banks	**1,824.8**	1,621.7
Irrevocable loan commitments to customers	**3,745.6**	4,260.5
Total	**5,570.4**	5,882.2

(69) Counterparty and product structure for derivatives

POSITIVE FAIR VALUES		Dec. 31, 2012
	€ million	€ million
OECD central government and stock exchanges	**131.1**	252.0
OECD banks	**2,958.6**	4,458.4
OECD financial services institutions	**43.7**	38.1
Other companies, private individuals	**235.8**	309.9
Non-OECD central governments	**0.0**	0.0
Non-OECD banks	**0.2**	2.5
Non-OECD financial services institutions	**0.0**	0.0
Total	**3,369.4**	5,060.9

The positive fair values reflect the maximum credit risk as at the balance sheet date. They are the total of all positive contract fair values and exclude any offsetting of negative contract fair values, deduction of collateral, or weighting based on credit rating. WGZ BANK has entered into the transactions listed in the following table for the most part in order to hedge fluctuations in interest rates, exchange rates or other types of changes in market prices as part of its trading activities. Some of the transactions also relate to hedging of interest-rate and exchange-rate fluctuations in connection with general banking business.

The product structure and nominal amounts (including brokerage business) as at December 31, 2013 were as follows:

	Nominal amount by time to maturity				Fair value	
	Up to 1 year	1-5 years	More than 5 years	**Total**	Negative	Positive
	€'000	€'000	€'000	**€'000**	€'000	€'000
Interest-linked contracts	**25,230,897**	**42,617,600**	**48,555,606**	**116,404,103**	**4,174,051**	**2,748,303**
of which attributable to:						
OTC products	16,918,401	40,200,776	48,555,606	**105,674,783**	4,173,599	2,747,872
Forward rate agreements	0	0	0	**0**	0	0
Interest-rate swaps (same currency)	16,482,697	38,248,270	46,740,275	**101,471,242**	4,055,757	2,699,044
Interest-rate options – call	30,077	502,767	775,000	**1,307,844**		47,551
Interest-rate options – put	345,627	1,424,739	1,040,331	**2,810,697**	117,842	
Other interest-rate contracts	60,000	25,000	0	**85,000**	0	1,277
Exchange-traded products	8,312,496	2,416,824	0	**10,729,320**	452	431
Interest-rate futures	3,125,496	2,264,551	0	**5,390,047**	21	0
Interest-rate options	5,187,000	152,273	0	**5,339,273**	431	431
Currency-linked contracts	**54,226,062**	**1,070,312**	**25,574**	**55,321,948**	**481,403**	**424,711**
of which attributable to:						
OTC products	54,132,004	1,070,312	25,574	**55,227,890**	481,403	424,711
Forward forex transactions	53,713,145	997,076	25,574	**54,735,795**	476,770	420,046
Forex options – call	176,590	36,618	0	**213,208**		4,665
Forex options – put	242,269	36,618	0	**278,887**	4,633	
Other forex contracts	0	0	0	**0**	0	0
Exchange-traded products	94,058	0	0	**94,058**	0	0
Forex futures	94,058	0	0	**94,058**	0	0
Forex options	0	0	0	**0**	0	0
Share-/index-linked contracts	**5,113,299**	**944,909**	**52,650**	**6,110,858**	**51,679**	**90,140**
of which attributable to:						
OTC products	226,030	870,578	52,650	**1,149,258**	19,366	57,911
Share/index swaps	7,000	634,650	52,650	**694,300**	3,081	31,210
Share/index options – call	67,983	82,339	0	**150,322**		26,701
Share/index options – put	151,047	153,589	0	**304,636**	16,285	
Other share/index contracts	0	0	0	**0**	0	0
Exchange-traded products	4,887,269	74,331	0	**4,961,600**	32,313	32,229
Share/index futures	3,303,724	174	0	**3,303,898**	0	0
Share/index options	1,583,545	74,157	0	**1,657,702**	32,313	32,229
Other contracts	**1,370,421**	**3,527,196**	**1,116,678**	**6,014,295**	**67,848**	**106,294**
of which attributable to:						
OTC products	1,355,476	3,527,196	1,116,678	**5,999,350**	67,848	106,294
Cross-currency swaps	86,844	424,738	971,678	**1,483,260**	43,245	57,379
Credit default swaps	1,268,632	3,102,458	145,000	**4,516,090**	24,603	48,915
Exchange-traded products	14,945	0	0	**14,945**	0	0
Precious metal futures	14,945	0	0	**14,945**	0	0
Total for all contracts	**85,940,679**	**48,160,017**	**49,750,508**	**183,851,204**	**4,774,981**	**3,369,448**
of which attributable to:						
OTC products	72,631,911	45,668,862	49,750,508	**168,051,281**	4,742,216	3,336,788
Exchange-traded products	13,308,768	2,491,155	0	**15,799,923**	32,765	32,660

(70) Equity management

The objective of equity management in the WGZ BANK Group is to ensure that adequate capital is in place to support the corporate strategy determined by the Board of Managing Directors, that regulatory capital adequacy requirements are satisfied, and that the group has sufficient risk-bearing capacity. Risk-bearing capacity is quantified in terms of the WGZ BANK Group's aggregate risk cover.

For more detailed information on risk-bearing capacity, please also refer to the risk report within the management report.

The WGZ BANK Group's regulatory capital is determined in accordance with the provisions of the German Banking Act (KWG). The following table shows the breakdown of the WGZ BANK Group's equity after appropriation of profits:

		Dec. 31, 2012
	€ million	€ million
Subscribed capital[1]	**657**	657
Reserves[1]	**1,585**	1,490
Fund for general banking risks	**842**	832
Deduction pursuant to section 10 (2a) KWG	**-10**	-9
Total Tier 1 capital	**3,074**	2,970
Subordinated liabilities	**587**	601
Profit-sharing rights	**0**	2
Other components	**527**	516
Total Tier 2 capital	**1,114**	1,119
Deduction pursuant to section 10 (6) KWG	**-1,460**	-1,498
Deduction pursuant to section 10 (6a) KWG	**-176**	-204
Liable capital	2,552	2,387
Tier 3 capital	**0**	0
Capital	**2,552**	2,387

1) After deduction of Tier 1 capital provided internally.

Under section 10 KWG, banks and banking groups must ensure that they have adequate capital. The more detailed provisions for assessing capital adequacy are set out in the German Solvency Regulation (SolvV). Under SolvV, capital adequacy requirements are satisfied if the capital requirements for counterparty-risk and market-risk exposures as well as for operational risk do not exceed the modified available capital on a day-to-day basis.

The total capital ratio (the ratio of modified available capital to the total of the capital requirements for counterparty risk exposure, market risk exposure, and operational risk multiplied by 12.5) must therefore be at least 8 percent. Both the bank and the banking group complied with the solvency requirements in the year under review. The capital adequacy requirements for the WGZ BANK Group financial conglomerate as specified by section 10b KWG were also satisfied in 2013.

As at the balance sheet date, the relevant figures for the banking group (taking into account the appropriation of profits in equity) were as follows:

CAPITAL ADEQUACY REQUIREMENT FOR	€ million	Dec. 31, 2012 € million
Counterparty risk	**1,175**	1,219
Market risk	**121**	110
Operational risk	**82**	79
Total capital adequacy requirement	**1,378**	1,408
Total capital ratio (%)	**14.8**	13.6

As at the balance sheet date, the key capital adequacy figures for WGZ BANK (including appropriation of profits) were Tier 1 capital of €2,987 million (December 31, 2012: €2,911 million), liability capital of €2,508 million (December 31, 2012: €2,398 million), and a total capital ratio of 16.6 percent (December 31, 2012: 16.1 percent).

(71) Auditors of the consolidated financial statements

The auditors of the consolidated financial statements are PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft, Moskauer Strasse 19, Düsseldorf, Germany.

DISCLOSURES PURSUANT TO SECTION 314 (1) NO. 9 HGB	€'000
Expenses recognized in the year under review for the following services provided by the auditors:	
Financial statements auditing services	1,409
Other attestation services	461
Tax consultancy services	76
Other services	2,052
Total	3,998

(72) Members of the Supervisory Board and the Board of Managing Directors

Supervisory Board

Dieter Philipp, *Chairman*	Honorary President of the German Association of Skilled Trades; President of the Aachen Chamber of Skilled Trades
Franz Lipsmeier, *Deputy Chairman*	Full-time member of the Board of Managing Directors of Volksbank Delbrück-Hövelhof eG
Johannes Berens	Bank Director (ret.)
Peter Bersch	Full-time member of the Board of Managing Directors of Volksbank Bitburg eG
Werner Böhnke	Bank Director (ret.) (from June 18, 2013)
Martin Eul	Full-time member of the Board of Managing Directors of Dortmunder Volksbank eG (from June 18, 2013)
Ludger Hünteler	Employee of WGZ BANK
Manfred Jorris	Employee of WGZ BANK
Hannelore Kurre	Employee of WGZ BANK (until June 18, 2013)
Ina Maßmann	Employee of WGZ BANK (from June 18, 2013)
Franz-Josef Möllers	Honorary President of the Westphalia-Lippe Agricultural Association (until June 18, 2013)
Manfred Wortmann	Full-time member of the Board of Managing Directors of Volksbank Hellweg eG (until June 18, 2013)

Board of Managing Directors

Hans-Bernd Wolberg, *Chief Executive Officer (from June 18, 2013)*	Full-time member of the Board of Managing Directors
Uwe Berghaus	Full-time member of the Board of Managing Directors
Werner Böhnke, *Chief Executive Officer (until June 18, 2013)*	Full-time member of the Board of Managing Directors (until June 18, 2013)
Dr. Christian Brauckmann	Full-time member of the Board of Managing Directors
Karl-Heinz Moll	Full-time member of the Board of Managing Directors
Michael Speth	Full-time member of the Board of Managing Directors

(73) Total remuneration paid to the members of the parent company's decision-making bodies

Remuneration of €127 thousand (2012: €129 thousand) was paid to the members of the Supervisory Board, and €227 thousand (2012: €224 thousand) to the members of the Advisory Council, all such remuneration being due for payment in the short term. The employee representatives on the Supervisory Board also continued to receive remuneration for their primary activities in the company at standard industry rates. The remuneration (due for payment in the short term) paid to the members of the Board of Managing Directors in the year under review in return for the fulfillment of their responsibilities in the parent company and the subsidiaries was €3.799 million (2012: €5.634 million). The amount of cash remuneration is set out in the 2013 disclosure report pursuant to section 7 InstitutsVergV. A service cost of €2.763 million (2012: €350 thousand) was also incurred in the year under review in respect of pension benefits for current members of the Board of Managing Directors. The total remuneration for the members of the Board of Managing Directors in the year under review was therefore €6.562 million (2012: €5.984 million). A sum of €2.283 million (2012: €2.207 million) was paid to former members of the Board of Managing Directors and their surviving dependants. The existing provision for pensions and post-employment benefits in respect of this group of persons amounts to €43.711 million (December 31, 2012: €36.888 million).

(74) Related party disclosures

Related party disclosures are required in accordance with IAS 24.

Given its close integration in the Volksbanken Raiffeisenbanken cooperative financial network, the WGZ BANK Group maintains a wide variety of business relationships with related entities. The related entities of the WGZ BANK Group as defined by IAS 24 include, in particular, joint ventures, direct and indirect associates, and entities controlled by related parties. Individuals among the related parties of the WGZ BANK Group include the members of the Board of Managing Directors and the Supervisory Board, divisional managers at WGZ BANK, the managing directors of WGZ Verwaltungs GmbH, and their family members.

Transactions with related parties were conducted as part of normal business activities and always on an arm's-length basis, including with regard to collateral. The following table shows the balances in relevant balance sheet items as at December 31, 2013 attributable to transactions with related parties. Loans and advances to banks related to the WGZ BANK Group in connection with development loan business are not included because these are offset by corresponding liabilities to non-related development banks and are thus deemed in substance to be transactions via a suspense account. Income and expenses arising on transactions with related parties were not significant.

	Loans and advances to banks € million	Loans and advances to customers € million	Allowances for losses on loans and advances € million	Financial assets held for trading € million	Deposits from banks € million	Amounts owed to other depositors € million	Financial liabilities held for trading € million
Parent company	0.0	0.0	0.0	0.0	0.0	0.4	0.0
Subsidiaries	0.0	10.6	0.0	0.5	0.0	2.0	0.0
Joint ventures	0.0	4.5	0.0	0.0	0.0	1.0	0.0
Associates	21.3	75.8	0.3	18.1	36.4	9.4	16.9
Key management personnel	0.0	1.5	0.0	0.0	0.0	0.0	0.0
Other related parties	178.9	0.0	0.0	2.8	259.1	9.4	0.5
Total	**200.2**	**92.4**	**0.3**	**21.4**	**295.5**	**22.2**	**17.4**

(75) Loans and advances to members of decision-making bodies

	€'000	Dec. 31, 2012 €'000
Supervisory Board	334	278
Advisory Council	1,274	794
Board of Managing Directors	19	128

These are normal loans and advances with interest at market rates.

(76) Average number of employees

	Female	Male	Total
WGZ BANK	477	749	1,226
Subsidiaries	167	178	345
	644	927	1,571

(77) Mandates held by members of the Board of Managing Directors and employees on statutory supervisory bodies of major corporations

Board of Managing Directors of WGZ BANK

Hans-Bernd Wolberg (Chief Executive Officer)	
BAG Bankaktiengesellschaft, Hamm	Member of the Supervisory Board
VR-LEASING AG, Eschborn	Deputy Chairman of the Supervisory Board
Dr. Christian Brauckmann	
Deutsche WertpapierService Bank AG, Frankfurt am Main	Member of the Supervisory Board
Karl-Heinz Moll	
DZ PRIVATBANK (Schweiz) AG, Zurich, Switzerland	Deputy Chairman of the Board of Directors
DZ PRIVATBANK S.A., Strassen, Luxembourg	Deputy Chairman of the Supervisory Board
Union Asset Management Holding AG, Frankfurt am Main	Deputy Chairman of the Supervisory Board
R+V Versicherung AG, Wiesbaden	Member of the Supervisory Board

(78) List of shareholdings

NAME AND REGISTERED OFFICE		Shareholding (%)	Equity in the most recent year for which figures are available € million	Net profit/loss in the most recent year for which figures are available € million
Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall	*1)	15.00	1,812.3	*1)
DZ Holding GmbH & Co. KG, Neu-Isenburg	*2), *3)	35.88	1,307.5	22.2
DZ PRIVATBANK S.A., Strassen/Luxembourg	*3)	19.04	674.2	45.6
GAF Active Life 1 Renditebeteiligungs-GmbH & Co. KG, Nidderau	*3)	32.10	69.0	-6.7
GAF Active Life 2 Renditebeteiligungs-GmbH & Co. KG, Nidderau	*3)	31.61	67.6	-1.6
Heinsberger Volksbank AG, Heinsberg	*3)	25.00	12.2	0.4
R+V Versicherung AG, Wiesbaden	*1)	15.80	1,911.7	*1)
Union Asset Management Holding AG, Frankfurt am Main		17.72	466.8	188.1
Union Investment Real Estate AG, Hamburg		5.50	55.0	29.1
Volksbank Romania S.A., Bucharest		8.14	260.2	-184.8
VR-LEASING AG, Eschborn	*1)	16.54	211.1	3.8
VR Equitypartner GmbH, Frankfurt am Main	*1) *3)	22.00	59.2	*1)
VR Unternehmerberatung GmbH, Düsseldorf	*4)	50.00	1.5	0.2

*1) Profit-and-loss transfer agreement with DZ BANK AG.
*2) The company has a shareholding of 6.64 percent in DZ BANK AG held on behalf of WGZ BANK.
*3) Associate accounted for using the equity method.
*4) Joint venture accounted for using the equity method.

Disclosures on further shareholdings have not been included because they are not material for the presentation of a true and fair view of the assets, liabilities, financial position and profit or loss of the group.

(79) Events after the balance sheet date

As permitted by the authorization from the Annual General Meeting granted on June 22, 2010 and in accordance with article 6 of the Articles of Association of WGZ BANK, the Board of Managing Directors of WGZ BANK decided on February 11, 2014 to increase the share capital of €649,400,000 by up to €64,940,000 to up to €714,340,000 by issuing up to 649,400 new registered no-par-value shares subject to transfer restrictions ('New Shares'), each with an imputed share of the capital of WGZ BANK amounting to a nominal €100.00 in return for cash contributions. The statutory subscription right was granted in the ratio 10:1. On February 18, 2014, the Supervisory Board approved this increase in the share capital, which used part of the authorized capital of €200,000,000. Dividends are payable on the New Shares from January 1, 2013.

The subscription deadline had not expired as at the date of the annual financial statements, which means that the precise number of shares for which a dividend will be distributed is not yet known. As a result, the amounts relating to the appropriation of profits may vary from those stated.

There were no further events of particular significance after the balance sheet date.

Düsseldorf, April 4, 2014
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

Karl-Heinz Moll

Michael Speth

Audit opinion (translation)

We have audited the consolidated financial statements, comprising the balance sheet, the separate income statement and statement of comprehensive income, the statement of changes in equity, the statement of cash flows, and the notes to the financial statements, together with the group management report of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, for the financial year from January 1, 2013 to December 31, 2013 (the group management report having been combined with the management report of the parent company). The preparation of the consolidated financial statements and the combined management report in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a (1) of the German Commercial Code (HGB), and the supplementary provisions of the articles of association is the responsibility of the Board of Managing Directors of the company. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (German Institute of Public Auditors) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined 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 combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the consolidated financial statements, the determination of the companies to be included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a (1) HGB as well as the supplementary provisions of the articles of association 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 combined 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.

Düsseldorf, April 7, 2014
PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Mark Maternus	pp Marc Lilienthal
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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, which is combined with the management report of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, 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."

Düsseldorf, April 4, 2014
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

Hans-Bernd Wolberg
– Chief Executive Officer –

Uwe Berghaus

Dr. Christian Brauckmann

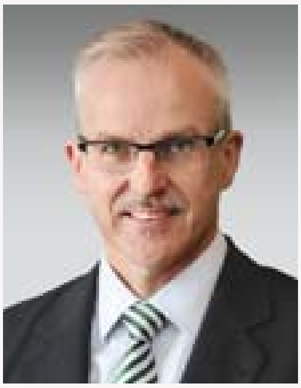
Karl-Heinz Moll

Michael Speth

Allocation of responsibilities

Hans-Bernd Wolberg
Chief Executive Officer

- Central services
- Human resources
- Internal audit
- Member banks
- Compliance



Uwe Berghaus
Member of the Board of Managing Directors

- Corporate customers
- Investment subsidies
- Legal affairs

Dr. Christian Brauckmann
Member of the Board of Managing Directors

- Financial markets operations
- Organization and operations
- Payments processing

Karl-Heinz Moll
Member of the Board of
Managing Directors

Capital market partners & trading

Treasury

Michael Speth
Member of the Board of
Managing Directors

Finance

Credit back office

Financial control and planning

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