Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

2014

ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF DZ BANK AG

DZ BANK
Zusammen geht mehr.

KEY FIGURES

DZ BANK AG

€ million	2014	2013
FINANCIAL PERFORMANCE		
Operating profit before allowances for losses on loans and advances	573	800
Allowances for losses on loans and advances	-55	-292
Operating profit	518	508
Net income for the year	213	166
Cost/income ratio (percent)	62.2	53.1

	Dec. 31, 2014	Dec. 31, 2013
NET ASSETS		
Assets		
Loans and advances to banks	80,716	82,695
Loans and advances to customers	22,443	22,634
Bonds and other fixed-income securities	39,821	39,825
Shares and other variable-yield securities	66	315
Trading assets	45,540	56,652
Other assets	15,598	15,777
Equity and liabilities		
Deposits from banks	85,388	87,757
Deposits from customers	22,855	29,505
Debt certificates issued including bonds	39,016	34,626
Trading liabilities	37,028	47,245
Other liabilities	11,903	12,304
Equity	7,994	6,461
Total assets/total equity and liabilities	**204,184**	**217,898**
Volume of business[1]	**226,813**	**238,779**

	Dec. 31, 2014	Dec. 31, 2013
ECONOMIC CAPITAL ADEQUACY AND LIQUIDITY ADEQUACY (DZ BANK GROUP)		
Economic capital adequacy (percent)	166.2	158.9
Stress scenario with the lowest minimum liquidity surplus (€ billion)	11.4	13.0
REGULATORY CAPITAL ADEQUACY (DZ BANK AG)		
Total capital ratio (percent)	24.9	31.5
Tier 1 capital ratio (percent)	17.8	20.5
Core Tier 1 capital ratio (percent)	17.8	
AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR	**4,250**	**4,111**
LONG-TERM RATING		
Standard & Poor's	AA-	AA-
Moody's Investors Service	A1	A1
Fitch Ratings	A+	A+

1 Total equity and liabilities including contingent liabilities and other obligations.

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MANAGEMENT REPORT OF DZ BANK AG

NOTE

DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) implements the transparency requirements as specified in section 289 of the German Commercial Code (HGB) with the publication of this management report. In addition, the report satisfies German accounting standard no. 20 (Group Management Report), which relates to management reports that apply at group level.

All figures are rounded to the nearest whole number. This may result in minor discrepancies in the calculation of totals and percentages.

I. DZ BANK AG fundamentals

1. BUSINESS MODEL

With its core functions as a central institution, corporate bank, and holding company, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) focuses closely on the local cooperative banks, which are its customers and owners.

Based on close cooperation with the local cooperative banks in their end-customer business and the subsidiary provision of competitive products and services, DZ BANK Group makes significant contribution to strengthen market position of the cooperative banks. In addition, the local cooperative banks benefit from substantial financial support in form of fees, commissions, bonuses, profit distributions, and the transfer of cost benefits.

The focus on network-based business is always given priority, especially in times when resources are scarce. In its role as a corporate bank, DZ BANK offers complementary services using existing products, platforms, and support activities. These services are constantly reviewed both from a strategic perspective (for example, so that there is no direct competition with the cooperative banks) and from an economic perspective (for example, so that the returns are appropriate and the risk acceptable).

The terms DZ BANK Group and DZ BANK financial conglomerate are synonymous and refer to all the management units together. The context dictates the choice of term. For example, in the case of disclosures relating to economic management, the focus is on the DZ BANK Group, whereas in the case of regulatory issues relating to all the management units in the DZ BANK Group, the appropriate term is DZ BANK financial conglomerate.

The DZ BANK financial conglomerate mainly comprises the DZ BANK banking group and R+V Versicherung AG, Wiesbaden, (R+V). DZ BANK acts as the financial conglomerate's parent company.

2. STRATEGIC FOCUS AS A NETWORK-ORIENTED CENTRAL INSTITUTION AND FINANCIAL SERVICES GROUP

The strategic focus at DZ BANK follows the guiding principle of fulfilling the role of a network-oriented central institution and financial services group. Its objective is to consolidate the positioning of the Volksbanken Raiffeisenbanken cooperative financial network as one of the leading financial services providers in Germany on a long-term basis. To achieve this aim, DZ BANK is steadfastly pursuing a strategy of network-oriented growth, consistent focus, and closer integration of DZ BANK within the cooperative financial network.

DZ BANK works in close cooperation with WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, (WGZ BANK) and the special committees of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V., Berlin, (BVR) [National Association of German Cooperative Banks] to address overarching future-related issues affecting the cooperative financial network. This cooperation includes, for example, the webErfolg (web success) project aimed at expanding online sales channels as part of the local cooperative banks' current omnichannel strategy and the Beratungsqualität (quality of advice) project, which is developing a uniform advisory standard for retail banking. From 2015, a follow-up project plans to focus on a number of areas, including interlinking throughout the depth and breadth of the online and offline sales channels.

Innovation and technical progress will also represent a considerable challenge for banks in the future. To improve innovation management, DZ BANK is currently setting up a groupwide process that is integrating existing structures with each other and making them easier to use.

In 2014, the robust cohesion and strength of the cooperative financial network was once again amply demonstrated by DZ BANK's successful placement of its largest ever capital increase of approximately €1.5 billion. DZ BANK also made use of profits to strengthen its capital base as the operating business continued to perform well. As at December 31, 2014, the common equity Tier 1 (CET 1) capital ratio had increased to 12.2 percent. The buffer to cover further regulatory requirements has therefore been increased to an appropriate level based on current knowledge of likely requirements.

In view of its corporate strategy, DZ BANK also decided in 2014 to close its branch in Poland. A structured process was defined for the closure, which included implementing the job losses with the minimum possible social impact. The aim is to have wound up the branch by the end of 2015; the formal liquidation process will be initiated in mid-2015.

2.1. CORPORATE BANKING

Corporate Banking is a core strategic business line for the local cooperative banks and DZ BANK. Based on the reorganization of this business line in 2013, DZ BANK is aiming for further growth, particularly in the large and medium-sized companies customer segment. To achieve this, DZ BANK has set up four regional corporate customer divisions, together with two competence centers covering international business and renewable energies.

DZ BANK also set up the 'FokusKunde!' (focus on customers) initiative in the reporting year to support the growth strategy. This initiative mainly addresses issues related to sales and management optimization and important matters of overarching concern. A large number of activities to improve sales have been and are being developed. The objective is to broaden the customer base and strengthen existing customer relationships by using products from the financial services group.

DZ BANK, WGZ BANK, and VR LEASING AG, Eschborn, (VR LEASING AG) have set up an innovative online sales channel for the cooperative financial network at *www.deutschland-made-by-mittelstand.de* aimed at small and medium-sized enterprises and self-employed customers. The website includes a structured customer inquiry option. As a result, the cooperative financial network is in a position to turn online activity by corporate customers into well-defined business inquiries for the lending, leasing, and investment product groups that can then be processed appropriately.

2.2. RETAIL BANKING

DZ BANK offers the local cooperative banks and their customers a comprehensive range of retail banking securities services. According to the assessment criteria used by the panel of judges for the Investment Certificates Awards 2014, DZ BANK is one of the leading multi-award-winning providers of investment certificates in Germany and is a market leader in Germany in the capital protection investment certificates category.

As part of the omnichannel approach, DZ BANK provides the local cooperative banks with all the important tools they need to successfully position themselves in the online securities business. In particular, this includes the VR-ProfiBroker and VR-ProfiTrader trading platforms. The VR-ProfiTrader e-brokerage application combines cutting-edge user navigation with high-performance tools and is aimed at meeting the special needs of traders with substantial turnover volumes, a target group that generates significant returns.

DZ BANK plans to continue to secure its market position in Germany in the future and leverage the potential in its business with high-net-worth customers.

2.3. TRANSACTION BANKING

Based on the ProFi ZV payments processing market initiative in Transaction Banking, DZ BANK is helping the cooperative banks realign their advisory services for corporate customers in relation to payments and card processing, and supporting them in providing a holistic advisory service for their business customers. The cooperative financial network is also focusing increasingly on sales of credit cards with the objective of achieving a credit/debit card ratio of 30 percent in Germany by 2020. The 'KartenRegie' app for cellphones was launched in 2014 as an additional mobile service in connection with credit cards.

As the issue of digitization is also of strategic importance in Transaction Banking, the development of online and mobile payment solutions (e/m payments) represents another challenge for DZ BANK. Together with other financial institutions in Germany, the cooperative financial network has therefore established Gesellschaft für Internet- und mobile Bezahlungen mbH, Eschborn, (GIMB) to launch a competitive e-commerce payments system in 2015. This system will enable the cooperative financial network to offer an innovative solution to the local cooperative banks. In addition, the changeover in transfer and direct debit systems to the single euro payments area (SEPA) was successfully completed as a joint operation in 2014.

As a central institution, DZ BANK provides the local cooperative banks with the services they need and helps them to implement new regulatory requirements such as the European Market Infrastructure Regulation (EMIR), which concerns activities in derivatives markets. DZ BANK also acts as a network-oriented depositary, and assets held in custody grew steadily to €117.0 billion as at December 31, 2014. DZ BANK is the only German bank among the top 5 depositaries in Germany, the other four being international competitors.

2.4. CAPITAL MARKETS

DZ BANK's customer-oriented capital markets business is focused on serving diverse customer requirements for investment and risk management products involving the asset classes of interest rates, loans, equities, foreign exchange, and commodities. The range of products and services is based primarily on the needs of the cooperative banks, their retail and corporate customers, and the corporate customers and institutional customers in Germany and abroad supported directly by DZ BANK.

A fundamental part of capital market activities are the key functions carried out by Group Treasury within the cooperative financial network and within the management of both the group and DZ BANK. These functions include cash-pooling for the cooperative financial network, coordination of the DZ BANK Group's cash flows, and the management of interest-rate risk at DZ BANK.

Despite the persistently challenging market environment, which is heavily influenced by decisions of the European Central Bank (ECB) and regulatory changes among other factors, DZ BANK believes that it is well positioned in its capital markets business. Given the focus of the business and the available expertise, DZ BANK will continue to have the necessary capability to offer its customers and the customers of the local cooperative banks a wide variety of products.

3. MANAGEMENT OF DZ BANK

3.1. GOVERNANCE

3.1.1. Integration within the cooperative financial network

The DZ BANK Group is a financial services group comprising entities that function as product specialists, providing the Volksbanken Raiffeisenbanken cooperative financial network with an entire range of financial services. Given the particular nature of the group, the Board of Managing Directors of DZ BANK consciously manages the group with a balanced centralized and decentralized approach with clearly defined interfaces and taking into account business policy requirements.

The three defining features of governance in the DZ BANK Group are the general management approach of the DZ BANK Group, appointments to key posts in the subsidiaries, and the committee structure.

For the purposes of managing the subsidiaries through appointments to key posts, a representative of DZ BANK is appointed in each case as the chairman of the supervisory body and generally also as the chairman of any associated committees (risk and investment committee, audit committee, human resources committee).

3.1.2. Corporate management committees

The **Group Coordination Committee** ensures coordination between the key entities in the DZ BANK Group with regard to consistent management of opportunities and risks, capital allocation, strategic issues, and leveraging synergies. The committee's members comprises the entire Board of Managing Directors of DZ BANK and the chief executive officers of BSH, DZ PRIVATBANK, R+V, TeamBank, Union Asset Management Holding, VR-LEASING AG, and DG HYP.

Working groups whose members comprise representatives from all strategic business lines and group functions are responsible for the following areas of activity and report to the Group Coordination Committee:

- product and sales/marketing coordination for retail customers, corporate customers, and institutional clients;
- IT, operations, and resources strategies;
- human resources management;
- finance and liquidity management/risk management.

The **Group Risk and Finance Committee** is the central committee in the DZ BANK Group responsible for proper operational organization and, in particular, risk management in accordance with section 25a (1a) and (1b) of the German Banking Act (KWG) in conjunction with section 25a (1) KWG. It assists DZ BANK with groupwide financial and liquidity management and provides support for risk capital management throughout the group. The Group Risk and Finance Committee also assists the Group Coordination Committee in matters of principle. The members of this committee include the relevant executives at DZ BANK responsible for Group Finance, Group Strategy & Controlling, Risk Controlling, Credit, and Group Treasury. The committee members also include representatives of the executives at those group companies with a material impact on the risk profile of the DZ BANK Group. The Group Risk and Finance Committee has set up the following working groups to prepare proposals for decision-making and to implement management action plans.

- The **Group Risk Management working group** supports the Group Risk and Finance Committee in all matters concerning risk and the management of risk capital and market risk in the DZ BANK Group, and in matters relating to external risk reporting. At DZ BANK level, the monitoring and control of the aggregate risks to the bank is coordinated by the Risk Committee. The Risk Committee makes recommendations to the entire Board of Managing Directors in matters relating to risk management, risk methodology, risk policies, risk processes, and the management of operational risk.

- The **Architecture and Processes Finance/Risk working group** assists the Group Risk and Finance Committee with the further development of the integrated finance and risk architecture in the DZ BANK Group.

- Credit risk management activities throughout the group are brought together under the **Group Credit Management working group** of the Group Risk and Finance Committee. This body is responsible for overarching, fully functioning credit risk management in the DZ BANK Group. The measurement and management of credit risk is based on a shared understanding of risk that recognizes the specific business needs of the individual group entities. The monitoring and control of DZ BANK's credit portfolio is coordinated by the Credit Committee. This committee normally meets every two weeks and makes decisions on material lending exposures at DZ BANK, taking into account the credit risk strategy of both the bank and the group. The Credit Committee is also responsible for managing DZ BANK's credit risk and country risk throughout the DZ BANK Group.

- The Group Risk and Finance Committee's **Market working group** is responsible for providing implementation support throughout the group in the following areas: liquidity management, funding activities, balance sheet structure management, and capital management. This body also focuses on coordinating and alignment funding strategies and liquidity reserve policies, as well as on funding planning within the DZ BANK Group. At DZ BANK level, the Treasury and Capital Committee is the central body responsible for the operational implementation of the strategic framework in the following areas: capital management, balance sheet and balance sheet structure management, liquidity and liquidity risk management, and income statement and profitability management. This committee also discusses overarching issues and current regulatory matters with the aim of identifying those requiring management action.

- The **Finance working group** advises the Group Risk and Finance Committee on matters concerning the consolidated financial statements, tax law, and financial regulation. It discusses new statutory requirements and works out possible implementation options.

The **Group IT Committee**, comprising the members of the boards of managing directors of the main group entities with responsibility for IT, supports the Group

Coordination Committee in matters relating to IT strategy. This committee manages all overarching IT activities in the DZ BANK Group. In particular, the Group IT Committee makes decisions on collaboration issues, identifies and realizes synergies, and initiates joint projects.

The members of the **Group HR Committee** comprise the HR directors from the main entities in the DZ BANK Group. This committee helps the Group Coordination Committee address HR issues of strategic relevance. The Group HR Committee initiates and coordinates activities relating to overarching HR issues while at the same time exploiting potential synergies. It also coordinates the groupwide implementation of regulatory requirements concerning HR systems and facilitates the sharing of HR policy information within the DZ BANK Group.

The DZ BANK Group **Heads of Internal Audit working group**, which is led by DZ BANK, coordinates group-relevant audit issues and the planning of cross-company audits and activities based on a common framework drawn up and approved by the relevant members of the Board of Managing Directors. This working group also serves as a platform for sharing specialist information across the group – especially information on current trends in internal audits – and for developing best practice in internal audit activities. The working group reports to the Chief Executive Officer of DZ BANK and, where appropriate, to the Group Coordination Committee.

Within the coordination model, **product and sales committees** are responsible for evidence, coordination, and pooling functions relating to the range of products and services provided by the DZ BANK Group. The **retail customers** product and sales committee coordinates products and services, and the marketing activities of its members where there are overarching interests affecting the whole of the group. The common objective is to generate profitable growth in market share for the cooperative banks and the entities in the DZ BANK Group with a focus on customer retention and attracting new customers by providing needs-based solutions (products and processes) as part of a holistic advisory approach.

The **institutional clients** product and sales committee helps to strengthen the market position of the DZ BANK Group in the business with institutional clients.

The **corporate customers** product and sales committee is responsible for coordinating the strategies, planning, projects, and sales activities in the DZ BANK Group's corporate banking business if overarching interests are involved. The objective is closer integration in both the joint lending business with the cooperative banks and the direct corporate customer business of the entities in the DZ BANK Group.

The **Economic Roundtable**, the members of which comprise the economists from the main group companies, helps the Group Coordination Committee to assess economic and capital market trends, providing a uniform basis for consistent planning scenarios throughout the group, and to prepare risk scenarios required by regulators.

3.2. MANAGEMENT UNITS

The DZ BANK Group comprises DZ BANK as the parent company, the DZ BANK Group's fully consolidated subsidiaries in which DZ BANK directly or indirectly exercises control, and other long-term equity investments that are not fully consolidated.

All the entities in the DZ BANK Group develope their business strategy. In the case of subgroups, the disclosures in the management report on management units relate to the entire subgroup comprising the parent company of the subgroup plus its subsidiaries and second-tier subsidiaries. From a formal, company-law perspective, the management units are managed by the parent company in the subgroup, which is responsible for compliance with management directions in its subsidiaries and second-tier subsidiaries.

The DZ BANK Group is managed through the following management units, each of which is treated as a separate operating segment:

– DZ BANK
– BSH (including subgroup)
– DG HYP

– DVB Bank SE, Frankfurt am Main, (DVB), (including subgroup)
– DZ PRIVATBANK S.A. and its wholly owned subsidiaries (DZ PRIVATBANK)
– R+V (including subgroup)
– TeamBank
– Union Asset Management Holding (including subgroup)
– VR-LEASING AG (including subgroup).

These fully consolidated entities are material or important management units and form the core of the financial services group. DZ BANK forms a separate management unit from a higher-level perspective.

3.3. KEY PERFORMANCE INDICATORS

– **Profitability figures:**
  The profitability figures (allowances for losses on loans and advances, profit/loss before taxes, net income for the year) are presented in chapter II., section 3.1. of this management report.
– **Volume figures:**
  One of the main volume KPIs is equity. Equity is described in chapter II., section 4.
– **Productivity:**
  One of the main productivity KPIs is the cost/income ratio.
  This figure is described in chapter II., section 3.1. of this management report.
– **Capital adequacy:**
  The KPIs and the calculation method for economic capital adequacy are described in chapter VI., section 7.2. of this management report. The KPIs for regulatory capital adequacy are included in chapter VI., section 7.3.

3.4. MANAGEMENT PROCESS

In the annual strategic planning process, the entities in the DZ BANK Group produce a business strategy (objectives, strategic direction, and initiatives), a finance and capital requirements plan, and a risk strategy derived from the business strategy.

The feasibility of the planning by the management units is then assessed and the plans are also discussed and examined in strategy meetings. When the individual entity planning has been completed, the process then moves on to consolidated group planning, allowing active management of the DZ BANK Group's economic and regulatory capital adequacy.

Target attainment is monitored in a number of ways, including through quarterly dialogues with the subsidiaries and the DZ BANK divisions.

Groupwide initiatives are conducted in order to unlock identified marketing potential. These include the development of new, innovative products and sales methods for the strategic business lines – Corporate Banking, Retail Banking, Transaction Banking, and Capital Markets – in order to further strengthen sales by the DZ BANK Group and the local cooperative banks. Regular reports on the individual initiatives are submitted to the relevant product and sales committee. If appropriate, certain aspects of the initiatives may be handled by the Group Coordination Committee. This results in more efficient cooperation in the cooperative financial network.

At DZ BANK level, the main divisions involved in the strategic planning process are Group Strategy & Controlling, Risk Controlling, Group Finance, and Research and Economics. The planning coordinators in the market units and the subsidiaries are also incorporated into the process. The Group Strategy & Controlling division is responsible for overall coordination, including strategic financial planning as part of the strategic planning process.

II. Business report

1. ECONOMIC CONDITIONS

Over the reporting year, average inflation-adjusted gross domestic product (GDP) in Germany increased by 1.6 percent year on year.

The first quarter of 2014 saw Germany continuing to benefit from growth in economic output, which was up by 0.8 percent compared with the previous quarter, driven primarily by the period of particularly mild weather. However, the economic upswing practically ground to a halt in the two subsequent quarters. There was even a contraction in the second quarter, with aggregate output down by 0.1 percent, although this was followed by growth of 0.1 percent in the third quarter. In the final quarter, the German economy then returned to the sharp uptrend from the beginning of the year, notching up growth of 0.7 percent.

In the **eurozone**, 2 years of recession came to an end as growth in overall economic output was restored with a slight year-on-year increase of 0.9 percent. The year began with output up by 0.3 percent in the first quarter compared with the previous quarter, but growth then slowed again slightly in the second quarter to 0.1 percent, followed in the third and fourth quarters by muted growth rates of 0.2 percent and 0.3 percent respectively.

Following the good start to the year, consumer and business sentiment in the eurozone then became markedly gloomy over the course of the year. Key factors are likely to have been the geopolitical crises and military conflicts in Ukraine and the Middle East, together with the Ebola crisis in West Africa. In particular, the Ukraine crisis and the associated economic sanctions imposed by western countries on Russia have resulted in a significant adverse impact on the economic climate in Europe since the spring of 2014.

The **United States** generated economic growth of 2.4 percent in the year under review. Despite a weak start to the year caused by bad weather, the US economy gathered pace noticeably as the year progressed. A significantly improved situation in both the labor market and the US real-estate market boosted consumer spending, a key driver of the US economy. The year under review saw a marked drop in the unemployment rate and a sharp upturn in residential construction.

In 2014, the majority of the **emerging markets** continued to experience a rather slack pace of growth. In some of these markets, such as Brazil and Russia, the weakness in commodities markets had an adverse impact on economic output. Nevertheless, demand from the emerging economies, primarily those in Asia, continued to provide strong stimulus for growth and a boost for exports in Germany.

Adjusted for inflation, consumer demand once again rose year on year in **Germany** in 2014 and, as in the two previous years, made a considerable contribution to the country's economic growth. The willingness of consumers to spend continued to be given a push in the year under review by the extremely healthy job market and the persistently low levels of interest available on savings. At the same time, however, businesses remained unenthusiastic about spending on capital equipment in view of the geopolitical uncertainties over the whole of 2014.

In Germany, the further additions to tax revenues generated on the back of an overall upturn in economic performance continued to bolster public finances in the year under review, enabling the federal government to post a small budget surplus equivalent to 0.4 percent of GDP.

2. EFFORTS TO STABILIZE THE FINANCIAL SECTOR CONTINUE IN THE SHADOW OF GEOPOLITICAL CRISES

In the reporting year, priority continued to be given to efforts to stabilize economic conditions in the eurozone.

Although a stabilization of economic growth was evident in the eurozone in 2014, this only resulted in low rates of expansion, given the backdrop of a slowdown in global growth. In the eurozone as a whole, only limited progress was made in reducing new and total borrowing. Even though a ratings outlook for 2015 published by rating agency Moody's stated that 80 percent of EU countries had a stable outlook (compared with 70 percent in January 2014), it is worth noting that, at the end of the third quarter of 2014, the total debt for the 18 countries in the eurozone was still at the considerable level of 92.1 percent of GDP.

Since the statement made in mid-2012 by the president of the European Central Bank (ECB) that he intended to do whatever it takes to support the euro, Portugal, Spain, Ireland, and Greece have been able to make initial progress as far as reforms are concerned. The rating agency Moody's upgraded Portugal's credit rating from Ba3 to Ba2 in early May 2014 and then from Ba2 to Ba1 at the end of July 2014. At the start of June 2014, Ireland's long-term credit rating from Standard & Poor's was increased from BBB+ to A-. The reforms implemented by Greece led Fitch to raise its long-term credit rating from B- to B in late May 2014.

While these countries were leading the growth table in the eurozone at the end of the second quarter, the German economy – normally the engine of the eurozone – stalled over the course of the year, not picking up again until the fourth quarter of 2014. France and Italy, countries that are also important in generating overall economic growth in Europe, together with Belgium, continued to suffer from a high level of indebtedness and unsatisfactory economic strength. At the end of November 2014, the European Commission urged these countries to make further efforts in the subsequent 3 months to bring their finances into line with the EU Stability and Growth Pact.

In view of Italy's persistently sluggish economic performance, Standard & Poor's lowered the country's credit rating on December 5, 2014 from BBB to BBB-. Italy, under new Prime Minister Matteo Renzi, was nevertheless able to take some steps toward improving its situation with the labor market reforms approved at the beginning of December 2014 by the Italian Senate.

In mid-December 2014, Fitch downgraded France's credit rating from AA+ to AA, pointing to the weak outlook for public finances and the unwillingness to implement reforms.

The year under review saw a decision at EU level to introduce a banking union, both a major milestone on the way to overcoming the European financial and sovereign debt crisis and probably the most ambitious project in Europe since the launch of the euro. There are 3 core components: a Single Supervisory Mechanism, a Single Resolution Mechanism, and a common system of deposit protection.

The aims of banking union are to counteract the problematic interdependence between banks and public-sector finance and to stop taxpayers having to bear the burden of failing banks.

In mid-October 2013, EU finance ministers unanimously approved the procedure for the introduction of the regulation governing the Single Supervisory Mechanism (SSM). As a result of this regulation, responsibility for the direct supervision of the largest banks in the eurozone (and in other European countries that join the SSM) will be transferred to the ECB. The change affects approximately 130 banks that have total assets in excess of €30 billion, or that are important to the economy of the European Union or a member state, or that are important at an international level.

Prior to the transfer of the supervision of the banks in question on November 4, 2014 as intended, the ECB subjected each of these banks to an extensive review, referred to as a comprehensive assessment. This comprehensive assessment essentially comprised a balance sheet assessment, an asset quality review, and a stress test.

At the end of March 2014, the Council of Europe and European Parliament reached a fundamental agreement on the structure of the Single Resolution Mechanism (SRM), which came into effect on January 1, 2015. This agreement resulted in an EU directive on the recovery and resolution of credit institutions and investment firms, referred to as the Bank Recovery and Resolution Directive (BRRD), which was published in mid-June 2014, and in the SRM Regulation, which was published on July 30, 2014.

The directive and regulation not only set out the decision-making process, from identifying an imminent case of insolvency to developing a resolution plan, they also define the structure of the national resolution systems and the Single Resolution Fund (SRF) for the eurozone. As had already been decided in mid-December 2013 by the European Parliament and Council Presidency, a bank may only draw on the SRF in the event of insolvency if its shareholders, creditors, and wealthy savers with balances of more than €100,000 have already helped to rescue it.

The SRF is funded by contributions from all participating banks in the countries of the eurozone, the contribution in each case amounting to at least 1 percent of the relevant bank's protected deposits (known as the European bank levy). This currently equates to a total amount of €55 billion. The funds are to be accumulated within 8 years, starting from January 1, 2016.

In early December 2014, EU finance ministers reached agreement on the method to be used for calculating the contributions to be paid by each bank. The payments will be based on a size-related flat contribution supplemented by a risk-weighted adjustment.

Forming the third pillar of banking union, the harmonized rules on protecting savings deposits were published on June 12, 2014 in the form of the EU directive on deposit guarantee schemes. It does not include the communitization of protection for savers. The systems for protecting deposits, with a guarantee for bank deposits of up to €100,000, will continue to be organized at national level. In the future, the banks in every EU member state must each fill a protection fund with a target volume averaging 0.8 percent of the deposits covered.

In the reporting year, international capital markets were influenced by the expansionary monetary policies of the central banks, with interest rates at historically low levels. Equities markets were buoyant with further year-on-year gains in average prices, although the markets were impacted by the deteriorating geopolitical crises during the course of the year.

On June 5, 2014, the ECB initially cut its key lending rate by 10 basis points to 0.15 percent, thereby continuing its strategy of supporting economic growth through monetary policy and attempting to avoid deflationary tendencies in the eurozone. The ECB also decided to impose a negative deposit rate of minus 0.1 percent on money that banks have parked with the ECB and to stimulate the sluggish lending business in 2014, particularly in southern Europe, with an initial step involving 2 tenders totaling €400 billion tied to specific lending obligations on the banks.

In response, Germany's DAX share index briefly broke through the 10,000 mark before being sucked into a downward trend in the wake of the geopolitical crises and conflicts. In particular, there was a peak in late July 2014, marked by the Ukraine crisis when the western countries made the fundamental decision to impose economic sanctions on Russia. The sanctions were tightened again in mid-September 2014 following a further escalation of the conflict in Ukraine.

In early September 2014, the ECB decided to take action to stimulate lending, which was continuing to decline, and to counter the increasing risk of deflation in the eurozone. This action was to comprise the purchase of considerable volumes of covered bonds and asset-backed securities (ABSs) denominated in euros over the subsequent 2 years. The ECB started to purchase covered bonds on October 20, 2014, followed by ABSs from November 21, 2014. At a meeting on September 5, 2014, the ECB also cut the rate for its main refinancing operations by 10 basis points to

0.05 percent and the rate on the deposit facility for banks to minus 0.2 percent.

In the US, the Federal Reserve (Fed) under its new Chair Janet Yellen continued to maintain a target range for its federal funds rate near to 0 percent over the whole of the year under review and gradually reduced the volume of its monthly bond-buying from the beginning of 2014. At the end of October 2014, the Fed decided to discontinue its bond-buying program in view of the increasing stability of the US economy and also, in particular, because of the recovery in the labor market.

In contrast, in November 2014, ECB president Mario Draghi reaffirmed his intention of buying securities to markedly expand the ECB's balance sheet and counter the drop in inflation.

To achieve this latter aim of raising the rate of inflation, the ECB also made a decision on January 22, 2015 to begin with a monthly bond buying program in an amount of up to €60 billion per month in the period March 2015 to September 2016. This decision was also aimed at stimulating greater lending by the banks in the eurozone, thereby strengthening growth in these countries. It remains to be seen whether the ECB decision will have the desired impact on inflation and economic growth.

The sustained fall in the price of oil since mid-2014 – which has been maintained by the decision of the Organization of the Petroleum Exporting Countries (OPEC) at the end of November 2014 to retain the existing levels of oil production – is in the first instance likely to enhance the financial flexibility available to consumers and thereby give a boost to the economy.

Against the backdrop of challenging market conditions, the major German banks largely managed to sustain their operating income in the reporting year at the levels achieved in 2013. Allowances for losses on loans and advances recognized by banks were markedly lower than in 2013. Administrative expenses rose moderately.

3. FINANCIAL PERFORMANCE

3.1. FINANCIAL PERFORMANCE AT A GLANCE

In the opinion of the Board of Managing Directors, DZ BANK has successfully consolidated its position in challenging market conditions influenced primarily by the extremely low level of interest rates.

FIG. 1 – INCOME STATEMENT

€ million	2014	2013	Change (%)
Net interest income[1]	**850**	1,202	-29.3
Net fee and commission income	**276**	257	7.4
Net trading income	**380**	267	42.3
of which: amounts added to reserves required by section 340g HGB	-41	-30	36.7
Administrative expenses	**-943**	-905	4.2
Staff expenses	-495	-472	4.9
Other administrative expenses[2]	-448	-433	3.5
Other net operating income/expense	**10**	-21	>100.0
Operating profit before allowances for losses on loans and advances	**573**	800	-28.4
Allowances for losses on loans and advances	**-55**	-292	-81.2
Operating profit	**518**	508	2.0
Other net income/expense[3]	**-160**	-131	22.1
Changes to reserves required by section 340g HGB	0	-135	-100.0
Profit before taxes	358	242	47.9
Income taxes	**-145**	-76	90.8
Net income for the year	**213**	166	28.3

1 Including current income and income from profit transfer agreements.
2 Other administrative expenses, and amortization and write-downs on intangible assets, and depreciation and write-downs on property, plant and equipment.
3 Gains and losses on investments, extraordinary income/expense, and other items.

The year-on-year changes in the key figures that made up the operating profit generated by DZ BANK in 2014 were as described below.

Operating income amounted to €1,516 million, a year-on-year decrease of €189 million (2013: €1,705 million). It is made up of net interest income, net fee and commission income, net trading income, and other net operating income/expenses.

Administrative expenses increased by €38 million or 4.2 percent to €943 million (2013: €905 million).

The **cost/income ratio** for 2014 was 62.2 percent (2013: 53.1 percent).

Operating profit before allowances for losses on loans and advances declined by €227 million to €573 million (2013: €800 million).

Allowances for losses on loans and advances amounted to €55 million compared with €292 million in 2013.

The **operating profit** amounted to €518 million (2013: €508 million), a year-on-year rise of €10 million.

The details on the financial performance of DZ BANK set out above and below (section 3.2.) include the following variances compared with the information provided in the 2014 outlook.

The profit before taxes achieved in 2014 was approximately €70 million lower than the forecast. This discrepancy was mainly caused by the reduction in net interest income, which in turn was attributable to the premiums and discounts on securities in the banking book being recognized over the respective maturity of the securities. However, the stable economic environment in Germany meant that allowances for losses on loans and advances were significantly smaller than budgeted. Administrative expenses were at the budgeted level.

3.2. FINANCIAL PERFORMANCE IN DETAIL

The individual changes in earnings performance for DZ BANK in 2014 are described in detail below.

Net interest income declined by 29.3 percent to €850 million (2013: €1,202 million).

Net interest income from operating business (excluding income from long-term equity investments) fell by 35.3 percent to €359 million (2013: €555 million).

Owing to the sustained low level of interest rates, premiums and discounts on the fixed-income securities in the banking book have been recognized in accordance with the effective interest method since 2014. Previously, premiums were recognized using the internal linear repayment value method. The change in the method of recognition resulted in additional interest expense of €192 million, of which €93 million was attributable to previous years.

There was also a year-on-year fall of €26 million in net interest income from money market business due to normalization of interest rates at the short end of the yield curve and the general low level of interest rates. Moreover, net operating interest income from corporate banking declined by €8 million. By contrast, other net interest income rose by a total of €25 million, in particular as a result of higher early redemption payments.

The Corporate Banking business segment comprises four regional corporate customer divisions and the Structured Finance division. Corporate banking is focused on supporting German companies plus foreign companies with links to Germany. These corporate customers are provided with comprehensive customer relationship management either in conjunction with the local cooperative banks or directly by DZ BANK, depending on the size of the company concerned.

Overall, net operating interest income in the Corporate Banking business segment came to €284.7 million, which was 2.7 percent down on the figure for 2013 of €292.4 million.

This change was attributable to growing competition in corporate banking, the resulting pressure on margins, and, above all, to the level of demand for corporate loans, which remained muted. In particular, the uncertainty arising from instability in some regions of the world, such as Ukraine and the Middle East, was one of the reasons why capital spending and therefore also the demand for borrowing in Germany was lower than anticipated in 2014 despite the stable domestic economy and historically low interest rates. A further factor was that many businesses were continuing to perform well in terms of income and liquidity and thus able to fund their capital spending from the own resources.

In the development lending/agribusiness product field, net operating interest income reached €51.1 million, equating to an increase of 3.9 percent compared with the 2013 figure of €49.2 million.

In the development lending business, the volume of new business in the reporting year did not match the level achieved in 2013. Both the contraction in demand for borrowing from corporate customers and the cutbacks in grants in certain development segments had an adverse impact. On the other hand, the residential construction business with retail customers processed by DZ BANK on behalf of the cooperative banks remained steady. The high volume of new business achieved in the last few years was maintained mainly by the construction of new energy-efficient housing and renovation work to improve the energy efficiency of older homes.

In the syndicated business/renewable energies product field, net operating interest income climbed significantly in the reporting year by 29.7 percent to €18.0 million (2013: €13.9 million). The first half of 2014 was influenced by the effect of spending brought forward because of the imminent amendment to the German Renewable Energy Sources Act (EEG) on August 1, 2014. As a consequence, performance in the second half of the year was more subdued than in the equivalent period in 2013.

The acquisition finance business arranges and structures debt finance to support the acquisition of large and medium-sized companies, primarily in the German-speaking countries. Large numbers of customers have made use of the high degree of liquidity in bond markets to redeem their loans. This and the selective granting of new lending, especially outside Germany, led to a reduction in the size of the portfolio. Net operating interest income amounted to €28.9 million, which was a slight decrease on the equivalent figure in 2013 of €31.2 million (down by 7.3 percent).

The emphasis in the international trade and export finance business was very much on providing support for German large and medium-sized corporate customers involved in international business. Net operating interest income advanced from €30.0 million in 2013 to €34.0 million in the reporting period, an increase of 13.3 percent.

Net operating interest income from project finance business amounted to €23.3 million, which was a slight increase on the equivalent figure in 2013 of €22.0 million (up by 5.7 percent).

The asset securitization product field comprises structured investments and receivables financing for a defined selection of asset types. This gives unlisted companies access to the capital markets and to finance based on their portfolio of receivables.
The liquidity costs in the asset securitization product field for the provision of the backup lines in connection with the financing made available by the conduit came to €3.6 million in the reporting year, which was slightly below the equivalent figure in 2013 of €4.1 million.

DZ BANK's reported income from long-term equity investments decreased by 24.1 percent to €491 million (2013: €647 million), mainly as a result of lower earnings at DG HYP. In 2013, DG HYP had generated an additional profit contribution of €180 million as a result of the increase in value resulting from the redemption in full of a corporate bond guaranteed by an EU country that was due to mature at the end of March 2013.

DZ BANK's **net fee and commission income** rose by 7.4 percent to €276 million (2013: €257 million).

The lending business accounted for a significant proportion of this change. The higher contribution to earnings from the securities business mainly resulted from lower reallowance expenses related to the issue of DZ BANK's own securities. Payments processing also generated an increased contribution to earnings. The contribution to earnings from international business was marginally below the 2013 level.

In the Corporate Banking business segment, net fee and commission income of €151.1 million equated to an increase of 5.0 percent compared with the corresponding 2013 figure of €144.0 million.

In the development lending/agribusiness product field, net fee and commission income remained almost unchanged at €1.1 million (2013: €1.1 million).

In the syndicated business/renewable energies product field, net fee and commission income was up slightly from €5.9 million in 2013 to €6.4 million in the reporting year. This increase of 8.6 percent was attributable to higher fees and commissions in the renewable energies business.

A rising level of competition is apparent in the acquisition finance business, where foreign banks and debt funds are increasingly forcing their way into the German market. As a consequence, the net fee and commission income of €20.6 million in 2014 was only up marginally (5.1 percent) on the corresponding figure for 2013 of €19.6 million.

Net fee and commission income from international trade and export finance grew at a very encouraging rate, particularly in the first half of 2014, due to the expansion of business activities, increasing by 25.4 percent year on year to €13.9 million (2013: €11.1 million).

Performance in the international documentary business is affected by fierce competition in this area of activity. In the reporting year, DZ BANK managed to keep the number of transactions more or less stable and the net fee and commission income of €10.5 million thus almost reached the equivalent 2013 figure of €10.8 million (down by 2.2 percent).

In the project finance business, net fee and commission income rose by 6.7 percent to €11.4 million (2013: €10.6 million).

In the asset securitization product field, net fee and commission income in the year under review reached €37.5 million, equating to an increase of 16.5 percent compared with the 2013 figure of €32.2 million.

In 2014, the comprehensive range of shares and advice available in relation to equity products again proved popular with customers of the cooperative banks and direct customers of DZ BANK, and customers drew on these services frequently.
DZ BANK's customers benefitted from the fact that it was able to use its broadly based expertise, especially in a constantly changing market, to design and implement product solutions and transactions in a targeted and professional manner. It again succeeded in maintaining its position against German and international competitors, despite the fiercely contested market. Cooperative banks and direct customers work together with DZ BANK to maintain the necessary reliability when transactions are implemented to cover their capital requirements.

Net trading income amounted to €380 million in 2014 (2013: €267 million).

Under liabilities recognized at fair value, there was a gain of €31 million in the year under review. The considerable narrowing of spreads that had led to a loss of €83 million in 2013 was not repeated to the same extent in 2014.

In addition, net trading income in 2014 was boosted by the net figure for realized and unrealized gains and losses relating to ABSs, which amounted to a gain of €22 million (2013: gain of €46 million).

An amount pursuant to section 340e German Commercial Code (HGB) of €41 million (2013: €30 million) was added to the fund for general banking risks pursuant to section 340g HGB in 2014.

As in previous years, the gains and losses on trading activities at DZ BANK in the reporting period stemmed mainly from customer-related business in investment and risk management products involving the asset classes of interest rates, equities, loans, foreign exchange, and commodities. In each case, the focus is on the needs of the cooperative banks and the specialized service providers in the DZ BANK Group as well as on those of their retail and corporate customers. The range of products and services is also aligned with the requirements of direct corporate customers as well as national and international institutional clients.

The predominant features of the capital market environment in the year under review were the continuing expansionary monetary policy measures implemented by the ECB aimed at addressing the high level of indebtedness and the persistent downtrend in the demand for borrowing in the eurozone. These measures included the 2-stage reduction in interest rates, complemented by the cut in the deposit facility for banks to minus 0.2 percent. Other features included a further increase in the overall level of share prices on equities markets and continuing investor uncertainty, mainly caused by the crises and conflicts around the world.

DZ BANK's main focus of sales in the retail banking securities business in 2014 was on capital preservation products (capital guarantees and partial protection) and structured interest-rate products. Despite the tough market conditions, DZ BANK managed to push up sales by 5 percent to approximately €4.2 billion. In the reporting year, DZ BANK was able to use guarantee, opportunity, and security solutions to achieve further consolidation of its dominant position in the market for capital preservation certificates, increasing its market share by a further 5.0 percentage points to 58.5 percent, based on a strict quality strategy that places great emphasis on the priority customer need to invest while preserving capital in a time of low interest rates.

Various independent assessments honored DZ BANK for its product quality and service. For the 12th year running, DZ BANK was crowned Investment Certificates House of the Year, an award conferred by the specialist publication Der Zertifikateberater, the Welt Group, the two most important trading exchanges in Germany, Frankfurt Stock Exchange and Stuttgart Stock Exchange, and by financial software provider Bloomberg. DZ BANK was again among the top 3 in the overall assessment. Following an analysis carried out by the Welt Group and management consultants Sapient Global Markets, DZ BANK also received a top score in the investor service, product information, and web portal categories. In 2014, TÜV SÜD again thoroughly audited and issued certification for the quality management system in customer service and product development.

In order to stabilize their financial performance over the long term, the cooperative banks acquired investments with residual maturities of more than 5 years, particularly corporate bonds and simply structured credit-linked products, as part of their own-account investing activities. At the same time, they aimed for broad diversification in their securities portfolios.

In the capital markets business with institutional customers, investor demand was focused on the search for investments with risk premiums in the primary market. In the secondary market, both corporate bonds and bank bonds were particularly in demand. DZ BANK also continued to consolidate its leading market position in trading interest-rate derivatives. Given the intensifying geopolitical crises during the course of the year and the resulting market uncertainty combined with the rather subdued market expectations, investor interest in terms of equities structures was also focused on reverse products.

In the securities and deposit-taking business with corporate customers, investor attention was directed toward structured and securitization products to avoid negative investment rates for short-term liquidity investments. As business became more brisk in foreign exchange markets in the second half of 2014, customer turnover in the foreign exchange options business expanded, with customers applying hedging strategies and, increasingly, also optimization strategies. Given the historically low interest rates, corporate customers of the cooperative banks made use of interest-rate hedges based on variable euro loans with long maturities (preferably more than 10 years).

Income from new bond issuance business declined year on year as competition in this market continued to intensify. In the year under review, there was a downward trend in the volume of issues for finance issuers and German industrial customers. One of the factors was that industrial customers already had good liquidity buffers and/or strengthened equity.

The financing needs of public-sector issuers, development banks, and supranational institutions also diminished slightly as a consequence of the slowdown in economic growth and greater efforts to cut costs. Activity was further dampened by the low interest rates and low spreads.

Administrative expenses at DZ BANK amounted to €943 million, an increase of €38 million or 4.2 percent on the comparable figure in 2013 (€905 million). Of this increase, an amount of €12 million related to the branch in Poland, for which the administrative expenses in 2014 totaled €15 million compared with €3 million in 2013 because the branch had only been included in this item under DZ BANK from November 2013. The operating activities of DZ BANK in Poland, which previously had been the responsibility of a subsidiary, were transferred in 2013 to a newly established branch of DZ BANK in Poland.

Other administrative expenses went up by €15 million to €448 million (2013: €433 million), mainly because of higher project costs as a result of the enhanced regulatory requirements.

The rise in staff expenses of €23 million to €495 million (2013: €472 million) was mostly attributable to growth in the number of employees and salary increases.

Other **net operating income and expenses** at DZ BANK amounted to income of €10 million in 2014 (2013: expenses of €21 million).

Other net operating income included a gain of €35 million (2013: €47 million) from the reversal of provisions and a net expense of €13 million (2013: net expense of €42 million) resulting from the measurement of the occupational pension plan.

The figure for the measurement of the occupational pension plan included the interest cost of €76 million reported in 2014 (2013: €54 million) in connection with the valuation of pension obligations. It also included interest income earned from plan assets in 2014 of €21 million (2013: €21 million), reversals of impairment charges of €40 million (2013: recognition of impairment charges of €9 million) in respect of plan assets recognized at fair value, and a price gain recognized on plan assets of €2 million (2013: €0.2 million).

Allowances for losses on loans and advances came to €55 million in 2014, compared with €292 million in 2013.

DZ BANK reported a net addition to specific loan loss allowances of €28 million in 2014. Additions, particularly in corporate banking, were offset by corresponding reversals arising from the continued success of efforts to aid the recovery of non-performing loans, resulting in a sharp fall in net additions to specific loan loss allowances compared with the net additions in the previous year of €186 million. This outcome reflects the stability of the credit portfolio and DZ BANK's sustainable, rigorous risk policy. Under portfolio loan loss allowances, there was a net reversal amounting to €39 million (2013: net addition of €119 million).

In the year under review, DZ BANK's **other net income and expense** amounted to an expense of €160 million (2013: expense of €131 million).

Within this figure, gains on investments of €50 million (2013: losses of €50 million) included both gains from long-term equity investments of €7 million (2013: gains of €12 million) and gains on long-term securities totaling €43 million (2013: write-downs of €62 million).

The gains from long-term equity investments in the reporting year included, in particular, a gain of €23 million from the disposal of NATIXIS shares and the reversal of a write-down of €17 million on DZ BANK's long-term equity investment in DG HYP. These gains were partly offset, in particular, by a write-down of €24 million (2013: write-down of €10 million) on the carrying amount of the direct investment held by DZ BANK in DZ BANK Ireland plc, Dublin, (DZ BANK Ireland). In 2013, gains and losses on long-term equity investments had included a reversal of a write-down of €26 million on shares held by DZ BANK in NATIXIS S.A., Paris.

In 2014, long-term securities generated proceeds of €29 million, primarily from the sale of securities in the investment portfolio. There was also an ABS-related gain of €8 million (2013: net write-downs of €36 million). In 2013, write-downs had also been recognized on above-par securities in the amount of €51 million.

The expense in respect of the transfer of losses in 2014 amounted to €236 million (2013: €73 million). It largely resulted from an expense of €130 million (2013: €20 million) relating to DZ Beteiligungsgesellschaft mbH Nr. 11, Frankfurt am Main, that was caused by further charges in connection with the long-term equity investment in Volksbank Romania S.A., Bucharest. In December 2014, contracts for the sale of Volksbank Romania S.A., Bucharest, to a Romanian bank were signed. The transaction is due to be completed in the first half of 2015. In respect of the transfer of losses, there was also an expense of €61 million in favor of VR-LEASING AG (2013: €16 million). This expense mainly resulted from the write-down recognized by VR-LEASING AG in December 2014 on the additional payment made into the capital reserve of Lombard Lizing, Hungary. An additional €40 million of expenses from the transfer of losses related to DZ Beteiligungsgesellschaft mbH Nr. 18, Frankfurt am Main (2013: €21 million), which had recognized write-downs in respect of the carrying amounts of the equity investments in GAF Active Life 1 Renditebeteiligungs-GmbH & Co. KG, Nidderau, and GAF Active Life 2 Renditebeteiligungs-GmbH & Co. KG, Nidderau.

In 2014, the net extraordinary income/expenses for the year amounted to income of €26 million (2013: expense of €8 million) and included, in particular, proceeds of €30 million from the merger of AGAB Aktiengesellschaft für Anlagen und Beteiligungen, Frankfurt am Main, with DZ BANK. These proceeds were partly offset by an expense of €11 million resulting from the restructuring of DZ BANK's business activities in Poland. In May 2014, DZ BANK decided to close its branch in Poland.

In the previous year, an amount of €135 million had been added to the reserves pursuant to section 340g HGB (2014: €0 million).

With a tax expense of €145 million (2013: €76 million), **net income** for the year was €213 million (2013: €166 million).

The tax expense for the year under review of €145 million (2013: €76 million) includes a deferred tax expense of €144 million (2013: €24 million), income from group tax levies of €175 million (2013: €223 million), and a tax expense of €176 million (2013: €275 million).

As a result of the net income for the year of €213 million, DZ BANK will propose a **dividend** of €0.15 per share to the Annual General Meeting. This would equate to a total distribution of €210 million.

3.3. NUMBER OF BRANCHES

As at December 31, 2014, DZ BANK had 4 German branches in Berlin, Hannover, Stuttgart, and Munich as well as 5 international branches situated in London, New York, Hong Kong, Singapore, and Poland.

The Hannover and Munich branches oversee two sub-offices in Hamburg and Nuremberg.

4. NET ASSETS

As at December 31, 2014, DZ BANK's **total assets** had decreased by €13.7 billion to €204.2 billion (December 31, 2013: €217.9 billion), a decline of 6.3 percent.

Over-the-counter (OTC) derivatives held for trading purposes, for which variation margins have been agreed on the basis of bilateral master agreements in the Collateralization Annex and for which the variation margins have been paid daily, are netted for the first time at the end of the financial year and shown on the balance sheet as at December 31, 2014 on a net basis. For each master agreement, the netting covers the fair values of the OTC derivatives and the variation margin. As at December 31, 2014, this netting reduced loans and advances to banks by €5.0 billion, loans and advances to customers by €0.01 billion, the carrying amount of trading assets by €12.2 billion, deposits from banks by €1.0 billion, deposits from customers by €0.2 billion, and the carrying amount of trading liabilities by €16.1 billion.

DZ BANK's international branches accounted for €29.0 billion or around 14.2 percent of the total assets of DZ BANK as at December 31, 2014. New York (€16.8 billion) and London (€8.8 billion) together accounted for around 88 percent of the €29.0 billion. The remaining €3.4 billion was attributable to the branches in Singapore (€1.7 billion), Hong Kong (€1.5 billion), and Poland (€0.2 billion).

The **return on assets**, which was calculated by dividing the net income for the year after taxes by the total assets at December 31, 2014, was 0.1 percent.

As at December 31, 2014, **total volume** amounted to €226.8 billion (December 31, 2013: €238.8 billion). This figure comprises total equity and liabilities, contingent liabilities, and other DZ BANK obligations.

FIG. 2 – TOTAL ASSETS

The derivatives recognized at fair value of €791.1 billion (December 31, 2013: €851.4 billion) and **the derivatives not recognized at fair value** of €35.8 billion (December 31, 2013: €42.0 billion) came to a notional amount of €826.9 billion as at December 31, 2014 (December 31, 2013: €893.4 billion). Of this total amount, €28.9 billion was accounted for by positive fair values (December 31, 2013: €22.3 billion).

Loans and advances to banks had fallen by €2.0 billion to €80.7 billion as at December 31, 2014, compared with €82.7 billion as at December 31, 2013. Loans and advances to affiliated banks had declined by €1.5 billion or 3.0 percent to €49.3 billion. Loans and advances to other banks had decreased by €0.5 billion or 1.6 percent to €31.4 billion. An amount of €5.0 billion was attributable to the aforementioned netting.

Loans and advances to customers had reduced by €0.2 billion to €22.4 billion as at December 31, 2014 (December 31, 2013: €22.6 billion). Within this amount, fixed-term deposits had declined by €0.7 billion, whereas promissory notes and development program loans had increased by €0.4 billion and €0.3 billion respectively. Current account debit balances had gone down by €0.2 billion. An amount of €0.01 billion was attributable to the aforementioned netting.

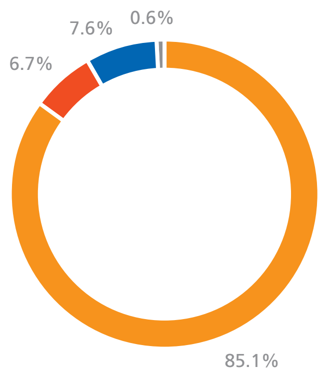
As at December 31, 2014, the value of **bonds, shares, and other securities** had fallen by €0.2 billion year on year to €39.9 billion (December 31, 2013: €40.1 billion). This change was attributable almost exclusively to holdings of shares and other variable-yield securities, the value of which amounted to €0.1 billion as at December 31, 2014 (December 31, 2013: €0.3 billion). The value of bonds was unchanged year on year at €39.8 billion (December 31, 2013: €39.8 billion).

The **trading assets** line item was €45.5 billion as at December 31, 2014, a drop of €11.2 billion compared with December 31, 2013 (€56.7 billion). This was mainly the result of a decrease of €5.8 billion for derivatives and of €4.3 billion for repurchase agreements. The amount attributable to the aforementioned netting was €12.2 billion.

In line with the change in the corresponding assets, **deposits from banks** had contracted by €2.4 billion to €85.4 billion as at December 31, 2014 (December 31, 2013: €87.8 billion). Deposits from affiliated banks had declined by €4.7 billion, or 12.7 percent, to €32.2 billion. Deposits from other banks had gone up by €2.3 billion, or 4.5 percent, to €53.2 billion. An amount of €1.0 billion was attributable to the aforementioned netting.

Deposits from customers as at December 31, 2014 had decreased by €6.6 billion year on year to €22.9 billion (December 31, 2013: €29.5 billion). This change was predominantly attributable to a reduction in fixed-term deposits (down by €2.5 billion), overnight money (down by €1.7 billion), promissory notes (down by €1.0 billion), current account credit balances (down by €0.9 billion), and registered bonds (down by €0.6 billion). The aforementioned €6.6 billion decrease in deposits from customers was largely offset by an increase in debt certificates issued including bonds (up by €4.4 billion) and equity (up by €1.5 billion). The amount attributable to the aforementioned netting was €0.2 billion.

FIG. 3 – SHAREHOLDERS AS AT DECEMBER 31, 2014



Total subscribed capital: €3,646 million

- Local cooperative banks*: €3,101 million
- WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank*: €243 million
- Other cooperative enterprises: €279 million
- Other: €23 million

* Directly and indirectly.

Debt certificates issued including bonds had increased by €4.4 billion to €39.0 billion as at December 31, 2014 (December 31, 2013: €34.6 billion). This was mainly due to the €9.1 billion rise in the portfolio of commercial paper, which was partly offset by a €4.7 billion reduction in bonds (excluding domestic commercial paper).

The **trading liabilities** line item stood at €37.0 billion as at December 31, 2014, compared with €47.2 billion as at December 31, 2013. This decline of €10.2 billion was in line with the change in trading assets. The derivatives categorized as trading liabilities had contracted by €9.9 billion year on year. Repurchase agreements had fallen by €0.3 billion. An amount of €16.1 billion was attributable to the aforementioned netting.

The **fund for general banking risks** in accordance with section 340g HGB amounted to €4,250 million as at December 31, 2014 (December 31, 2013: €4,209 million).

The **equity** of €8.0 billion reported on the balance sheet as at December 31, 2014 was €1.5 billion up on the equivalent figure as at December 31, 2013 (€6.5 billion). This change was largely a result of the capital increase carried out in 2014.

DZ BANK's capital situation is described in this management report in chapter VI. (Opportunity and risk report), section 7. (Risk capital management in the Bank sector).

5. FINANCIAL POSITION

In the context of **funding**, DZ BANK distinguishes between operational liquidity (liquidity in the maturity band of up to one year) and structural liquidity (liquidity in the maturity band of more than one year). Dedicated steering committees have been established for both types of liquidity.

DZ BANK has a highly diversified funding base for **operational liquidity.** A considerable portion is accounted for by money market activities resulting from the cash-pooling function with the local cooperative banks. This enables local cooperative banks with available liquidity to invest it with DZ BANK, while primary banks requiring liquidity can obtain it from DZ BANK. Traditionally, this results in a liquidity surplus, which provides the main basis for short-term funding in the unsecured money markets. Corporate customers and institutional clients are another important source of funding for operational liquidity requirements. DZ BANK therefore has a comfortable level of liquidity at its disposal. Funding on the interbank market is not strategically important to DZ BANK.

DZ BANK issues securitized money market products through its branches in Frankfurt, New York, Hong Kong, and London.

DZ BANK's main **sources of funding** on the unsecured money markets as at December 31, 2014 were as follows:

FIG. 4 – UNSECURED SHORT-TERM AND MEDIUM-TERM FUNDING

%	Dec. 31, 2014	Dec. 31, 2013
Local cooperative banks	46	55
Other banks, central banks	13	11
Corporate customers, institutional customers	17	26
Commercial paper (institutional investors)	24	8

Money market funding also includes collateralized money market activities, which DZ BANK has centralized in Group Treasury and which form the basis for risk-mitigating cash pooling. To this end, Group Treasury has a portfolio of securities eligible for central bank borrowing (collateral pool). These securities can be used as collateral in monetary policy funding transactions with central banks, in bilateral repos, or in the tri-party repo market.

Structural liquidity activities are used to manage and satisfy the long-term funding requirements (more than 1 year) of DZ BANK.

Structural liquidity is measured daily on the basis of total liquidity flows. The long-term ratio is also used to support the management of structural liquidity. This key figure is also determined on a daily basis. It quantifies the ratio of sources of funds to application of funds with a residual maturity of more than one year on a cash flow basis.

DZ BANK's **long-term ratio** as at December 31, 2014 was 91 percent (December 31, 2013: 102 percent). This meant that the items tying up liquidity with residual maturities of over one year were largely funded by liabilities that also had residual maturities of more than one year.

DZ BANK secures its long-term funding for structural liquidity by using structured and non-structured capital market products that are mainly marketed through the local cooperative banks' own-account and customer-account securities business and to institutional clients. DZ BANK also has the option of obtaining liquidity through covered issues known as DZ BANK BRIEFE. In this case, the funding is primarily obtained from institutional investors.

Long-term funding requirements in foreign currencies are covered through the basis swap market, ensuring matching maturities.

Group Treasury at DZ BANK carries out groupwide **liquidity planning** annually. This involves determining the funding requirements of the DZ BANK Group and DZ BANK for the next financial year on the basis of the coordinated business plans of the individual companies. Liquidity planning is updated throughout the year.

Monthly **structural analyses** of the various resources available on the liabilities side of DZ BANK's balance sheet are also conducted. The purpose of these analyses is to provide senior management with information that can then be used as the basis for actively managing the liability profile.

To complement the description of the funding structure, further information on **liquidity risk** can be found in this management report in chapter VI. (Opportunity and risk report), section 15. (Liquidity risk in the Bank sector).

III. Events after the balance sheet date

There were no events of particular importance after the end of the financial year.

IV. Human resources report and sustainability

1. HUMAN RESOURCES REPORT

1.1. REGULATORY REQUIREMENTS FOR THE REMUNERATION STRATEGY

In the reporting year, DZ BANK and the entities in the DZ BANK Group approved the 2014 remuneration strategy for the DZ BANK Group and thereby implemented the regulatory requirements. The strategy is binding for DZ BANK's subordinated entities and for DZ BANK itself. Risk takers were identified at both DZ BANK level and DZ BANK Group level.

1.2. LAUNCH OF 'VERBUND FIRST' CAREER DEVELOPMENT PROGRAM

A joint trainee program for the local cooperative banks had been launched in 2011. The program, entitled TeamUp, is led by DZ BANK. TeamUp has a modular structure and enables qualified university graduates, through a variety of practical placements, to get to know the business operations of the local cooperative banks and the range of products and services provided across the entire cooperative financial network. The work carried out together in the TeamUp program gave rise to the idea of 'Verbund First', a new career development program for existing and prospective managers. The program began in the fourth quarter of 2014 with its first 10 participants. Networking among participants and exchanges with the local cooperative banks form the focus of the new program. This is one of the ways in which DZ BANK develops the capabilities of managerial talent in cooperative banks and directly helps to retain these managers in the cooperative financial network.

1.3. 2014 EMPLOYEE SURVEY: DZ MEINUNGSSPIEGEL

DZ MeinungsSpiegel, the bank-wide employee survey, was conducted for the third time in 2014. The participation rate increased by 5 percent to 73 percent. There was also an improvement in the Organizational Commitment Index (OCI), which indicates employee retention and their loyalty to DZ BANK. It advanced to 74, up by one point compared with the 2011 MeinungsSpiegel.

1.4. LAUNCH OF THE DZ BANK GROUP'S EMPLOYER BRANDING CAMPAIGN

HR experts in the individual entities have developed an employer brand with the aim of safeguarding the competitiveness of the DZ BANK Group as an employer over the long term. The key phrases in the employer value proposition (EVP) are derived from the cooperative values and are as follows:

- Success through reasonable and sustainable activities
- Human and fair approach
- Commonality and diversity
- Prospects, future, and stability.

This strategy is being implemented in two stages. The initial internal cross-organizational activities began in the fourth quarter of 2014 under the leadership of DZ BANK and involved the introduction of an internal communications and work platform known as the 'WIR platform'. The purpose of the platform is to facilitate networking and collaboration between DZ BANK Group employees and thereby establish the employer brand. The external market launch will take place in 2015 and 2016.

1.5. PROFESSIONAL DEVELOPMENT

In the year under review, 70 percent of the training required by all employees and managers was provided through DZ BANK's inhouse professional development program, which fitted in well with the focus on cost awareness. The bulk of this training (40 percent) was accounted for by the general program, covering 130 different subjects, while bespoke, division-specific programs accounted for a further 30 percent. Demand for courses in the area of banking and business studies, specifically those focusing on statutory and regulatory changes, remained strong in 2014. In addition to the external trainers, many internal specialists also contributed their valuable expertise to training courses on regulatory matters. Inhouse trainers delivered around 75 of DZ BANK's seminars in

2014, 50 within the general professional development program and 25 of those aimed at specific divisions. Targeted professional development seminars support employees in their day-to-day work and thereby make an important contribution to the success of the business. A total of 250 managers in Germany have now taken part in the bank-wide management training program, which was launched in 2008. In 2014, the program was also run at DZ BANK's offices outside Germany for the first time with the aim of establishing a consistent approach to leadership across the bank.

1.6. TRAINING AND DEVELOPMENT OF YOUNG TALENT

In 2014, 70 trainees (32 women and 38 men) began their professional career by joining various training programs at DZ BANK after completing their studies at school or university. Training and developing the next generation is regarded as a shared responsibility within the bank. The HR division establishes the necessary structures and monitors the trainees and the departmental coordinators, but the training itself is carried out within the individual departments.

DZ BANK encourages individual responsibility among the newcomers in order to prepare them as fully as possible for taking on suitable roles in the bank. Besides equipping trainees with specialist knowledge, the development programs focus on expanding their methodological, social, and personal skills. A job-shadowing assignment in another entity within the DZ BANK Group has been included as a standard component of the trainee and postgraduate program since 2012. In 2014, 29 DZ BANK trainees undertook such assignments with a group entity and, in return, 11 trainees from other entities in the DZ BANK Group carried out job-shadowing assignments at DZ BANK. Job-shadowing assignments were also arranged within individual entities of the DZ BANK Group. The program will continue in 2015.

1.7. HEALTH MANAGEMENT

In 2014, DZ BANK provided a number of services aimed at promoting the health of employees, such as attractive sporting opportunities within the bank and anti-stress programs. 'Health days' covered topics such as regeneration and exercise, with lectures and workshops providing employees with a wealth of information.

If employees face challenges or problems at work or at home, they can turn to the independent social counseling service, which was set up in 2007.

1.8. WORK AND FAMILY LIFE

One of the core objectives of DZ BANK's HR policy is to create a working environment that takes account of the changes to family structures and age demographics. DZ BANK supports parents and carers by offering flexible working hours, teleworking, and parent-and-child offices. External service providers have also been contracted to ensure regular daycare places are available for employees' children and to offer a service that finds au-pairs and carers. This service is free of charge for bank employees. A daycare center for DZ BANK employees' children will be included in the new building being constructed as part of the expansion of the Frankfurt site.

At the end of 2013, the bank successfully underwent the *auditberufundfamilie*® audit carried out by the non-profit-making Hertie Foundation. The Hertie Foundation recognizes companies with family-friendly and life-stage-oriented HR policies with a certificate that lasts for three years. At the end of this period, companies must undergo another audit. The bank has held the award since 2007. It has also signed the Charter for the Compatibility of Work and Care in Hessen, which was created as part of the Hessen-based Compatibility of Work and Care initiative. This initiative is backed by, among others, berufundfamilie gGmbH and the Hessen State Ministry of Social Affairs.

1.9. EMPLOYER AWARDS

DZ BANK received the following awards in 2014: Top German Employer (Top Employers Institute, since 2008), Career-enhancing & fair trainee program (Absolventa, since 2012), and Germany's 100 Top Employers (trendence, since 2008).

FIG. 5 – EMPLOYEE DATA

Employees (average for the year, excluding trainees)	**2014**	2013
Total	**4,250**	**4,111**

Employees (as at December 31, including trainees)	**2014**	2013
Total	**4,389**	**4,387**

Employees (as at December 31)		
Employees	4,256	4,250
Trainees	133	137
Germany	4,071	3,993
ROW	318	394
Male	2,527	2,521
Female	1,862	1,866
Total proportion of women (%)	42.4	42.5
Proportion of female managers (%)	18.5	17.2
Full-time	3,601	3,662
Part-time	788	725
Proportion of part-time (%)	18.0	16.5
Period of service (years)	13.8	13.2
Staff turnover (%)[1]	4.9	3.1

Professional development[2]		
Total professional development days	10,582	10,483
Professional development days per employee	2.6	2.6

1 Staff turnover in 2014 excluding the Warsaw site was 3.1 percent.
2 Germany only.

2. SUSTAINABILITY

2.1. COOPERATIVES: RESPONSIBILITY AS A CORPORATE OBJECTIVE

The philosophy of meeting commercial and social challenges together is the foundation on which the cooperatives are based and is a fundamental principle of sustainability. Around the globe, almost 800 million people in more than 100 countries are members of a cooperative. Cooperatives provide a place of work for 100 million people.

The strong regional ties of the entities and their businesses, particularly in the cooperative banking sector, are hallmarks of our shared cooperative guiding principle and one of our strengths that puts us ahead of the rest.

DZ BANK is now one of the leading financial institutions in terms of sustainability. This is confirmed by the sustainability rating received from the sustainability ratings agency oekom research AG, which awarded the DZ BANK Group prime status in 2011 and again in 2013. This status is given by oekom research AG to entities that stand out from the crowd because of their above-average environmental and social commitment.

2.2. SUSTAINABILITY-RELATED PRODUCTS AND SERVICES

As one of the country's leading financial services providers, DZ BANK is playing a key role in funding the switch to renewable energy sources in Germany. The DZ BANK Group's range of products covering renewable energies extends from finance for energy-saving solutions in construction and renovation projects to support for small and medium-sized enterprises using wind power, biomass, or solar energy and finance for large-scale projects such as solar farms, as well as suitable insurance solutions.

Since the beginning of 2009, the renewable energies sector has been a strategic area of activity for DZ BANK. As well as traditional bank loans funded from our own liquidity, the arrangement of development loans is currently a key aspect of our activities.

In the renewable energies sector, DZ BANK currently provides lending of **around €2 billion** to fund the expansion of infrastructure and the development of new, more efficient technologies.

DZ BANK also offers other sustainability-related products and services, ranging from special investment certificates in the 'Anlage Zukunft' product line to sustainability research.

In addition to offering sustainability-related products and services, DZ BANK has also enhanced key processes so that they satisfy social and environmental criteria. On January 1, 2013, DZ BANK signed up to the Equator Principles, which provide a global standard for project finance. Since then, all project finance involving a total investment of more than US$ 10 million has been subject to an additional review in compliance with the requirements of the Equator Principles. DZ BANK's lending guidelines also include carrying out its own sustainability check, which is based on the principles of the UN Global Compact. Branch guidelines and the lending risk strategy also stipulate which activities cannot be funded due to their environmental or social risks. Since 2014, DZ BANK has also published fundamental rejection criteria used in lending decisions.

2.3. GROUP CORPORATE RESPONSIBILITY COMMITTEE

The entities in the DZ BANK Group also undertake joint action. Since 2010, they have been pooling their activities to a much greater extent, focused on the common objectives of exploiting market opportunities, avoiding risk, and at the same time enhancing corporate citizenship.

In the reporting year, the group entities set up a standing committee, the Group Corporate Responsibility Committee. The committee is made up of the sustainability coordinators and communications managers from the various entities and meets regularly. The Group Corporate Responsibility Committee reports to the Group Coordination Committee.

Outcomes from these activities have included, for example, the introduction of groupwide supplier standards, a common database structure, an internal climate study, and a joint climate strategy.

In 2013, the commitment to the UN Global Compact had been extended to include the entities represented on the Group Corporate Responsibility Committee. DZ BANK, BSH, DG HYP, DZ PRIVATBANK, TeamBank, VR LEASING, R+V Versicherung, and Union Investment all undertook to comply with the UN's sustainability principles and report on their compliance jointly.

2.4. TRANSPARENCY IN SUSTAINABILITY ACTIVITIES

DZ BANK is a member of the Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. (VfU) [German Association for Environmental Management and Sustainability in Financial Institutions] and also hosted the annual conference in 2014. The conference theme was 'License to operate' and approximately 100 participants attended workshops and presentations at which they discussed the further development of sustainability in financial institutions.

The reporting year saw the publication of DZ BANK's sixth sustainability report prepared in accordance with the international reporting standards under the Global Reporting Initiative (GRI).

Sustainability report of DZ BANK, together with further information:
www.sustainability.dzbank.com

V. Outlook

1. ECONOMIC CONDITIONS

1.1. GLOBAL ECONOMIC TRENDS

Global economic growth has accelerated slightly but is still well behind the rate of expansion in the years before the financial crisis. However, the positive trend has not been reflected to date in international trade, which has fallen short of expectations.

The potential for growth in the industrialized nations has diminished and fiscal measures to consolidate public finances are still necessary, even against the background of an expansionary monetary policy. In the emerging markets, economic growth is being impeded by structural bottlenecks and by financial and macroeconomic imbalances.

Global growth is expected to be around 4 percent in both 2015 and 2016. Global trade in 2015 is likely to expand at a rate of approximately 4 percent. It is only in 2016 that a noticeably stronger rate of growth of more than 5 percent is anticipated.

1.2. TRENDS IN THE USA

Strong sentiment in the US reflects the faster pace of growth in the country's economy. The fall in fuel prices is also having a beneficial effect, particularly on consumer spending.

On the other hand, companies involved in the extraction of shale oil could find their growth arrested by this trend. Following the significant drop in the price of oil, it is likely to rise again in the second half of 2015. The US economy could expand by well over 3 percent in 2015, although a slight decline in this growth to 2.4 percent is forecast for 2016.

The rate of inflation for the whole of 2015 is likely to be around 0.5 percent, with a rise to approximately 2.4 percent again in 2016. Following the extended period of low interest rates, the US Federal Reserve (Fed) is expected to announce an initial upward movement in interest rates in the spring of 2016.

1.3. TRENDS IN THE EUROZONE

The latest indicators of economic growth in the European Monetary Union (EMU) point to a continuation of the modest economic uptrend in the eurozone. The economies of the industrialized nations are being particularly boosted by the lower price of oil, a key input factor in these economies.

The same trend is helping consumers who are having to spend a lower proportion of their disposable income on heating oil and fuel for cars. The effect is to stimulate economic growth in the same way as a tax cut.

An adverse impact could arise at an international level in the form of lower demand from oil-exporting countries. In the EMU however, this will be more than offset by the positive effect from the savings. Overall, the oil price effect is likely to lead to stronger growth in gross domestic product (GDP) in 2015, which is predicted to reach approximately 1.3 percent. As the price of oil is forecast to climb again in the next few years, this beneficial effect will disappear over time, with no great stimulus expected in 2016. GDP growth of approximately 1.5 percent is anticipated for 2016.

The economic boost from the lower oil price will also be reflected in consumer prices, resulting in a further fall in inflation. An average rate of inflation of approximately 0.1 percent is expected for 2015, with a likely rise to 0.9 percent in 2016.

1.4. TRENDS IN GERMANY

Economic growth in Germany will gradually gather pace again in the coming year. The German economy will benefit from 2 particular factors, namely the low price of oil and the weaker euro. Business profits will rise on the back of falling energy costs, and consumers will see growth in the real purchasing power of their income.

In the coming year, the total financial relief to the German economy from lower oil prices will equate to approximately one half of a percentage point of economic output. The bulk of this relief will result in additional demand, thereby delivering a boost to growth. For its part, the weaker euro will improve the price competitiveness of EMU businesses in international trade but the benefits will only become apparent in the somewhat longer term. In the overall analysis, economic growth in the coming year will be approximately 1.5 percent, rising slightly to around 1.6 percent in 2016.

The sharp drop in the price of oil is also lowering energy prices in Germany, putting further downward pressure on the rate of inflation. However, Germany is not anticipating a deflationary trend with permanently falling prices. Significant wage hikes alone are ensuring that this will not occur. The average rate of inflation for 2015 is expected to rise just slightly to 0.4 percent. As oil prices then rise again, a further increase to approximately 1.6 percent in 2016 is forecast for the inflation rate.

The stimulus from the ECB decision to buy bonds from countries in the eurozone is only expected to have very limited impact on Germany, and even then only from the effect caused by the further weakening of the euro.

1.5. TRENDS IN THE FINANCIAL SECTOR

On November 4, 2014, a unified system of banking supervision became fully operational in Europe, representing a key pillar of banking union. Prior to the changeover date, all the banks involved were subject to a comprehensive assessment (comprising a balance sheet review and a stress test) with the aim of creating transparency and detecting any legacy issues or capital shortfalls.

The results of the comprehensive assessments carried out by the ECB demonstrated that the balance sheets of the 25 German banks involved were sound and that these banks were able to withstand a simulated economic shock.

Despite the positive findings from the balance sheet review, the banks will still have to improve their capital and profitability over the next few years.

2. CHANGES IN FINANCIAL POSITION AND FINANCIAL PERFORMANCE

2.1. FINANCIAL PERFORMANCE

DZ BANK will not remain totally unscathed by the challenging economic conditions in Europe. In particular, the bank's earnings performance will be hampered by the persistently low interest rates and the regulatory-driven increase in costs resulting from the European bank levy.

The smoldering sovereign debt crisis and financial policies introduced to resolve the problems could also lead to volatility on capital markets in 2015. Furthermore, DZ BANK's business performance could be affected by developments in foreign policy relating to the crisis in Ukraine. This may also have a lasting adverse effect on the earnings performance of DZ BANK in 2015 and 2016.

Net interest income excluding income from long-term equity investments is likely to be negatively impacted by the predicted fall in interest income from money market business and by the effects of securities in the investment portfolio. As a result, a sharp decline in net interest income excluding income from long-term equity investments is anticipated in 2015, taking account of the one-off item in connection with the amortization of premiums. But it is expected to pick up again significantly in 2016.

Net interest income should receive a boost in 2015 and 2016 from DZ BANK's disciplined implementation of its growth strategy for corporate banking. The strategic objective is to improve DZ BANK's market share in corporate banking, in particular in relation to the provision of funding for large and medium-sized companies. The planned implementation of the approved growth strategies, coupled with a more regional organizational structure, is intended to generate a slight increase in new business volume in 2015 and 2016, both in direct business and in joint lending business with other parties, while at the same time ensuring steady growth in margins. Overall, the volume is expected to rise in these two years.

Strong growth in **income from long-term equity investments** is anticipated in 2015 in view of the increase in operating income from subsidiaries' business activities. Income from long-term equity investments is also expected to rise sharply in subsequent years.

In 2015, the specific loan loss allowances reported under **allowances for losses on loans and advances** are likely to climb significantly, despite a sustained and rigorous risk policy remaining in place. This means that, in 2015, specific loan loss allowances will return to normal levels and will change in line with the lending portfolio and the long-term standard risk costs. Specific loan loss allowances are predicted to continue rising sharply in 2016.

A possible economic downturn combined with a flaring up of the sovereign debt crisis could have an adverse effect on allowances for losses on loans and advances.

Net fee and commission income is expected to remain a steady source of income in 2015, contracting only slightly this year. Moderate growth is predicted for 2016, with particular stimulus being provided by transaction banking and corporate banking.

The main factor influencing **net trading income** will be the strategy in the capital markets business. This business's strategic objective continues to be to strengthen its market position as the number one for own-account investing activities at the local cooperative banks, which it will achieve with a service campaign aimed at building up the management of own-account business. In parallel, a greater focus on lasting profitable relationships with institutional clients is intended to boost profitability.

The capital markets business for retail customers is to continue pursuing its strategy of being a full-service provider of high-quality securities product solutions. This strategic approach is to be underpinned by the expansion of support services aimed at improving the skills of advisors in the local cooperative banks.

The positive effects of the underlying strategy will be negated by a reduction in reversals of impairment losses and challenging market conditions in 2015, which means that net trading income is likely to decline slightly overall. In subsequent years, however, net trading income is expected to go up again.

The anticipated significant rise in **administrative expenses** in 2015 and 2016 results from the EBA bank levy and the enhanced requirements imposed under the tighter regulatory framework for banks. The necessary growth in the number of employees and the additional IT costs as a consequence of projects related to regulatory requirements will be particularly apparent in the strong increase in administrative expenses.

Moreover, administrative expenses will also be pushed up by investment in the corporate banking business in line with the strategy.

DZ BANK aims to limit the additional regulatory-related rise in administrative expenses by proactively managing its costs.

There will be a considerable improvement in **net income/expense from other business** in 2015 and 2016, also due to the non-recurring effect of the transfer of losses in 2014.

The fall in operating income caused by market conditions, combined with the predominantly regulatory-driven increase in administrative expenses, will have a considerable adverse impact on the **cost/income ratio** in 2015 and 2016.

The DZ BANK Group's economic **capital adequacy** was assured at all times in 2014. From the current perspective, this is also expected to be the case for 2015 and 2016.

The Board of Managing Directors of DZ BANK estimates that profit before taxes will be much lower in 2015. A strong improvement is then forecast for 2016.

2.2. LIQUIDITY

DZ BANK anticipates that the local cooperative banks will continue to hold stable levels of deposits in 2015, which will help with its management of operational liquidity. Corporate customers and institutional investors, both in Germany and abroad, will also continue to make a sustained contribution to the diversification of funding.

The structural funding of DZ BANK is expected to continue to be underpinned by stable sales of a wide variety of funding products as a result of the broad, well-established customer base.

DZ BANK's economic capital adequacy is assured for 2014. This is also expected to be the case for 2015.

VI. Opportunity and risk report

1. DISCLOSURE PRINCIPLES

The opportunity and risk report of the DZ BANK Group includes disclosures relating to DZ BANK. A separate opportunity and risk report is not prepared for DZ BANK. Unless presented elsewhere, the disclosures relating to the DZ BANK Group and the Bank sector also apply to DZ BANK.

By publishing the opportunity and risk report, DZ BANK, as the parent company in the DZ BANK Group, is implementing the transparency requirements for opportunities and risks applicable to the DZ BANK Group as specified in sections 37v and 37y WpHG and section 315 HGB in conjunction with DRS 20. Furthermore, the opportunity and risk report meets the transparency requirements regarding opportunities and risks applicable to DZ BANK as a separate entity that are specified in section 289 HGB in accordance with DRS 20.

This report also satisfies the applicable international risk reporting requirements, specifically those specified in IAS 1.134-136 (capital), IFRS 7.31-42 (nature and extent of risks arising from financial instruments), and IFRS 4.38-39A (nature and extent of risks arising from insurance contracts). The maturity analysis under IFRS 7.39(a) and (b) is disclosed in the notes to the consolidated financial statements (note 84).

The requirements set out in IFRS 7 are generally limited to financial instruments, shifting the focus of reporting to credit risk, equity investment risk, market risk, and liquidity risk. In contrast, the DZ BANK Group takes a holistic view of all these risks when using risk management tools and when assessing the risk position. As a consequence, the groupwide risk management system not only covers risks that arise specifically in connection with financial instruments, but also all other relevant types of risk. This integrated approach is reflected in this opportunity and risk report.

The external risk reporting requirements specified by Part 8 of the Capital Requirements Regulation (CRR) are satisfied by the regulatory risk report published by the DZ BANK banking group. This report is available on DZ BANK's website. The opportunity and risk report within the group management report implements those components of the regulatory disclosure requirements that relate directly to internal risk management but that do not directly relate to the regulatory reporting system.

This opportunity and risk report also includes information in compliance with those recommended risk-related disclosures that have been issued by the Financial Stability Board (FSB), the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) that extend beyond the statutory requirements and that are intended to improve the usefulness of the disclosures in the decision-making process.

In the year under review, the risk management of the DZ BANK Group switched to the sectoral approach. Details about the sectoral approach can be found in section 2.3.3.

Information about the general opportunity and risk management system is disclosed in the main section about the **DZ BANK Group**. Specific types of risk are reported separately in the main sections about the **Bank sector** and the **Insurance sector**. Within the sectors, the **risk types backed by capital** are presented as the first main category. They are divided into financial-sector risks and business-performance risks. **Risk types not backed by capital** form the second main category within the sectors. This only applies to the Bank sector and the liquidity risk within it.

DZ BANK Group

2. SUMMARY

2.1. STATEMENTS FROM THE BOARD OF MANAGING DIRECTORS

In accordance with article 535 (1e) CRR, the Board of Managing Directors of DZ BANK considers that the risk management system in place is adequate with regard to the risk profile and risk strategy of the DZ BANK Group. The ECB and the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [Federal Financial Supervisory Authority] have identified some elements of the risk management system that require further development. DZ BANK has introduced the necessary measures for the further development of the risk management system and has put mechanisms in place to ensure that these measures are implemented systematically and without delay.

Section 2. of the opportunity and risk report forms the **risk statement** by the Board of Managing Directors specified in article 435 (1f) CRR.

2.2. OPPORTUNITY AND RISK MANAGEMENT SYSTEM

The DZ BANK Group defines **opportunities** as unexpected positive variances from the forecast financial performance for the coming year.

Risks result from adverse developments affecting financial position or financial performance, and essentially comprise the risk of future losses or insolvency.

The **management of opportunities** in the DZ BANK Group is integrated into the annual strategic planning process. Strategic planning enables the group to identify and analyze market discontinuities, trends, and changes, and forms the basis for evaluating opportunities.

Reports to the Board of Managing Directors on future business development opportunities are based on the outcome of the strategic planning. As part of the general communication of business strategy, employees are kept up to date about potential opportunities that have been identified.

The DZ BANK Group has a comprehensive **risk management system** that in general meets its own business management needs and statutory requirements. Furthermore, the management of opportunities and risks forms an integral part of the groupwide strategic planning process. The risk management system is based on risk strategies that are derived from the business strategy and approved by the Board of Managing Directors.

The risk management system is more detailed than the system for the management of opportunities because risk management is subject to comprehensive statutory requirements and is also of critical importance to the continued existence of the DZ BANK Group as a going concern. The management of opportunities is based on a qualitative approach and is tightly integrated into the strategic planning process.

The purpose of the groupwide risk capital management system is to ensure that the risks in the risk types backed by capital are calculated consistently. Risk management also covers a further type of risk, liquidity risk, which is not covered by capital owing to the nature of the risk involved.

Efficient management and control tools are used in all areas of risk. These tools are subject to continual further development and refinement. The development of these tools is derived from business management requirements and, in terms of risk management, is based on regulatory requirements. The methods used for the measurement of risk are integrated into the risk management system. Risk model calculations are used for the management of the DZ BANK Group and the entities included within the group.

Given the methods that it has implemented and the organizational arrangements and IT systems that it has put in place, DZ BANK and its subsidiaries are, to the greatest possible extent, in a position to identify material opportunities and risks at an early stage and to initiate appropriate control measures, both at the group level and at the level of the individual group entities. This applies in particular to the early detection of risks that could affect the group's survival as a going concern.

The tools used for the purposes of risk management also enable the DZ BANK Group to respond appropriately to significant market movements. Changes in risk factors, such as a deterioration in credit ratings or the widening of credit spreads on securities, are reflected in adjusted risk parameters in the mark-to-model measurement of credit risk and market risk. Conservative crisis scenarios for short-term liquidity are intended to ensure that liquidity risk management also takes adequate account of market crises. A risk limit system based on risk-bearing capacity, stress testing encompassing all material risk types, and a flexible internal reporting system generally ensure that the management is in a position to initiate targeted corrective action if required.

All DZ BANK Group entities are integrated into the groupwide opportunity and risk management system. DZ BANK and its main subsidiaries – also referred to as **management units** in this opportunity and risk report – represent the core of the financial services group. The group entities are assigned to the sectors as follows:

Bank sector:
- DZ BANK
- BSH
- DG HYP
- DVB
- DZ PRIVATBANK
- TeamBank
- Union Asset Management Holding
- VR-LEASING AG

Insurance sector:
- R+V

The risks relating to DZ BANK Ireland are managed by DZ BANK and are therefore included in the disclosures for DZ BANK.

The management units represent the operating segments of the DZ BANK Group. They are deemed to be material in terms of their contribution to the DZ BANK Group's aggregate risk and are therefore directly incorporated into the group's risk management system.

The other subsidiaries and investee entities are included in the system indirectly as part of equity investment risk.

The management units ensure that their respective subsidiaries and investees are also included in the DZ BANK Group's risk management system – indirectly via the majority-owned entities – and meet the minimum standards applicable throughout the group.

2.3. MATERIAL DEVELOPMENTS

2.3.1. Capital increase

In July 2014, DZ BANK completed a capital increase of almost €1.5 billion. The capital increase supports measures to strengthen the capital base from the group's own resources in order to meet the stricter capital requirements imposed by the regulators in Capital Requirements Directive IV (CRD IV) and the CRR.

The capital increase is helping to strengthen the available internal capital and thereby to improve the ability of the DZ BANK Group to absorb economic losses.

Further information on the capital increase can be found in note 71 of the consolidated financial statements.

2.3.2. ECB comprehensive assessment

DZ BANK is one of the institutions included in the comprehensive assessment of banks conducted by BaFin as part of the implementation of the Single Supervisory Mechanism (SSM). The objective of this comprehensive assessment was to use a largely standardized assessment procedure throughout Europe to uncover risks on the balance sheets of the banks subject to the assessment and, on the basis of the assessment, to draw up any necessary action plans to strengthen capital adequacy.

The assessment consisted of a balance sheet assessment, an asset quality review, and a stress test. The balance sheet assessment was completed in the first half of 2014, while the asset quality review and the stress test were completed in October. The results were published on October 26, 2014, before the ECB took over as the banking regulator.

The DZ BANK banking group passed the balance sheet assessment and also met the minimum capital ratios as at December 31, 2013 required as part of the stress test.

Further detailed disclosures about the comprehensive assessment can be found in section 7.3.2.

2.3.3. Sectoral approach

OBJECTIVE AND IMPLEMENTATION CONCEPT

To further standardize management in the DZ BANK Group, the sectoral approach was introduced at the start of the year. This approach builds on the enhanced version of R+V's risk management system, which was also implemented at the beginning of the year in view of the new regulatory requirements in **Solvency II**.

The sectoral approach fulfills the specific requirements imposed by the regulator on banks and insurers and takes appropriate account of the business models of R+V and the banks in the DZ BANK Group. It enables R+V to be properly integrated into the DZ BANK Group, including in terms of risk management, and helps to ensure that management direction is consistent in the group and internally within R+V. This also ensures that risk concentrations are monitored at all times. Material risk concentrations are reported to the Board of Managing Directors of DZ BANK on a quarterly basis.

Implementation of the sectoral approach included removing R+V from the key risk indicators for the Bank sector. The risks relating to R+V are now reported entirely within the Insurance sector. For this reason, the prior-year figures given in this report are not directly comparable with the figures as at December 31, 2013 disclosed in the 2013 opportunity and risk report.

The **Bank sector** consists of all of the management units listed in section 2.2 except R+V. The R+V management unit forms the **Insurance sector**. Risk measurement and risk management in this sector model the modules of the standard formula in Solvency II as this approach adequately reflects the features of R+V's business model.

RISK MEASUREMENT

The risk capital requirement in the Insurance sector is customarily referred to as the **overall solvency requirement** and is determined as the value-at-risk from the change in the economic capital of R+V with a confidence level of 99.50 percent over a one-year period. As a rule, it is quantified in accordance with the risk types of the standard formula in Solvency II. Risk diversification, which constitutes a significant aspect of an insurer's business model, is taken into consideration to an appropriate extent.

In general, policyholder participation is adequately taken into account in the risk models for determining the overall solvency requirement for the Insurance sector and in the profit calculations. This procedure is relevant to life, health, and casualty insurance products with a bonus, provided that a discretionary profit participation is granted for these products.

Within the Insurance sector, steps to mitigate risk, e.g. through reinsurance, are recognized. In addition, intragroup transactions between the Bank and Insurance sectors are incorporated into risk measurement in the Insurance sector.

The results of sector-specific measurement of risk are aggregated to determine the total risk capital requirement at the level of the **DZ BANK Group**. Available internal capital is calculated in the same way. This provides the basis for ensuring the DZ BANK Group's risk-bearing capacity to assume risk across all sectors.

2.3.4. Spread risk and migration risk

As part of the economic capital management of the DZ BANK Group and of DZ BANK, the capital buffer serves to cover the lack of some precision in risk measurement as well as account for risks that are not calculated as part of the risk capital requirement and not managed using risk limits (upper loss limits). Until December 31, 2013, the bulk of the capital buffer was made up of spread risk and migration risk on securities.

At the start of the year, spread risk and migration risk on securities for the Bank sector was separated from the capital buffer and integrated into risk capital management. Identified spread and migration risks are recorded centrally for the whole of the group. An upper loss limit and operational limits were introduced in the Bank sector in order to ensure that the associated risk capital for these two forms of market risk is managed effectively. This change resulted in an increase in the available internal capital (after deduction of the capital buffer). Because this increase corresponds to the risk capital requirement for spread risk and migration risk on securities, the DZ BANK Group's risk-bearing capacity is essentially unaffected by this change, in the sense that there is excess risk cover in absolute terms.

2.4. RISK FACTORS, RISKS, AND OPPORTUNITIES

RISK FACTORS

The DZ BANK Group and DZ BANK are exposed to **risk factors related to both the market and sector**. These risk factors are reflected in the risk types covered by capital and in liquidity risk.

The regulatory environment encompassing the entire banking industry is characterized by a steady progression of ever tighter regulatory capital and liquidity standards and increasingly stringent process and reporting requirements. These developments are reflected mainly in business risk.

Potentially, the European sovereign debt crisis and developments in other trouble spots around the world could have a negative impact on credit risk, equity investment risk, market risk, actuarial risk, business risk, and reputational risk.

The protracted period of low interest rates may reduce profits.

Moreover, the DZ BANK Group is exposed to **business-specific risk factors of an overarching nature** that affect a number of risk types. These factors may include potential shortcomings in the risk management system, the possible downgrading of the credit rating for DZ BANK or its subsidiaries, or ineffective hedges. These risks are generally taken into account as part of overall risk management.

RISKS

The main **features of the directly managed risks** and their significance for the operating segments in the Bank and Insurance sectors are shown in figures 6 and 7.

To ensure that the presentation of the disclosures remains clear, the risk management system disclosures included in the opportunity and risk report are limited to the more material entities in the group (indicated in figure 6 by a dot on a dark gray background). This selection is based on a materiality assessment, which takes into account the contribution of each group entity to the DZ BANK Group's overall risk for each type of risk. In contrast, the figures presented in the opportunity and risk report cover all the management units included in the internal reporting system (indicated additionally in figure 6 by a dot on a light gray background).

The subcategories shown under credit risk and market risk in figure 6 are those with general relevance for the Bank sector. The risk management system also includes other subcategories of credit risk and market risk but these additional subcategories are not described in this opportunity and risk report because they are of minor significance in the overall risk management picture, although they are included in the figures disclosed in the report.

The DZ BANK Group remained within its economic **risk-bearing capacity** in year 2014 and also complied with regulatory requirements for capital adequacy at all times. The **solvency** of the DZ BANK Group was never in jeopardy at any point during the reporting period. By holding ample liquidity reserves, the group ensures that it is able to protect its liquidity against any potential crisis-related threats. There are no indications that the continued existence of the DZ BANK Group or individual group entities including DZ BANK as **going concerns** might be at risk.

OPPORTUNITIES

The opportunities presented by the forecast developments are reasonable in relation to the risks that will be incurred.

3. RISK STRATEGY

The exploitation of business opportunities and the systematic, controlled assumption of risk in relation to target returns form an integral part of corporate control in the DZ BANK Group and at DZ BANK. The activities resulting from the business model require the ability to identify, measure, assess, manage, monitor, and communicate opportunities and risks.

The need to cover risks with adequate capital and to hold appropriate reserves of cash is also recognized as an essential prerequisite for the operation of the business and is of fundamental importance. In all their activities, the DZ BANK Group and DZ BANK therefore abide by the principle of only taking on risk to the extent absolutely necessary to achieve their business objectives and to the extent that the risk appears manageable.

In order to implement these principles, the Board of Managing Directors of DZ BANK has drawn up risk strategies for each of the material risks using the business strategy as a basis. The risk strategies each encompass the main risk-bearing business activities, the objectives of risk management (including the requirements for accepting or preventing risk), and the action to be taken to attain the objectives. The risk strategies are described in the following sections covering the individual risk types.

4. FUNDAMENTAL PRINCIPLES OF MANAGING OPPORTUNITIES AND RISKS

4.1. REGULATORY FRAMEWORK FOR RISK MANAGEMENT

The **conglomerate-wide risk management** system complies with the statutory requirements specified in section 25 (1) of the German Supervision of Financial Conglomerates Act (FKAG) in conjunction with section 25a of the German Banking Act (KWG) and the German Minimum Requirements for Risk Management for Banks and Financial Services Institutions (MaRisk BA). It also observes the requirements specified in section 64a of the Act on the Supervision of Insurance Undertakings (VAG) and section 28 of the German Capital Investment Code (KAGB) in conjunction with the Minimum Requirements for Risk Management in Insurance Undertakings (MaRisk VA) and the Minimum Requirements for Risk Management for Investment Companies (InvMaRisk).

When DZ BANK designed the risk management system of the DZ BANK Group and DZ BANK, it followed the guidance provided by the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the pronouncements of the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) on risk management issues.

In 2013, BaFin identified the DZ BANK Group as systemically important to Germany as a financial center and requested the group to prepare a **recovery plan** in accordance with the German Minimum Requirements for the Design of Recovery Plans (MaSan). DZ BANK drew up the required recovery plan and submitted it to BaFin in 2013. It had largely finished updating the recovery plan in 2014.

It is anticipated that from 2015 onwards, the Act on Ringfencing and Recovery and Resolution Planning for Credit Institutions and Financial Groups (Trennbankengesetz) will also require BaFin to continually assess the **resolvability** of the DZ BANK Group in accordance with section 47(1) KWG and to take any action required to ensure that it is resolvable. In order to meet this requirement for providing comprehensive information, DZ BANK has responded to a Bundesbank questionnaire and completed a data request from the regulator.

FIG. 6 – RISKS AND OPERATING SEGMENTS IN THE BANK SECTOR[1]

Risks

	Risk type	Definition	Risk factors
	RISK COVERED BY CAPITAL		
Financial-sector risks	**Credit risk** – Traditional credit risk – Issuer risk – Replacement risk	Risk of losses arising from the default of counterparties (borrowers, issuers, other counterparties)	– Concentration of loans with a longer term to maturity and a non-investment-grade credit rating – Deterioration in the credit quality of public-sector bonds – Increased requirement for allowances for loans on losses and advances
Financial-sector risks	**Equity investment risk**	Risk of losses arising from negative changes in the fair value of that portion of the long-term equity investments portfolio in which the risks are not included in other types of risk	Increased requirement for the recognition of impairment losses on the carrying amounts of investments
Financial-sector risks	**Market risk** – Interest-rate risk – Spread risk – Equity risk – Fund price risk – Currency risk – Commodity risk – Asset management risk – Market liquidity risk	– Risk of losses on financial instruments or other assets arising from changes in market prices or in the parameters that influence prices (market risk in the narrow sense of the term) – Risk of losses arising from adverse changes in market liquidity (market liquidity risk)	– Fall in the general level of interest rates – Widening of credit spreads on European government bonds – Shortages of market liquidity
Business-performance risk	**Technical risk of a home savings and loan company[2]** – New business risk – Collective risk	– Risk of a negative impact from possible variances compared with the planned new business volume (new business risk) – Risk of a negative impact that could arise from variances between the actual and forecast performance of the collective building society business caused by significant long-term changes in customer behavior unrelated to changes in interest rates (collective risk)	– Decline in new business – Changed customer behavior (unrelated to changes in interest rates)
Business-performance risk	**Business risk**	Risk of losses arising from earnings volatility which, for a given business strategy, is caused by changes in external conditions or parameters	– Fiercer competition based on pricing and terms – Insufficiently competitive electronic trading platforms
Business-performance risk	**Reputational risk**	Risk of losses from events that damage the confidence of customers, investors, the labor market, or the general public in DZ BANK Group entities or in the products and services they offer	Worsening of the reputation of the banking sector as a result of the financial crisis and the sovereign debt crisis
Business-performance risk	**Operational risk**	Risk of losses from human behavior, technological failure, weaknesses in process or project management, or external events	– Business interruptions – Insufficient availability of employees – Malfunctions or breakdowns in data processing systems – Disruptions to outsourced processes and services – Inaccurate external financial reporting – Impact of market manipulation and accounting or tax fraud – Failure to recognize violations of legal provisions
	RISK NOT COVERED BY CAPITAL		
	Liquidity risk	Risk that cash and cash equivalents will not be available in sufficient amounts to ensure that payment obligations can be met (insolvency risk)	– Funding structure for lending business – Uncertainty surrounding tied-up liquidity – Changes in the volume of deposits and loans – Funding potential in money markets and capital markets – Fluctuations in fair value, marketability of securities, and the eligibility of such securities for use in collateralized funding arrangements – Exercise of liquidity options – An obligation on the DZ BANK Group to pledge its own collateral

1 Apart from migration risk on traditional loans, which are covered by the capital buffer.
2 Including the business risk and reputational risk of BSH.
3 Included in the risk capital requirement for business risk; at BSH, largely covered by the risk capital requirement for the technical risk of a home savings and loan company.

Risk management KPIs disclosed		DZ BANK	BSH	DG HYP	DVB	DZ PRIVATBANK	TeamBank	Union Asset Management Holding	VR-Leasing AG
		Operating segments							
– Lending volume – Allowances for losses on loans and advances – Risk capital requirement	Sections 8.5., 8.6., and 8.7. Section 8.8. Section 8.9.	●	●	●	●	●	●		●
– Investment volume – Risk capital requirement	Section 9.4.	●	●	●	●	●	●	●	●
– Risk capital requirement – Value-at-risk	Section 10.6.1. Section 10.6.2.	●	●	●	●	●	●	●	●
Risk capital requirement	Section 11.5.		●						
Risk capital requirement	Section 12.3.	●		●	●	●	●	●	●
Risk capital requirement[3]	Section 13.	●	●	●	●	●	●	●	●
– Loss events and losses – Risk capital requirement	Section 14.6. Section 14.7.	●	●	●	●	●	●	●	●
– Liquid securities – Additional contractual obligations – Minimum liquidity surplus – LCR and NSFR	Section 15.5.1. Section 15.5.2. Section 15.6.1. Section 15.6.2.	●	●	●	●	●	●		●

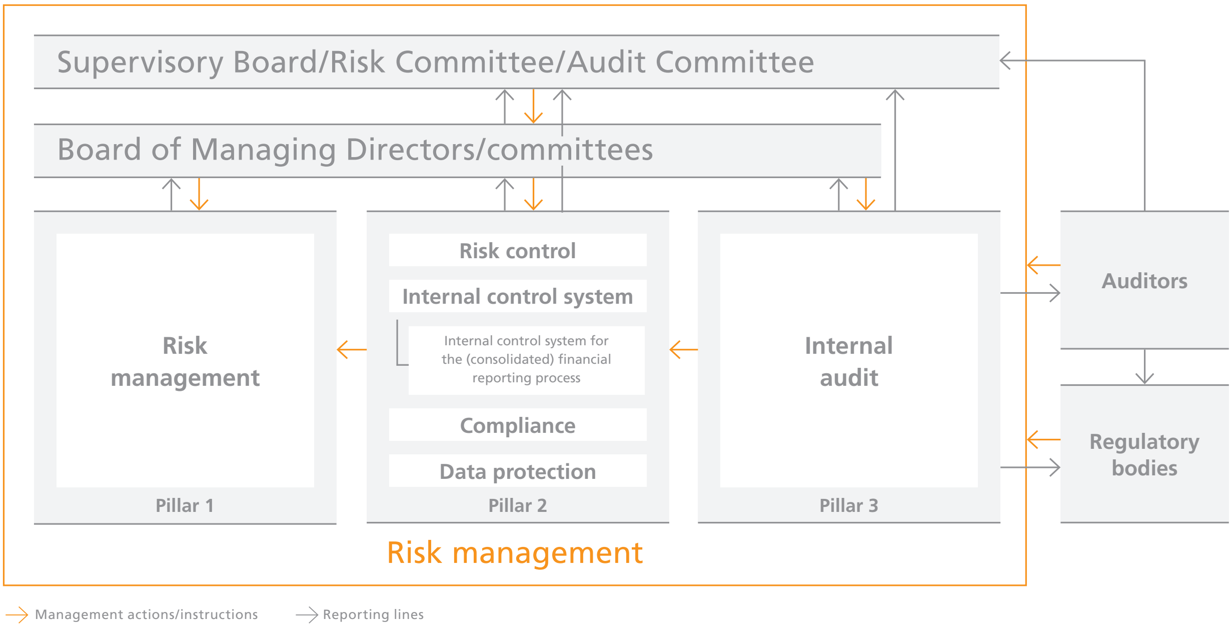
Disclosures about the management units in the opportunity and risk report:

● Quantitative and qualitative disclosures ● Quantitative disclosures Not relevant

FIG. 7 – RISKS IN THE INSURANCE OPERATING SEGMENT AND SECTOR

	Risk type	Definition	Risk factors	Risk management KPIs disclosed	
	RISK COVERED BY CAPITAL PURSUANT TO SOLVENCY II				
Core financial sector risks	**Actuarial risk** – Life actuarial risk – Health actuarial risk – Non-life actuarial risk	– Life actuarial risk: Risk arising from the assumption of life insurance obligations, in relation to the risks covered and the processes used in the conduct of this business – Health actuarial risk: Risk arising from the assumption of health and casualty insurance obligations, in relation to the risks covered and the processes used in the conduct of this business – Non-life actuarial risk: Risk arising from the assumption of non-life insurance obligations, in relation to the risks covered and the processes used in the conduct of this business	– In the case of products with long-term guarantees, calculation assumptions vary over the term of the contracts compared with the assumptions at the time the contracts were signed because of the contracts' long duration – The level of claims resulting from policyholders' and service providers' behavior causes a larger rise in claims expenses than the one in the calculation assumptions – The actual impact of losses, particularly from catastrophe risk, exceeds the forecast impact	– Claims rate trend in non-life insurance – Overall solvency requirement	Section 17.7.
Core financial sector risks	**Market risk** – Interest-rate risk – Spread risk – Equity risk – Currency risk – Real-estate risk	Risk arising from fluctuation in the level or volatility of market prices of financial instruments that have an impact on the value of the assets and liabilities of the entity	– The guaranteed minimum growth rates agreed for certain products when the contract is signed cannot be obtained on capital markets over the long term – Widening of credit spreads on government bonds or other bonds leads to a fall in fair values, resulting in a temporary or permanent adverse impact on operating profit – A possible worsening of the financial circumstances of issuers and/or debtors results in partial or complete default on receivables or write-offs as a result of rating downgrades	– Lending volume – Overall solvency requirement	Sections 18.4. and 18.5. Section 18.6.
Core financial sector risks	**Counterparty default risk**	Risk of possible losses due to unexpected default or deterioration in the credit standing of counterparties and debtors of insurance and reinsurance companies over the following 12 months	– Unexpected default or deterioration in the credit standing for counterparties of derivatives, reinsurance counterparties, and receivables from policyholders and insurance brokers	– Lending volume – Overall solvency requirement	Sections 18.4. and 18.5. Section 19.3.
Business-performance risk	**Operational risk**	Risk of loss arising from inadequate or failed internal processes, personnel, or systems, or from external events (including legal risk)	– Business interruptions – Insufficient availability of employees – Malfunctions or breakdowns in data processing systems	Overall solvency requirement	Section 20.4.
	RISK COVERED BY CAPITAL PURSUANT TO SOLVENCY I				
	Entities in other financial sectors	The entities in other financial sectors mainly consist of pension funds and occupational pension schemes.	Generally corresponding to the risk factors for risks backed by capital pursuant to Solvency II	Overall solvency requirement	Section 21.

FIG. 8 – GOVERNANCE STRUCTURE OF RISK MANAGEMENT IN THE DZ BANK GROUP



4.2. OPPORTUNITY AND RISK-ORIENTED CORPORATE GOVERNANCE

4.2.1. Governance structure

The DZ BANK Group's **risk management system** builds on the risk strategies adopted by the Board of Managing Directors of DZ BANK. It is based on three pillars that are interlinked and well established in the monitoring and control environment. The DZ BANK Group and DZ BANK thereby have a governance structure that complies with MaRisk requirements, sets out the operational framework for risk management, and fosters the development of an appropriate groupwide risk culture. Figure 8 shows the governance structure for risk management in the DZ BANK Group.

The role of the risk management **committees** in the corporate governance structure is explained in section I.3.1.2. of the (group) management report.

The **business opportunities** are discussed during the course of the strategic planning process at the level of the individual management units and within special closed sessions held by the Board of Managing Directors.

4.2.2. Risk management

Risk management refers to the operational implementation of the risk strategies in the risk-bearing business units based on standards applicable throughout the group.

The management units make conscious decisions on whether to assume or avoid risks. They must observe guidelines and risk limits specified by the head office.

The divisions responsible for risk management are separated both in terms of organization and function from downstream divisions.

4.2.3. Risk control

Central Risk Controlling at DZ BANK is responsible for identifying, measuring, and assessing risk in the DZ BANK Group and at DZ BANK. This is accompanied by the planning of upper loss limits. It includes early detection, full recording of data (to the extent that this is possible) and internal monitoring for all material risks. Risk Controlling also reports risks to the Supervisory Board, the Board of Managing Directors, and the management units.

Risk Controlling at DZ BANK lays down the fundamental requirements for the risk measurement methods to be used throughout the group and coordinates implementation with the risk control units in the other management units. The aim of this structure is to ensure that the management of risk capital is consistent throughout the group.

In cooperation with the other management units, Risk Controlling at DZ BANK establishes a groupwide risk reporting system covering all material types of risk based on specified minimum standards using methods agreed between the entities.

Both at DZ BANK and in the other management units, Risk Controlling is responsible for the transparency of risks assumed and aims to ensure that all risk measurement methods used are up to date. The risk control units in the management units also monitor compliance with the entity-related limits that the management units have set themselves based on the risk capital allocated by DZ BANK. Risk Controlling at DZ BANK is also responsible for risk reporting at group level. In addition to this, the management units are responsible for their own risk reporting.

4.2.4. Internal control system

DZ BANK uses the groupwide internal control system to implement the relevant regulatory requirements specified in MaRisk. The internal control systems of the DZ BANK Group and DZ BANK also take into account the framework for internal controls produced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which can be applied to any industry.

The objective of the internal control systems is to ensure the effectiveness and efficiency of the risk management activities within the DZ BANK Group and at DZ BANK by means of suitable basic principles, action plans, and procedures.

Organizational structures and controls built into work processes serve to ensure that the monitoring of risk management activity is integrated into processes.

IT systems are systematically protected by authority-dependent management of authorizations and by technical precautions, the aim of which is to prevent unauthorized access both within and outside group entities.

4.2.5. Internal control system for the (consolidated) financial reporting process

OBJECTIVE AND RESPONSIBILITIES

DZ BANK is subject to a requirement to prepare consolidated financial statements and a group management report as well as separate financial statements and a management report. The primary objective of external (consolidated) financial reporting in the DZ BANK Group and at DZ BANK is to provide appropriate, timely information for the users of the reports. This includes all activities to ensure that external (consolidated) financial reporting is properly prepared and that violations of accounting standards – which could result in the provision of inaccurate information to users or in mismanagement of the group – are avoided with a sufficient degree of certainty.

In order to limit operational risk in this area of activity, DZ BANK and its subsidiaries have set up an internal control system for the (consolidated) financial reporting process as an integral component of the control system put in place for the general risk management process. In this context, the activities of employees, the implemented controls, the technologies used, and the design of work processes are structured to ensure that the objectives associated with (consolidated) financial reporting are achieved.

Overall responsibility for external (consolidated) financial reporting lies in the first instance with Group Finance and Group Risk Controlling at DZ BANK, with all the consolidated entities in the DZ BANK Group responsible for preparing and monitoring the quantitative and qualitative information required for the consolidated financial statements.

INSTRUCTIONS AND RULES

The methods to be applied within the DZ BANK Group in the preparation of the consolidated financial statements are set out in writing in a group manual. The methods to be applied within DZ BANK in the preparation of the separate financial statements are set out in writing in organization manuals. Both internal manuals are updated on an ongoing basis. The basis for external risk reporting is the disclosure policy approved by the Board of Managing Directors. This policy sets out the principles and fundamental decisions for the methods, organizational structure, and IT systems to be used in risk disclosure, for the integration of risk disclosure into general financial disclosure, and for the interconnection between risk disclosure and internal risk reporting in the DZ BANK Group and at DZ BANK. By adopting this disclosure policy, the Board of Managing Directors also established the key elements of the risk-related disclosure procedures and communicated them throughout the DZ BANK Group. The instructions and rules are audited regularly to assess whether they remain appropriate and are amended in line with internal and external requirements.

RESOURCES AND METHODS

The processes set up at DZ BANK and its subsidiaries (using suitable IT systems) permit efficient risk management in respect of financial reporting, based on the guidelines set by the Finance working group and taking into account the rules in the risk manual and the policy on risk disclosure.

The group's financial reporting process is decentralized, with the organizational units of the DZ BANK Group taking responsibility for preparing and checking the quantitative and qualitative information required for the consolidated financial statements. The group accounting and risk control departments at DZ BANK implement the relevant controls and checks in respect of data quality and compliance with the DZ BANK Group rules.

The organizational units post the accounting entries for individual transactions. The consolidation processes are carried out by DZ BANK's group accounting department and by the accounting departments of each subgroup in the DZ BANK Group. The purpose of this structure is to ensure that all accounting entries and consolidation processes are properly documented and checked.

Financial reporting, including consolidated financial reporting, is chiefly the responsibility of employees of DZ BANK and the other organizational units in the DZ BANK Group. If required, external experts are brought in for certain accounting-related calculations as part of the financial reporting process, such as determining the defined benefit obligation and valuing collateral.

Consolidated financial reporting is subject to mandatory workflow plans agreed between DZ BANK's group accounting department and the individual accounting departments of the organizational units within the DZ BANK Group. These plans set out the procedures for collating and generating the quantitative and qualitative information required for the preparation of statutory company reports and which are necessary for the internal management of the operating units within the DZ BANK Group.

Generally accepted valuation methods are used in the preparation of the consolidated financial statements and group management report, and the separate financial statements and the management report, and these methods are regularly reviewed to ensure they remain appropriate.

In order to ensure the efficiency of accounting systems, the processing of the underlying data is extensively automated using suitable IT systems. Comprehensive control mechanisms are in place with the aim of ensuring the quality of processing and are one of the elements used to limit operational risk. Accounting input and output data undergoes a number of automated and manual checks.

Suitable business continuity plans have also been put in place. These plans are intended to ensure the availability of HR and technical resources required for the accounting and financial reporting processes. The business continuity plans are regularly checked using appropriate tests and fine tuned.

INFORMATION TECHNOLOGY

The IT systems used for preparing the (consolidated) financial statements must satisfy the necessary security requirements in terms of confidentiality, integrity, availability, authorization, authenticity, and non-repudiation. IT-supported controls are used, the purpose of which is to ensure that the processed accounting data is handled properly and securely in accordance with the relevant requirements. The controls in IT-supported accounting processes include, in particular, validation procedures to ensure consistent issue of authorizations, verification of master data modifications, logical access controls, and change management validation procedures in connection with developing, implementing, or modifying IT applications.

The IT infrastructure required for the use of IT-supported (consolidated) accounting systems is subject to the security controls implemented as part of the general IT security principles at DZ BANK and the other entities in the DZ BANK Group.

The information technology used for (consolidated) accounting purposes is equipped with the functionality to enable it to handle the posting transactions in individual organizational units as well as the consolidation transactions carried out by DZ BANK's (group) accounting department and by the accounting departments in the subgroups.

IT-supported (consolidated) accounting processes are audited as an integral part of the internal audit work carried out at DZ BANK and the other entities in the DZ BANK Group.

ENSURING AND IMPROVING EFFECTIVENESS

The processes used are regularly reviewed to ensure they remain appropriate and fit for purpose; they are adapted in line with new products, situations, or changes in statutory requirements. To guarantee and increase the quality of (consolidated) accounting at DZ BANK and the other entities in the DZ BANK Group, the employees charged with responsibility for financial reporting receive needs-based training in the legal requirements and the IT systems used. When statutory changes are implemented, external advisors and auditors are brought in at an early stage to provide quality assurance for financial reporting. At regular intervals, the internal audit department audits the internal control system related to the process for (consolidated) financial reporting.

4.2.6. Compliance and data protection

COMPLIANCE

The role of each of the compliance functions in the DZ BANK Group is to ensure that business activities are conducted in accordance with applicable law, regulatory requirements, and internal rules and regulations. Monitoring and control activities are largely focused on private transactions carried out by employees (guiding principles for employees) and on preventing insider trading, market manipulation, money laundering, the financing of terrorism, and other criminal offenses. The purpose of these activities is to protect customers, employees, and the DZ BANK Group itself.

Most of the requirements for the compliance function specified by MaRisk BA were implemented by the relevant subsidiaries in consultation with DZ BANK in 2014. The DZ BANK compliance office lays down the fundamental requirements with respect to the methods for identifying relevant compliance risks to be used across the group. It liaises with the group entities to ensure that consistent procedures are used throughout the group.

The managers responsible for the compliance function each report directly to the member of the Board of Managing Directors responsible for this area of activity.

DATA PROTECTION

The entities in the DZ BANK Group have introduced suitable precautions to ensure that they comply with data protection provisions. This has involved, in particular, creating the function of data protection officer and issuing standard data protection principles.

4.2.7. Control functions

INTERNAL AUDIT

The **internal audit** departments of DZ BANK and all the main subsidiaries are responsible for control and monitoring tasks that are not specific to individual processes. They carry out systematic, regular risk-based audits focusing on compliance with statutory and regulatory requirements. The internal audit departments also review and assess the risk management and internal control systems to ensure that they are fully operational, effective, and that processing is properly carried out, and monitor the action taken in response to audit findings to ensure that identified problems have been rectified.

The internal audit departments at DZ BANK and the other group entities report to the chief executive officer or other senior managers of the entity concerned. DZ BANK and all subsidiaries involved follow the special requirements for the structure of the internal audit function specified in MaRisk.

DZ BANK's internal audit department is responsible for internal audit tasks at group level. These tasks include, in particular, the coordination of audits involving multiple entities, the implementation of which lies within the remit of the individual internal audit departments in the group entities concerned, and the evaluation of individual group entity audit reports of relevance to the group as a whole. Cooperation between internal audit departments in the DZ BANK Group is governed by a separate set of rules and arrangements.

SUPERVISORY BOARD

The following information meets the disclosure requirements specified in article 435 (2d) and (2e) CRR. The disclosures also include the flow of risk-related information to the Supervisory Board in accordance with article 435 (2e) CRR.

The Board of Managing Directors provides the Supervisory Board of DZ BANK with regular and timely reports about the risk situation, the risk strategies and the status and further development of the risk management system of the DZ BANK Group and DZ BANK. Furthermore, the Board of Managing Directors provides the Supervisory Board with regular reports about significant loan and investment exposures and the associated risks. The Supervisory Board discusses these issues with the Board of Managing Directors, advises it, and monitors its management activities. The Supervisory Board is always involved in decisions of fundamental importance.

The Supervisory Board has set up a Risk Committee that pays close attention to risk-related corporate management. The chairman of the Risk Committee provides the full Supervisory Board with regular and timely reports on the material findings of the committee's work. The Risk Committee held 5 meetings in the year under review.

As part of the quarterly written information about the risk situation in the DZ BANK Group, the Board of Managing Directors provides the members of the Risk Committee and the other members of the Supervisory Board with a quarterly overall risk report. The Risk Committee also receives the credit risk report and the report on the economic stress tests on a quarterly basis. The chairman of the Risk Committee informs the entire Supervisory Board about these matters no later than at its next meeting. The minutes of Risk Committee meetings are sent to all members of the Supervisory Board on a regular basis.

EXTERNAL CONTROL FUNCTIONS

During the audit of the annual financial statements, independent **auditors** carry out an assessment pursuant to section 29 (1) sentence 2 no. 2a) KWG in conjunction with section 25a (1) sentence 3 KWG to establish whether the Company's risk management processes for the Bank sector, including its internal control functions, are fit for purpose. For the Insurance sector, an assessment of the suitability of the early-warning system for risk, including the internal monitoring system of R+V, is carried out during the audit of the annual financial statements pursuant to section 57 (1) sentence 3 VAG in conjunction with section 317 (4) HGB and section 91 (2) of the German Stock Corporation Act (AktG).

The **banking and insurance regulatory authorities** also conduct audits focusing on risk.

4.3. RISK MANAGEMENT TOOLS

4.3.1. Accounting basis for risk measurement

The transaction data that is used to prepare the DZ BANK consolidated financial statements forms the basis for the measurement of risk

FIG. 9 – RISK-BEARING EXPOSURES IN THE CONSOLIDATED FINANCIAL STATEMENTS[1]

		BANK SECTOR												INSURANCE SECTOR								
		Credit risk				Market risk								Actuarial risk			Market risk					
											Portfolio assignment[2]											
	Consolidated financial statements	Traditional credit risk	Issuer risk	Replacement risk	**Equity investment risk**	Interest-rate risk	Spread risk	Equity risk	Currency risk	Commodity risk	Trading portfolios	Non-trading portfolios	**Technical risk of a home savings and loan company**	Life	Health	Non-life	Interest-rate risk	Spread risk	Equity risk	Currency risk	Real-estate risk	**Counterparty default risk**
Risk-bearing assets	Loans and advances to banks	●		●		●	●		●		●	●										
	Loans and advances to customers	●				●	●		●		●	●	●									
	Derivatives used for hedging (positive fair values)			●		●	●	●	●	●	●	●										
	Financial assets held for trading		●	●		●	●	●	●	●	●											
	Investments		●	●	●	●	●	●	●			●										
	Investments held by insurance companies		●		●	●	●	●	●								●	●	●	●	●	●
	Other assets													●	●	●						●
	Financial guarantee contracts and loan commitments	●																				
Risk-bearing liabilities	Deposits from banks					●	●		●		●	●										
	Deposits from customers					●	●		●		●	●	●									
	Debt certificates issued including bonds					●	●	●	●	●	●	●										
	Derivatives used for hedging (negative fair values)			●		●	●	●	●	●	●	●										
	Financial liabilities held for trading			●		●	●	●	●	●	●											
	Insurance liabilities													●	●	●	●					

1 As liquidity risk is determined on the basis of all exposures in the consolidated financial statements, the details for liquidity risk are not provided here for reasons of clarity.
2 Disclosures for the banking business.

throughout the group. The same applies to the separate financial statements of DZ BANK. A wide range of other factors are also taken into account in the calculation of risk. These factors are explained in more detail during the course of this opportunity and risk report.

The line items in the consolidated financial statements relevant to risk measurement are shown in figure 9. The information presented is also applicable to the measurement of risk for the separate financial statements of DZ BANK and the measurement of its risk, which does not include the technical risk of a home savings and loan company or the risks incurred by the Insurance sector.

The sections below provide a further explanation of the link between individual types of risk and the consolidated financial statements.

A further breakdown of the line items in the consolidated financial statements used to determine **credit risk** is given in section 8.5.3.

The investments used for the purposes of measuring **equity investment risk** are the following items reported in note 55 of the notes to the consolidated financial statements: shares and other shareholdings, investments in subsidiaries, investments in associates, and investments in joint ventures.

In the **Bank sector**, the measurement of financial instruments both for the purposes of determining market risk and for financial reporting purposes is based on financial market data provided centrally. Minor discrepancies arise from the recognition of different impairment amounts in the market risk calculation and in the accounting treatment. With the exception of these differences, the disclosures relating to **market risk** reflect the fair values of the assets and liabilities concerned.

The measurement for the **technical risk of a home savings and loan company** is based on the loans and advances to customers (home savings loans) and also the savings deposits (deposits from customers) described in note 63 of the notes to the consolidated financial statements.

Insurance liabilities, as reported in the financial statements, are a key value for determining all types of **actuarial risk**. The line item Investments held by insurance companies is also used to determine all types of **market risk** and **counterparty default risk**. The line item Other assets is included in the computation of actuarial risk and counterparty default risk.

The calculation of **liquidity risk** is derived from future cash flows, which in general terms are determined from all of the balance sheet items in the consolidated financial statements.

Operational risk, **business risk**, and **reputational risk** are measured independently of the balance sheet items reported in the consolidated financial statements.

4.3.2. Measurement of risk and risk concentrations in the Bank sector

FRAMEWORK

Economic capital (known as the '**risk capital requirement**') is calculated for credit risk, equity investment risk, market risk, the technical risk of a home savings and loan company, operational risk, and business risk. This risk capital requirement is generally calculated as value-at-risk with a holding period of one year and a unilateral confidence level of 99.90 percent.

The capital requirement for the individual risk types is aggregated into the total risk capital requirement for the Bank sector taking into account various diversification effects. The diversified risk capital requirement reflects the inter-dependency of individual types of risk. The risks relating to the Bank and Insurance sectors are aggregated.

The reason for managing **risk concentrations** by analyzing portfolios is to identify potential downside risks that may arise from the accumulation of individual risks and, if necessary, to take corrective action. A distinction is made between risk concentrations that occur within a risk type (intra-risk concentrations) and concentrations that arise as a result of the interaction between different types of risk (inter-risk concentrations). Inter-risk concentrations are implicitly taken into account when determining correlation matrices for the purposes of inter-risk aggregation.

They are mainly managed by using quantitative stress test approaches and qualitative analyses to provide a holistic view across all types of risk. The analysis of intra-risk concentrations is described for each type of risk in the sections below.

CREDIT RISK

Expected and unexpected losses are calculated during credit-portfolio analysis for transactions incurring credit risk. The **capital requirement for credit risk** is determined as the unexpected loss equivalent to the difference between the value-at-risk and the expected loss. This calculation is based on one-year default probabilities derived from historical loss data, taking into account additional transaction-specific features and reflecting the current rating of the borrower. Other factors taken into account in the calculation of exposures subject to credit risk include measurable collateral, netting agreements, and expected recovery rates based on past experience.

In order to highlight **concentrations of credit risk**, the exposure at portfolio level is categorized by, among other things, industry sector, country group, term to maturity, size category, and rating. In addition, risks resulting from large exposures to individual single borrower units are closely monitored and managed.

The key factor to be considered when determining concentrations of credit risk is the possibility of a simultaneous default by a number of borrowers who share one or more characteristics. This is why determining the correlated exposure to loss as a part of the calculation of the risk capital required for credit risk is essential for managing risk concentrations.

EQUITY INVESTMENT RISK

Equity investment risk is determined as value-at-risk on the basis of a variance-covariance approach. Concentrations of equity investment risk are identified by allocating investments to different categories according to the purpose of the investee company; the risk model used assumes a high level of correlation within each category.

MARKET RISK

The capital requirement for market risk is calculated as the value-at-risk over a one-year time horizon based on simulations. The results of stress tests are included in this calculation. In addition to calculating economic capital, and for purposes of operational management, a value-at-risk for a holding period of one trading day (or 10 trading days) and a unilateral confidence level of 99.00 percent is calculated for market risk within the internal model. Concentrations in the portfolio affected by market risk are identified by classifying exposures in accordance with the risk factors associated with interest rates, spreads, migration, equities, currencies, and commodities. This incorporates the effects of correlation between these different risk factors, particularly in stress phases. Stress tests are carried out for market liquidity risk.

In 2014, further improvements were introduced in the methods used to record market risk, particularly the spread and migration risks associated with securities. Identified risks are recorded centrally for the whole of the group.

TECHNICAL RISK OF A HOME SAVINGS AND LOAN COMPANY

A special collective simulation, which includes the effects of a (negative) change in customer behavior and a drop in new business, is used to measure the technical risk of a home savings and loan company. Concentrations of this risk are most likely to arise from new business risks.

OPERATIONAL RISK

The capital requirement for operational risk is determined using the Standardized Approach specified by regulatory requirements. Analyses of internal losses, risk indicators, or risk self-assessments facilitate identification of risk concentrations. Such concentrations can occur, for example, if IT systems are supplied by just a few companies or if business processes are outsourced to a limited number of service providers.

BUSINESS RISK

Business risk is determined using a risk model based on an earnings-at-risk approach. Risk concentrations may arise if business activities are focused on a small number of areas. Concentrations of business risk are limited by using qualitative criteria as part of strategic management.

REPUTATIONAL RISK

Reputational risk is taken into account within business risk and is therefore implicitly included in the measurement of risk and assessment of capital adequacy in the DZ BANK Group. The risk of a detrimental change in the group's reputation is specifically taken into account in liquidity risk management.

LIQUIDITY RISK

In contrast to the other types of risk, there is no capital requirement in connection with liquidity risk. Liquidity risk is measured by determining the minimum surplus cash that would be available if various scenarios were to materialize within the following year. Concentrations of liquidity risk can occur primarily due to the accumulation of outgoing payments at particular times of the day or on particular days (concentrations of maturities), the distribution of funding across particular currencies, markets, and liquidity providers (concentrations of funding sources), and the distribution of liquidity reserves across particular currencies, ratings, and issuers (concentrations of reserves).

4.3.3. Measurement of risk and risk concentrations in the Insurance sector

FRAMEWORK

Risk measurement is based on the method specified in Solvency II with the aim of determining value-at-risk.

ACTUARIAL RISK

To determine actuarial risk, negative scenarios are examined that have been taken from Solvency II and, in some cases, supplemented by the group's own parameterization or internal risk assessment.

Modeling and risk quantification, including on the basis of historical claims data, is carried out for parts of the premium and reserve risk and non-life catastrophe risk. These are based on the group's own portfolio and, in the case of natural catastrophes, on data from third-party providers. Possible risk concentrations are also analyzed, monitored, and managed as part of the risk management system.

Risk management includes the analysis, monitoring and management of risk concentrations. Potential risk concentrations arise when different types of risk are combined with the concentration dimension (e.g. individual exposure, sector, country group). The same risk concentrations are analyzed at DZ BANK level.

MARKET RISK

When measuring market risk, shock scenarios are examined that have been taken from Solvency II and, in some cases, supplemented by the group's own parameterization.

COUNTERPARTY DEFAULT RISK

The capital requirements for counterparty default risk are determined on the basis of the relevant exposure and the expected losses per counterparty.

OPERATIONAL RISK AND REPUTATIONAL RISK

The risk capital requirement for operational risk is calculated as a factor of the volume measures of premiums and provisions and, in the case of unit-linked business, as a factor of costs. In addition, operational risk is identified and quantified using a scenario-based risk self-assessment. R+V uses suitable quality standards and communications strategies to limit its reputational risk.

ENTITIES IN OTHER FINANCIAL SECTORS

Risk for entities in other financial sectors is quantified in accordance with the requirements currently specified by the insurance regulator. This means applying the capital requirements according to Solvency I, which are essentially calculated as a factor of the volume measures of benefit reserves and capital at risk.

4.3.4. Non-material risks

Strategic risk is classified as non-material for both the Bank sector and the Insurance sector. In the Bank sector, this risk is examined in the context of business risk.

Liquidity risk in the Insurance sector is not material at DZ BANK Group level. Firstly, this is because long-term liquidity is typically tied up in liabilities and assets in insurance business. Secondly, R+V is only exposed to a low level of liquidity risk because of its wide range of products and customers and the high quality and liquidity of its investments. Consequently, R+V is not taken into account in the liquidity risk management of the DZ BANK Group.

The **funding risk** attributable to liquidity risk consists of the risk of incurring losses because of higher liquidity spreads on funding operations. Funding risk is not material for the Bank sector or the Insurance sector and is therefore not backed by capital.

4.3.5. Stress tests

In addition to the risk measurements, the effects of extreme but plausible events are also analyzed. Stress tests of this kind are used to establish whether the DZ BANK Group can retain its risk-bearing capacity, even under extreme economic conditions. Stress tests are carried out in respect of economic risk-bearing capacity, regulatory equity ratios, and liquidity.

4.3.6. Limitation principles

The DZ BANK Group has implemented a system of limits to ensure that risk-bearing capacity is maintained. The limits used may be risk limits or volume limits, depending on the type of transaction and type of risk. Whereas risk limits in all types of risk restrict exposure measured with an economic model, volume limits are applied additionally in transactions involving counterparties. Risk management is also supported by limits for relevant key performance indicators.

Specific amendments to risk positions based on an adjustment of the volume and risk structure in the underlying transactions are intended to ensure that the measured exposures do not exceed the agreed volume and risk limits.

Risks that are incurred are compared with the limits allocated to them (upper loss limits) and monitored using a traffic-light system. Any limit overruns are captured during ad-hoc reporting and are referred to management.

4.3.7. Hedging objectives and hedging transactions

Hedging activities are undertaken in order to transfer credit risk, market risk in the Bank sector, market risk in the Insurance sector, liquidity risk, actuarial risk, and operational risk to the greatest possible extent to third parties outside the DZ BANK Group. All hedging activities are conducted within the strategic rules specified in writing and applicable throughout the group. Derivatives and other instruments are used to hedge credit risk and market risk.

If the hedging of risk in connection with financial instruments gives rise to **accounting** mismatches between the hedged items and the derivatives used for the hedge, the mismatches are either eliminated or reduced by designating the hedging transaction as a hedge in accordance with the hedge accounting requirements of IAS 39, or the fair value option is exercised. Hedge accounting in the DZ BANK Group includes hedging interest-rate risk and currency risk and therefore affects market risk in both the Bank and Insurance sectors. Hedging information is disclosed in note 82 of the notes to the consolidated financial statements.

DZ BANK has exercised the option provided for in section 254 HGB and has generally not recognized hedges on the balance sheet, although economic hedges do exist. However, one hedge is reported in note 41 of the notes to DZ BANK's separate financial statements.

4.3.8. Risk reporting and risk manual

The quarterly **overall risk report** includes the risks throughout the group identified by DZ BANK. Together with the **stress test report,** which is also compiled on a quarterly basis, it is the main channel by which risks incurred by the DZ BANK Group and the management units are communicated to the Board of Managing Directors and the Group Risk and Finance Committee. In addition, the Board of Managing Directors receives portfolio and exposure-related management information as part of the quarterly **credit risk report**. The Board of Managing Directors also receives daily and monthly information on **liquidity risk** in the DZ BANK Group and in the management units. This information meets the disclosure requirements regarding the flow of risk-related information to the Board of Managing Directors specified in article 435 (2e) CRR.

DZ BANK and the main subsidiaries have further reporting systems for all relevant types of risk. Depending on the degree of materiality in the risk exposures concerned, the purpose of these systems is to ensure that decision-makers and supervisory bodies at all times receive transparent information on the risk profile of the management units for which they are responsible.

The **risk manual**, which is available to all employees of the management units, sets out the general parameters for identifying, measuring, assessing, managing, monitoring, and communicating risks. These general parameters are intended to ensure that risk management is properly carried out in the DZ BANK Group. The manual forms the basis for a shared understanding of the minimum standards for risk management throughout the group.

The main subsidiaries also have their own risk manuals covering special aspects of risk related specifically to these management units.

4.3.9. Risk inventory and appropriateness test

Every year, DZ BANK draws up a **risk inventory**, the objective of which is to identify the types of risk that are relevant for the DZ BANK Group and assess the materiality of these risk types. According to need, a risk inventory check may also be carried out at other times in order to identify any material changes in the risk profile during the course of the year. A materiality analysis is carried out for those types of risk that could arise in connection with the operating activities of the entities in the DZ BANK Group. The next step is to assess the extent to which there are concentrations of risk types classified as material in the Bank sector, the Insurance sector, and across sectors.

DZ BANK also conducts an annual **appropriateness test** at DZ BANK Group level. The objective is to review the latest groupwide specifications for the analysis of risk-bearing capacity. In addition, the appropriateness test includes a number of other tests to assess whether the risk measurement methods used for all types of risk classified as material are in fact fit for purpose. Action is taken to modify the risk management tools, where required.

The risk inventory check and appropriateness test are coordinated in terms of content and timing. All management units in the DZ BANK Group are included in both processes. The findings of the risk inventory and the appropriateness test are incorporated into risk management.

Risk inventory checks and appropriateness test are generally conducted in a similar way in the main subsidiaries.

5. OPPORTUNITIES

5.1. MANAGEMENT OF OPPORTUNITIES

The management of opportunities in the DZ BANK Group and at DZ BANK is integrated into the annual **strategic planning process**. Strategic planning enables the group to identify and analyze market discontinuities, trends, and changes, and forms the basis for evaluating opportunities.

Details about the strategic planning process are presented in section I.3.4. of this (group) management report.

Reports to the Board of Managing Directors on future business development opportunities are based on the outcome of the strategic planning. As part of the general communication of business strategy, employees are kept up to date about potential opportunities that have been identified.

5.2. POTENTIAL OPPORTUNITIES

5.2.1. Corporate strategy

DZ BANK's core functions as a central institution, corporate bank, and holding company mean that it focuses closely on the local cooperative banks, which are its customers and owners. All of its activities are divided into four strategic business lines: Retail Banking, Corporate Banking, Transaction Banking, and Capital Markets, which is focused on customers.

DZ BANK's **focus on the cooperative banks** is vital in view of the need to manage scarce resources and to meet new regulatory requirements. By focusing more closely on the Volksbanken Raiffeisenbanken cooperative financial network, DZ BANK's aim is to exploit the potential of its core activities more fully, particularly with regard to retail banking and SME business.

Furthermore, it is planned to enhance **corporate governance** in the DZ BANK Group with the aim of integrating the local cooperative banks even more closely. Over the last few years, DZ BANK has also stepped up its collaboration with WGZ BANK in order to leverage synergies for the entire cooperative financial network, besides improving the range of products and services offered.

The principle of a '**network-oriented central institution and financial services group**' also means that business activities are concentrated on the business areas covered by the cooperative banks and on further enhancing the satisfaction levels of customers of the local cooperative banks. To this end, the DZ BANK Group, in its role as financial services provider, supplies decentralized products, platforms, and services.

The strategic focus of the DZ BANK Group, guided by the 'Verbund First' principle, is a significant contributing factor in helping the **cooperative banks to strengthen their market position**. The local cooperative banks therefore not only receive substantial financial support in the form of fees, commissions, and profit distributions, they also enjoy the transfer of cost benefits and the availability of competitive products and services.

The core activities referred to above are supplemented by **complementary activities** using existing products, platforms, and services. for which DZ BANK acts as a corporate bank vis-à-vis third parties. These activities do not compete directly with those of the cooperative banks and they enable further economies of scale to be created for the entire cooperative financial network.

The **Outlook** section of the (group) management report describes expected developments in the market and business environment together with DZ BANK's business strategy and the implications for the earnings performance forecast for 2015. These are crucial factors in DZ BANK's strategic positioning and the resulting opportunities for increasing revenue and cutting costs during 2015.

5.2.2. Credit ratings

DZ BANK is awarded credit ratings by the three largest rating agencies, Standard & Poor's, Moody's, and Fitch. Individual subsidiaries of DZ BANK are also given their own ratings. In view of the high degree of cohesion within the cooperative financial network, Fitch and Standard & Poor's issue a network rating, for the purposes of which the cooperative financial institutions are analyzed on a consolidated basis. The criteria used by the agencies include factors such as strategy, risk assessment, transparency, and solidarity within the cooperative financial network in addition to business performance and collaboration.

The ratings are critical in determining the funding opportunities available on money and capital markets. They open up additional business options and potential opportunities for the entities in the DZ BANK Group.

During the course of the year under review, the rating agencies reviewed the credit ratings issued for DZ BANK. The very good ratings issued for DZ BANK by Standard & Poor's, Moody's, and Fitch were reconfirmed. Figure 10 provides an overview of DZ BANK's credit ratings.

FIG. 10 – DZ BANK RATINGS

	Standard & Poor's		Moody's		Fitch	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Covered bonds (DZ BANK BRIEFE)	AAA	AAA	–	–	AA	AA
Long-term rating	AA-	AA-	A1	A1	A+	A+
Short-term rating	A-1+	A-1+	P-1	P-1	F1+	F1+

As at December 31, 2014, Standard & Poor's and Fitch had issued long-term credit ratings for the cooperative financial network of AA- and A+ respectively. These credit ratings were unchanged compared with December 31, 2013.

6. GENERAL RISK FACTORS

6.1. MARKET AND SECTOR RISK FACTORS

The DZ BANK Group is subject to a range of risk factors that apply generally to the German and European banking industry as a whole. These market and sector risk factors have an impact on the risks covered by capital and also on liquidity risk. For the most part, the factors can be classified under business risk but are addressed separately here because of their key importance for the DZ BANK Group.

6.1.1. Regulatory environment

CRD IV AND CRR

The European financial sector is faced with considerable challenges as a result of the implementation of European legislation in connection with Basel III in the form of CRD IV and the CRR. This legislation is imposing much tighter regulatory standards, including process and reporting requirements, and in particular more stringent capital adequacy requirements. German banks had to apply the new regulations from January 1, 2014.

The CRR not only includes stricter capital requirements, it is also introducing completely new liquidity requirements. In essence, these comprise a requirement to comply with a liquidity coverage ratio (LCR) relating to the maintenance of a portfolio of particularly liquid assets providing cover for a 30-day period, and with a net stable funding ratio (NSFR) relating to stable funding of long-term assets.

As the different business activities of the DZ BANK Group and DZ BANK generate risk-weighted assets to varying degrees and tie up capital and/or liquidity, the tighter capital and liquidity requirements could force the DZ BANK Group and/or DZ BANK to cease activities that tie up a disproportionately high amount of capital or liquidity and that can no longer be operated profitably.

LEVERAGE RATIO

The CRR has introduced the principle of a leverage ratio for banks. This KPI shows the ratio of a bank's Tier 1 capital to its overall exposure. In contrast to risk-based capital requirements for which the assumptions are derived from models, the individual line items in the leverage ratio are not given their own risk weighting but are generally included in the KPI without any weighting at all. All banks became subject to an obligation to report the leverage ratio in 2014. The disclosure requirement applies from 2015.

Initially, there is no mandatory minimum value for the leverage ratio at European level because its effect is to be analyzed in more detail in a monitoring phase up to January 2017. A decision will then be made as to whether and at what level there is to be a mandatory minimum for the leverage ratio at European level.

The introduction of the leverage ratio could lead to an additional capital requirement for the DZ BANK Group and/or DZ BANK based on the current volume of business. Implications for the DZ BANK Group's business model and competitive position cannot be ruled out either.

The disclosure of DZ BANK's leverage ratio and an assessment of this ratio by financial market players could also have an adverse impact on the external assessment of the bank's capital position and on DZ BANK's funding costs.

MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES

At European level, EU Directive 2014/59, introduced in 2014, provided the legal basis for the new 'minimum requirement for own funds and eligible liabilities' (MREL) regulatory ratio. The MREL is intended to ensure that banks hold a sufficiently large volume of capital and liabilities that can be 'bailed-in' to make it possible to carry out an orderly resolution in the event of a crisis or if it has to be liquidated. 'Bail-in-able' liabilities are those that provide for creditors taking an equity interest if a bank gets into financial difficulties, enabling resolution to take place without recourse to aid from taxpayers and without jeopardizing the stability of the financial system.

The MREL ratio is the ratio of own funds and bail-in-able liabilities to the bank's total liabilities and own funds. The MREL ratio will be set individually for each institution by the resolution authorities on the basis of certain statutory criteria.

The EBA published a consultation paper in late 2014, which among other things detailed the specific assessment criteria for setting the MREL. The resolution authority has not yet formally set a specific MREL ratio for DZ BANK, so the impact of the MREL on the DZ BANK Group and DZ BANK cannot be gaged at present.

TOTAL LOSS-ABSORBING CAPACITY

Global systemically important banks are to be subject to additional requirements for their total loss-absorbing capacity. The total loss-absorbing capacity (TLAC) proposed in the new consultation paper issued by the FSB in November 2014 is intended to ensure that internationally important banks meet a minimum standard relating to their risk-weighted assets, guaranteeing an orderly resolution regardless of their systemic importance. Its scope of application may be extended in the future to banks of domestic systemic importance.

The final level for TLAC is to be set by the banking regulator in 2015 following an impact analysis and market survey. The minimum TLAC requirement is scheduled to come into force on January 1, 2019. The impact of the TLAC on the DZ BANK Group and DZ BANK cannot be gaged at present.

SUPERVISORY REVIEW AND EVALUATION PROCESS

The EBA published the Supervisory Review and Evaluation Process (SREP) in December 2014. Among other things, the guidelines set out the harmonization in the EU of the regulatory supervision process enshrined in Pillar 2 of Basel III. Harmonization is intended to create the same competitive conditions in the jurisdictions involved.

The EBA guidelines suggest that there will be fundamental changes to the supervisory review and evaluation process, which may also affect the methods that banks use for calculating the adequacy of their economic capital and liquidity. A core element of the future regulatory supervision process will be the linking of parts of regulatory reporting with economic risk management. The sustainability of banks' business models will also assessed by regulators. A further new aspect is the inclusion of governance and control mechanisms in the supervisory review. Unlike current practice, regulators will form their own quantitative impression of whether an institution's capital and liquidity are adequate.

The implementation of the SREP guidelines could mean that the DZ BANK Group and DZ BANK are subject to additional capital and liquidity requirements. Similarly, the DZ BANK Group cannot rule out the possibility of a negative impact on its cost structure or implications for its internal organizational structures, risk management system, business model, or competitive position.

CAPITAL REQUIREMENTS FOR MARKET RISK

Based on the experience of the financial crisis, the BCBS published its second consultative document entitled 'Fundamental review of the trading book' in October 2013. It sets out plans for a fundamental review of the existing rules for capital requirements in relation to market risk in the trading book (referred to as Basel 3.5).

Significant new features include a revision of the boundary between the trading book and banking book, the introduction of a new standardized approach, a complete revision of the risk measurement approach for the internal market risk model, and more stringent criteria for the approval of internal market risk models. The plans are also aiming for greater integration between the Standardized Approach and internal models-based approaches. The consequence of this is that DZ BANK, which is a bank with an internal model, will have to reintroduce the Standardized Approach in the future and will be subject to a mandatory requirement to use this approach to calculate the capital requirement for market risk in the trading book alongside its calculations using the internal model.

It is likely that the 'Fundamental review of the trading book' will lead to far-reaching, very time-consuming, and costly changes relating to the calculation of capital requirements for market risk in the trading book. This applies not only to banks such as DZ BANK with internal models, but to all banks in the DZ BANK Group, which will have to introduce the new Standardized Approach.

The date on which these new requirements are expected to come into force is as yet unknown. The implementation of the new requirements could mean that the DZ BANK Group and DZ BANK are subject to an additional capital requirement. Similarly, the possibility of a negative impact on cost structures or implications for internal organizational structures, the risk management system, the business model, or competitive position cannot be ruled out.

RISK DATA MANAGEMENT

In January 2013, the BCBS published principles for effective risk data aggregation and risk reporting. The principles aim to increase aggregation capability for all risk data used for internal risk management and to improve the risk management and decision-making processes (including internal risk reporting) at banks. The requirements must be implemented by global systemically important banks (G-SIBs) by 2016. For domestic systemically important banks, the principles come into force three years after classification as a domestic systemically important bank (D-SIB). BaFin is also planning to incorporate some of the regulations on risk data management into MaRisk BA for the 2015 financial year.

The implementation of the new requirements, and possibly also inadequate implementation, could involve changes to the DZ BANK Group's business model (and that of DZ BANK), have a negative effect on their competitive position, or result in the need for additional capital. Moreover, it is impossible to gage whether the principles will be implemented in the original form proposed by the Basel Committee on Banking Supervision or in some amended form.

SOLVENCY II

Solvency II defines requirements for capital adequacy, risk management, and a standardized reporting system for insurance companies that will be applicable throughout the EU from January 1, 2016. The new system of supervision is intended to facilitate more flexible regulation using a stronger principles-based and risk-based approach.

As far as R+V is concerned, Solvency II will give rise to significant changes in capital requirements and in the measurement of assets and liabilities. R+V will also have to comply with additional rules on business organization and further reporting and disclosure obligations. Other changes relate to the group requirements. There are additions to applicable investment principles in that entities must in the future cover their investments with capital in an amount commensurate with the risk content of the individual investments.

OTHER REGULATORY RISK FACTORS

In addition to the regulatory requirements described above, the following planned initiatives may give rise to risks for DZ BANK:

- EU Crisis Management Directive
- Single Supervisory Mechanism
- Reform of deposit protection schemes
- Classification of DZ BANK as a D-SIB
- German Act on Ringfencing and Recovery and Resolution Planning for Credit Institutions and Financial Groups
- Financial transaction tax
- Publication of the findings of regulatory audits

6.1.2. Macroeconomic risk factors

ECONOMIC TRENDS

The business performance of the DZ BANK Group and of DZ BANK is particularly influenced by Germany's economic position and the situation in financial and capital markets. Besides regular fluctuations in demand and production, extraordinary or unparalleled events can play a particular role. For example, the German economy continues to be affected by the sovereign debt crisis in Europe. Germany's export-driven economy is highly dependent on international trade. A persistent period of weak growth, stagnation, or a sharp downturn in international trade would cause a drop in production and a correspondingly lower level of demand for finance from businesses.

In addition to general economic factors, domestic economic performance is also dependent on national political decision-making, such as the introduction of a minimum wage across Germany on January 1, 2015. Higher staff costs generally lead to an increase in production costs, which could adversely impact competitiveness and result in a loss of market share both in Germany and abroad. Ultimately, the consequent contraction in production and capital investment in the entities concerned could lead to lower demand for borrowing.

EUROPEAN SOVEREIGN DEBT CRISIS

During the year under review, trends in international financial markets continued to be shaped by the fallout from the global financial crisis. The capital markets and the real economy remain very unsettled. Even though global economic growth and, in particular, the situation in financial markets saw a slight improvement again, the economy, the confidence of financial market players, and the extent of customer activity in the banking business continue to be adversely impacted by the sovereign debt crisis and, in particular, by a restrictive fiscal policy and the high level of unemployment in some of the countries of the European Union.

Substantial, albeit declining, budget deficits accompanied by government debt levels that are high in relation to gross domestic product remain a feature of the eurozone economies of **Portugal**, **Ireland**, **Greece** and **Spain**. In **Italy**, the budget deficit is comparatively modest, but the Italian national debt in relation to gross domestic product is one of the highest in the world.

Against the backdrop of persistently slow growth, reducing government debt in the eurozone is proving to be an extremely difficult and protracted process. Nevertheless, it is evident that all of the countries in the eurozone affected by the crisis have made substantial progress in consolidating their budgets and stabilizing their economies. For example, **Ireland** was able to exit the bailout under the European Stability Mechanism and return to the international financial markets in January 2014. After completing its bailout program in May 2014, **Portugal** was able to place long-term issues in the capital markets once more. However, because they have high levels of government debt, both countries remain vulnerable to investors changing their risk assessment.

The financial positions of Greece and Cyprus are still considered to be precarious. Despite a partial debt write-off by foreign creditors in 2012, **Greek**

government debt remained at around 171 percent of gross domestic product in 2014, still one of the highest levels in the world. Although Greece has made progress on consolidating its public finances, financial difficulties cannot be ruled out. **Cyprus** is making headway with the consolidation of its public finances and the stabilization of its banking sector. However, risks regarding the sustainability of its borrowing remain, given that its government debt is around 119 percent of GDP, economic growth continues to falter and the high level of non-performing loans in the banking sector is continuing to climb.

OTHER GLOBAL TROUBLE SPOTS

The situations in Russia and Hungary are currently also problematic. In **Russia,** the economic downturn that started in 2013 became more pronounced in 2014. The main factors behind this trend were the conflict in Ukraine and the resultant international sanctions, the steady fall in world market prices for oil and the collapse in the value of the rouble. Because their access to the capital markets is severely restricted, banks and companies are increasingly calling on the government for funding. However, the low oil price is slashing revenue, because two thirds of Russian exports are based on oil and gas. The support buying undertaken by the Russian Federation's central bank to slow the fall in the rouble has significantly depleted foreign currency reserves, which until then had been at a satisfactory level. If sanctions remain in place and oil prices remain low, the economic downturn is likely to become more pronounced in 2015 and possibly develop into a recession.

In **Hungary,** the economic situation continues to be difficult and economic policy remains unpredictable. Investors and the international capital markets have lost long-term confidence in the country. Its relationships with the EU and the IMF also remain strained. Hungary is having to rely on access to foreign currency from abroad to fund its high level of external debt. Should there be another resurgence in the sovereign debt crisis in Europe, the country could have payment problems.

RISK IMPACT

The European sovereign debt crisis and developments in other global trouble spots have an impact on various risks to which the DZ BANK Group and DZ BANK are exposed. In the Bank sector, this affects credit risk (deterioration in the credit quality of public-sector bonds, increase in the allowances for losses on loans and advances), equity investment risk (increased requirement for the recognition of impairment losses on the carrying amounts of investments), market risk (increase in credit spreads, reduced market liquidity), business risk (contraction in the demand for bank loans), reputational risk (standing of the banking industry), and liquidity risk (a combination of the effects mentioned above).

In the Insurance sector, market risk is most affected by the European sovereign debt crisis. A widening of credit spreads on government bonds or other market investments would lead to a drop in fair values. Present value losses of this nature could have a temporary or permanent adverse impact on operating profit.

ENVIRONMENT OF LOW INTEREST RATES

With interest rates at a historically low level, interest receivable on loans is low and the interest margin is relatively narrow, restricting the opportunities for earning income in **traditional banking business**. A risk scenario involving a very long period of low interest rates, possibly combined with a deflationary trend, would therefore also have a considerable negative impact on the performance of the DZ BANK Group and DZ BANK.

If there is a long period of low interest rates, the DZ BANK Group could face the risk of lower earnings, including lower earnings from the extensive BSH **building society operations**. When interest rates are very low, home savings loans lose their appeal for customers, while high-interest home savings deposits become more attractive. Consequently, interest income on home savings loans would fall and the interest cost for home savings deposits would rise. Furthermore, the liquidity they provide could only be invested at low rates of return, an additional factor depressing earnings. The introduction of a new generation of home savings rates in the spring of 2013 is already gradually mitigating the risk from the lower level of interest rates.

The entire **insurance industry** is affected by the historically low interest rates in the capital markets which may even be reduced further by the risk of deflationary trends. This environment of persistently low interest rates is adversely affecting personal insurance providers in the short and medium term because they have to recognize supplementary discount rate reserves. However, recognizing these additional provisions puts in place key, long-term prerequisites for limiting risk in life insurance and pension insurance business. The German Life Insurance Reform Act (LVRG) was passed to further strengthen the ability of life insurance companies to sustain risk in a long period of low interest rates. One of the provisions of this law is the reduction in the technical interest rate for new business which will be cut from 1.75 percent to 1.25 percent from 2015 onwards. This also mitigates interest-rate guarantee risk.

Given the long period of low interest rates, the challenge faced by the DZ BANK Group's **asset management activities** brought together under Union Asset Management Holding is to ensure that the guarantee commitments given to customers in respect of individual funds can actually be met from the funds concerned. This particularly affects the UniProfiRente product and the guarantee fund product group. UniProfiRente is a retirement pension solution certified and subsidized by the German government (known in Germany as a Riester pension). The amounts paid in during the contributory phase and the contributions received from the government are guaranteed to be available to the investor at the pension start date. The pension is then paid out under a payment plan with a subsequent life annuity. Guarantee funds are products for which Union Asset Management Holding guarantees that a minimum percentage of capital is preserved, depending on the precise product specification. The DZ BANK Group faces the risk that it could have to waive some of the management fee in order to meet the guarantee commitments. If this risk were to materialize, it could have a considerable negative impact on the financial performance of the DZ BANK Group.

A rapid **rise in interest rates** on capital markets could also involve some risks. The pricing losses on fixed-income securities and necessary remeasurement of low-interest long-term lending business that could result from such an upturn could have a detrimental impact on the earnings of the DZ BANK Group.

6.2. OVERARCHING BANK-RELATED RISKS

The DZ BANK Group is exposed to bank-specific risk factors that impact the risks backed by capital and liquidity risk. These factors are described below. They are generally taken into account as part of the bank's overall risk management.

6.2.1. Shortcomings in the risk management system

Regardless of the fundamental suitability of the risk measurement procedures used in the DZ BANK Group and at DZ BANK, it is conceivable that there may be circumstances in which risks cannot be identified in good time or in which a comprehensive, appropriate response to risks is not possible. Despite careful development of models and regular reviews, situations may arise in which actual losses or liquidity requirements are higher than those calculated in the risk models and stress scenarios.

For any given confidence level, the value-at-risk used for determining the risk capital requirement can be significantly influenced by extreme events for which the probability of occurrence is low. However, estimates for such rare events are generally subject to a great deal of uncertainty (referred to as model risk). Moreover, there are no comprehensive historical observations in most cases for extreme losses of this nature, which makes it more difficult to validate any models. Key input parameters for measurement models are also subject to uncertainty, because they are already estimates themselves.

The measurement of liquidity risk is subject to similar model risk related to the design of models and parameters and their validation. In addition, risks arising from scenarios that extend beyond the risk tolerance for serious crises set by the Board of Managing Directors are accepted and are therefore not taken into account for risk management purposes.

Despite continuously reviewing crisis scenarios, it is simply not possible to set down a definitive record of all economic conditions that could potentially have a negative impact. Therefore, an analysis of crisis scenarios in stress tests cannot guarantee that there will not be other crisis situations that could lead to greater losses or liquidity needs.

6.2.2. Rating downgrades

If DZ BANK's credit rating or the network rating for the cooperative financial network were to be downgraded, this would have a negative impact on the costs of raising equity and of borrowing. As a result, new liabilities could arise, or liabilities dependent on the maintenance of a specific credit rating could become due for immediate payment.

DZ BANK's credit rating is an important element in any comparison with competitor banks. It also has a significant impact on the ratings for DZ BANK's main subsidiaries. A downgrade or even just the possibility of a downgrade in the rating for DZ BANK or one of its subsidiaries could have a detrimental effect on the relationship with customers and on the sale of products and services.

Furthermore, if a rating downgrade were to occur, the DZ BANK Group or DZ BANK could face a situation in which it had to furnish additional collateral in connection with rating-linked collateral agreements for derivatives (regulated by the Credit Support Annex or Collateralization Annex) or in which it was no longer considered a suitable counterparty for derivative transactions at all. If the credit rating for DZ BANK or one of its subsidiaries were to fall out of the range covered by the top four rating categories (investment grade ratings, disregarding rating subcategories) the operating business of DZ BANK or the subsidiary concerned, and therefore also the funding costs for all the entities in the group, could suffer an adverse impact.

In the future, the ratings will increasingly disregard any potential German government bailout if there were a crisis that could affect the continued existence of DZ BANK as a going concern. This could lead to a downgrade in the rating of DZ BANK. However, this will be offset by the positive influence on ratings exerted by the mutual support within the cooperative financial network.

6.2.3. Hedge ineffectiveness

The DZ BANK Group and DZ BANK are exposed to the risk that a counterparty in a hedge could become insolvent and therefore no longer be in a position to meet its obligations. Consequently, the hedge could prove to be ineffective and the DZ BANK Group or DZ BANK would then be exposed to risks that it believed it had hedged.

Unforeseen market trends could undermine the effectiveness of action taken to hedge market risk. One example is the risk in connection with the financial crisis and sovereign debt crisis. In this case, the DZ BANK Group or DZ BANK could only have minimized some of this risk with great difficulty; it may not have been possible to hedge some of the risk at all. One of the particular factors to take into account is that some of the quantitative measurement methods and key risk indicators in the risk management system are based on past experience. Furthermore, the quantitative risk management system does not encompass all risks and makes assumptions about the market environment that are not based on specific events. It is conceivable there could be market scenarios in which the measurement methods and key risk indicators used do not forecast certain potential losses correctly, resulting in miscalculations.

In the context of the management of market risk, use is made of credit derivatives, comprising credit-linked notes, credit default swaps, and total return swaps, in order to reduce the issuer risk attaching to bonds and derivatives. Macro hedges are used dynamically to mitigate spread risk and risks attaching to underlying assets. In isolated cases, transactions are conducted on a back-to-back basis. If these instruments and measures turn out to be only partially effective or ineffective, it is possible that the DZ BANK Group and/or DZ BANK could incur losses against which the instruments or measures ought to have provided protection. Moreover, hedging activities give rise to costs and may result in additional risks. Gains and losses arising from ineffective risk hedges can increase the volatility of the earnings generated.

7. RISK CAPITAL MANAGEMENT

7.1. STRATEGY, ORGANIZATION, AND RESPONSIBILITY

Risk capital management is an integral component of business management in the DZ BANK Group and at DZ BANK. Active management of economic capital adequacy on the basis of both internal risk measurement methods and regulatory capital adequacy requirements aims to ensure that the assumption of risk is always consistent with the DZ BANK Group's capital resources.

The **Board of Managing Directors of DZ BANK** defines the corporate objectives and the capital requirement in the DZ BANK Group and at DZ BANK in terms of both risks and returns. In managing the risk profile, the Board of Managing Directors strives for an appropriate ratio of risk capital requirement to available internal capital. DZ BANK is responsible for risk and capital management, and for compliance with capital adequacy at group level. At the DZ BANK Group level, minimum standards have been specified for the management of risk and the appropriateness of these standards is regularly reviewed.

The management of economic and regulatory capital adequacy is based on internal target values. To avoid any unexpected adverse impact on **target values and capital ratios** and ensure that any changes in risk are consistent with corporate strategy, groupwide risk-weighted assets and economic upper loss limits are planned as limits for the risk capital requirement on an annual basis as part of the **strategic planning process**. This process results in a requirements budget for the economic and regulatory capital needed by the group. The action needed to cover this requirement and the implementation of any corresponding measures to raise capital is approved by the Treasury and Capital Committee and then coordinated by DZ BANK treasury.

The integration of economic risk capital requirements planning into the strategic planning process aims to ensure that the risk strategy for types of risk covered by capital is closely linked with the business strategies.

7.2. MANAGEMENT OF ECONOMIC CAPITAL ADEQUACY

Owing to the close ties between risk capital management at DZ BANK and that of the DZ BANK Group, the information below also applies to DZ BANK.

7.2.1. Measurement methods

Economic capital management is based on internal risk measurement methods, which take into account all key types of risk with the exception of liquidity risk. The risk capital requirement is determined by aggregating the relevant risk types of all management units. The methods selected serve to meet the statutory requirements for a groupwide integrated risk capital management.

As part of **risk-bearing-capacity analysis**, the risk capital requirement is compared with the available internal capital (reduced by a capital buffer) in order to determine the economic capital adequacy. The Board of Managing Directors determines the upper loss limits for the year on the basis of the available internal capital and bearing in mind the necessary capital buffer. These limits then restrict the risk capital requirement.

Available internal capital comprises equity and hidden reserves. It is reviewed on a quarterly basis. In line with the sectoral approach, the available internal capital is determined on a modular basis as follows:

– The available internal capital from the **Bank sector** is calculated on the basis of IFRS data (as was the case before the sectoral approach was introduced), but now excludes R+V.
– The available internal capital from the **Insurance sector** is based on the capital of the R+V Versicherung AG insurance group in accordance with Solvency II.

The available internal capital from the two sectors is combined to produce the available internal capital of the DZ BANK Group. During this process, the effects of consolidation between the Bank and Insurance sectors are taken into account, resulting in a reduction in the available internal capital available at group level.

7.2.2. Capital buffer

The purpose of the capital buffer is to cover the lack of some precision in risk measurement as well as account for risks that are not measured as part of the risk capital requirement and not managed using risk limits (upper loss limits). This applies to **migration risk on traditional loans**, for example. The individual components of the capital buffer are quantified using a method based on scenarios and models with input from experts.

The capital buffer also includes the **risk arising from defined benefit obligations** incurred by the entities allocated to the Bank sector. This risk comprises the interest-rate risk and longevity risk that arise from direct pension obligations to current or former employees. The interest-rate risk arising from the defined benefit obligations of BSH is not covered by the capital buffer; it is managed as part of market risk.

The risks arising in connection with the assets and liabilities are regularly assessed by a DZ BANK investment committee; corrective action to eliminate risk is taken where necessary. Changes in decisions by the courts, in legislation, or in accounting standards may make it necessary to adjust existing provisions for pensions and other post-employment benefits.

Disclosures regarding the accounting policies for defined benefit obligations can be found in note 26 of the notes to the consolidated financial statements.

7.2.3. Risk-bearing capacity

The **available internal capital** available to the DZ BANK Group as at December 31, 2014 was measured at €19,569 million (December 31, 2013: €17,293 million). The available internal capital originally calculated as at December 31, 2013 had amounted to €16,652 million.

Implementation of the sectoral approach led to changes in the available internal capital as at December 31, 2013 compared with the original figure. This change is essentially attributable to the recognition of parts of the bonus reserve. The bonus reserve contains accumulated profits that have not yet been declared as available for distribution to policyholders. The bonus reserve mainly consists of non-designated parts of the provision for premium refunds and is therefore allocated to the life insurance business.

As at December 31, 2014, the capital buffer amounted to €2,644 million (December 31, 2013: €1,123 million). The **capital buffer** originally determined at December 31, 2013 had stood at €3,001 million. This figure changed owing to the separation of spread risk and migration risk on securities from the capital buffer in the Bank sector and to the introduction of the sectoral approach.

Derived from the available internal capital minus the capital buffer, the total **upper loss limit** for the DZ BANK Group amounted to €15,284 million as at December 31, 2014 (December 31, 2013: €15,277 million). As at December 31, 2013, the original figure had been €10,302 million. As at December 31, 2014, the **risk capital requirement** was calculated at €10,181 million (December 31, 2013: €10,177 million). As at December 31, 2013, the original figure had been €7,753 million. The upper loss limit and the risk capital requirement did not change significantly during the year.

As at December 31, 2014, the **economic capital adequacy ratio** for the DZ BANK Group was calculated at 166.2 percent (December 31, 2013: 158.9 percent). The sharp rise in this ratio was attributable to the DZ BANK Group's strong earnings performance and the boost to capital provided by

FIG. 11 – ECONOMIC CAPITAL ADEQUACY OF THE DZ BANK GROUP

€ million	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013
Available internal capital	19,569	20,313	18,704	17,826	17,293
Capital buffer	-2,644	-2,500	-1,051	-1,151	-1,123
Available internal capital after deduction of capital buffer	16,925	17,813	17,653	16,675	16,170
Upper loss limit	15,284	15,234	15,234	15,234	15,277
Risk capital requirement (after diversification)	10,181	9,722	9,895	10,118	10,177
Economic capital adequacy	**166.2%**	**183.2%**	**178.4%**	**164.8%**	**158.9%**

FIG. 12 – UPPER LOSS LIMITS AND RISK CAPITAL REQUIREMENT IN THE BANK SECTOR

	Upper loss limits					Risk capital requirement				
€ million	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013
Credit risk	3,942	3,887	3,887	3,887	3,710	3,056	3,103	3,059	3,092	2,941
Equity investment risk	974	958	958	958	1,115	788	706	695	703	750
Market risk[1]	6,422	6,428	6,428	6,428	6,620	2,769	2,729	2,909	3,134	3,289
Technical risk of a home savings and loan company[2]	500	500	500	500	600	496	496	496	496	576
Operational risk	689	693	693	693	706	628	628	628	628	650
Business risk[3]	436	451	451	451	349	361	360	356	353	308
Diversification effect	-1,179	-1,184	-1,184	-1,184	-1,323	-1,177	-1,150	-1,168	-1,190	-1,310
Total (after diversification)	**11,784**	**11,734**	**11,734**	**11,734**	**11,777**	**6,922**	**6,873**	**6,976**	**7,217**	**7,204**

1 Market risk contains spread risk and migration risk.
2 Including business risk and reputational risk of BSH.
3 Apart from that of BSH, reputational risk is contained in the risk capital requirement for business risk.

FIG. 13 – UPPER LOSS LIMITS AND OVERALL SOLVENCY REQUIREMENT IN THE INSURANCE SECTOR

	Upper loss limits					Overall solvency requirement				
€ million	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013
Life actuarial risk	450	450	450	450	410	387	395	397	388	417
Health actuarial risk	80	80	80	80	90	57	52	52	57	59
Non-life actuarial risk	2,300	2,300	2,300	2,300	2,170	2,177	2,071	2,067	2,024	2,034
Market risk	2,350	2,350	2,350	2,350	2,520	2,329	1,795	1,919	1,896	2,048
Counterparty default risk	80	80	80	80	50	42	42	53	69	35
Operational risk	510	510	510	510	490	436	446	443	440	408
Entities in other financial sectors	80	80	80	80	80	73	73	68	68	68
Ability to offset deferred taxes against losses	-920	-920	-920	-920	-920	-928	-846	-866	-836	-852
Diversification effect						-1,313	-1,181	-1,215	-1,206	-1,245
Total (after diversification)	**3,500**	**3,500**	**3,500**	**3,500**	**3,500**	**3,260**	**2,848**	**2,919**	**2,901**	**2,973**

the capital increase carried out during the year. The discrepancy between the prior-year figure and the figure originally measured as at December 31, 2013 (176.1 percent) is explained by the total transition effects.

Figure 11 provides an overview of the DZ BANK Group's economic capital adequacy.

The upper loss limits and risk capital requirements for the Bank sector, broken down by risk type, are shown in figure 12.

Figure 13 sets out the upper loss limits and overall solvency requirements for the Insurance sector broken down by risk type and includes policyholder participation. The definition of the upper loss limits and determination of overall solvency requirements take into account a favorable effect arising from the ability to offset deferred taxes resulting from the elimination of deferred tax liabilities in the loss scenario against losses. Diversification effects between the risk types are also taken into consideration. Owing to these effects of correlation, the overall solvency requirement and upper loss limits for each risk type are not cumulative.

7.2.4. Economic stress tests

ECONOMIC STRESS TESTS AT DZ BANK GROUP LEVEL

Economic stress tests are used by DZ BANK to establish whether the DZ BANK Group would retain its risk-bearing capacity in extreme but plausible scenarios. The economic stress test framework includes several **cross-risk economic scenarios** and **specific stress tests for individual risk types** incurred by the DZ BANK Group

The stress tests are designed for a 1 to 2-year scenario horizon. They take into account both macroeconomic scenarios and historical situations that are particularly relevant for the DZ BANK Group's business model and portfolios. The risk-type-specific stress tests are hypothetical scenarios based on expert assessments and historical time series for the relevant risk drivers.

DZ BANK also carries out a quarterly groupwide **inverse stress test** to illustrate the extreme changes in market prices that could also impair its risk-bearing capacity in the short term.

The economic stress test framework applies to all of the DZ BANK Group's material **downside risks,** including risks that are only critical for individual group entities because of their particular business model. The stress tests are based on the methods and procedures used for calculating risk-bearing capacity.

The scenarios for the economic stress test translate potential trends in macroeconomic indicators and market prices during a **crisis** into changes in available internal capital and the risk capital requirement. This enables the impact of external economic developments on the risk-bearing capacity of the DZ BANK Group to be addressed comprehensively and consistently.

For the economic stress tests, DZ BANK has put in place a system of threshold values as an **early warning mechanism.** A continuous reporting system monitors whether values are within these thresholds in the cross-risk scenarios and the stress tests for specific risk types. Different early-warning signals trigger different **risk management processes** in response to the potential risks highlighted by the stress tests.

In the year under review, the stress test framework in the DZ BANK Group was switched to the **sectoral approach** to calculating risk-bearing capacity. The stress testing methods were expanded so that the specific features of R+V's business model and its risk and capital management systems are taken into account comprehensively and in an appropriate manner when determining the results of stress testing in the DZ BANK Group.

The stress tests are updated every quarter and approved by the **Risk Committee** or the entire Board of Managing Directors of DZ BANK.

ECONOMIC STRESS TESTS IN THE BANK SECTOR

The method used for stress testing in the Bank sector includes potential **reductions in available internal capital** resulting from the scenarios. These reductions may be caused by losses on the measurement of tradable financial instruments, write-downs on the carrying amounts of investments due to changes in market prices, losses due to defaults and changes in fair value due to deteriorations in credit quality and loss rates, as well as by changes in sources of return resulting from changing macroeconomic conditions or competitive situations.

In the stress scenarios, the measurement of market risk, equity investment risk, credit risk, the technical risk of a home savings and loan company, business risk and operational risk in the Bank sector is also adapted so as to adequately reflect the simulated change triggered by a crisis. The initial parameters for measuring risk are scaled in such a way as to make them suitable for reflecting extremely negative hypothetical or historical situations. The procedure for aggregating risk types into a stress test result covering all group entities and risk types is similar to the regular procedure used for risk measurement.

In the **inverse stress test,** a scenario is used to simulate impairment of risk-bearing capacity such that it is no longer possible to maintain the business model as a going concern merely because the available internal capital has been depleted by fair value losses resulting from a combination of extreme changes in market prices and price volatility.

DZ BANK is integrated into the standard risk capital requirement stress tests conducted in the DZ BANK Group. In addition to the standard stress test procedures at group level, DZ BANK creates crisis scenarios based on the internal market risk model and adjusts the scenarios on an ongoing basis to take into account current market data.

ECONOMIC STRESS TESTS IN THE INSURANCE SECTOR

Like the other management units in the DZ BANK Group, R+V regularly conducts the economic stress tests applicable to the group but they are based on a separate stress testing method for the Insurance sector. This means that appropriate account is taken of the specific features of R+V's business model and its risk and capital management systems. In addition to R+V's exposure to market risk, its actuarial risk in particular is put under stress in the **risk-type-specific hypothetical stress tests** by changing the parameters for lapse and mortality in its life insurance business and the expected number of claims for natural disasters in its non-life insurance business to extreme but plausible values.

Market and credit risk are covered in the **cross-risk economic scenarios,** while actuarial risk is addressed using the stressed yield curve. The parameters for the yield curve, exchange rates, share prices, interest-rate-volatility and credit spreads are changed.

In the **inverse stress test** for the Insurance sector, simulated changes in market prices are used to determine the changes in available own funds. By simultaneously taking into account the impact of changes in market prices on the available internal capital and overall solvency requirement, it is possible for policyholder participation to be incorporated into the inverse stress test in an appropriate manner.

R+V also uses annual stress tests prescribed by **BaFin** to review whether it is in a position to meet its obligations to policyholders, even in the event of a sustained crisis situation on the capital markets.

7.2.5. Possible impact from crystallized risk

If risk covered by capital actually materializes, this has a negative impact on both financial performance and financial position. In the income statement, the recognized expenses are higher and/or the recognized income is lower than originally expected. This is accompanied by a decrease in the net assets on the balance sheet because assets are unexpectedly lower and/or liabilities are unexpectedly higher.

If there is a deterioration in financial performance, there is the risk of long-term **negative risk-adjusted profitability.** The cost of capital cannot then be covered, and economic value added (EVA) becomes negative. If this situation arose, there would no longer be any point in continuing business operations from a business management perspective.

Viewed in isolation and assuming there are no other influencing factors, this chain of events would apply particularly in a scenario where the equity holder is simply seeking to maximize profits. In the case of DZ BANK, however, there is another significant factor in that the intention of the equity holders (who in many cases are also customers of DZ BANK and its subsidiaries) in committing equity to DZ BANK is not only to achieve, as far as possible, market-level returns commensurate with the risk involved, but also to utilize the decentralized services that DZ BANK provides as a central institution in the cooperative financial network. The return on investment that forms part of any purely monetary analysis therefore needs to be adjusted in the case of DZ BANK to remove the effects of the extra benefits. Given this background, EVA is only of limited use for assessing the advantages of the investment in DZ BANK. Thus, a negative EVA is not necessarily associated with the discontinuation of business activities undertaken by DZ BANK or its subsidiaries.

If risk were to materialize and associated losses be incurred, there would be a risk that the DZ BANK Group would **miss its economic capital adequacy target**. However, this situation could also occur with an increase in risk arising from heightened market volatility or as a consequence of changes in the business structure. In addition, a decrease in available internal capital, for example because its components have expired or are no longer eligible, could mean that the risk capital requirement exceeds the available internal capital. Additional or more stringent statutory or regulatory requirements could also have a negative impact on the economic capital adequacy of the DZ BANK Group.

In a situation in which the economic capital adequacy of the DZ BANK Group could not be guaranteed, there would be insufficient capital available to meet the group's own standards with regard to the coverage of risk. This could lead to a deterioration in the credit ratings for DZ BANK and its subsidiaries. If there is also insufficient capital to meet the level of protection demanded by regulators, these regulators could initiate action, which in extreme cases could aim to wind up DZ BANK or its subsidiaries.

7.3. MANAGEMENT OF REGULATORY CAPITAL ADEQUACY

In addition to the management of economic capital – the key figure in the management of business activities – regulatory solvency requirements for the DZ BANK financial conglomerate, the DZ BANK banking group, and the R+V Versicherung AG insurance group are also strictly observed.

7.3.1. DZ BANK financial conglomerate

The Supervision of Financial Conglomerates Act (FKAG) essentially forms the legal basis for the supervision of the DZ BANK financial conglomerate.

Financial conglomerate solvency is the amount equating to the difference between the total of eligible capital in the financial conglomerate and the total of solvency requirements for the conglomerate. The coverage ratio is calculated by dividing capital by the solvency requirement. The resulting ratio must be at least 100 percent. With effect from January 1, 2014, calculation of the financial conglomerate's solvency was switched from a consolidated calculation in accordance with section 5 of the German Regulation Governing the Capital Adequacy of Financial Conglomerates (FkSolV) to an accounting consolidation method based on article 14 of the aforementioned regulatory technical standard.

On the basis of a provisional calculation, the DZ BANK financial conglomerate's eligible capital as at December 31, 2014 amounted to €18,836 million (December 31, 2013: €16,344 million). On the other side of the ratio, the provisional solvency requirement amounted to €11,011 million (December 31, 2013: €9,060 million), producing a provisional coverage ratio of 171.1 percent (December 31, 2013: confirmed final coverage ratio of 180.4 percent), significantly in excess of the regulatory minimum requirement.

7.3.2. DZ BANK banking group

REGULATORY FRAMEWORK

The DZ BANK banking group uses the following methods to calculate the regulatory capital requirement in accordance with the CRR:

- Credit risk: Internal ratings-based approaches (primarily the foundation IRB approach and the IRB approach for the retail business; the regulatory credit risk measurement methods used by DVB are based on the advanced IRB approach)
- Market risk: Predominantly the group's own internal model and, to a minor extent, the Standardized Approaches
- Operational risk: Standardized Approach.

A waiver is available under article 7 CRR, which states that – provided certain conditions are met – the regulatory supervision of individual Germany-based banks within a banking group may be replaced by supervision of the entire banking group. The DZ BANK banking group continued to make use of this waiver in 2014 for DG HYP.

In the reporting year, DZ BANK continued to support the further development of banking supervision, once again stepping up its collaboration in the relevant committees, both at national and international levels.

REGULATORY CAPITAL RATIOS IN ACCORDANCE WITH THE CRR

Since January 1, 2014, the solvency ratios of the DZ BANK banking group have been calculated in accordance with the CRR. The main basis for calculating regulatory capital is therefore the capital reported in the IFRS consolidated financial statements. The CRR also defines an additional category of capital, core Tier 1 capital, which is also used to calculate a new, additional capital ratio. Owing to these changes, the values as at December 31, 2013 given below are not directly comparable with the values shown as at December 31, 2014.

Based on IFRS reporting and the initial application of the new CRR rules, the DZ BANK banking group's regulatory **capital** as at December 31, 2014 amounted to a total of €16,508 million. Based on HGB financial reporting and before adoption of the CRR rules, this figure was €15,270 million as at December 31, 2013.

The initial application of the CRR and the associated new provisions on capital deductions, together with the transition to accounting in accordance with IFRS, caused **Tier 1 capital** to decrease significantly. However, there were significant positive countervailing effects from the increase in capital achieved by retaining profits reported in the 2013 annual financial statements of €997 million and from the interim profit of €1,262 million that was eligible for inclusion under regulatory provisions. This substantial boost to capital adequacy from the group's own resources, achieved by retaining profits from 2013 and interim profits for the period ended September 30, 2014, underlines the DZ BANK Group's healthy level of profitability. Furthermore, the capital increase carried out in July 2014 resulted in Tier 1 capital rising by a further €1,477 million. As at December 31, 2014, Tier 1 capital comprised core Tier 1 capital of €11,913 million plus additional Tier 1 capital of €1,494 million.

The year-on year increase of €1,819 million in **Tier 2 capital** to €3,101 million at December 31, 2014 was also mainly due to application of the new rules on capital deductions pursuant to the CRR. DVB issued new Tier 2 capital amounting to €115 million.

As at December 31, 2014, regulatory **capital adequacy requirements** were calculated at €7,846 million (December 31, 2013: €6,828 million). The increase is primarily attributable to the introduction of the CRR.

The **total capital ratio** of the **DZ BANK banking group** declined from 17.9 percent as at December 31, 2013 to 16.8 percent as at the balance sheet date. As at December 31, 2014, the **Tier 1 capital ratio** was 13.7 percent, a sharp decrease on the ratio of 16.4 percent as at December 31, 2013. Calculated in accordance with the new CRR provisions, the **core**

Tier 1 capital ratio stood at 12.2 percent as at the balance sheet date; according to internal calculations, the figure at December 31, 2013 would have been 9.2 percent.

In terms of the **total capital ratio** of **DZ BANK,** a sharp fall was reported from 31.5 percent as at December 31, 2013 to 24.9 percent on the balance sheet date. The **Tier 1 capital ratio** was also down, from 20.5 percent as at December 31, 2013 to 17.8 percent as at December 31, 2014, which was the same percentage as the **core Tier 1 capital ratio** on the balance sheet date.

The ratios at both DZ BANK banking group level and DZ BANK level were well above the regulatory minimum values at all times during 2014.

Figure 14 provides an overview of the DZ BANK banking group's regulatory capital ratios in accordance with the regulations in force in 2014.

FUTURE BASEL III REGULATORY CAPITAL RATIOS

According to the regulations that will apply from 2019 (also known as 'fully loaded' Basel III), the DZ BANK banking group and DZ BANK would have the following solvency ratios as at December 31, 2014:

DZ BANK banking group:
- Total capital ratio: 12.8 percent (minimum ratio: 10.5 percent)
- Tier 1 capital ratio: 11.2 percent (minimum ratio: 8.5 percent)
- Core Tier 1 capital ratio: 11.1 percent, or 11.4 percent if temporary differences in the annual financial statements are included (minimum ratio: 7.0 percent, December 31, 2013: 7.1 percent)

DZ BANK:
- Total capital ratio: 19.6 percent
- Tier 1 capital ratio: 17.6 percent
- Core Tier 1 capital ratio: 17.6 percent

During 2014, the ratios were in excess of the regulatory minimum values at all times.

FIG. 14 – REGULATORY CAPITAL RATIOS OF THE DZ BANK BANKING GROUP IN ACCORDANCE WITH CRR

€ million	Dec. 31, 2014	Sep. 30, 2014	Jun. 30, 2014[1]	Mar. 31, 2014	Dec. 31, 2013
Capital					
Core Tier 1 capital	11,913	11,626	10,262	9,184	
Additional Tier 1 capital	1,494	1,457	1,396	1,358	
Tier 1 capital	**13,407**	**13,083**	**11,658**	**10,542**	**13,988**
Total Tier 2 capital after capital deductions	3,101	3,219	3,158	3,421	1,282
Total capital	**16,508**	**16,302**	**14,816**	**13,963**	**15,270**
Capital requirements					
Credit risk (including long-term equity investments)	6,309	6,448	6,414	6,664	5,451
Market risk	873	836	813	754	692
Operational risk	664	664	642	642	685
Total	**7,846**	**7,948**	**7,869**	**8,060**	**6,828**
Capital ratios					
Total capital ratio (minimum ratio: 8.0 percent)	16.8%	16.4%	15.1%	13.8%	17.9%
Tier 1 capital ratio (minimum ratio: 5.5 percent)	13.7%	13.2%	11.9%	10.4%	16.4%
Core Tier 1 capital ratio (minimum ratio: 4.0 percent)	12.2%	11.7%	10.4%	9.1%	

1 Owing to a subsequent adjustment, the figures for the capital components and the core Tier 1 capital ratio as at June 30, 2014 differ from the disclosures on page 43 of the opportunity and risk report in the 2014 half-year financial report.

STRESS TESTS

At banking group level, DZ BANK conducts the quarterly regulatory stress tests that are required to verify the group's capital adequacy on a regular basis, including in crisis situations. In these tests, a deterioration in credit ratings and collateral values is applied, depending on the bank and asset class concerned. In addition to this stress scenario, regulatory capital adequacy is tested by means of a standard scenario in which an even more significant deterioration in credit ratings is simulated. As at December 31, 2014, the solvency requirements were satisfied without qualification in both stress scenarios, as had also been the case twelve months earlier.

RESULTS OF THE ECB COMPREHENSIVE ASSESSMENT

During the balance sheet assessment, around 50 percent of the customer lending business of the DZ BANK banking group was examined. As a result, using a more stringent supervisory approach, DZ BANK's core Tier 1 capital ratio as at December 31, 2013 was reduced by 0.2 percentage points. This adjustment is entirely due to the fact that the methods used by the ECB differ from those in the IFRSs. The DZ BANK Group used the discretion it is permitted by law and recognized the findings of the asset quality review in 2014.

During the asset quality review, the ECB identified that the DZ BANK Group's risk management system requires further development. DZ BANK has introduced the necessary measures for the further development of the risk management system and has put mechanisms in place to ensure that these measures are implemented systematically and without delay.

Even though the capital increase was not taken into account, the DZ BANK banking group passed the stress test. The ECB based the stress test on the scenario of an economic slump with corresponding turmoil in the financial and capital markets. Among other things, it assumed a heightened level of defaults and rising interest rates that could not be passed on in full. The further capital consumptions arising from the CRR ramp-up were also taken into account over an observation period of 3 years. In total, the adverse-scenario stress test, including the results of the balance sheet assessment, resulted in DZ BANK's core Tier 1 capital ratio falling from 9.0 percent as at January 1, 2014 to 6.0 percent as at December 31, 2016. The latter ratio was in excess of the minimum of 5.5 percent specified by the ECB. No capital deficiency was identified.

If the capital increase of €1.5 million completed in July 2014 were included, the relevant stress test ratio would be 7.2 percent.

The detailed results of the comprehensive assessment published by the ECB can be viewed online at: *https://www.bankingsupervision.europa.eu/banking/comprehensive/html/index.en.html*

In accordance with the regulatory supervision process for Basel III Pillar 2 (article 16 of EU regulation no. 1024/2013) the ECB adopted a resolution that the DZ BANK banking group's total capital ratio and core Tier 1 capital ratio must at all times be above the statutory requirements currently in force. According to current projections, the DZ BANK banking group is expected to meet these requirements in 2015.

7.3.3. R+V Versicherung AG insurance group

The regulatory solvency requirements for insurance companies and insurance groups provide a means of evaluating the overall risk position in the R+V Versicherung AG insurance group. The group's risk-bearing capacity for regulatory purposes is defined as the eligible capital at group level in relation to the risks arising from operating activities. In compliance with the legislation currently applicable to the insurance sector, the changes in the regulatory risk-bearing capacity of the R+V Versicherung AG insurance group as a whole and each of its constituent entities are analyzed at least once a quarter.

In 2014, all of the supervised insurance companies together with the R+V Versicherung AG insurance group, which is the higher-level entity for regulatory purposes, satisfied the minimum solvency requirements currently in force.

As at December 31, 2014, preliminary figures show that the R+V Versicherung AG insurance group's risk-bearing capacity for regulatory purposes (adjusted solvency) amounted to 189.8 percent compared with a confirmed final ratio of 154.7 percent as at December 31, 2013. The group had eligible capital of €6,310 million at its disposal on December 31, 2014 (confirmed final figure as at December 31, 2013: €4,842 million) to cover a solvency requirement of €3,325 million (confirmed final figure as at December 31, 2013: €3,130 million). Valuation reserves eligible for regulatory purposes are not included in these figures.

Analysis of the capital market scenarios applied in the internal planning shows that the R+V Versicherung AG insurance group's solvency ratio will continue to exceed the minimum statutory requirement as at December 31, 2015.

7.4. OUTLOOK

BASEL III

Measures to implement the new regulatory capital adequacy requirements in the group's operations have already been initiated and will continue in 2015. Efforts will be focused particularly on closely monitoring the main capital drivers and implementing the defined measures to reallocate capital in order to improve capital distribution within the DZ BANK banking group.

CAPITAL REQUIREMENTS FOR MARKET RISK

By way of preparation for the planned 'Fundamental review of the trading book', under which the regulatory capital requirements for market risk are to be comprehensively reorganized, DZ BANK is tracking the ongoing development of the implementation requirements and is participating in the associated consultation process. Further activities are being planned for early preparation of a concept study on Basel 3.5.

RISK DATA MANAGEMENT

The DZ BANK Group has given a high priority to implementing the principles for effective risk data aggregation and risk reporting published by the Basel Committee on Banking Supervision. An as-is analysis was carried out in 2013 and an action plan drawn up. In 2014 this work was further developed, with the involvement of the management units, to create a target scenario for the DZ BANK Group which was used to derive a step-by-step implementation plan that will enable the group to satisfy the requirements by the end of 2017. Implementation will take place as part of a groupwide program of projects.

SOLVENCY II

As a result of internal projects and working group activities, and by virtue of its involvement in working groups set up by Gesamtverband der Deutschen Versicherungswirtschaft e.V. (GDV) [German Insurance Association] and BaFin, R+V is preparing itself for the future regulatory challenges and thereby laying the foundations for successful implementation of the Solvency II requirements. In this context, R+V is taking part in impact studies for Solvency II (quantitative impact studies, long-term guarantees assessment by the European insurance regulator, comprehensive BaFin survey) and is analyzing the results. The specifications for the preparatory phase are being analyzed and specific supervisory requirements are being implemented.

Bank sector

8. CREDIT RISK

8.1. DEFINITION AND CAUSES

8.1.1. Definition

Credit risk is defined as the risk of losses arising from the default of counterparties (borrowers, issuers, other counterparties).

Credit risk may arise in traditional lending business and also in trading activities. **Traditional lending business** is for the most part commercial lending, including financial guarantee contracts and loan commitments. In the context of credit risk management, **trading activities** refers to capital market products such as securities (in both the banking book and the trading book), promissory notes, derivatives, secured money market business (such as sale and repurchase agreements, referred to below as repo transactions), and unsecured money market business.

In **traditional lending business**, credit risk arises in the form of default risk. In this context, default risk refers to the risk that a customer may be unable to settle receivables arising from loans or advances made to the customer (including lease receivables) or make overdue payments, or that losses may arise from contingent liabilities or from lines of credit committed to third parties.

Credit risk in connection with **trading activities** arises in the form of default risk that can be subdivided into issuer risk, replacement risk, and settlement risk, depending on the type of transaction involved.

Issuer risk is the risk of incurring losses from the default of issuers of tradable debt or equity instruments (such as bonds, shares, profit-participation certificates), losses from a default in connection with the underlying instrument in derivatives (for example, credit or equity derivatives), or losses from a default in connection with fund components.

Replacement risk on derivatives is the risk of a counterparty defaulting during the term of a trading transaction where entities in the DZ BANK Group can only enter into an equivalent transaction with another counterparty by incurring an additional expense in the amount of the positive fair value at the time of default.

Settlement risk arises when there are two mutually conditional payments and there is no guarantee that when the outgoing payment is made the incoming payment will be received. Settlement risk is the risk of a loss if counterparties do not meet their obligations, counter-performance already having taken place.

Country risk is treated as a risk subcategory within credit risk. Country risk in the narrower sense of the term refers to conversion, transfer, payment prohibition, or moratorium risk. It is the risk that a foreign government may impose restrictions preventing a debtor in the country concerned from transferring funds to a foreign creditor. In the broader sense of the term, country risk forms part of credit risk. In this case, it refers to the risk arising from exposure to the government itself (sovereign risk) and the risk that the quality of the overall exposure in a country may be impaired as a result of country-specific events.

8.1.2. Causes

Credit risk from traditional lending business arises primarily at DZ BANK, BSH, DG HYP, DVB, and TeamBank. The risk results from the specific transactions in each group entity and therefore has varying characteristics in terms of diversification and size in relation to the volume of business.

Credit risk relating to trading transactions arises from issuer risk, particularly in connection with the trading activities and investment business of DZ BANK, BSH and DG HYP. Replacement risk arises for the most part in DZ BANK, DVB, and DZ PRIVATBANK. BSH and DG HYP only incur credit risk on banking book trading activities.

8.2. RISK STRATEGY

The DZ BANK Group pursues a strictly decentralized business policy aimed at promoting the cooperative banks and is bound by the core strategic guiding principle of 'a network-oriented central institution and financial services group'. The business and risk policy for the credit-risk-bearing core businesses in the group is formulated on the basis of risk-bearing capacity. The credit risk strategy therefore forms the basis for credit risk management and reporting across the whole group and ensures that there is a standard approach to credit risk within the group.

Lending throughout the group is predominantly based on the 'VR rating' system, a rating procedure developed by DZ BANK in collaboration with the BVR and WGZ BANK.

Both DZ BANK and the subsidiaries with a material credit risk seek to maintain a good rating structure in their credit portfolios at all times. In the future, the portfolios will continue to be characterized by a high degree of diversification. In the case of an individual lending transaction, risk-adjusted pricing of the financing taking into account adequate standard risk costs and risk-adjusted economic capital costs is of critical importance.

As part of the annual updating of the credit risk strategy, the following substantial adjustments were made in 2014:

– DZ BANK: Integration of the new structure in Corporate Banking with four new corporate banking divisions
– DZ BANK: Broadening of credit rating requirements for acquisition finance and in the export finance segment
– DZ BANK: Adjustment of requirements for the Group Treasury securities portfolio in view of future regulatory requirements for liquidity management (CRR and MaRisk BA)
– BSH: Broadening of minimum credit-rating requirements for own-account investing in Pfandbriefe
– DVB: Restriction of minimum rating requirements and loan terms. The risk rating takes account of the default probability and collateralization of a transaction.

Where required, the Board of Managing Directors of DZ BANK makes decisions during the course of the year to ensure that the rules for the medium-term and long-term credit risk strategy are adjusted in line with changing circumstances and current developments.

8.3. ORGANIZATION, RESPONSIBILITY, AND RISK REPORTING

Responsibilities in the lending process have been defined and are documented in a written set of procedural rules. These responsibilities cover loan applications, approvals, and processing, including periodic credit control with regular analysis of ratings. Decision-making authority levels are specified by the relevant **rules** based on the risk content of lending transactions.

Established **reporting and monitoring processes** help provide decision-makers with information about changes in the risk structure of credit portfolios and form the basis for the active management of credit risk.

As part of the **credit risk report**, the Group Risk and Finance Committee is kept informed of the economic capital required to cover credit risk. In addition to providing management with recommendations for action, internal reporting also includes an in-depth analysis of the portfolio structure in regard to risk concentrations based on key risk characteristics such as country, industry, credit rating class, and the lending volume to single borrowers. In addition, the reports include details on specific exposures and specific loan loss allowances. The credit value-at-risk in the context of the risk mitigation provided by the upper loss limit is also part of the credit risk report.

8.4. RISK MANAGEMENT

8.4.1. Rating systems

CHARACTERISTICS OF THE RATING SYSTEMS

The **VR rating system** used as standard throughout the cooperative financial network ensures that all the entities in the network apply a sophisticated uniform methodology producing ratings that are comparable.

DZ BANK primarily uses VR rating systems as part of its credit risk management system to assess large and medium-sized companies, major corporate customers, banks, and countries, as well as project finance, asset finance, acquisition financing, and investment funds. The internal assessment approach is also used to evaluate the liquidity lines and credit enhancements made available by DZ BANK to programs for the issuance of asset-backed commercial paper (ABCP). These rating systems have been approved by BaFin for the purposes of calculating regulatory capital using the foundation IRB approach.

For internal management purposes, DZ BANK uses further rating systems to assess SMEs, agricultural businesses, public-sector entities, not-for-profit organizations, and foreign SMEs. Although these systems satisfy the requirements for the foundation IRB approach in the opinion of DZ BANK, they are deemed to be of less significance and have not yet been reviewed by the regulator.

Most of the other entities in the Bank sector also use the DZ BANK rating systems for banks, countries and major corporate customers. Rating systems for specific business segments are also used by individual subsidiaries.

DEVELOPMENT OF RATING SYSTEMS

The rating systems used by DZ BANK for project finance, large and medium-sized companies in Germany, large and medium-sized companies abroad, and major corporate customers were overhauled in 2014. The methodology for developing a rating system for insurance was also completed in 2014. The rating system is currently at the testing stage. Since the newly developed rating system for open-ended real estate funds was accepted by the German banking regulators in December 2013, DG HYP has been using this rating system to determine its regulatory capital requirement in accordance with the IRB approach.

DZ BANK CREDIT RATING MASTER SCALE

The credit rating master scale serves as a groupwide rating benchmark with which to standardize the different rating systems used by the companies in the DZ BANK Group as a result of differences in their business priorities. It thereby provides all group companies with a uniform view of counterparties' credit ratings.

Figure 15 shows DZ BANK's credit rating master scale, in which internal credit ratings are matched to the ratings used by Moody's, Standard & Poor's, and Fitch. It should be noted that some internal ratings cannot be matched with a particular external rating because of the greater degree of refinement in the credit rating master scale. The ratings for securitization exposures are matched to various different external ratings depending on the asset class and region. In DZ BANK's master scale, the default bands remain unchanged to ensure comparability over the course of time, whereas some fluctuation in default rates can be seen in external ratings. Therefore, it is not possible to map the internal ratings directly to the ratings used by the rating agencies. Consequently, the scale can only be used as a starting point for comparison between internal and external credit ratings.

DZ BANK RATING DESK

The VR rating systems for banks and countries are also available to DZ BANK subsidiaries and the cooperative banks. Users can enter into a master agreement to access the ratings via an IT application (Rating Desk), which is available throughout the cooperative financial network, in return for the payment of a fee. Any accessed ratings are first validated by the entities in the DZ BANK Group or the cooperative banks before they are included in the user's credit procedures.

FIG. 15 – BANK SECTOR: DZ BANK CREDIT RATING MASTER SCALE AND EXTERNAL CREDIT RATINGS

		External rating classes			
Internal rating class	**Average default probability**	**Moody's**	**Standard & Poor's**	**Fitch**	**Rating category**
1A	0.01%	Aaa to Aa2	AAA to AA	AAA to AA	Investment grade
1B	0.02%	Aa3	AA-	AA-	
1C	0.03%				
1D	0.04%	A1	A+	A+	
1E	0.05%				
2A	0.07%	A2	A	A	
2B	0.10%	A3	A-	A-	
2C	0.15%	Baa1	BBB+	BBB+	
2D	0.23%	Baa2	BBB	BBB	
2E	0.35%				
3A	0.50%	Baa3	BBB-	BBB-	
3B	0.75%	Ba1	BB+	BB+	Non-investment grade
3C	1.10%	Ba2	BB	BB	
3D	1.70%				
3E	2.60%	Ba3	BB-	BB-	
4A	4.00%	B1	B+	B+	
4B	6.00%	B2	B	B	
4C	9.00%	B3	B-	B-	
4D	13.50%				
4E	30.00%	Caa1 or lower	CCC+ or lower	CCC+ or lower	
5A	Past due >90 days				Default
5B	Specific loan loss allowance				
5C	Exemption from interest/ debt restructuring				
5D	Insolvency				
5E	Compulsory winding-up/ derecognition				
NR	No rating necessary or not rated				

8.4.2. Pricing in the lending business

To ensure that lending business remains profitable, **standard risk costs** are determined in the management of individual transactions in many parts of the group. The purpose of these costs is to cover average expected losses from borrower defaults. The aim is to ensure that the net allowances for losses on loans and advances recognized in the financial statements are covered on average over the long term in an actuarial-type approach by the standard risk costs included in the pricing.

In addition to standard risk costs, **an imputed cost of capital** based on the economic capital requirement is integrated into DZ BANK's contribution margin costing. This enables DZ BANK to obtain a return on the economic capital tied up that is in line with the risk involved and that covers any unexpected losses arising from the lending business. At the same time, pricing also includes an appropriate amount to cover the costs of risk concentration. The methods used by the entities in the group to manage individual transactions vary according to the particular features of the product or business concerned.

8.4.3. Management of exposure in traditional lending business

MEASURING EXPOSURES IN TRADITIONAL LENDING BUSINESS

Individual lending exposures are managed on the basis of an analysis of gross lending exposure. The period taken into account in this case is equivalent to the monitoring cycle of one year. Together with risk-related credit-portfolio management, volume-oriented credit risk management is one of the components in the management of risk concentrations in the lending business.

In traditional lending business, the credit exposure or lending volume is generally the same as the nominal value of the total loan book and reflects the maximum volume at risk of default. The credit exposure is a gross value because risk-bearing financial instruments are measured before the application of any credit risk mitigation and before the recognition of any allowances for losses on loans and advances. In the leasing business, minimum lease payments are used as a basis for measuring the gross lending volume, while principal amounts are used for this purpose in building society operations. In addition, loans and advances to customers in building society operations are reduced by the associated deposits. The maximum credit exposure comprises the total lines of credit committed to third parties, or in the case of limit overruns, the higher amounts already drawn.

LIMIT SYSTEM FOR MANAGING EXPOSURES IN TRADITIONAL LENDING BUSINESS

Limits are set in the relevant entities in the Bank sector for individual borrowers and groups of connected clients. Group limits are also set at Bank sector level for critical counterparties. As a prerequisite for prompt monitoring of limits, suitable **early warning processes** have been established in group entities that are of material significance for the Bank sector's credit risk. In this context, financial covenants are often incorporated into loan agreements to act as early warning indicators for changes in credit standing and as a tool for the proactive risk management of lending exposures. In addition, DZ BANK has set up processes to handle instances in which limits have been **exceeded**. The main subsidiaries have similar procedures adapted to the needs of their particular business models. Country exposure in the traditional lending business is managed by setting **country limits** for industrialized countries and emerging markets at the Bank sector level.

8.4.4. Management of credit exposure in trading transactions

MEASURING CREDIT EXPOSURE IN TRADING TRANSACTIONS

Issuer risk, replacement risk, and settlement risk are exposure-based measurements of the potential loss in trading transactions. These are determined without taking into account the likelihood of a default. In order to determine the credit exposure, securities in the banking book and trading book are predominantly measured at fair value (nominal amounts are used in building society operations) and derivatives at a loan equivalent value.

The fair value of a securities exposure is used to determine the **issuer risk**. Risks relating to the underlying instruments in derivative transactions are also included in issuer risk.

Replacement risk on over-the-counter (OTC) derivatives is calculated on the basis of fair value and the add-on for an individual transaction. The add-on takes into account specific risk factors and residual maturities. Where legally enforceable, netting agreements and collateral agreements are used at counterparty level to reduce exposure. In the case of repos and securities lending transactions, haircuts are applied instead of add-ons. Unsecured money market transactions are measured at fair value.

As regards **settlement risk**, the amount to be set aside is deemed to be the amount owed, i.e. the amount actually due to be paid by the counterparty to DZ BANK. Settlement risk is recognized for the specified settlement period. It takes into account the amount and timing of outstanding cash flows for the purposes of managing the risk associated with mutual settlement at some point in the future. These future cash flows are already factored into the replacement risk through the fair value measurement and are therefore included in the risk capital requirement. As a result, settlement risk does not need to be covered with risk capital in addition to that for the other types of credit risk related to trading activities.

LIMIT SYSTEM FOR MANAGING TRADING EXPOSURE

DZ BANK has established an exposure-oriented **limit system** to limit the default risk arising from trading business. Replacement risk is managed via a structure of limits broken down into maturity bands. Unsecured money market transactions are subject to separate limits. A daily limit is set in order to manage settlement risk. A specific limit related to credit ratings or, in certain circumstances, a general limit is determined for each issuer as the basis for managing issuer risk. Pfandbriefe are subject to separate limits. The main subsidiaries have their own comparable limit systems.

Exposure in connection with DZ BANK's trading business is measured and monitored using a standard method and a central, IT-supported limit management system to which all relevant trading systems are connected. The trading exposure for the group is also aggregated by the same IT system.

As in the traditional lending business, appropriate processes have also been established for the trading business to provide **early warnings and notification of limit overruns**. The member of the Board of Managing Directors responsible for risk monitoring is sent a daily list of significant exceeded trading limits. A monthly report is prepared covering the utilization of replacement and issuer risk in connection with trading activities.

Country exposure in the trading business is managed in the same way as in the traditional lending business by setting **limits for countries** at the DZ BANK Group level.

8.4.5. Management of risk concentrations and correlation risks

RISK CONCENTRATIONS IN CREDIT AND COLLATERAL PORTFOLIOS

In managing the traditional lending business and its trading business, DZ BANK takes into account the correlation between collateral and the borrower pledging the collateral or between the collateral and the counterparty whose replacement risk the collateral is intended to mitigate. If there is a significant positive correlation between the collateral and the borrower or the counterparty pledging the collateral, the collateral is disregarded or accorded a reduced value as collateral. This situation arises, for example, where a guarantor, garnishee, or issuer forms a group of connected clients or a similar economic entity with the borrower or counterparty.

WRONG-WAY RISK

Correlation risk can arise due to the inter-relationship between the default probability of counterparties and the general market risk ('general wrong-way risk'). Another type of correlation risk, called a 'specific wrong-way risk', occurs if the value of an exposure to a counterparty is negatively correlated to the counterparty's rating owing to the specific transaction structure involved.

Given the nature of trading business at DZ BANK, specific wrong-way risk arises largely in connection with repos and credit derivatives, in which the counterparty and underlying transaction form part of the financial sector. This risk is not material as far as DZ BANK is concerned because of the measures described below.

MEASURES TO PREVENT CONCENTRATION RISK AND WRONG-WAY RISK

In order to prevent unwanted risks that may arise from the concentration or correlation of collateral in the trading business or correlations between default risk in trading transactions and market risk, DZ BANK has brought into force a collateral policy and its own internal 'minimum requirements for bilateral reverse repo transactions and securities lending transactions'.

These requirements are based on the Credit Support Annex (ISDA Master Agreement) and the Collateralization Annex (German Master Agreement for Financial Futures) and stipulate that, in accordance with the collateral policy, only collateral in the form of cash (mainly in euros or US dollars), investment-grade government bonds, and/or Pfandbriefe can be used for mitigating risks arising from **OTC derivatives**. Exceptions to this rule are only permitted for local cooperative banks, although a very good credit rating (at least 2B on DZ BANK's credit rating master scale) is still required for the relevant securities collateral. The collateral must also be eligible for use as collateral at the ECB. High-grade collateral is also required for **repo transactions** in compliance with the DZ BANK's own internal minimum requirements and the generally accepted master agreements, although the range of collateral is somewhat broader here than in the case of OTC derivatives.

In addition, the 'minimum requirements for bilateral reverse repos and securities lending transactions' exclude prohibited concentrations and correlations and specify collateral quality depending on the credit rating of the counterparties. To monitor the relevant rules and regulations, the bank has set up a separate reporting system involving daily monitoring and an annual report to the Credit Committee.

Specific wrong-way risk in connection with **credit derivatives** in which the counterparty and underlying instrument form part of the financial sector is notified to the Credit Committee in a quarterly report and is of minor significance.

8.4.6. Minimizing credit risk

COLLATERAL STRATEGY AND SECURED TRANSACTIONS

In accordance with the DZ BANK Group's credit risk strategy, **customer credit quality** forms the basis for any lending decision; collateral has no bearing on the borrower's credit rating. However, depending on the structure of the transaction, collateral may be of material significance in the assessment of risk in a transaction.

Collateral in line with the level of risk in medium-term or long-term financing arrangements is generally sought. In particular, recoverable collateral equivalent to 50 percent of the finance volume is required for new business with SME customers in rating category 3D or below on the credit rating master scale.

Collateral is used as an appropriate tool for the management of risk in export finance or structured trade finance transactions. In the case of project finance, the financed project itself or the assignment of the rights in the underlying agreements typically serve as collateral.

Secured transactions in traditional lending business encompass commercial lending including financial guarantee contracts and loan commitments. Decisions to protect transactions against credit risk are made on a case-by-case basis, the protection taking the form of traditional collateral.

TYPES OF COLLATERAL

The entities in the Bank sector use all forms of **traditional loan collateral**. Specifically, these include mortgages on residential and commercial real estate, registered ship and aircraft mortgages, guarantees (including sureties, credit insurance, and letters of comfort), financial security (cash deposits, certain fixed-income securities, shares, and investment fund units), assigned receivables (blanket and individual assignments of trade receivables), and physical collateral.

Privileged mortgages, guarantees, and financial collateral are the main sources of collateral recognized for regulatory purposes under the CRR. Assigned receivables and physical collateral are only recognized for regulatory purposes to a limited extent.

In accordance with DZ BANK's collateral policy, only cash, investment-grade government bonds, and/or Pfandbriefe are normally accepted as **collateral for trading transactions** required by the collateral agreements used to mitigate the risk attaching to OTC derivatives. DZ BANK also enters into netting agreements to reduce the credit risk arising in connection with OTC derivatives. The prompt evaluation of collateral within the agreed margining period also helps to limit risk.

In order to reduce the issuer risk attaching to bonds and derivatives, use is made of credit derivatives, comprising credit-linked notes, credit default swaps, and total return swaps. Macro hedges are used dynamically to mitigate spread risk and risks attaching to underlying assets. In isolated cases, transactions are conducted on a back-to-back basis. For risk management purposes, the protection provided by credit derivatives is set against the reference entity risk, thereby mitigating it. The main protection providers/counterparties in credit derivatives are financial institutions, mostly investment-grade banks in the VR rating classes 1A to 2C.

MANAGEMENT OF TRADITIONAL LOAN COLLATERAL

Collateral management is the responsibility mainly of **specialist units** outside the front-office divisions. The core tasks of these units include providing, inspecting, measuring, recording, and managing collateral and providing advice to all divisions in matters concerning collateral.

To a large extent, standardized contracts are used for the provision of collateral and the associated declarations. Specialist departments are consulted in cases where customized collateral agreements are required. Collateral is managed in separate IT systems.

Collateral **is measured** in accordance with internal guidelines and is the responsibility of back-office units. As a minimum, carrying amounts are reviewed on the monitoring dates specified by the back-office units – normally annually – or on the agreed submission date for documents relevant to measurement of the collateral. Shorter monitoring intervals may be specified for critical lending exposures. Regardless of the specified intervals, collateral is tested for impairment without delay if any indications of impairment become evident.

The workout units are responsible for processing collateral for **non-performing loans** including the realization of collateral. In the case of non-performing loans, the collateral is measured on the basis of its likely recoverable value and time of recovery, rather than on the basis of the general measurement guidelines. In another departure from the general collateralization criteria, collateral involved in restructuring exposures can be measured using market values or the estimated liquidation proceeds.

COLLATERAL MANAGEMENT

In addition to netting agreements (ISDA Master Agreement and German Master Agreement for Financial Futures), DZ BANK enters into collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateralization Annex to the German Master Agreement for Financial Futures) as instruments to reduce credit exposure in OTC transactions.

DZ BANK's policy on collateral regulates the content of collateral agreements and the responsibilities and authorities for implementing the rights and obligations they confer within the bank. This policy specifies contractual parameters, such as the quality of collateral, frequency of transfer, minimum transfer amounts, and thresholds. DZ BANK regularly uses bilateral collateral agreements. Exceptions apply to cover assets and special-purpose entities, as the special legal status of the counterparties means that only unilateral collateral agreements can be usefully enforced, and to supranational or government entities. Any decision not to use a bilateral collateral agreement must be approved by a person with the relevant authority.

Netting and collateralization generally result in a significant reduction in the exposure from trading business. IT systems are used to measure exposures and collateral. Margining is carried out on a daily basis for the vast majority of collateral agreements in accordance with the collateral policy.

Collateral agreements entered into by DZ BANK generally include thresholds and minimum transfer amounts that are independent of credit rating. There are also some agreements with triggers based on long-term ratings. In these agreements, for example, the unsecured part of an exposure is reduced in the event of a ratings downgrade or the borrower is required to make additional payments (for example, payments known as 'independent amounts').

CENTRAL COUNTERPARTY (CCP)

The EU's EMIR regulation is permanently changing the environment in which banks, insurance companies, and investment funds conduct OTC derivative transactions. Under this regulation, market players must report all exchange-traded and OTC derivatives to central trade repositories and in future they will have to trade certain standardized OTC derivatives via central counterparties (known as clearing houses). Furthermore, risk mitigation methods have to be used for OTC derivatives that are not settled centrally through a clearing house. This is intended to minimize counterparty risk.

Any market players not exempted from this new clearing obligation must be connected to a central counterparty. The market player concerned may be a direct member of a clearing house or may process its derivative contracts using a bank that is a member of the central counterparty.

DZ BANK is a direct member of Europe's largest clearing house for interest-rate derivatives, the London Clearing House (LCH). It therefore has direct access to a central counterparty for derivatives for the purposes of clearing its own derivative transactions. In August 2013, DZ BANK also joined Eurex Clearing AG as a clearing member. This diversification helps to prevent concentration risk that arises from the use of central counterparties.

8.4.7. Management of non-performing exposures

MANAGING AND MONITORING NON-PERFORMING EXPOSURES

Identified non-performing loans are transferred to the **workout units** at an early stage. By providing intensified loan management for critical exposures and applying tried-and-tested solutions, these special units lay the basis for securing and optimizing non-performing risk positions.

In its traditional lending business, DZ BANK has a comprehensive range of tools at its disposal for the early identification, close support, and high-quality monitoring of non-performing exposures. The subportfolio of non-performing loans is reviewed, updated, and reported on a quarterly basis. The process is also carried out at shorter intervals if required. This process is comprehensively supported by IT systems. A key element is the internal reporting system, which is informative, target-group-oriented, and timely. If necessary, the intensified loan management put in place for individual borrowers is transferred to task forces specially set up for this purpose. The risks in subportfolios are monitored and analyzed by means of regular reports.

Where required, similar procedures have been implemented in the main subsidiaries, where they are adapted to the characteristics of the risks faced by each particular business.

Since the start of the financial crisis, the DZ BANK Group has stepped up the monitoring of its credit portfolio, with attention focused on exposure to the financial sector and to selected countries and regions of the world. Individual exposures are subject to intensified loan management using standard processes within the workout management system. The risks in subportfolios are monitored and analyzed by means of regular reports.

POLICIES AND PROCEDURES FOR THE RECOGNITION OF ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES

The following descriptions apply to DZ BANK. The main subsidiaries have implemented comparable guidelines on the recognition of provisions, impairment losses, and allowances for losses on loans and advances adapted in line with their respective business activities.

The entire transaction is deemed to be '**past due**' if interest payments, repayments of principal, or other receivables are more than one day in arrears. A borrower is classified as in '**default**' if the borrower is not expected to meet his/her payment obligations in full without the need for action such as the recovery of any available collateral. Regardless of this definition, a borrower is classified as in default according to CRR criteria if payments are past due by more than 90 days.

If there is objective evidence that the value of repayments under **loans** is impaired, a review is carried out to establish whether it is likely that the borrower will not meet his/her contractual obligations in full and whether a financial loss could be incurred. **Specific loan loss allowances** are recognized for the difference between the carrying amount of the loan or advance and the net present value of the anticipated payments, including any proceeds from the recovery of collateral.

Provisions are recognized for loan commitments and for liabilities under financial guarantee contracts in an amount equivalent to the difference between the present value of the potential default amount and the present value of expected payments, provided that it is probable the obligation will actually be incurred.

If no specific allowances are recognized for losses on payments due under loans or if there are no provisions for loan commitments or liabilities under financial guarantee contracts, then these transactions are recognized in the **portfolio loan loss allowance**. As soon as an impairment becomes apparent or a transaction is identified as requiring a provision or liability, it is derecognized from the portfolio and recognized as a specific loan loss allowance. The calculation of the portfolio loan loss allowance is based on the method for the calculation of expected losses used for regulatory purposes.

Latent country risk is recognized in the portfolio loan loss allowances.

In **trading units**, derivatives business and parts of the securities and money market business are measured at fair value through profit or loss. Any impairment is therefore immediately recognized in the income statement and the balance sheet, precluding the need for the recognition of any allowances for losses on loans and advances. For securities and money market placements that are recognized at amortized cost or fair value through other comprehensive income, impairment losses are determined using the same procedure as that for loans.

BSH and TeamBank recognize **specific loan loss allowances evaluated on a group basis** for their retail business in addition to specific loan loss allowances. These specific loan loss allowances evaluated on a group basis are based on cash flows from credit portfolios with the same risk characteristics analyzed using migration scenarios and probabilities of default.

FORBORNE AND RENEGOTIATED LOANS

Loans that have been renegotiated or forborne are exposures in which contractual terms have been restructured in favor of a borrower who is in financial difficulties. Exposures of this type can be in the performing or non-performing portfolios. When calculating forborne exposure, the entities in the Bank sector comply with the requirements for probation periods and recovery specified by the EBA for regulatory reporting purposes.

NON-PERFORMING LOANS

In the DZ BANK Group, a loan is classified as non-performing if it has been rated between 5A and 5E on the VR master scale. This corresponds to the definition of default specified by the CRR. Non-performing loans are also referred to by the abbreviation NPLs.

The following key figures are used to manage non-performing loans:

– Loan loss allowance ratio (balance of allowances for losses on loans and advances as a proportion of total lending volume)
– Risk cover ratio (balance of allowances for losses on loans and advances as a proportion of the volume of non-performing loans)
– NPL ratio (volume of non-performing loans as a proportion of total lending volume)

The balance of allowances for losses on loans and advances is calculated as the total of specific loan loss allowances, portfolio loan loss allowances, provisions for loan commitments, and liabilities under financial guarantee contracts.

8.4.8. Credit-portfolio management

In risk-related credit-portfolio management, a distinction is made between the expected loss and unexpected loss arising from the credit portfolio as a whole. The calculation of an expected loss for each individual transaction prevents a creeping erosion of equity. Most of the management units determine the standard risk costs necessary for this calculation. These costs vary according to credit rating.

Portfolio models are also used together with value-at-risk methods to quantify unexpected losses that may arise from the credit portfolios of group entities. Credit value-at-risk describes the risk of unexpected losses arising should a default event occur in the credit portfolio. Credit portfolio models are used to measure the credit value-at-risk. Key factors in determining this credit risk include the lending volume, concentrations in terms of sectors and/or counterparties, and the credit quality structure of the credit portfolio. The measurement includes credit risk from both lending and trading businesses.

The credit portfolio in the Bank sector is managed by restricting the credit value-at-risk to the upper loss limit set for credit risk.

8.4.9. Managing credit risk arising from securitizations

OBJECTIVES AND SCOPE OF SECURITIZATION

During the course of the financial crisis, the Bank sector ceased all its securitization activities except for those in a few, clearly defined areas of business. Areas where such activity has continued include the ABCP programs, although investment in ABSs has been halted. The bulk of the portfolio comprises residual balances of investor-related exposures dating back to the period prior to the financial crisis. The following details describe the management of credit risk in the present securitization business.

DG HYP's objective in its role as an **originator** of long-term funded securitizations is to transfer risk, thereby releasing economic and regulatory capital.

In addition, as a **sponsor**, DZ BANK uses special-purpose entities, which are funded by issuing money market-linked ABCP. The ABCP programs are made available for DZ BANK customers who then securitize their own assets via these companies. In these programs, the customers sell their assets to a separate special-purpose entity, the consideration normally including an adjustment for risk. The purchase of the assets is funded by issuing money market-linked ABCP. The redemption of the ABCP is covered by the entire asset pool in the program. The contractual structure of the transactions ensures that the assets do not form part of the asset seller's net assets if the asset seller should become insolvent.

The **CORAL** ABCP program has been set up to provide securitization of assets from European entities. This program is funded by liquidity lines and

FIG. 16 – BANK SECTOR: SECURITIZATION EXPOSURES AS ORIGINATOR AND SPONSOR

Entity/ transaction	Type of transaction	Role	Purpose of transaction	Type of assets	Volume		Retained exposures		Comments (Dec. 31, 2014)
					Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	
DZ BANK									
CORAL	ABCP conduit	Sponsor	Generation of commission income	Loans and advances to European corporates and one ABS exposure	€1.1 billion	€0.7 billion	Commitments of €1.1 billion, €0.98 billion of which has been utilized	Commitments of €0.7 billion, €0.57 billion of which has been utilized	Provision of liquidity lines
AUTOBAHN	ABCP conduit	Sponsor	Generation of commission income	Loans and advances to North American customers	€2.1 billion	€1.7 billion	Commitments of €2.1 billion, €0.01 billion of which has been utilized	Unutilized commitments of €1.7 billion	Provision of liquidity lines
DG HYP									
PROVIDE VR	Synthetic RMBSs[1]	Originator	Optimization of capital employed; reduction of credit risk	Mortgage-backed real-estate loans in German retail business	€0.02 billion	€0.01 billion	Exposure of €5 million	Exposure of €5 million	Including first-loss pieces for which adequate impairment losses have been recognized

1 RMBSs = residential mortgage-backed securities.

by the issuance of ABCP. There are plans to expand the ABCP-based funding still further.

DZ BANK is also the sponsor of the **AUTOBAHN** ABCP program, which offers securitization for assets from North American customers and is funded by ABCP issues.

Figure 16 shows the main exposures held by DZ BANK and DG HYP as **originator** and **sponsor**. From a regulatory perspective, the securitizations are transactions that need to be backed by capital.

DZ BANK's **investor-related exposures** are assigned to the banking book, and to a lesser extent to the trading book, and are actively managed with the aim of scaling back the portfolio and reducing risk. The action taken to achieve this aim includes the disposal of selected exposures to optimize equity.

In addition to these activities, DZ BANK **arranges** and **places** securitizations issued by the entities in the Bank sector and the Volksbanken Raiffeisenbanken cooperative financial network. The local cooperative banks have participated in one multi-seller transaction issued by the entities in the Bank sector.

CAUSES OF RISK

Credit risk in connection with securitizations in the banking book arises primarily from investments in securitizations, the provision of liquidity facilities for ABCP, and the necessary retention of securitization tranches that DZ BANK issues itself. The liquidity facilities provided as part of the ABCP programs are managed in the banking book. The resulting risk largely depends on the quality of the asset pool.

In the context of the portfolio as a whole, the re-securitization exposures and related risks are of minor significance. Re-securitizations are structures in which the securitized exposure in turn comprises one or more other securitization exposures.

ORGANIZATION, RESPONSIBILITY, AND RISK REPORTING

Exposures to asset-backed securities (ABSs), which constitute investor-related exposures within the meaning of CRR, are **managed** by the relevant group entities and are subject to the groupwide risk management standards. These standards require that securitization exposures be analyzed individually and have separate limits.

The structure of transactions is analyzed, a comparison is made between the transactions and the relevant ABS market, and the external credit ratings awarded by the rating agencies are validated as part of a well-established process. Furthermore, all major ABS asset classes are subjected to an annual portfolio analysis process that assesses the macroeconomic and asset-class-specific risks involved.

At sectoral level, **portfolio risk exposures are reported** to the credit risk management function and to DZ BANK's Board of Managing Directors on a quarterly basis; this reporting process covers the group's aggregate risk exposure. This enables the group to manage the risks it incurs from structured products.

RISK MONITORING AND STRESS TESTS

Securitization exposures are monitored independently of whether they are assigned to the banking book or the trading book. Besides continuous monitoring of external credit ratings, exposures are classified on a quarterly basis using stress tests specific to each asset class. A particular feature of the tests is that factors such as payment delays, defaults, and degree of loss are balanced against the existing credit enhancements in each transaction. If an exposure does not pass a stress test, the expected loss is determined using a model particular to the asset class concerned.

The credit risk arising in connection with the transactions in the ABCP programs is monitored using performance reports prepared at least monthly by the asset seller. The purchased assets are generally subject to regular due diligence in the form of random sample tests.

Re-securitization exposures are monitored in much the same way as other asset classes. Expected losses on these exposures are modeled using portfolio models from rating agencies which particularly factor in the range of ratings in the securitized portfolio and the assumptions made by the agencies with regard to the extent of losses and industry correlations.

The economic stress tests encompass both the credit risk and the spread risk arising from the Bank sector's entire securitization exposure.

RISK MITIGATION

In a small number of individual cases, **DZ BANK** uses credit derivatives to mitigate the risk from individual exposures. The counterparties in these derivatives are investment-grade financial institutions. As part of the ABCP programs managed exclusively in the banking book, the risk arising from some of the purchased asset portfolios is covered by credit insurance in addition to the discount on the purchase price already referred to above.

8.5. LENDING VOLUME

8.5.1. Lending volume as risk factor

The amount and structure of the lending volume are key factors in determining the credit risk. For the purposes of internal credit risk management in the

Bank sector, the lending volume is broken down by credit-risk-bearing instrument – traditional lending, securities business, and derivatives and money market business. This breakdown corresponds to the risk classes required for the external reporting of risks arising from financial instruments.

The credit-risk-bearing instruments are also classified by sector, country group, credit rating, and term to maturity so that volume concentrations can be identified. Particularly in the case of an accumulation of exposures that have longer terms to maturity and a non-investment-grade rating, there is a danger that the credit risk will materialize, causing losses with a considerable negative impact on the financial performance and financial position of the DZ BANK Group.

8.5.2. Changes in presentation

Until 2013, the disclosures in the opportunity and risk report regarding the lending volume and allowances for losses on loans and advances also met the corresponding requirements specified by the Solvency Regulation (SolvV) that was in force until December 31, 2013. Because SolvV was replaced by the CRR on January 1, 2014, it is no longer possible to use the carrying amounts used for internal management for the disclosures on lending volume. This means that there is no longer a regulatory requirement to disclose the average lending volume. For the same reason, the previous breakdown of allowances for losses on loans and advances by sector and country group has been replaced by a simplified table.

Since January 1, 2014, the lending volume and risk capital requirement have been included in the calculation of credit risk without loans and advances to central banks in the European Union, Switzerland and the United States in line with enhancements to the policy of risk-oriented corporate management and in accordance with regulatory reporting requirements (article 114 CRR). As a result, these loans and advances are not included in the figures as at December 31, 2014. For better comparability, the values as at December 31, 2013 have been restated to reflect the changes to the calculation basis. As at December 31, 2014, loans and advances made by entities in the Bank sector to these central banks amounted to €4,649 million (December 31, 2013: €4,838 million), of which €3,090 million was attributable to DZ BANK as at December 31 2014. (December 31, 2013: €2,678 million).

The headings ‘Other industrialized nations’ and ‘Non-industrialized nations’ that were previously used for country groups have been changed to ‘Other industrialized countries’ and ‘Emerging markets’ respectively.

8.5.3. Reconciliation of lending volume to the consolidated financial statements

Figure 17 shows a reconciliation of the gross lending volume on which the risk management is based to individual balance sheet items in order to provide a transparent illustration of the link between the consolidated financial statements and risk management. There are discrepancies between the internal management and external financial reporting measurements for some products owing to the focus on the risk content of the items. The other main reasons for the discrepancies between the internal management figures and those in the external financial statements are differences in the scope of consolidation and differences in recognition and measurement methods.

Differences in the **scope of consolidation** result from the fact that, in internal credit risk management, only the entities in the Bank sector that contribute significantly to the overall risk of the sector are included.

The discrepancy in the **securities business** is mainly due to the variations in carrying amounts that arise because credit derivatives are offset against the issuer risk attaching to the underlying transaction in the internal management accounts, whereas such derivatives are recognized at their fair value as financial assets or financial liabilities held for trading in the consolidated financial statements.

FIG. 17 – BANK SECTOR: RECONCILIATION OF THE LENDING VOLUME

€ billion

	Lending volume for internal management accounts		Reconciliation			
			Scope of consolidation		Carrying amount and measurement	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Traditional lending business	206.8	203.7	1.8	3.6	4.5	-2.3
Securities business	84.1	82.3	–	–	-16.7	-17.3
Derivatives business	9.8	9.1	–	–	-9.6	-8.8
Money market business	2.9	3.1	–	–	26.0	29.4
Total	**303.7**	298.2	**1.8**	3.6	**4.3**	0.9

1 New item resulting from retrospective adoption of IFRS 10.

Measurement differences in **derivatives business** and **money market business** are mainly because countervailing positions are offset for the purposes of risk management, whereas positions must not be netted in this way in the consolidated financial statements.

In addition, add-ons are attached to the current fair values of derivative positions in the internal management accounts to take account of potential future changes in their fair value. By contrast, the external financial statements focus exclusively on the fair values

Lending volume for the consolidated financial statements

	Dec. 31, 2014		Dec. 31, 2013			Note
	213.2	**64.0**	205.3	**61.0**	**Loans and advances to banks**	
		64.1		61.2	of which: loans and advances to banks excluding money market placements	50
		-0.1		-0.2	of which: allowances for losses on loans and advances to banks	52
		119.7		**118.9**	**Loans and advances to customers**	
		121.9		121.3	Loans and advances to customers excluding money market placements	51
		-2.2		-2.4	of which: allowances for losses on loans and advances to customers	52
		29.5		**25.0**	**Financial guarantee contracts and loan commitments**	**87**
		–		**0.4**	**Restatement of amount owing to IFRS changes[1]**	
	67.4	**67.4**	65.0	**65.0**	**Bonds and other securities**	
		12.2		10.8	of which: financial assets held for trading/bonds excluding money market placements	54
		0.9		0.7	of which: financial assets held for trading/promissory notes, registered bonds, and loans and advances	54
		54.4		53.4	of which: investments/bonds excluding money market placements	55
	0.2	**0.2**	0.3	**0.3**	**Derivatives**	
		0.4		0.9	of which: derivatives used for hedging (positive fair values)	53
		24.9		22.1	of which: financial assets held for trading/derivatives (positive fair values)	54
		-2.6		-2.4	of which: derivatives used for hedging (negative fair values)	65
		-22.4		-20.3	of which: financial liabilities held for trading/derivatives (negative fair values)	66
	28.9	**28.9**	32.5	**32.5**	**Money market placements**	
		15.2		13.0	of which: loans and advances to banks/money market placements	50
		0.5		0.5	of which: loans and advances to customers/money market placements	51
		0.5		0.3	of which: financial assets held for trading/money market instruments	54
		12.3		18.3	of which: financial assets held for trading/money market placements	54
		0.3		0.4	of which: investments/money market instruments	55
	309.7		303.1		**Total**	
Balance as at Dec. 31, 2014			**6.1**	**2.0%**		
Balance as at Dec. 31, 2013			**4.9**	**1.6%**		

determined on the valuation date, and, unlike in the internal accounts, collateral must not be recognized for risk mitigation purposes.

In **money market business** further discrepancies arise between the consolidated financial statements and internal credit risk reports due to the method in which repo transactions are recognized. In contrast to the consolidated financial statements, securities provided or received as collateral are offset against the corresponding assets or liabilities for the purposes of the internal management accounts.

8.5.4. Change in lending volume

As at December 31, 2014, the total lending volume of the **Bank sector** increased by 2 percent to €303.7 billion (December 31, 2013: €298.2 billion).

There was an increase in the volume of **traditional lending business**, which had risen from €203.7 billion as at December 31, 2013 to €206.8 billion at the end of 2014. The credit quality breakdown within this type of business was unchanged year on year.

The lending volume in the **securities business** was up by 2 percent, from €82.3 billion as at December 31, 2013 to €84.1 billion as at December 31, 2014. This increase is largely due to a rise in the volume of public-sector bonds held by DZ BANK.

The lending volume in the **derivatives and money-market business** as at December 31, 2014 stood at €12.7 billion, which was virtually unchanged on the end of 2013.

At **DZ BANK**, the total lending volume had risen by 3 percent, from €156.0 billion as at December 31, 2013 to €160.6 billion as at December 31, 2014. The increase largely related to securities business (December 31, 2014: €43.8 billion; December 31, 2013: €41.2 billion) and traditional lending business (December 31, 2014: €105.5 billion; December 31, 2013: €104.4 billion).

8.5.5. Collateral called in

Given the efficiency of the workout process in the Bank sector, the role played by calling in collateral during the course of workout procedures for non-performing borrowers was as negligible in 2014 as in 2013. The collateral called in by the entities in the Bank sector amounted to €37 million as at December 31, 2014 (December 31, 2013: €53 million).

8.5.6. Sector structure of the credit portfolio

Figure 18 shows the breakdown of the credit portfolio by sector, in which the lending volume is classified according to the industry codes used by Deutsche Bundesbank. This also applies to the other sector breakdowns related to credit risk in this opportunity and risk report.

As at December 31, 2014, a significant proportion (38 percent) of the lending volume in the **Bank sector** continued to be concentrated in the financial sector (December 31, 2013: 39 percent). In addition to the local cooperative banks, the borrowers in this customer segment comprised banks from other sectors of the banking industry and other financial institutions.

As at December 31, 2014, a significant proportion (57 percent) of **DZ BANK**'s lending volume continued to be concentrated in the financial sector (December 31, 2013: 59 percent). In addition to the local cooperative banks, the borrowers in this customer segment comprised banks from other sectors of the banking industry and other financial institutions. Loans and advances to public-sector borrowers rose

FIG. 18 – BANK SECTOR: LENDING VOLUME, BY SECTOR

	Traditional lending business		Securities business		Derivatives and money market business		Total	
€ billion	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Financial sector	73.3	73.9	34.5	34.6	8.6	9.0	116.3	117.5
Public sector	6.7	7.3	41.9	38.8	1.0	0.9	49.7	47.0
Corporates	80.0	77.4	2.6	3.3	2.2	1.7	84.8	82.4
Retail	42.6	41.4	3.9	4.0	–	–	46.5	45.4
Industry conglomerates	3.6	2.8	1.3	1.7	0.9	0.6	5.7	5.1
Other	0.6	0.8	–	–	–	–	0.6	0.8
Total	**206.8**	**203.7**	**84.1**	**82.3**	**12.7**	**12.2**	**303.7**	**298.2**

by €2.7 billion year on year due to an increase in the exposure, in particular to investment-grade counterparties in Germany.

In its role as the central institution for the Volksbanken Raiffeisenbanken cooperative financial network, DZ BANK provides funding for the entities in the DZ BANK Group and for the cooperative banks. For this reason, the cooperative banks account for one of the largest receivables items in the DZ BANK Group's credit portfolio. DZ BANK also supports the cooperative banks in the provision of larger-scale funding to corporate customers.

The resulting syndicated business, DZ BANK, DG HYP and DVB's direct business with corporate customers in Germany and abroad, the retail real-estate business under the umbrella of BSH, and TeamBank's consumer finance business determine the sectoral breakdown of the remainder of the portfolio.

8.5.7. Geographical structure of the credit portfolio

Figure 19 shows the geographical distribution of the credit portfolio by country group. The lending volume is assigned to the individual country groups using the International Monetary Fund's breakdown, which is updated annually. This also applies to the other country-group breakdowns related to credit risk in this opportunity and risk report.

As at December 31, 2014, 94 percent of the lending in the **Bank sector** (unchanged on December 31, 2013) and 95 percent of the total lending by **DZ BANK** (December 31, 2013: 94 percent) was concentrated in Germany and other industrialized countries.

8.5.8. Residual maturity structure of the credit portfolio

RESIDUAL MATURITIES IN THE OVERALL CREDIT PORTFOLIO

The breakdown of the credit portfolio by residual maturity presented in figure 20 for the **Bank sector** as at December 31, 2014 shows that the lending volume had decreased by €0.2 billion in the short-maturity band compared with December 31, 2013, which was largely attributable to maturities of securities held by DG HYP. The €4.7 billion decrease in lending volumes in the medium-maturity band stemmed mainly from the contractions in traditional lending business at DZ BANK and in the securities portfolios held by DG HYP. The €10.3 billion increase in lending volume in the longer-term maturity band primarily arose because of the larger volume of securities business at DZ BANK and the steady rise in customer lending at BSH.

LENDING VOLUME PAST DUE BUT NOT IMPAIRED

Figures 21 and 22 show the portion of the lending volume that is past due but not impaired. The disclosures largely relate to traditional lending business. The prior-year figures have been restated retrospectively to reflect adjustments for technical overdrafts at DZ BANK and DG HYP.

FIG. 19 – LENDING VOLUME, BY COUNTRY GROUP

	Traditional lending business		Securities business		Derivatives and money market business		Total	
€ billion	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Germany	167.4	166.1	54.5	52.7	8.7	7.9	230.6	226.8
Other industrialized countries	26.6	24.5	26.2	26.4	3.4	3.5	56.2	54.4
Advanced economies	4.1	3.7	0.4	0.5	–	0.1	4.5	4.3
Emerging markets	8.7	9.3	0.8	0.8	0.2	0.3	9.7	10.3
Supranational institutions	–	–	2.2	1.9	0.3	0.6	2.6	2.4
Total	**206.8**	**203.7**	**84.1**	**82.3**	**12.7**	**12.2**	**303.7**	**298.2**

FIG. 20 – BANK SECTOR: LENDING VOLUME, BY RESIDUAL MATURITY

€ billion	Traditional lending business		Securities business		Derivatives and money market business		Total	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
≤ 1 year	47.5	47.5	14.9	15.6	7.6	7.1	70.0	70.2
> 1 year to ≤ 5 years	49.5	50.8	30.1	33.0	1.7	2.2	81.3	86.0
> 5 years	109.9	105.4	39.1	33.8	3.3	2.9	152.3	142.0
Total	206.8	203.7	84.1	82.3	12.7	12.2	303.7	298.2

FIG. 21 – BANK SECTOR: LENDING VOLUME PAST DUE BUT NOT IMPAIRED, BY SECTOR

€ million	Past due up to 5 days		Past due > 5 days to 1 month		Past due > 1 month to 2 months		Past due > 2 months to 3 months		Past due > 3 months		Total	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Financial sector	2	38	–	5	1	2	–	1	2	4	6	49
Public sector	–	107	–	–	1	1	–	–	–	–	1	109
Corporates	36	45	34	133	75	70	43	33	381	389	571	670
Retail	730	588	10	45	11	16	3	6	25	21	778	675
Industry conglomerates	1	–	–	1	–	–	–	–	–	–	1	1
Other	–	–	–	1	1	1	–	–	1	1	2	4
Total	770	778	45	185	88	89	47	40	410	415	1,360	1,508

FIG. 22 – BANK SECTOR: LENDING VOLUME PAST DUE BUT NOT IMPAIRED, BY COUNTRY GROUP

€ million	Past due up to 5 days		Past due > 5 days to 1 month		Past due > 1 month to 2 months		Past due > 2 months to 3 months		Past due > 3 months		Total	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Germany	761	735	39	76	77	80	16	30	141	127	1,033	1,048
Other industrialized countries	8	39	5	24	3	–	13	8	132	114	161	184
Advanced economies	1	2	–	–	–	4	9	–	58	83	69	89
Emerging markets	–	2	–	86	8	5	10	2	79	91	97	186
Supranational institutions	–	–	–	–	–	–	–	–	–	–	–	–
Total	770	778	45	185	88	89	47	40	410	415	1,360	1,508

No valuation allowances were recognized for these loans because the amounts past due were generally repaid promptly. Furthermore, it can be assumed that the entire amounts due under the lending agreements concerned could be collected by recovering collateral. Because of the conservative risk

FIG. 23 – BANK SECTOR: LENDING VOLUME, BY RATING CLASS

		Traditional lending business		Securities business		Derivatives and money market business		Total	
€ billion		Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Investment grade	1A	2.3	2.2	37.1	33.6	1.4	1.9	40.7	37.7
	1B	2.3	2.4	4.2	4.0	1.2	0.2	7.7	6.7
	1C	65.6	67.9	11.9	11.0	4.0	3.7	81.5	82.6
	1D	1.8	1.4	1.8	2.1	0.1	0.2	3.7	3.8
	1E	2.1	1.7	1.0	2.1	0.1	0.3	3.2	4.1
	2A	8.1	6.8	0.9	1.2	1.2	1.3	10.3	9.3
	2B	6.2	6.0	7.1	5.5	0.7	0.9	13.9	12.4
	2C	11.6	11.8	5.1	6.1	1.3	1.1	17.9	19.0
	2D	8.3	9.8	2.4	2.6	0.9	1.0	11.6	13.4
	2E	14.1	12.5	4.2	3.7	0.7	0.5	19.0	16.7
	3A	13.7	11.2	1.3	1.9	0.2	0.2	15.3	13.3
Non-investment grade	3B	15.4	16.4	1.1	0.8	0.1	0.1	16.6	17.2
	3C	11.2	11.5	1.6	2.0	0.1	0.1	12.9	13.6
	3D	8.8	8.0	1.0	1.0	0.1	0.1	9.8	9.1
	3E	8.6	7.2	0.7	0.8	0.1	–	9.4	8.1
	4A	2.1	2.2	0.1	0.1	–	–	2.2	2.3
	4B	1.7	2.2	0.2	0.1	–	–	1.9	2.3
	4C	5.4	5.1	0.2	0.3	–	–	5.6	5.4
	4D	5.4	4.3	–	0.1	–	–	5.5	4.4
	4E	4.2	4.9	0.2	0.4	0.1	0.1	4.5	5.4
Default		5.7	5.6	0.2	0.2	–	–	5.9	5.8
Not rated		2.5	2.5	1.9	2.8	0.4	0.3	4.8	5.7
Total		**206.8**	**203.7**	**84.1**	**82.3**	**12.7**	**12.2**	**303.7**	**298.2**

provisioning policy of the entities in the Bank sector, past-due loans only account for a relatively small proportion of the overall credit portfolio.

The contraction in the volume of loans in the **Bank sector** that were past due but not impaired was partly attributable to decreases in past-due loans in arrears by more than 5 days but less than 1 one month among corporate customers of DVB. The past-due loans in arrears by more than 3 months amounting to €410 million (December 31, 2013: €415 million) were predominantly loans secured by mortgages.

At DZ **BANK**, the volume of loans that were past due but not impaired fell from €174 million as at December 31, 2013 to €102 million as at December 31, 2014.

8.5.9. Rating structure of the credit portfolio

RATING STRUCTURE OF THE TOTAL LENDING VOLUME

Figure 23 shows the Bank sector's consolidated lending volume by rating class according to the credit rating master scale. 'Not rated' comprises counterparties for which a rating classification is not required.

In the **Bank sector** the proportion of the total lending volume accounted for by rating classes 1A to 3A (investment grade) was 74 percent as at December 31, 2014 (December 31, 2013: 73 percent). The proportion of the total lending volume accounted for by rating classes 3B to 4E (non-investment grade) was 22 percent as at December 31, 2014 (December 31, 2013: 23 percent). Defaults in rating classes 5A to 5E as at December 31, 2014 accounted for 2 percent of the Bank sector's total lending volume and thus remained at the low level of the previous year.

Rating classes 1A to 3A (investment grade) also dominated lending at **DZ BANK** where they accounted for 89 percent of the total lending volume (December 31, 2013: 88 percent). The proportion of the total lending volume accounted for by rating classes 3B to 4E (non-investment grade) remained unchanged at 9 percent between December 31, 2013 and December 31, 2014. Defaults (rating classes 5A to 5E) accounted for less than 2 percent of the total lending volume as at December 31, 2014, which was again largely unchanged year on year.

SINGLE BORROWER CONCENTRATIONS

As at December 31, 2014, the ten counterparties associated with the largest lending volumes accounted for 9 percent of total lending in the **Bank sector** and 11 percent of **DZ BANK**'s total lending exposure – as they had at December 31, 2013.

These counterparties largely comprised financial-sector and public-sector borrowers domiciled in Germany. All these exposures consisted of investment-grade lending with a rating of 1E or better.

INVESTMENT-GRADE LENDING VOLUME

Figures 24 and 25 show the lending volume that is neither past due nor impaired, i.e. the investment-grade proportion of the total credit portfolio.

In the **Bank sector** the proportion of the total lending volume represented by this portfolio as at December 31, 2014 was 99 percent, unchanged on December 31, 2013.

The situation was similar in **DZ BANK**, where the proportion of the total lending volume with an investment-grade rating was 99 percent as at December 31, 2014 (December 31, 2013: 98 percent).

As in previous years, the large proportion of investment-grade business is attributable to the risk-conscious lending policy pursued by the entities in the Bank sector.

FIG. 24 – BANK SECTOR: LENDING VOLUME NEITHER PAST DUE NOR IMPAIRED, BY SECTOR

	Total portfolio		Portfolio neither impaired nor past due	
€ billion	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Financial sector	116.3	117.5	113.6	114.9
Public sector	49.7	47.0	48.7	45.8
Corporates	84.8	82.4	83.8	81.3
Retail	46.5	45.4	45.1	44.0
Industry conglomerates	5.7	5.1	5.7	5.1
Other	0.6	0.8	0.6	0.8
Total	**303.7**	**298.2**	**297.6**	**291.9**

FIG. 25 – BANK SECTOR: LENDING VOLUME NEITHER PAST DUE NOR IMPAIRED, BY COUNTRY GROUP

	Total portfolio		Portfolio neither impaired nor past due	
€ billion	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Germany	230.6	226.8	226.9	223.2
Other industrialized countries	56.2	54.4	55.1	53.1
Advanced economies	4.6	4.3	4.1	3.8
Emerging markets	9.7	10.3	9.0	9.4
Supranational institutions	2.6	2.4	2.6	2.4
Total	**303.7**	**298.2**	**297.6**	**291.9**

8.5.10. Collateralized lending volume

Figure 26 shows the breakdown of the collateralized lending volume at overall portfolio level by type of collateral and class of risk-bearing instrument. In the case of traditional lending business, figures are generally reported before the application of any offsetting agreements, whereas the collateralized exposures in the securities business and derivatives and money market business are shown net.

As at December 31, 2014, the collateralized lending volume in the **Bank sector** had risen to €88.9 billion

FIG. 26 – BANK SECTOR: COLLATERALIZED LENDING VOLUME, BY TYPE OF COLLATERAL

	Traditional lending business		Securities business		Derivatives and money market business		Total	
€ billion	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Guarantees, indemnities, risk subparticipation	13.0	14.0	–	–	0.4	0.3	13.3	14.2
Credit insurance	1.9	1.5	–	–	–	–	1.9	1.5
Land charges, mortgages, ship mortgages	65.6	61.9	–	–	0.1	0.1	65.6	61.9
Pledged loans and advances, assignments, other pledged assets	5.2	5.0	–	–	–	–	5.2	5.0
Financial collateral	1.3	1.0	–	–	0.4	0.1	1.6	1.1
Other collateral	1.3	1.4	–	–	–	–	1.3	1.4
Collateralized lending volume	**88.1**	**84.7**		**–**	**0.8**	**0.5**	**88.9**	**85.2**
Gross lending volume	206.8	203.7	84.1	82.3	12.7	12.2	303.7	298.2
Uncollateralized lending volume	**118.8**	**119.0**	**84.1**	**82.3**	**11.9**	**11.8**	**214.8**	**213.0**
Collateralization rate	**42.6%**	**41.6%**	**–**	**–**	**6.4%**	**3.8%**	**29.3%**	**28.6%**

from €85.2 billion as at December 31, 2013. The collateralization rate remained unchanged at 29 percent.

The largest proportion of the collateralized lending volume (74 percent as at December 31, 2014) in the Bank sector's **traditional lending business** continued to be accounted for by lending secured by charges over physical assets such as land charges, mortgages, and registered ship mortgages. These types of collateral are particularly important for BSH, DG HYP, and DVB. In contrast, charges over physical assets are of lesser importance at DZ BANK because DZ BANK bases its lending decisions primarily on borrower credit quality.

In **securities business**, there is generally no further collateralization to supplement the hedging activities already taken into account. Equally, in the **derivatives and money market business**, collateral received under collateral agreements is already factored into the calculation of gross lending volume with the result that only a comparatively low level of collateral (personal and financial collateral) is then additionally reported.

At €7.2 billion, **DZ BANK**'s collateralized lending volume at December 31, 2014 was up year on year (December 31, 2013: €6.3 billion). The collateralization rate of 4 percent at the reporting date was the same as it had been a year earlier.

In terms of traditional collateral, **securities transactions** are generally conducted on an unsecured basis. A low level of personal collateral (guarantees and indemnity agreements) and financial collateral is used to mitigate risk in **derivatives and money market business**.

8.6. PORTFOLIOS WITH INCREASED RISK CONTENT

The following disclosures relating to exposures in subportfolios also form part of the above analyses of the entire credit portfolio. However, these subportfolios have been analyzed separately because of their significance for the risk position.

8.6.1. Eurozone periphery countries and other global trouble spots

CHANGE IN LENDING VOLUME

As at December 31, 2014, loans and advances to borrowers in the countries directly affected by the **European sovereign debt crisis** attributable to the **Bank sector** and to **DZ BANK** amounted to €11,609 million (December 31, 2013: €11,486 million) and €3,316 million (December 31, 2013: €3,096 million) respectively. The rise was mainly attributable to higher fair values for Italian borrowers and the increase in money market transactions with one counterparty.

In 2014, negative political and macroeconomic developments resulted in a deterioration in the credit quality of **Russia** and **Hungary**. The lending exposures of the **Bank sector** and of **DZ BANK** to Russian and Hungarian counterparties were reduced from €1,384 million and €1,151 million respectively as at December 31, 2013 to €1,017 million and €852 million respectively as at December 31, 2014.

Figures 27 and 28 show the borrower structures in the Bank sector by credit-risk-bearing instrument.

8.6.2. Shipping finance

BACKGROUND

The entities in the Bank sector largely engage in shipping finance via the group's DVB subsidiary. DZ BANK also has this type of finance in its credit portfolio, but the proportion is significantly lower than at DVB.

DVB operates at an international level and offers finance for various means of transport, such as ships, aircraft, offshore service vessels, drilling platforms, and rail transport rolling stock. Criteria for granting shipping loans include the quality and recoverability of the shipping asset itself, the cash flow that the borrower can generate with the ship concerned to repay the debt, and the extent to which the ship involved can be remarketed. DVB generally only enters into asset finance arrangements for which the financed ship can be used as collateral.

DZ BANK offers shipping finance as part of its joint credit business with the local cooperative banks. Shipping finance in the narrow sense refers to capital investment in mobile assets involving projects that are separately defined, both legally and in substance, (in which the borrower is typically a special-purpose entity) and whose sole business purpose is the construction and operation of ships. In such arrangements, the debt is serviced from the cash flows generated by the ship. The assessment of the credit risk is therefore based not only on the recoverability of the asset, but also in particular on the capability of the ship to generate earnings. To reduce risk, the finance must normally be secured by a first mortgage on the vessel and the assignment of insurance claims and proceeds. A distinction is made between shipping finance in the narrow sense and finance provided for shipyards and shipping companies. The following disclosures for DZ BANK relate solely to shipping finance in the narrow sense.

In the **Bank sector**, the lending volume associated with shipping finance comprises loans and advances to customers, guarantees and indemnities, irrevocable loan commitments, securities, and derivatives.

The global economic crisis and the sovereign debt crisis in Europe have in some cases led to falling asset values and a deterioration in credit quality in the shipping finance business. This has given rise to an increased credit risk for the Bank sector.

CHANGE IN LENDING VOLUME

As at December 31, 2014, the Bank sector's shipping finance portfolio had a value of €11,124 million (December 31, 2013: €10,119 million). Figure 29 shows the portfolio structure by country group and credit-risk-bearing instrument.

As at December 31, 2014, **DVB**'s shipping finance portfolio comprised finance provided for 1,208 vessels and 0.6 million containers (December 31, 2013: 1,220 vessels and 1.4 million containers). The average exposure as at December 31, 2014 was €36 million (December 31, 2013: €31 million) and the largest single exposure was €213 million (December 31, 2013: €193 million).

DVB's total exposure as at December 31, 2014 amounted to €10,122 million compared with €9,203 million as at December 31, 2013. The increase was attributable to exchange rate fluctuations (appreciation of the US dollar). The shipping finance portfolio was broadly diversified in terms of geographical region, type of vessel, borrower, charterer, and shipping activity. The largest proportion of the volume lent was attributable to the financing of tankers. As at December 31, 2014, this proportion had fallen by 1 percentage point to 43 percent of DVB's total

FIG. 27 – BANK SECTOR: LOANS AND ADVANCES TO BORROWERS IN EUROZONE PERIPHERY COUNTRIES

€ million	Traditional lending business[1]		Securities business		Derivatives and money market business		Total	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Portugal	**123**	129	**806**	883	**1**	3	**930**	1,015
of which: public sector	–	–	664	678	–	–	664	678
of which: non-public sector	123	129	142	205	1	3	266	337
of which: financial sector	–	–	23	96	1	3	24	99
Italy	**215**	246	**3,465**	3,110	**20**	54	**3,700**	3,410
of which: public sector	–	–	2,787	2,331	–	–	2,787	2,331
of which: non-public sector	215	246	678	779	20	54	913	1,079
of which: financial sector	36	36	275	426	17	49	327	512
Ireland	**897**	861	**201**	222	**294**	81	**1,392**	1,163
of which: public sector	–	–	–	–	–	–	–	–
of which: non-public sector	897	861	201	222	294	81	1,392	1,163
of which: financial sector	5	–	172	172	294	80	471	253
Greece	**156**	139	**4**	40	**–**	–	**160**	179
of which: public sector	–	–	–	–	–	–	–	–
of which: non-public sector	156	139	4	40	–	–	160	179
of which: financial sector	–	–	1	2	–	–	1	2
Spain	**372**	439	**5,042**	5,227	**12**	53	**5,426**	5,719
of which: public sector	43	53	2,427	2,537	–	–	2,470	2,590
of which: non-public sector	329	386	2,616	2,689	12	53	2,956	3,129
of which: financial sector	26	62	1,553	1,515	11	53	1,590	1,630
Total	**1,763**	1,814	**9,518**	9,481	**327**	191	**11,609**	11,486
of which: public sector	43	53	5,878	5,546	–	–	5,921	5,599
of which: non-public sector	1,720	1,761	3,640	3,936	327	191	5,687	5,888
of which: financial sector	67	99	2,024	2,212	323	185	2,414	2,496

1 Unlike the other presentations of lending volume, traditional lending business in this case includes equity investments.

FIG. 28 – BANK SECTOR: LOANS AND ADVANCES TO BORROWERS IN OTHER GLOBAL TROUBLE SPOTS

€ million	Traditional lending business[1]		Securities business		Derivatives and money market business		Total	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Russia	**737**	905	**24**	16	**3**	5	**764**	927
of which: public sector	–	–	16	16	–	–	16	16
of which: non-public sector	737	905	8	–	3	5	748	911
of which: financial sector	215	219	–	–	3	5	218	224
Hungary	**184**	379	**42**	48	**27**	30	**253**	457
of which: public sector	–	–	42	48	–	–	42	48
of which: non-public sector	184	379	–	–	27	30	211	409
of which: financial sector	67	85	–	–	5	10	72	95
Total	**921**	1,284	**66**	64	**30**	35	**1,017**	1,384
of which: public sector	–	–	58	64	–	–	58	64
of which: non-public sector	921	1,284	8	–	30	35	959	1,320
of which: financial sector	282	304	–	–	8	15	290	320

1 Unlike the other presentations of lending volume, traditional lending business in this case includes equity investments.

FIG. 29 – BANK SECTOR: SHIPPING FINANCE LENDING VOLUME, BY COUNTRY GROUP

	Traditional lending business		Securities business		Derivatives business		Total	
€ million	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Germany	1,594	1,309	–	–	34	20	1,628	1,328
Other industrialized countries	5,741	5,063	–	–	23	27	5,764	5,091
Advanced economies	2,191	1,920	–	–	2	3	2,193	1,923
Emerging markets	1,512	1,677	20	90	8	10	1,539	1,777
Total	11,037	9,969	20	90	66	60	11,124	10,119

volume of shipping finance. The decrease related to the product tanker, chemicals tanker, and gas tanker segments of the shipping market, while the proportion of the portfolio attributable to oil tankers as at December 31, 2014 remained at 13 percent, unchanged on 2013. The portfolio was almost fully collateralized in compliance with DVB strategy.

DZ BANK's shipping finance exposures amounted to €1,002 million as at December 31, 2014 (December 31, 2013: €916 million). Broken down by type of ship, the portfolio was focused mainly on multifunctional merchant vessels and, in terms of carrying capacity, comprised almost exclusively small- to medium-sized vessels. As in 2013, DZ BANK's shipping finance portfolio in 2014 was mainly concentrated in Germany but broadly diversified by type of vessel, borrower, charterer, and shipping activity.

8.6.3. Leveraged finance

A small volume of lending in connection with mergers and acquisitions is carried out in the Bank sector where it is undertaken exclusively by **DZ BANK**. If the structure of these loans involves above-average leverage, there is a higher level of risk. Such leveraged finance transactions primarily include the types of acquisition finance listed below, especially for private equity companies whose credit ratings essentially depend on the cash flows expected to be generated by the acquired entity.

DZ BANK distinguishes between the following types of transaction:

- leveraged buyouts by financial sponsors
- recapitalization and refinancing of acquisitions
- management buyouts and management buyins.

The following disclosures relate to the gross lending volume of leveraged finance transactions, which is based on carrying amounts and does not include credit risk mitigation techniques or the recognition of loan loss allowances.

The loan commitments granted by DZ BANK in this product segment totaled €1,993 million as at December 31, 2014 (December 31, 2013: €1,216 million). Of this total, loans amounting to €935 million (December 31, 2013: €968 million) had already been drawn down and undrawn loan commitments came to €1,058 million (December 31, 2013: €248 million).

The leveraged finance portfolio was hedged by credit derivatives and guarantees in the amount of €4 million as at the balance sheet date (December 31, 2013: €5 million).

As at December 31, 2014, the exposures in the portfolio revealed a broad sectoral diversification, with over 80 percent relating to entities based in the European Union, as indeed had also been the case at the end of 2013.

8.6.4. Securitizations

CHANGES IN THE SECURITIZATION PORTFOLIO

The changes in the Bank sector's securitization portfolio in 2014 were largely in line with expectations, whether in terms of redemptions, rating migrations, or the performance of the portfolio. DZ BANK made use of the continuing benign market environment to focus on disposals with the objective of optimizing capital.

The **fair value** of the **Bank sector**'s securitization exposure as at December 31, 2014 amounted to €8,349 million compared with €8,479 million as at December 31, 2013. This equates to a further reduction of 2 percent following the reduction of 21 percent achieved in 2013.

A similar trend was evident at **DZ BANK**, with the fair value of its securitization exposure as at December 31, 2014 having risen to €6, 412 million from €6,277 million as at December 31, 2013. This was an increase of 2 percent compared with a fall of 21 percent in 2013.

The fall in the fair value of the portfolios was largely the result of redemptions and disposals and it was offset by increases in fair value due to recovering prices, exchange rate fluctuations and new business using ABCP conduits.

ORIGIN OF RECEIVABLES

As at December 31, 2014, 62 percent (December 31, 2013: 61 percent) of the receivables in the **Bank sector**'s reference portfolios originated from European countries, in particular Germany, the United Kingdom, Spain, and the Netherlands. A further 35 percent of the underlying borrowers were domiciled in the United States as at the reporting date (December 31, 2013: 34 percent).

As at December 31, 2014, 53 percent (December 31, 2013: 50 percent) of the receivables in **DZ BANK's** reference portfolios originated from European countries, in particular Germany, the Netherlands, the UK and Spain. A further 43 percent of borrowers were domiciled in the US, as had also been the case as at December 31, 2013.

SECURITIZATION EXPOSURE REPORTED ON THE BALANCE SHEET

The credit rating awarded to each securitization was based on the lowest available rating issued by the rating agencies Standard & Poor's, Moody's, and Fitch.

As at December 31, 2014, 27 percent (December 31, 2013: 26 percent) of the **Bank sector**'s securitization exposure on the balance sheet consisted of AAA tranches as rated by external credit agencies, while 85 percent (December 31, 2013: 81 percent) of this exposure was rated as investment grade (BBB- or higher).

As at December 31, 2014, 41 percent (December 31, 2013: 39 percent) of **DZ BANK**'s securitization exposure on the balance sheet consisted of AAA tranches, while 90 percent (December 31, 2013: 86 percent) of this exposure was rated as investment grade (BBB- or higher).

SECURITIZATION EXPOSURE NOT REPORTED ON THE BALANCE SHEET

Only **DZ BANK** had **exposures to special-purpose entities**, which amounted to €3,473 million at the end of 2014 (December 31, 2013: €2,687 million). Of this amount, 68 percent (December 31, 2013: 71 percent) related to undrawn liquidity lines for conduits. As at December 31, 2014, 87 percent (December 31, 2013: 81 percent) of securitization exposure to special-purpose entities was in external rating class A or higher.

Securitization exposure rated as AAA or AA accounted for 20 percent of the total exposure to SPEs as at December 31, 2014 (December 31, 2013: 19 percent). Rating classes BBB+ to B- made up 13 percent (December 31, 2013: 19 percent) of the total exposure to SPEs as at December 31, 2014.

CDOS, SUBPRIME PORTFOLIO AND MONOLINERS

In the **Bank sector,** the securitization exposures in the **collateralized debt obligation** (CDO) product class amounted to €248 million as at December 31, 2014

(December 31, 2013: €548 million) and at **DZ BANK** they amounted to €180 million (December 31, 2013: €444 million).

The volume in the **subprime portfolio** at the level of both the **Bank sector** and **DZ BANK** was down as at December 31, 2014, amounting to €344 million and €313 million respectively, compared with €423 million and €343 million respectively at the end of the previous year.

As at December 31, 2014, the volume of assets insured by **monoliners** in both the Bank sector and at **DZ BANK** remained negligible and therefore unchanged year on year.

CHANGES IN FAIR VALUE

In the **Bank sector** and at **DZ BANK**, there were overall increases in fair value of €274 million and €76 million respectively as at December 31, 2014, largely attributable to the recovery in prices. In 2013, the increases in fair value had been €330 million in the Bank sector and €120 million at DZ BANK.

Figure 30 shows a summary of the changes in the composition and fair value of the Bank sector's securitization portfolio.

8.7. NON-PERFORMING LENDING VOLUME

8.7.1. Volume of forborne and renegotiated loans

As at December 31, 2014, the total volume of forborne and renegotiated loans in the Bank sector was €3,902 million. Of this amount, €1,004 million was attributable to the performing exposure in the **Bank sector**, €174 million to **DZ BANK's** performing exposure and €473 million to **DVB's** performing exposure. The **non-performing exposure** amounted to €2,898 million in the Bank sector, €1,346 million at DZ BANK and €977 million at DVB. This information is taken from regulatory reporting (FinRep financial reporting framework). Because these reporting requirements came into effect for the first time in 2014, comparative prior-year figures are not available. FinRep figures are not used for internal management.

In 2014, the bulk of the forborne and renegotiated lending volume related to DZ BANK and DVB.

The forborne exposure of **DZ BANK** as at December 31, 2014 related almost exclusively to non-financial limited companies, largely German borrowers. DZ BANK does not usually make concessions in the form of modifications to existing agreements or customized refinancing until the restructuring phase.

FIG. 30 – BANK SECTOR: CHANGES IN THE COMPOSITION AND VALUE OF THE SECURITIZATION PORTFOLIO

€ million	**Fair value as at Jan. 1, 2014 before changes in composition and value**	Changes in composition due to purchases, sales, redemptions, and exchange-rate fluctuations	Changes in value[1]	**Fair value as at Dec. 31, 2014 after changes in composition and value**
Receivables from retail loans	3,967	-387	260	3,840
of which: RMBSs	3,704	-473	258	3,489
of which: assets classified as subprime	423	-103	24	344
Receivables from corporate loans	522	-190	-1	331
Receivables from CMBSs[2]	754	-312	15	457
Receivables from CDOs	548	-301	1	248
Total exposure reported on the balance sheet	5,792	-1,190	274	4,876
Exposures to special-purpose entities[3]	2,687	786	–	3,473
Total	**8,479**	**-404**	**274**	**8,349**

1 The changes in value reported here relate to fair value. By contrast, section 8.8.2. shows changes in carrying amounts resulting from impairment losses, so the two sets of figures presented are not directly comparable with each other.
2 CMBSs = commercial mortgage-backed securities.
3 Including reported receivables from special-purpose entities, especially ABCP conduits, and liquidity facilities provided for ABCP conduits.

Consequently the lion's share of its forborne and renegotiated lending volume was classified as non-performing exposure.

The persistently challenging economic climate, changes in the volume of global trade, and a surplus of available tonnage in some shipping segments have led to sustained pressure on charter rates and on borrowers' debt service capacity. These trends resulted in **DVB** having to forego and renegotiate a number of loans in the reporting year.

8.7.2. Impaired lending volume

Figures 31 and 32 show the impaired lending volume. The disclosures largely relate to traditional lending business.

As at December 31, 2014, the **Bank sector**'s lending volume after loan loss allowances stood at €2,755 million (December 31, 2013: €2,792 million), a decline that was mainly attributable to a lower level of impairment losses at DZ BANK.

At **DZ BANK** the impaired lending volume fell from €1,246 million as at December 31, 2013 to €974 million as at December 31, 2014. This decrease was almost entirely the result of a fall in the impaired lending volume in the financial sector.

8.7.3. Volume of non-performing loans

Because the volume of non-performing loans reported for the **Bank sector** rose from €5.8 billion to €5.9 billion during 2014, while the total lending volume increased from €298.2 billion to €303.7 billion, the NPL ratio remained unchanged at 1.9 percent.

At **DZ BANK**, there was a fall in the volume of impaired loans, which declined from €3.0 billion as at

FIG. 31 – BANK SECTOR: IMPAIRED LENDING VOLUME AND COLLATERAL, BY SECTOR

	Amount before specific loan loss allowances		Specific loan loss allowances		Amount after specific loan loss allowances		Collateral	
€ billion	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Financial sector	217	590	121	245	96	345	69	79
Public sector	–	–	–	–	–	–	–	–
Corporates	3,238	3,129	1,236	1,219	2,002	1,910	1,141	697
Retail	1,146	1,024	490	490	656	534	595	770
Industry conglomerates	–	–	–	–	–	–	–	–
Other	61	59	61	56	–	3	–	5
Total	**4,663**	**4,802**	**1,908**	**2,010**	**2,755**	**2,792**	**1,805**	**1,551**

FIG. 32 – BANK SECTOR: IMPAIRED LENDING VOLUME AND COLLATERAL, BY COUNTRY GROUP

	Amount before specific loan loss allowances		Specific loan loss allowances		Amount after specific loan loss allowances		Collateral	
€ billion	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Germany	2,698	2,518	1,298	1,242	1,400	1,276	969	859
Other industrialized countries	934	1,107	258	270	676	837	324	390
Advanced economies	401	435	119	151	282	284	180	188
Emerging markets	631	742	233	347	398	395	332	114
Supranational institutions	–	–	–	–	–	–	–	–
Total	**4,663**	**4,802**	**1,908**	**2,010**	**2,755**	**2,792**	**1,805**	**1,551**

December 31, 2013 to €2.6 billion as at the 2014 balance sheet date. As a result of this decrease, and because the total lending volume had increased from €156.0 billion to €160.6 billion, there was also a year-on-year fall in the NPL ratio, which stood at 1.6 percent.

Figure 33 shows key figures relating to the volume of non-performing loans.

FIG. 33 – BANK SECTOR: KEY FIGURES FOR THE VOLUME OF NON-PERFORMING LOANS

€ billion	Bank sector Dec. 31, 2014	Bank sector Dec. 31, 2013	DZ BANK Dec. 31, 2014	DZ BANK Dec. 31, 2013
Total lending volume	303.7	298.2	160.6	156.0
Volume of non-performing loans	5.9	5.8	2.6	3.0
Balance of allowances for losses on loans and advances	2.4	2.5	1.1	1.4
Loan loss allowance ratio	0.8%	0.9%	0.7%	0.9%
Risk cover ratio	40.7%	43.7%	41.3%	45.6%
NPL ratio	1.9%	1.9%	1.6%	1.9%

8.8. ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES

8.8.1. Allowances for losses on loans and advances in the total portfolio

Figures 34 and 35 show the change in the volume of allowances (specific loan loss allowances, including the specific loan loss allowances evaluated on a group basis and portfolio loan loss allowances), the provisions for loan commitments, and liabilities under financial guarantee contracts in 2014 and 2013 for the entire credit portfolio of the entities in the Bank sector. Provisions for loan commitments are a component of the 'Provisions' line item on the balance sheet. Liabilities from financial guarantee contracts are reported as other liabilities on the balance sheet. The components of the allowances for losses on loans and advances shown in figure 34 are also disclosed in the notes to the consolidated financial statements (note 52).

Over the course of 2014, there was a decline in the **volume of specific loan loss allowances,** which fell by €102 million in the **Bank sector** and by €48 million at **DZ BANK**, compared with increases of €33 million (Bank sector) and €10 million (DZ BANK) in 2013.

A reduction in **portfolio loan loss allowances** was also reported in 2014, with a fall of €50 million in the **Bank sector** (December 31, 2013: fall of €2 million) and of €42 million at **DZ BANK** (December 31, 2013: increase of €38 million).

By contrast, the volume of **provisions for loan commitments and liabilities under financial guarantee contracts** increased in 2014. This applied to both the **Bank sector** (increase of €21 million; December 31, 2013: increase of €1 million) and **DZ BANK** (increase of €14 million; December 31, 2013: increase of €3 million).

This generally positive trend in allowances for losses on loans and advances shows that efforts to aid the recovery of non-performing loans continues to be successful and reflects the stability of the credit portfolio and the sustainable, rigorous risk policy adopted by the entities in the Bank sector, including DZ BANK.

8.8.2. Allowances for losses on loans and advances in portfolios with increased risk content

The small increase in specific loan loss recognized in 2014 for the Bank sector's exposure to **eurozone periphery countries** was due to various minor factors. The loans and advances in question are fully collateralized. DG HYP made the largest contribution to the net reversal of portfolio loan loss allowances.

The net addition to portfolio loan loss allowances for the **other global crisis portfolios** (Russia and Hungary) largely relate to DZ BANK. The specific loan loss allowances, provisions for loan commitments and liabilities from financial guarantee contracts for the Bank sector's **shipping finance portfolios** were increased in 2014. These changes essentially related to DVB, but the specific loan loss allowances for DZ BANK's shipping finance transactions were also increased. The reasons for the increase were weaker charter rates in the major shipping segments and further restrictions on financial opportunities for

FIG. 34 – BANK SECTOR: ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES IN THE TOTAL PORTFOLIO

	Specific loan loss allowances[1]		Portfolio loan loss allowances		Total loan loss allowances		Provisions for loan commitments and liabilities under financial guarantee contracts	
€ million	2014	2013	2014	2013	2014	2013	2014	2013
Balance as at Jan. 1	2,010	1,977	530	532	2,540	2,509	146	145
Additions	791	940	170	176	961	1,116	51	52
Utilizations	-372	-406	–	–	-372	-406	–	–
Reversals	-524	-443	-217	-155	-741	-598	-39	-53
Interest income	-33	-31	–	–	-33	-31	2	2
Other changes	36	-27	-3	-23	33	-50	7	–
Balance as at Dec. 31	1,908	2,010	480	530	2,388	2,540	167	146
Directly recognized impairment losses	82	102	–	–	82	102		
Receipts from loans and advances previously impaired	-138	-75	–	–	-138	-75		

1 Including specific loan loss allowances evaluated on a group basis.

FIG. 35 – BANK SECTOR: ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES IN DZ BANK'S TOTAL PORTFOLIO

	Specific loan loss allowances[1]		Portfolio loan loss allowances		Total loan loss allowances		Provisions for loan commitments and liabilities under financial guarantee contracts	
€ million	2014	2013	2014	2013	2014	2013	2014	2013
Balance as at Jan. 1	1,006	996	171	133	1,177	1,129	143	140
Additions	428	427	2	46	430	473	45	48
Utilizations	-152	-223	–	–	-152	-223	–	–
Reversals	-320	-238	-44	-9	-364	-247	-38	-49
Interest income	-20	-18	–	–	-20	-18	2	2
Other changes	16	62	–	1	16	63	5	2
Balance as at Dec. 31	958	1,006	129	171	1,087	1,177	157	143
Directly recognized impairment losses	1	29	–	–	1	29		
Receipts from loans and advances previously impaired	-99	-41	–	–	-99	-41		

1 Including specific loan loss allowances evaluated on a group basis.

initiators to support single ship companies. The increase in specific loan loss allowances was offset by a reduction in the volume of portfolio loan loss allowances at DZ BANK.

The volume of specific loan loss allowances for the credit exposure in DZ BANK's **leveraged finance portfolio** declined in 2014. As in 2013, this decrease largely resulted from disposals to reduce exposure.

The year-on-year decrease in the volume of specific loan loss allowances for **securitizations** in the Bank sector and at DZ BANK was also mainly attributable to disposals. The reduction in the volume of portfolio

FIG. 36 – BANK SECTOR: ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES FOR PORTFOLIOS WITH INCREASED RISK CONTENT

	Specific loan loss allowances[1]		Portfolio loan loss allowances		Total loan loss allowances		Provisions for loan commitments and liabilities under financial guarantee contracts	
€ million	2014	2013	2014	2013	2014	2013	2014	2013
Eurozone periphery countries								
Balance as at Jan. 1	31	37	38	36	69	73	1	1
Balance as at Dec. 31	36	31	22	38	58	69	1	1
Other global trouble spots								
Balance as at Jan. 1	–	–	4	2	4	2	1	–
Balance as at Dec. 31	–	–	7	4	7	4	–	1
Shipping finance								
Balance as at Jan. 1	280	166	63	50	343	215	4	2
Balance as at Dec. 31	349	280	39	63	388	343	4	4
Leveraged finance								
Balance as at Jan. 1	24	30	4	13	28	43	–	1
Balance as at Dec. 31	19	24	6	4	25	28	–	–
Securitizations								
Balance as at Jan. 1	341	581	53	103	394	683		
Balance as at Dec. 31	181	341	46	53	227	394		

1 Including specific loan loss allowances evaluated on a group basis.

loan loss allowances in the Bank sector stemmed largely from sales and repayments and, at DZ BANK from credit rating upgrades. The loan loss allowances reported here relate to carrying amounts. In accordance with IFRS, both specific loan loss allowances (impairments) and portfolio loan loss allowances are only specified for certain holding categories.

Changes in fair value are shown in section 8.6.4., so the figures presented are not directly comparable with each other.

Changes in the individual components of the allowances for losses on loans and advances for portfolios with increased risk content for 2014 and 2013 are shown in figure 36 (Bank sector) and in figure 37 (DZ BANK).

8.9. RISK POSITION

The amount of capital required to cover credit risk is based on a number of factors, including the size of single-borrower exposures, individual ratings, and the industry sector of each exposure.

As at December 31, 2014, the **Bank sector**'s risk capital requirement amounted to €3,065 million (December 31, 2013: €2,914 million), with an upper loss limit of €3,942 million (December 31, 2013: €3,710 million). R+V has been eliminated from the original prior-year figures for the DZ BANK Group (risk capital requirement of €3,036 million; upper loss limit of €3,845 million) owing to the switch to the sectoral approach.

As at December 31, 2014, the risk capital requirement for **DZ BANK** was calculated at €932 million (December 31, 2013: €934 million), with an upper loss limit of €1,237 million (December 31, 2013: €1,237 million). The risk capital requirements for the Bank sector and for DZ BANK were within the applicable upper loss limits at all times during the course of 2014.

Figure 38 shows the credit value-at-risk together with the average probability of default and expected loss.

FIG. 37 – BANK SECTOR: ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES FOR PORTFOLIOS WITH INCREASED RISK CONTENT, DZ BANK

	Specific loan loss allowances[1]		Portfolio loan loss allowances		Total loan loss allowances		Provisions for loan commitments and liabilities under financial guarantee contracts	
€ million	2014	2013	2014	2013	2014	2013	2014	2013
Eurozone periphery countries								
Balance as at Jan. 1	6	6	7	4	13	10	1	1
Balance as at Dec. 31	5	6	2	7	7	13	1	1
Other global trouble spots								
Balance as at Jan. 1	–	–	3	2	3	2	1	–
Balance as at Dec. 31	–	–	7	3	7	3	–	1
Shipping finance								
Balance as at Jan. 1	178	108	34	23	212	131	4	2
Balance as at Dec. 31	247	178	19	34	266	212	4	4
Leveraged finance								
Balance as at Jan. 1	24	30	4	13	28	43	–	1
Balance as at Dec. 31	19	24	6	4	25	28	–	–
Securitizations								
Balance as at Jan. 1	130	284	14	37	144	321		
Balance as at Dec. 31	63	130	9	14	72	144		

1 Including specific loan loss allowances evaluated on a group basis.

FIG. 38 – BANK SECTOR: FACTORS DETERMINING THE CREDIT VALUE-AT-RISK

	Average probability of default				Expected loss (€ million)				Risk capital requirement (€ million)			
	Bank sector		DZ BANK		Bank sector		DZ BANK		Bank sector		DZ BANK	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Traditional credit risk	0.7%	0.7%	0.2%	0.2%	401	401	98	98	1,587	1,718	521	617
Issuer risk	0.4%	0.4%	0.3%	0.4%	99	115	39	59	1,228	1,038	247	240
Replacement risk	0.1%	0.1%	0.1%	0.1%	10	10	8	8	242	185	164	78
Total					510	526	144	165	3,056	2,941	932	934
Average	0.5%	0.6%	0.2%	0.3%								

The risk capital required in the **Bank sector** and at **DZ BANK** for credit portfolios exposed to increased credit risk is shown in figure 39.

The year-on-year increase of 32 percent in the risk capital requirement for exposures held by entities in the Bank sector to **European periphery countries** related to an increase in the volume lent to these countries and was also attributable to higher fair values at DG HYP. The risk capital requirement for **shipping finance** stemmed primarily from DVB where the scheduled restatement of collateral values resulted in DVB

FIG. 39 – BANK SECTOR: CREDIT VALUE-AT-RISK FOR CREDIT PORTFOLIOS WITH INCREASED RISK CONTENT

	Bank sector		DZ BANK	
€ billion	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Eurozone periphery countries	741	559	58	40
Other global trouble spots	4	4	3	3
Shipping finance	106	197	21	20
Securitizations	34	41	20	24
NPL ratio	11	10	11	10

requiring 46 percent less capital. The risk capital required by DZ BANK and DG HYP for **securitization exposure** had fallen by 17 percent year on year. The slight increase in the risk capital requirement for DZ BANK's **leveraged finance portfolio** followed the same upward trend as the lending volume in this portfolio.

8.10. SUMMARY AND OUTLOOK

In 2014, all internal rating systems approved by the banking regulators for solvency reporting were validated in detail. In 2015, DZ BANK is planning to introduce a rating system for insurance companies and also to roll out the revised rating system for project finance.

DZ BANK intends to initiate further measures in 2015 as part of its continuous optimization of the internal **credit risk measurement** system. These measures will include the creation of the conceptual and technical conditions required for the gradual introduction of a portfolio-based approach to the measurement of replacement risk in the bulk of the derivatives portfolio, the incorporation of exchange-traded futures contracts traded on behalf of customers into the measurement of replacement risk for trading transactions, and a more granular measurement of country risk concentrations.

In the current year, the entities in the Bank sector will continue to implement the **risk-strategy approach** to lending that they have already initiated. At DZ BANK this will involve further stepping up structured business with the cooperative financial network and selected customers. The Bank sector also plans to significantly increase its market share in business with small and medium-sized enterprises (SMEs) and strengthen its positioning in this segment in Germany, especially in the medium-sized company subsegment.

Given the predictions for economic growth and the expected impact of events in Russia and lower oil prices, the **specific loan loss allowances** recognized for 2015 at Bank sector level and DZ BANK level are likely to be higher than they were in 2014, but will remain within anticipated levels.

9. EQUITY INVESTMENT RISK

9.1. DEFINITION AND CAUSES

Equity investment risk is the risk of losses arising from negative changes in the fair value of the portion of the long-term equity investments portfolio for which the risks are not included in other types of risk.

In the Bank sector of the DZ BANK Group, equity investment risk arises primarily at DZ BANK, BSH and DVB.

The long-term equity investments in the banking book are held largely for strategic reasons and normally cover markets, market segments or parts of the value chain in which the entities of the Bank sector themselves or the local cooperative banks are not active. These investments therefore support the sales activities of the cooperative banks or help reduce costs by bundling functions. The investment strategy is continuously aligned with the needs of cooperative financial network policy.

9.2. RISK STRATEGY AND RESPONSIBILITY

Risk strategy requirements must be observed in the management of long-term equity investments. Such management is subject to the principle that equity investment risk (measured as risk capital requirement) may only be taken on only if this risk is considered together with the associated opportunities and only if the risk remains within the existing upper loss limits.

Decisions on whether to acquire or dispose of **long-term equity investments** are made by the Board of

Managing Directors of the entities in the Bank sector in consultation with the relevant committees.

At DZ BANK, the Group Strategy & Controlling division is responsible for **supporting these investments**, whereas at BSH the task falls within the scope of the International Markets division and the Controlling and Investment Management division. At DVB, the investments are the responsibility of the Accounting and Legal Affairs departments.

The **monitoring and measurement** of equity investment risk is the responsibility of the relevant planning and control units, which must then submit quarterly reports on the results of their activities to the Supervisory Board, the Board of Managing Directors, and the division responsible for supporting the investments.

9.3. RISK MANAGEMENT

Goodwill relating to long-term equity investments is regularly tested for possible impairment in the last quarter of the financial year. If there are any indications during the course of the year of possible impairment, more frequent impairment tests are also carried out. In an impairment test, the carrying amount of the units to which the goodwill relates is compared with the market price that could be achieved at this point.

The risk capital requirement for equity investment risk is measured as value-at-risk with a holding period of 1 year on the basis of a variance-covariance approach. Risk drivers are the market values of the long-term equity investments, the volatility of the market values, and the correlations between the market values, with market price fluctuations mainly derived from reference prices listed on an exchange.

The measurement of equity investment risk takes into account both the equity-accounted investments and fully consolidated investees. As part of acquisition accounting and during the course of preparing the consolidated financial statements, the investment carrying amounts for consolidated subsidiaries are offset against the relevant share of net assets. Consequently, the investment carrying amounts disclosed in the notes to the consolidated financial statements are considerably lower than the carrying amounts used for determining risk.

9.4. RISK FACTORS AND RISK POSITION

If a future impairment test determines that the goodwill of long-term equity investments reported on the balance sheet is significantly impaired, this could have an adverse impact on the financial performance and financial position of the DZ BANK Group.

In the case of **non-controlling interests**, there is a risk that key information may not be available or cannot be obtained promptly by virtue of the fact that the investment is a minority stake; this would lead to an increase in the impairment risk.

The **carrying amounts of long-term equity investments in the Bank sector** relevant for the measurement of equity investment risk amounted to €3,270 million as at December 31, 2014 (December 31, 2013: €3,171 million). Owing to the switch to the sectoral approach, R+V has been eliminated from the prior-year figure of €3,406 million that was originally applicable to the DZ BANK Group. The relevant risks arising on the long-term equity investments of R+V are now included in the market risk module of Solvency II (equity sub-module).

As at December 31, 2014, the **carrying amount of the long-term equity investments of DZ BANK** was €1,408 million (December 31, 2013: €1,773).

As at December 31, 2014, the **economic capital requirement** for equity investment risk in the **Bank sector** was measured at €788 million, a minor increase on the corresponding figure of €750 million as at December 31, 2013. The upper loss limit as at December 31, 2014 was €974 million (December 31, 2013: €1,115 million). R+V has been eliminated from the original prior-year figures for the DZ BANK Group (risk capital requirement of €783 million; upper loss limit of €1,225 million) owing to the switch to the sectoral approach.

As at December 31, 2014, the **economic capital requirement** for equity investment risk at **DZ BANK** amounted to €379 million (December 31, 2013: €407 million) compared with an upper loss limit of €490 million (December 31, 2013: 520 million).

The upper loss limits for the entities in the Bank sector, including DZ BANK, were not exceeded at any time during 2014.

10. MARKET RISK

10.1. DEFINITION AND CAUSES

Market risk in the Bank sector comprises market risk in the narrow sense of the term, and market liquidity risk.

Market risk in the narrow sense of the term – referred to below as market risk – is the risk of losses on financial instruments or other assets arising from changes in market prices or in the parameters that influence prices. Depending on the underlying influences, market risk can be broken down for the most part into interest-rate risk, spread risk including migration risk, equity risk, fund price risk, currency risk, commodity risk and asset-management risk. These risks are caused by changes in the yield curve, credit spreads, exchange rates, share prices, and commodity prices.

Market risks arise in particular from DZ BANK's customer-account trading activities, DZ BANK's cash-pooling function for the Volksbanken Raiffeisenbanken cooperative financial network, and from the lending business, real-estate finance business, building society operations, investments, and issuing activities of the various companies in the group. Spread risk is the most significant type of market risk for the Bank sector.

Market liquidity risk is the risk of loss arising from adverse changes in market liquidity, for example as a result of a reduction in market depth or of market disruption. The consequences are that assets can only be liquidated in markets if they are discounted and that it is only possible to carry out active risk management on a limited basis. Market liquidity risk arises primarily in connection with securities already held in the portfolio as well as funding and money market business.

10.2. RISK STRATEGY

The following principles for managing market risk apply to DZ BANK and its subsidiaries in the Bank sector:

- Market risk is only taken on to the extent that it is necessary to facilitate attainment of business policy objectives.
- The assumption of market risk is only permitted within the existing limits and only provided that it is considered together with the associated opportunities.
- Statutory restrictions or provisions in the Articles of Association that prohibit the assumption of certain types of market risk for individual management units are observed.

Within the Bank sector, trading business is conducted primarily by DZ BANK.

For regulatory purposes, **DZ BANK** is classed as a trading book institution. It conducts trading activities as part of its role as a central institution in the Volksbanken Raiffeisenbanken cooperative financial network and – on this basis – as a corporate bank for customers outside the cooperative financial network. As part of a range of services for the cooperative banks and the cooperative financial network, DZ BANK provides investment and risk management products, platforms, research, and expertise, and acts as an intermediary transforming small deposits into larger-scale lending. DZ BANK also provides facilities ensuring risk transfer from the cooperative financial network and cash pooling within the cooperative financial network. DZ BANK's trading strategy is aimed at generating profits primarily from customer margins and structuring margins.

Unmatched market-risk positions, primarily involving spread risk, arise in connection with customer business and from holding securities portfolios for trading on behalf of customers. To support its liquidity management function as a central institution and corporate bank, and on behalf of the DZ BANK Group, DZ BANK also maintains liquidity portfolios in which it holds – within the relevant limits – bonds eligible for central bank borrowing. DZ BANK manages market risk in its lending business and own issues and also incurs market risk from holding issues from the primary banks and subsidiaries.

As an institution with a banking book for regulatory purposes, **BSH** is exposed to market risks, primarily in the form of interest-rate risk, spread risk and migration risk. In the case of interest-rate risk, the risk arising from collective business is particularly significant because the business guarantees customers fixed interest rates on both their credit balances and on loans to be drawn down in the future. Risk quantification models designed specifically for the building society business take account of this transaction structure. BSH enters into capital-market transactions to hedge its collective business, with the focus on risk mitigation. BSH does not conduct any own-account trading with a view to exploiting short-term pricing fluctuations. Spread risk arises at BSH from investing surplus home savings deposits in securities.

For regulatory purposes, **DG HYP** is also classed as a non-trading book institution. DG HYP's business model means that the risks relevant to its management of market risk are interest-rate risk, spread risk, and currency risk. Currency risk only represents a minimal risk in this case, as it is usually completely eliminated. Spread risk is monitored as part of the internal reporting system. As DG HYP is classed as a non-trading book institution, it does not engage in own-account trading in the sense of exploiting short-term fluctuations in interest rates and prices.

For regulatory purposes, **DVB** has the characteristics of a trading book institution, although its trading positions are minimal. Given its business model, it is particularly exposed to interest-rate risk and currency risk, as well as a small degree of equity risk. These forms of market risk primarily arise from customer business and funding activities. DVB is also exposed to a low level of spread risk that mainly results from holding securities for the purpose of liquidity management. DVB does not trade on its own account to generate profits from temporary fluctuations in prices and exchange rates.

Both **Union Asset Management Holding** itself and its subsidiaries invest their own resources in purchasing Union Investment mutual funds. Union Asset Management Holding and its subsidiaries also acquire units in newly launched funds in order to provide initial funding for investment funds, but not with the intention of generating short-term trading profits. Fund price risk is not broken down into other subtypes of market risk for management purposes.

Union Asset Management Holding is also exposed to asset-management risk. This risk arises from its obligation to pay additional capital for guarantee products. Any shortfall in a contractually agreed minimum capital value on a maturity date triggers a payment obligation on the part of the fund provider, giving rise to these obligations to pay additional capital.

10.3. ORGANIZATION, RESPONSIBILITY, AND RISK REPORTING

10.3.1. Organization and responsibility

At **DZ BANK**, as a trading book institution, market risk is generally managed decentrally on a portfolio basis, with the traders responsible for the management of each portfolio bearing responsibility for risk and performance.

Market risk arising at **BSH** is managed at overall bank level and exclusively as part of the banking book.

Market risk arising at **DG HYP**, **DVB** and **Union Asset Management Holding** is managed centrally by specialist committees at each institution. The committees provide guidance for treasury activities based on market risk reporting. Committee decisions are implemented operationally by the portfolio mangers and treasury departments at each entity.

10.3.2. Risk reporting

Key figures for market risk are submitted at **group level** to the Group Risk and Finance Committee within the overall risk report for the DZ BANK Group. DZ BANK is informed of any limit overruns at group entity level using an ad-hoc reporting system.

As part of management reporting at DZ BANK, BSH, DG HYP and **DVB**, Risk Controlling provides the portfolio managers and the senior managers responsible for risk management and risk control with daily, weekly, or monthly market risk updates.

Twice a month, **Union Asset Management Holding** calculates the risk attaching to its own-account investing activities and reports to its Board of Managing Directors and the committee responsible for managing own-account investing on the same basis.

10.4. RISK MANAGEMENT

10.4.1. Measurement of market risk

MEASUREMENT OF MARKET RISK IN THE NARROW SENSE

DZ BANK, BSH, DG HYP, DVB and Union Asset Management Holding determine market risk from the short-term (operating) perspective using the **value-at-risk** method.

Value-at-risk is a key performance indicator that describes the maximum expected loss for a given probability (confidence level) and within a specified holding period for the positions under normal market conditions. The model does not reflect the maximum potential loss that could be incurred in extreme market situations, but is based on observed historical market scenarios over periods of 250 trading days (DZ BANK), 1,500 trading days (BSH), 175 trading days (DG HYP), 256 trading days (DVB) and 1 year (Union Asset Management own-account investments).

DZ BANK, **BSH** and **DVB** generate market scenarios using a **historical simulation**, whereas DG HYP uses a **variance-covariance approach**. Respective holding periods of 1 day and 10 days are used.

Union Asset Management Holding uses **Monte Carlo simulation** to determine the market risk arising from its own-account investing. This measurement method provides a ‘look through’ to the individual securities in the funds and it is also used when quantifying the asset-management risk for most product types. The measurement of risk in each case is based on a unilateral confidence level of 99.9 percent and a holding period of 1 year.

For **DZ BANK**, **BSH**, **DG HYP** and **DVB**, calculations are carried out to determine an overall value-at-risk and – where relevant – separate values-at-risk for interest-rate risk, spread risk, equity risk, currency risk, and commodity risk, broken down into trading portfolios and non-trading portfolios. The risk in the banking book is included in the value-at-risk for both the trading and non-trading portfolios. An overall value-at-risk is calculated for the own-account investing activities carried out by **Union Asset Management Holding**. A risk model for the whole sector that takes into account concentration and diversification effects has been used to calculate the values-at risk for the entities in the Bank sector since the beginning of 2014. Separate values-at-risk are calculated for trading and non-trading portfolios. In this case, the risk applicable to the entities that are included is calculated centrally by DZ BANK.

To quantify market risk from a longer-term (strategic) perspective, the credit institutions in the Bank sector regularly calculate the **capital requirement for market risk** and compare it with the associated upper loss limit.

The risk measurements from both the operating and strategic perspectives for the credit institutions in the Bank sector are linked to each other by a consistent **system of limits**, whereas the market risk incurred by Union Asset Management Holding is managed directly at the level of its risk capital requirement. Consequently, it does not require a limit system for linking the operating and strategic perspectives.

MEASUREMENT OF MARKET LIQUIDITY RISK

DZ BANK and **DG HYP** measure market liquidity risk using a special stress scenario for determining the risk capital requirement for market risk. The economic capital requirement necessary in this stress scenario is compared against the available cover assets in order to obtain an indication of capital adequacy during periods of adverse trends in market liquidity.

At **BSH**, market liquidity risk largely arises from investing surplus home savings deposits in securities. BSH uses stress tests to incorporate the resulting risk in liquidity risk. The risk is then mitigated by focusing on highly liquid assets.

Market liquidity risk at **DVB** largely arises from the securities held in its liquidity portfolio that are implicitly included in the stress scenarios for liquidity risk. Its investments are therefore restricted to highly liquid securities.

Market liquidity risk may arise at **Union Asset Management Holding** due to its own-account investing activities. However, this risk is only relevant in extreme market situations because it focuses on investing in its own, open-ended mutual funds.

10.4.2. Backtesting and stress tests

The internal market risk models of the entities in the Bank sector are subjected to **backtesting,** the purpose of which is to check the predictive quality of the value-at-risk approaches used to measure the risk in trading portfolios. Changes in the value of portfolios on each trading day are compared against the value-at-risk calculated using risk modeling.

Risks arising from extreme market situations are primarily recorded using **stress tests**. The crisis scenarios underlying the stress tests include the simulation of significant fluctuations in risk factors and serve to highlight potential losses not generally recognized in the value-at-risk approach. Stress tests are based on extreme market fluctuations that have actually occurred in the past together with crisis scenarios that – regardless of market data history – are considered to be economically relevant. The crisis scenarios used in this case are constantly reviewed to ensure they are appropriate. In these stress tests, the following are deemed to be material risk factors: interest-rate risk, spread risk, migration risk, equity risk, currency risk, and commodity risk.

10.4.3. Management of limits for market risk

Market risk is managed at **DZ BANK**, **BSH**, and **DG HYP** using a limit system appropriate to the portfolio structure. This system limits the risks assumed in parts of the group as well as any losses arising during the course of the year.

Within the trading divisions of **DZ BANK** and the treasury at **DG HYP**, the management of risk based on value-at-risk is supported by a limit system structured around sensitivities and scenarios, and by stress test limits. At DG HYP, the treasury's system of limits is based on value-at-risk and sensitivities.

The limit system used at both **DVB** and **Union Asset Management Holding** is based on the value-at-risk or risk capital required at the highest portfolio level.

10.4.4. Mitigating market risk

MARKET RISK HEDGING

As part of the decentralized management of portfolios, market risk at DZ BANK is hedged by portfolio managers, while it is hedged by treasury at DG HYP.

Risks are hedged at **DZ BANK** either through internal transactions with the front-office trading unit responsible for the relevant product or through external exchange-based and OTC transactions. **DG HYP** exclusively uses external exchange-based and OTC transactions to hedge against market risk, although the OTC transactions used for hedging are primarily with counterparties within the DZ BANK Group. At **BSH**, the asset-liability committee decides whether to hedge market risk via OTC transactions.

DVB's treasury uses OTC interest-rate and currency derivatives to hedge market risk.

As soon as action is required to reduce the market risk arising from own-account investing at **Union Asset Management Holding**, changes are made to the composition of the fund positions in its own-account investments. For this reason, Union Asset Management Holding is only exposed to fund price risk.

HEDGE EFFECTIVENESS

The measurement of market risk at **DZ BANK** is based on the inclusion of the individual positions subject to market risk. There is therefore no need to monitor the economic effectiveness of hedges. There are also a small number of positions in back-to-back and repackaging transactions for which the market risk has been transferred. These transactions, or some of their components, are not included in the assessment as individual positions and instead, the affected portfolios are monitored daily. Monitoring is carried out by the Risk Control unit responsible for the portfolio concerned.

At **DG HYP**, the effectiveness of any hedging is reviewed and reported daily in terms of both risk and performance. The report covers the entire DG HYP book. Derivatives in various forms are used to mitigate market risk. These are predominantly plain vanilla products.

Interest rate risk incurred by **DVB** is eliminated by the use of interest-rate swaps. Currency risk is hedged by the use of currency swaps and cross-currency swaps with the aim of closing out all currency exposure.

10.4.5. Managing the different types of market risk

MANAGEMENT OF INTEREST-RATE RISK

At **DZ BANK**, interest-rate risk arises from trading in interest-rate-sensitive products on behalf of customers, from structuring its own issues for trading on behalf of customers, and from exposures in connection with liquidity management. The risks arising from trading on behalf of customers are dynamically hedged within the set limits and the risks from liquidity management are generally minimized.

BSH is subject to particular interest-rate risks arising from its collective home savings business since it gives customers a binding interest-rate guarantee both for savings and for the loan element that may be drawn down in the future. BSH uses a sophisticated simulation model based on the behavior of building society customers to measure interest-rate risk. The model forecasts the volume of collective assets held, taking into consideration planned new business and different customer options.

At **DG HYP**, interest-rate risk largely arises from Pfandbrief cover assets and funding transactions. These risks are mitigated by hedging on a regular basis.

Interest-rate risk at DVB largely arises from customer business, purchasing securities for the liquidity portfolio and from funding transactions. This risk is generally eliminated.

MANAGEMENT OF SPREAD RISK AND MIGRATION RISK

As at January 1, 2014 spread risk and migration risk in the Bank sector were removed from the capital buffer and integrated into risk capital management. An upper loss limit and operational limits together with a process for monitoring them were introduced in order to ensure that the risk capital for these two forms of market risk is managed effectively.

At **DZ BANK**, spread risk arises from holding securities portfolios for trading on behalf of customers, from trading in its own issues on behalf of customers, and from the liquidity management function that the bank carries out for the DZ BANK Group. The risk incurred in connection with trading on behalf of customers is actively managed. In liquidity management, the risk tends to be limited to that which is absolutely necessary to allow DZ BANK to carry out its responsibilities as a central institution and in connection with the liquidity management function.

Spread risk and migration risk arise at **BSH** from investing surplus home savings deposits in securities. The resulting risk is managed as part of a conservative investment policy.

Spread risk at **DG HYP** largely results from holding securities as Pfandbrief cover assets. The risks are included in an active reporting system and are monitored on a daily basis. Since the switch in DG HYP's business model, the entity only takes on new spread risk if it is necessary as part of the management of cover assets.

Spread risk arises at **DVB** from holding securities in its liquidity portfolio.

MANAGEMENT OF EQUITY RISK

Equity risk is only of minor significance at **DZ BANK**. It essentially arises from transactions on behalf of customers involving equities, equity and equity-index derivatives, investment funds and alternative investments, warrants and investment certificates. It is managed by using equities, exchange-traded futures and options, and OTC derivatives.

Equity risk is primarily incurred by **DVB** in relation to its holding of treasury shares. The risk is not material.

MANAGEMENT OF FUND PRICE RISK

Fund price risk largely arises at **DZ BANK** in connection with business conducted on behalf of customers. Market price risk attaching to fund positions also arises in connection with covering defined benefit obligations. The risk is actively managed within existing limits

Union Asset Management Holding is exposed to fund price risk when investing its own resources in funds. While market risk arising from the funds it holds is measured by ‘looking through’ to individual-security level, the risk incurred by own-account investing is measured at fund level. For this reason, Union Asset Management Holding is only exposed to fund price risk. The management of fund price risk focuses on the liquidity requirements of Union Asset Management Holding’s subsidiaries and the need to acquire fund units when providing initial funding for investment funds. The requirements for a conservative investment policy are also observed.

MANAGEMENT OF CURRENCY RISK

Only a small amount of currency risk arises at **DZ BANK**, primarily in connection with interest-rate products denominated in foreign currency and in connection with customer business involving currency products and derivatives. Currency risk is eliminated for the most part. Generally speaking, DZ BANK does not hold any significant open currency positions.

At **BSH**, currency risk arises mainly as a result of capital transfers between BSH and subsidiaries in non-euro-zone countries. This risk is generally eliminated by hedging.

The currency risk resulting from customer business at **DG HYP** is not material and is normally eliminated in full.

Currency risk is largely incurred by **DVB** as a result of currency transactions on behalf of customers and funding transactions in foreign currencies. This risk is generally eliminated.

MANAGEMENT OF COMMODITY RISK

DZ BANK is exposed to a low level of commodity risk arising from customer business involving commodity derivatives. The exposure is hedged for the most part or passed on directly and in full to external counterparties in back-to-back transactions.

MANAGEMENT OF ASSET-MANAGEMENT RISK

Asset-management risk arises from minimum payment commitments given by **Union Asset Management Holding** and/or its subsidiaries for guarantee products. The risks arising from these guarantee products are managed conservatively.

The launch of new guarantee products is governed by the guidelines for medium-term planning that apply to Union Asset Management Holding and takes into account the risk capital required and the available internal capital available. Before new products are launched, the risks associated with them are analyzed and assessed. Management mechanisms embedded in the products aim to prevent the value of an individual product from falling below its guaranteed level during its lifetime.

Asset-management risk is reported separately and is monitored regularly at individual product level and at Union Asset Management Holding level.

10.4.6. Managing market risk arising from securitizations

For the purposes of internal management, market risk associated with securitizations (for example, interest-rate risk, spread risk, or currency risk) is included in DZ BANK's and DG HYP's **internal market risk models**, regardless of whether the securitizations are posted in the banking book or the trading book. The **regulatory capital requirement** for general price risk is also calculated for securitizations in DZ BANK's trading book using the internal model.

At **DZ BANK**, the risk exposure arising from securitizations in the banking book and the trading book forms an integral part of the daily market risk report and is reflected in the values used for the weekly stress scenario calculations for market risk. In the case of securitizations, extreme scenarios are also simulated for the weighted average lifetime and recovery assumptions. **DG HYP** holds all securitizations in its banking book. They are included in the daily measurement of market risk and in reporting.

10.5. RISK FACTORS

GENERAL LEVEL OF INTEREST RATES

Because the majority of the financial instruments held in the **Bank sector** are sensitive to changes in the interest-rate curve, the sharp fall in the general level of interest rates in recent months has affected their fair value. The first time that negative nominal interest rates were seen for different currency zones and sectors was a key event. **DZ BANK** has taken precautions to ensure that negative interest rates are taken into account in risk management.

CREDIT SPREADS

In the past two years, credit spreads on bonds have narrowed significantly. Spreads on government bonds in particular – with some special exceptions – are much lower. The yield differential between corporate bonds/covered bonds and government bonds is considerably smaller. In parallel with the sharp fall in the general level of interest rates, bond prices have risen significantly.

As was the case during the eurozone sovereign debt crisis, any renewed widening of credit spreads on government bonds or other market investments would lead to a drop in fair values. Present value losses of this nature could have a temporary or permanent adverse impact on the profits generated by the entities in the Bank sector.

MARKET LIQUIDITY

A marketwide liquidity squeeze could be detrimental to the business activities of the DZ BANK Group and therefore also to its financial position and financial performance. Tighter market liquidity arises particularly in stressed market conditions, for example during the financial crisis.

10.6. RISK POSITION

10.6.1. Risk capital requirement

As at December 31, 2014, the total economic capital requirement for market risk used to determine the risk-bearing capacity of the **Bank sector** amounted to €2,769 million (December 31, 2013: €3,289 million) with an upper loss limit of €6,422 million (December 31, 2013: €6,620). The falls in the risk capital requirement and upper loss limit were mainly due to the narrowing of spreads and lower spread volatility. Owing to the switch to the sectoral approach, R+V has been eliminated from the original prior-year figures for the DZ BANK Group (risk capital requirement of €2,136 million; upper loss limit of €3,495 million), while spread and migration risks relating to securities have been added.

The Bank sector's economic capital requirement includes **asset-management risk**. The asset-management risk for guarantee funds as at December 31, 2014 amounted to €42 million (December 31, 2013: €49 million). The decrease stemmed from a reduction in the volume of guarantee funds.

The asset-management risk for UniProfiRente as at December 31, 2014 amounted to €33 million (December 31, 2013: €9 million). The main reason for the increase in risk was because the model was changed in order to better reflect yield curves in a low interest-rate environment.

As at December 31, 2014, **DZ BANK**'s economic capital requirement for market risk amounted to €750 million (December 31, 2013: €809 million) with an upper loss limit of €1,337 million (December 31, 2013: €1,550 million). The fall in the risk capital requirement was attributable to the removal of certain risk-related scenarios from the historical simulation. DZ BANK is not exposed to any asset-management risk.

Throughout the year under review, the economic capital requirements remained within the upper loss limits at the levels of both the Bank sector and DZ BANK.

10.6.2. Value-at-risk

Value-at-risk is used for short-term risk management in the Bank sector. Figure 40 shows changes in value-at-risk in 2014. The figures are broken down by trading portfolio, non-trading portfolio, and type of market risk. For better comparability, the values as at December 31, 2013 shown in figure 40 have been restated to reflect the new methodology used by the central risk model that has been applied throughout the sector since the beginning of 2014. This has given rise to variances compared with the corresponding disclosures in the 2013 opportunity and risk report for the DZ BANK Group (page 143) and the opportunity and risk report for DZ BANK (page 73).

Figure 41 also shows the daily changes in risk and the results of daily backtesting of trading portfolios.

As the Bank sector's trading portfolios consist exclusively of the trading portfolios of DZ BANK, the figures for the Bank sector are the same as those for DZ BANK.

The value-at-risk for the **trading portfolios** as at December 31, 2014 was €21 million (December 31, 2013: €31 million). The level of risk was generally stable during 2014. Any decreases were largely attributable to the fact that previously relevant historical market scenarios had now dropped out of the value-at-risk calculation.

The decreases in the first half of June and at the end of August were attributable to the fact that previously relevant historical market scenarios had now dropped out of the value-at-risk calculation. In early August, the change in the fair value of trading portfolios exceeded the forecast value-at-risk. This was primarily due to a sharp widening of credit spreads, particularly those on government bonds, covered bonds and corporate bonds. A fall in euro interest rates on the same day also contributed to the overrun. From the following day, this market scenario was used as a new, relevant historical scenario for calculating risk, which resulted in an increase in the value-at-risk.

As at December 31, 2014, the value-at-risk for the Bank sector's **non-trading portfolios** was calculated at €68 million (December 31, 2013: €60 million). At **DZ BANK** level, this figure was €3 million as at December 31, 2014 (December 31, 2013: €12 million). The significant fall in the level of risk in DZ BANK's non-trading portfolios was attributable to a gradual decrease in exposure relating to its own issues, a fall in interest rates and because some historical scenarios had dropped out of the observation period for calculating risk.

FIG. 40 – BANK SECTOR: VALUE-AT-RISK FOR MARKET RISK IN THE TRADING AND NON-TRADING PORTFOLIOS[1]

€ million	Interest-rate risk	Spread risk	Equity risk[2]	Currency risk	Commodity risk	Diversification effect[3]	Total
Trading portfolios	**Bank sector**	**Bank sector**	**Bank sector**	**Bank sector**	**Bank sector**	**Bank sector**	**Bank sector**
Dec. 31, 2014	3	24	–	–	–	-7	**21**
Average	5	26	1	–	–	-6	26
Maximum	8	37	1	1	–	-15	32
Minimum	3	21	–	–	–	-4	21
Dec. 31, 2013	**7**	**34**	**1**	–	–	**-12**	31

€ million	Interest-rate risk		Spread risk		Equity risk[2]		Currency risk		Commodity risk		Diversification effect[3]		Total	
Non-trading portfolios	**Bank sector**	**DZ BANK**	**Bank sector**	**DZ BANK**	**Bank sector**	**DZ BANK**	**Bank sector**	**DZ BANK**	**Bank sector**	**DZ BANK**	**Bank sector**	**DZ BANK**	**Bank sector**	**DZ BANK**
Dec. 31, 2014	17	1	53	2	5	3	2	1	1	–	-8	-3	**68**	**3**
Average	14	1	50	6	6	3	2	1	1	–	-17	-4	56	7
Maximum	20	2	54	11	7	4	6	1	1	–	-20	-7	68	12
Minimum	10	1	41	1	4	2	1	–	–	–	-13	-2	42	3
Dec. 31, 2013	**18**	**1**	**54**	**12**	**7**	**4**	**3**	**1**	–	–	**-23**	**-4**	60	14

1 Value-at-risk with 99.00% confidence level, 1-day holding period, 1-year observation period, based on a central market risk model for the DZ BANK Group. Concentrations and effects of diversification were taken fully into account when calculating the risks.
2 Including funds.
3 Total effects of diversification between the types of market risk for all consolidated group entities.

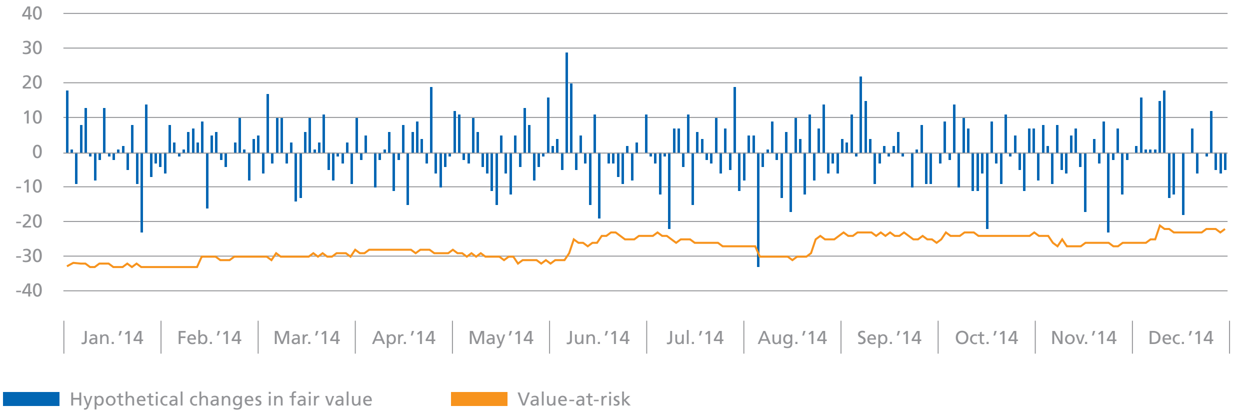
10.7. SUMMARY AND OUTLOOK

In 2014, DZ BANK significantly improved the measurement and management of market risk in the Bank sector. Specifically, it developed a central model for capturing the spread risk and migration risk associated with securities throughout the group, and integrated it into risk management. In this context, the existing capital buffer for these two risk types was reversed and reclassified as a risk capital requirement.

As in previous years, the focus of DZ BANK's trading business in 2015 will be on customer business. DZ BANK will also refine the measurement and management of market risk throughout the sector with

FIG. 41 – BANK SECTOR: VALUE-AT-RISK FOR MARKET RISK AND HYPOTHETICAL CHANGES IN FAIR VALUE IN TRADING PORTFOLIOS

€ million, value-at-risk at 99.00% confidence level, 1-day holding period, 1-year observation period



the aim of further improving the process for measuring the Bank sector's capacity to bear market risk.

11. TECHNICAL RISK OF A HOME SAVINGS AND LOAN COMPANY

11.1. DEFINITION AND CAUSES

Technical risk of a home savings and loan company is subdivided into two components: new business risk and collective risk. **New business risk** is the risk of a negative impact from possible variances compared with the planned new business volume.

Collective risk refers to the risk of a negative impact that could arise from variances between the actual and forecast performance of the collective building society operations caused by significant long-term changes in customer behavior unrelated to changes in interest rates. It can be distinguished from interest-rate risk by incorporating a change in customer behavior unrelated to interest rates in the collective simulation. Conversely, only changes in customer behavior induced by changes in interest rates are relevant to interest-rate risk.

Technical risk of a home savings and loan company arises in the DZ BANK Group's Bank sector in connection with the business activities of BSH. This risk represents the entity-specific business risk of BSH. A home savings arrangement is a system in which the customer accumulates savings earmarked for a specific purpose. The customer enters into a home savings contract with fixed credit balance and loan interest rates so that at a later point – following a savings phase (around 7 to 10 years in a standard savings arrangement) – he/she can be granted a low-interest home savings loan (with a maturity of 6 to 14 years) when payout is approved. A home savings agreement is therefore a combined asset/liability product with a very long maturity.

11.2. RISK STRATEGY AND RESPONSIBILITY

Technical risk of a home savings and loan company is closely linked with the BSH business model and cannot therefore be avoided. Against this backdrop, the **risk strategy** aims to prevent an uncontrolled increase in risk. The risk is managed in particular through a forward-looking policy for products and scales of rates and charges, and through appropriate marketing activities and sales management.

BSH is **responsible** for managing technical risk of a home savings and loan company within the DZ BANK Group. This includes measuring the risk and communicating risk information to the risk management committees at BSH and to the Board of Managing Directors and Supervisory Board of BSH. Technical risk of a home savings and loan company forms an integral part of the DZ BANK Group's risk reporting system.

11.3. RISK MANAGEMENT

A special collective simulation, which includes the effects of a (negative) change in customer behavior and a drop in new business, is used to **measure the technical risk of a home savings and loan company.** The results of the collective simulation are fed into an income statement for the period using a long-term forecast of earnings. The variance between the actual earnings in the risk scenario and the necessary earnings to achieve the target is used as a risk measure. The variance is discounted to produce a present value. The total present value of the variances represents the technical risk of a home savings and loan company and therefore the risk capital requirement for this type of risk.

In order to determine the technical risk of a home savings and loan company in a **stress scenario**, the stress parameters, particularly the assumptions about customer behavior, are severely impaired. An appropriate collective simulation is then generated on this basis and is analyzed using the same methodology used for the measurement of current risk. Stress tests are carried out quarterly.

For the present value perspective in the liquidation approach within BSH's **overall bank limit system**, the technical risk of a home savings and loan company is backed by risk capital.

11.4. RISK FACTORS

A variance between the actual and planned new business volume (new business risk) could lead to lower deposits from banks and customers over the short to medium term. Over the medium to long term, the lower level of new business could also lead to a decrease in loans and advances to banks and customers.

Variances between the actual and forecast performance of the collective building society business caused by significant long-term changes in customer behavior unrelated to changes in interest rates (collective risk) could also lead to lower deposits from banks and customers.

Over the medium to long term, there is a risk that a lower level of new business and change in customer behavior could cause net interest income to taper off with an adverse impact on the financial position and financial performance of the DZ BANK Group. There is also a risk that the liquidity position could deteriorate, in particular as a consequence of the drop in deposits from banks and customers.

11.5. RISK POSITION

As at December 31, 2014, the capital requirement for technical risk of a home savings and loan company amounted to €496 million (December 31, 2013: €576 million) with an upper loss limit of €500 million (December 31, 2013: €600 million). The risk capital requirement did not exceed the applicable upper loss limit at any point during the course of 2014. The reduction in technical risk of a home savings and loan company in the Bank sector was attributable to more benign general conditions.

12. BUSINESS RISK

12.1. DEFINITION AND CAUSES

Business risk denotes the risk of losses arising from earnings volatility for a given business strategy and not covered by other types of risk. In particular, this comprises the risk that, as a result of changes in material circumstances (for example, the regulatory environment, economic conditions, product environment, customer behavior, market competitors) corrective action cannot be taken at an operational level to prevent the losses.

DZ BANK's core functions as a central institution, corporate bank, and holding company mean that it focuses closely on the local cooperative banks, which are its customers and owners. All of its activities are divided into four strategic business lines: Retail Banking, Corporate Banking, Capital Markets, and Transaction Banking.

The key entities incurring business risk in the Bank sector in addition to DZ BANK are the management units DVB, DZ PRIVATBANK, and Union Asset Management Holding.

12.2. ORGANIZATION AND RISK MANAGEMENT

The management of business risk in the DZ BANK Group is a primary responsibility of the **Board of Managing Directors of DZ BANK** and is carried out in consultation with the senior management of the main subsidiaries and the heads of the DZ BANK divisions involved. Group management is integrated into a committee structure, headed by the **Group Coordination Committee.** The Group Strategy & Controlling division supports the Board of Managing Directors as part of its role in supervising the activities of the subsidiaries.

The **Financial Services Advisory Council** increases the involvement of the cooperative banks in the joint development and marketing of the DZ BANK Group's products and services and it works closely with the BVR and its Special Committees. The Financial Services Advisory Council therefore acts as a recommendation committee on product and sales issues arising from the partnership between the cooperative banks and the DZ BANK Group. This approach endeavors to engender a high degree of mutual commitment while at the same time fully maintaining the decentralized structure to the benefit of the cooperative banks.

The management of business risk is closely linked with the **management of opportunities** and the tools used in the strategic planning process. It is based on setting targets for the subsidiaries involved in active management and for the divisions of DZ BANK. **Risk is quantified** using a risk model based on an earnings-at-risk approach.

12.3. RISK FACTORS AND RISK POSITION

COMPETITION BASED ON PRICING AND TERMS

One of the features of the German banking sector is the fierce competition, frequently centered on pricing and terms. This can lead to margins that are not attractive from an economic perspective or are inadequate given the risk involved. The earnings situation is under particular pressure in the retail banking business. As a consequence of the financial crisis, many competitors are giving greater focus to retail banking as a core business, so this situation could become even tougher in the future.

Corporate banking is also subject to competition that is becoming increasingly international in nature. A number of foreign providers have already expanded their presence in the German market. The intensity of the competition could therefore continue to increase in the future, with the result that it could be difficult to generate attractive margins, fees and commissions in individual segments or subsegments of the market.

In the event of a renewed economic downturn, this trend could become even worse. The resulting increased pressure on prices and lower business volume would notch up the competitive pressure still further. Again, this could give rise to margins that are economically unattractive or that do not adequately cover the risk arising from the corresponding transactions.

CHANGES IN THE MARKET RESULTING FROM ELECTRONIC TRADING PLATFORMS

DZ BANK increasingly offers its customers the option of conducting transactions in selected financial instruments using electronic trading platforms. Depending also on product demand from market players, European regulation relating to the trading and settlement of financial instruments is expected to lead to a transfer of the trading volume in certain products to electronic trading platforms. It is predicted that this will lead to a change in competitor structure, with competition becoming fiercer in trading certain financial instruments for customer account, resulting in the risk of a reduction in margins and revenue going forward.

OTHER DEVELOPMENTS

In the coming years, the entities in the Bank sector will also face challenges relating to the digitization of business, demographic change and the resulting alterations in customer behavior, while becoming subject to increased regulation. Banks are also confronted by new, often unregulated competitors that frequently originate from the non-banking sector and only offer single specialist products or services – particularly at the interface between customers and merchants. One of the ways in which the entities in the Bank sector are responding to these new challenges is by developing new services with a greater customer focus, such as offering contactless or mobile payment methods and participating in the multibank e-commerce payments project.

RISK CAPITAL REQUIREMENT

As at December 31, 2014, the economic capital requirement for the business risk incurred by the Bank sector amounted to €361 million (December 31, 2013: €308 million). The rise was largely the result of a recalculation based on DZ BANK's updated business forecasts. The upper loss limit for business risk as at December 31, 2014 was €436 million (December 31, 2013: €349 million).

R+V has been eliminated from the original prior-year figures (risk capital requirement of €416 million; upper loss limit of €489 million) owing to the switch to the sectoral approach.

As at December 31, 2014, the economic capital requirement for **DZ BANK** was calculated at €271 million (December 31, 2013: €215 million). The upper loss limit as at December 31, 2014 was €300 million (December 31, 2013: €230 million). The main reasons for this increase were adjustments to the measurement methodology. The risk capital requirement did not exceed the applicable upper loss limit at any point during the course of 2014.

13. REPUTATIONAL RISK

Reputational risk refers to the risk of losses from events that damage confidence, mainly among customers, investors, the labor market, or the general public, in the entities in the Bank sector or in the products and services they offer.

The reputational risk incurred by the Bank sector is largely determined by DZ BANK and the other management units BSH, DVB, DZ PRIVATBANK, and Union Asset Management Holding.

Reputational risk may be **caused** by the crystallization of other risks, but also by other, publicly available negative information about group entities.

If the DZ BANK Group as a whole or the individual entities in the Bank sector acquire a negative reputation, there is a risk that existing or potential customers, lenders and investors will be unsettled with the result that it might not be possible to carry out planned transactions. There is also a risk that it will no longer be possible to guarantee the backing of shareholders and employees necessary to conduct business operations.

Reputational risk forms part of the **risk strategy**, in that the risk of a loss of confidence in the entities within the Bank sector, in particular among customers, shareholders, the labor market, and the general public, is taken into account. In response to potential critical events, crisis communications aimed at mitigating reputational risk will be undertaken to prevent greater damage to the DZ BANK Group. This therefore supports the sustainability concept embraced by the DZ BANK Group.

Reputational risk is generally taken into account within business risk and is therefore implicitly included in the measurement of risk and risk capital adequacy in the Bank sector. At BSH, reputational risk is measured and the capital requirement determined as part of the technical risk of a home savings and loan company. In addition, the risk that obtaining funding may become more difficult as a consequence of damage to the group's reputation is specifically taken into account in liquidity risk management.

In the past, the transgressions of the banking industry and of individual financial institutions during the financial crisis and the eurozone sovereign debt crisis led to negative reporting in the media and critical comments by regulatory authorities and politicians. This has had an adverse impact on the reputation of the banking industry as a whole and also on the entities in the DZ BANK Group's Bank sector.

14. OPERATIONAL RISK

14.1. DEFINITION AND CAUSES

DZ BANK defines operational risk as the risk of loss from human behavior, technological failure, weaknesses in process or project management, or external events. This closely resembles the regulatory definition. Legal risk is included in this definition.

The activities of DZ BANK and those of BSH, DG HYP, DVB, DZ PRIVATBANK, TeamBank, and Union Asset Management Holding have a particularly significant impact on operational risk for the Bank sector.

14.2. RISK STRATEGY

The Bank sector entities aim to manage operational risk efficiently. The following principles represent areas in which DZ BANK has taken action, or is planning to take action, to ensure this core objective is achieved:

– Continuous enhancement of **risk awareness**, so that it is reflected in an appropriate risk culture focusing not only on individual areas of responsibility but also on the overarching interests of the group. Establishment of comprehensive, open communication systems to support these aims.
– An open and largely penalty-free **approach to operational risk** promoting a problem-solving culture.
– Depending on the materiality of the operational risk identified, **action** to prevent, reduce, or transfer the risk, or alternatively a conscious decision to accept the risk.

- **Risk appetite** defined in the form of upper loss limits and alert thresholds for contributions to operational risk that is continuously adjusted in line with prevailing circumstances.
- Individual **methods** for managing operational risk coordinated with each other to provide an accurate, comprehensive picture of the risk situation coherently integrated into the overall management of all risk types.
- Mandatory rule for all material **decisions** to take into account the impact on operational risk; this applies in particular to the new product process and to business continuity planning.
- **Management** of operational risk on a decentralized basis, but within the strategically defined limits set out in the framework for operational risk.

14.3. ORGANIZATION, RESPONSIBILITY, AND RISK REPORTING

The management of operational risk is the responsibility of each group entity. The principle of **decentralized** responsibility applies equally to all the group entities, including DZ BANK.

One of the purposes of the **framework for operational risk** is to harmonize organizational structures throughout the sector. The sectorwide coordinated approach to operational risk is also managed by a **committee** assigned to the Group Risk Management working group and comprising representatives from DZ BANK and its main subsidiaries.

The **DZ BANK** unit responsible for controlling operational risk located within the Group Risk Controlling function develops the management and control methods based on regulatory requirements and business needs applicable to the Bank sector. The unit ensures that operational risk is monitored independently and it is responsible for central reporting. Corresponding organizational units are also in place at the other main entities in the **Bank sector**.

In the **Bank sector**, which includes **DZ BANK**, specialist divisions with central risk management functions also manage operational risk. As part of their overarching responsibility, these specialist divisions in each entity also perform an advisory and guiding function for the matters within their remit, such as IT risk.

Because operational risk can affect all divisions, local operational risk coordinators are located in each division of the main **group entities** and they act as interfaces with Central Risk Controlling. This also applies to **DZ BANK**.

Regular **reports** on loss data, risk self-assessments, risk indicators and risk capital are submitted to the Board of Managing Directors, the Group Risk and Finance Committee, the Risk Committee, and operational management, facilitating effective management of operational risk on a timely basis.

14.4. CENTRAL RISK MANAGEMENT

14.4.1. Measurement of operational risk

For the purposes of determining regulatory capital requirements, the risk capital requirement for operational risk is estimated using the Standardized Approach specified by the CRR. In this approach, the risk is largely determined on the basis of the gross margin for the year.

The economic capital for operational risk is determined for the purpose of managing risk within a portfolio model and incorporated into internal management.

14.4.2. Identifying operational risk

LOSS DATABASE

The groupwide collection of loss data allows the Bank sector to identify, analyze, and evaluate loss events, highlighting patterns, trends, and concentrations of operational risk. This data-gathering focuses particularly on loss data related to risks that have been incurred, for example in connection with the risk factors specified in section 14.5. The assembled data history also forms the basis for the calculation of economic capital using a portfolio model. Losses are recorded if they are above a threshold value of €1,000.

RISK SELF-ASSESSMENT

In large parts of the Bank sector, senior managers from all management units assess operational risk as part of a scenario-supported risk self-assessment process in order to identify and evaluate all material operational risks and ensure maximum possible transparency regarding the risk position. The main potential risks for all first-level risk categories as defined by the CRR are calculated and described using risk scenarios. The findings are fed into the internal portfolio model for operational risk that is used to calculate any capital buffer requirement. The scenarios also enable risk concentrations to be identified.

RISK INDICATORS

In addition to the loss database and risk self-assessment, risk indicators help the Bank sector to identify risk trends and concentrations at an early stage and detect weaknesses in business processes. A system of warning lights is used to indicate risk situations based on specified threshold values. Risk indicators within the Bank sector are collected systematically and regularly on a wide scale.

14.4.3. Mitigating and avoiding operational risk

Continuous improvement of business processes is one of the methods used with the aim of mitigating operational risk. The transfer of risk by means of insurance or outsourcing as permitted by liability regulations provides further protection.

Operational risk is **avoided**, for example, by rejecting products that can be identified during the new product process as entailing too much risk.

In all relevant management units, comprehensive **contingency plans** covering business-critical processes have been established to ensure the continuation of business in the event of process disruption or system breakdown. These business continuity plans are regularly reviewed and simulated to ensure they are fully functional.

14.5. MANAGEMENT OF SPECIAL RISKS

Risks that affect specific matters or areas are called special risks. Special risks primarily impact operational risk but also affect business risk and reputational risk. This particularly applies to aspects of HR risk, IT risk, outsourcing risk, and tax risk. The scope and level of detail for the risk management system described below varies between the group entities because of their different business and risk profiles.

Special risks are mostly, but not always, managed and monitored by the generally eponymous specialist divisions.

14.5.1. HR risk

RISK MANAGEMENT

The entities in the Bank sector have developed a mechanism known as a **Human Resources KPI cockpit** with standardized key performance indicators. The Human Resources KPI cockpit is intended to integrate HR strategies between the group entities, generate enhanced transparency, and ensure comparability between the HR management systems in the Bank sector as well as enable the entities to measure and manage their HR activities. To this end, the cockpit specifies 21 key performance indicators across the following four categories: value added/finance, employer appeal, organization/efficiency, and innovation/learning.

The entities in the Bank sector pursue the objective of preventing or minimizing HR risk by identifying negative trends and abnormalities, and then initiating suitable corrective action. HR risk is managed and monitored using the following four risk factors embedded in the Human Resources KPI cockpit:

– **Exit risk**: Exit risk is measured and assessed using the employee turnover rate and the employee resignation rate.

– **Availability risk**: Quantitative and qualitative staffing requirements are managed on an annual basis as part of the strategic and operational planning in the group entities. Data on sickness and absenteeism, appointment ratios for key positions, and information on numbers in trainee development help to minimize this risk.

– **Skills and qualifications risk**: The suitability and qualifications of employees are recorded using specific key figures for CPD.

– **Motivational risk**: The entities in the Bank sector use standardized employee surveys to regularly update the Organizational Commitment Index (OCI) and the results are presented transparently in the cockpit.

Compliance functions and a comprehensive internal control system are used to counter fraud. Examples include internal rules on the minimum absence for employees with responsibility for trading positions.

As part of risk control at DZ BANK, relevant KPIs for HR management were defined as risk indicators. The key figures are collated on a monthly basis as part of the risk indicator process and include training days per employee, resignation rate, total staff turnover rate, and the percentage of vacant positions.

The HR division of DZ BANK is involved in designing the standard scenarios relating to HR risk and validates the scenario assessment of the other entities in the Bank sector, particularly with regard to basis of calculation, frequency of occurrence and loss level.

RISK FACTORS

The majority of employees at the German offices of the entities in the Bank sector fall within the scope of collective pay agreements or other collective arrangements, such as company agreements. The entities in the Bank sector could be hit by strikes called by labor unions. Because the collective pay agreement was terminated by employers in November 2012, there is currently no obligation not to engage in industrial action at DZ BANK.

Other HR measures, such as job cuts in response to a permanent fall in demand or to achieve efficiency enhancements, could lead to industrial disputes between the workforce (or the employee representatives/labor unions) and the entities in the Bank sector.

As part of contingency and crisis management systems, the entities in the Bank sector have initiated a range of measures to counter **strikes and other business interruptions**. However, the possibility cannot be ruled out that simultaneous industrial action at all sites over several days could cause lasting disruption to processes and workflows. Moreover, sensitive internal and external interfaces could be jeopardized by long-term business interruptions.

Similar concerns would also apply in the event of business interruptions, strikes or similar action at partners on which the operating activities of the entities in the Bank sector are reliant.

The future success of the entities in the Bank sector is dependent upon **capable managers and employees with the necessary skills and qualifications**. Given the current challenges presented by the regulatory environment, this particularly applies in the areas of regulatory reporting, external financial reporting, and risk control. In the labor market, there is fierce competition for managers and employees in these areas of activity driven by high demand and insufficient numbers of suitable individuals.

Unless the necessary number of suitable managers and employees can be attracted to the entities in the Bank sector within the required timeframe, and/or existing managers and employees can be retained by the entities in the sector, there will be a heightened risk that the sector will be unable or insufficiently able to satisfy the statutory requirements regarding regulatory reporting, external financial reporting, and risk control as a result of inadequate expertise in terms of either quality or quantity.

This could lead to sanctions from the banking regulator and a qualified audit opinion in the consolidated and separate financial statements and group management reports and management reports prepared by the entities in the Bank sector, which would impact negatively on the reputation of the DZ BANK Group overall and of individual entities in the Bank sector.

14.5.2. IT risk

RISK MANAGEMENT

The entities in the Bank sector use computers and data processing systems to carry out their operating activities. Practically all business transactions and activities are processed electronically using appropriate IT systems. Some of these systems are networked with each other and are operationally interdependent.

Processes in the IT units of the entities in the Bank sector are designed with risk issues in mind and are monitored using a variety of control activities in order to ensure that IT risk is appropriately managed. The starting point is to determine which risks are unavoidable in certain aspects of IT. Detailed requirements can then be specified. These requirements determine the extent to which checks need to be carried out and are intended to ensure that all activities are conducted in compliance with the previously defined risk appetite.

IT units apply comprehensive physical and logical precautionary measures to guarantee the security of data and applications and to ensure that day-to-day operations are maintained. A particular risk would be a partial or total breakdown in data processing systems. The Bank sector counters this risk by using segregated data processing centers in which the data and systems are mirrored, special access security, fire control systems, and an uninterruptible power supply supported by emergency power generators. Regular exercises are carried out to test defined restart procedures to be used in disaster situations with the aim of checking the efficacy of this procedure. Data is backed up and held within highly secure environments in different buildings.

The central risk assessment method used by the IT division at DZ BANK is the assessment of risk events in the IT risk profile report. Risk events are deemed to be specific scenarios for which the level of loss and the probability of occurrence is assessed. The assessment carried out by IT division managers takes into account the results of the self-assessment report on the internal control system, the report on control points, and the report on findings and incidents.

The results of the assessment of IT risk events are used to prepare the risk self-assessment scenarios for the IT division. The IT risk groups, comprising IT operating risk, IT outsourcing risk, IT security risk and IT project risk, are each allocated a scenario in the risk self-assessment. When the risk self assessment is completed, the results of the decentralized risk assessment are compared with internal IT estimates and then analyzed. The results of the risk self-assessment process are also used as parameters for assessing IT risk events in the following year.

RISK FACTORS

Malfunctions or breakdowns in data processing systems or in the programs used on these systems, including attacks from external sources – such as hackers or malware –, could have an adverse impact on the ability of the entities in the Bank sector to efficiently maintain the processes necessary to carry out operating activities, protect saved data, ensure sufficient control, or continue to develop products and services. Furthermore, such malfunctions or breakdowns could lead to temporary or permanent loss of data, or cause additional costs because the original capability would need to be restored and/or preventive measures introduced to provide protection against similar events in the future.

Events outside the control of the entities of the Bank sector could also disrupt operational procedures. For example, when executing forward, currency, or commodities trades a risk arises that a system breakdown at a clearing agent, exchange, clearing house, or other financial intermediary could prevent the transactions in question from being settled at the agreed time and thus could also prevent the entities of the Bank sector from meeting their obligations. This could result in the withdrawal of counterparties from agreements entered into with entities in the Bank sector or lead to claims for damages against those entities.

14.5.3. Outsourcing risk

RISK MANAGEMENT

The entities in the Bank sector have outsourced activities and processes to third-party service providers to a considerable extent.

The process of assessing the risk and determining the degree to which an outsourcing arrangement is material is mostly carried out as part of the risk analysis for the outsourcing arrangement by the unit responsible for the outsourcing with the involvement of a number of corporate and functional units, including internal audit, legal affairs, business continuity management, and compliance, and in consultation with the local coordinators for operational risk.

DZ BANK's main IT outsourcing partners responsible for running key IT applications are T-Systems International GmbH (T-Systems) and the two cooperative computing centers FIDUCIA IT AG, Karlsruhe, (FIDUCIA) and GAD eG, Münster, (GAD). In addition, the entire operation of DZ BANK's network has been outsourced to Ratiodata IT Lösungen & Services GmbH, Münster (Ratiodata) – known as VR Netze GmbH, Münster until August 2104. Investment services and custody business services are processed by Deutsche WertpapierService Bank AG, Frankfurt am Main. The service provider Equens SE, Utrecht, is contracted to process payments. CardProcess GmbH, Karlsruhe, is responsible for credit card processing and acquiring processes on behalf of DZ BANK. DZ BANK's development loans are processed by Schwäbisch Hall Kreditservice AG, Schwäbisch Hall, (SHK), a subsidiary of BSH.

BSH has also outsourced application development, IT operations, and the processing of lending and building society operations to SHK.

DG HYP has transferred its IT and network operations to T-Systems. Retail real estate loans are processed by Hypotheken Management GmbH, Mannheim, an indirect subsidiary of BSH.

T-Systems also provides and monitors **DVB**'s wide area network. The hosting and operation of its SAP systems is outsourced to itelligence Outsourcing & Services GmbH. Hosting and operation of its online customer portal providing real-time account information is outsourced to intelliNet Beratung & Technologie GmbH.

EBRC, Luxembourg, is the outsourcing partner of **DZ PRIVATBANK**, for its data center infrastructure. Further IT services are provided by Ratiodata. Fund accounting has been transferred to Union Investment Financial Services S.A., Luxembourg.

The main IT service providers for **Union Asset Management Holding** are T-Systems, FIDUCIA, Ratiodata, and Computacenter AG & Co. oHG. Other activities, including activities within custody business and portfolio management, have also been outsourced.

In the entities of the Bank sector, outsourcing partners are managed in accordance with the currently applicable guidelines for insourcing and outsourcing. Service meetings are regularly held with IT service providers to facilitate communication and coordinate the IT services to be provided by the third parties concerned. Compliance with contractually specified service level agreements is monitored by means of status reports and uptime statistics. The outsourcing partners submit annual audit reports in which they evaluate and confirm the effectiveness of the general IT controls and procedures.

RISK FACTORS

The risk arising in connection with the outsourcing of business activities is limited to the extent required by the regulator. Nevertheless, there is a risk that a service provider could fail or cease to be available as a result of insurmountable technical or financial difficulties. There is also a risk that the services performed by the service provider might not meet the contractually agreed requirements. The consequences could be that only some of the outsourced processes or services can be provided, or even that the outsourced processes or services cannot be provided at all. This could lead to a loss of business and to claims for damages from customers. There are contingency plans and exit strategies for this eventuality, including action to reduce this risk.

14.5.4. Risks in connection with the (consolidated) financial reporting process

RISK MANAGEMENT

In order to limit operational risk in this area of activity, DZ BANK and the other entities in the Bank sector have set up internal control systems for the (consolidated) financial reporting process as an integral component of the control systems put in place for the general risk management process. The functionality of these control systems is described in section 4.2.5. of this opportunity and risk report.

RISK FACTORS

An internal control system relating to the (consolidated) financial reporting process can only offer reasonable rather than categoric assurance that the financial statements are free from misstatements. In particular, there is a risk, as a result of unintended misstatements or deliberate action, that the DZ BANK Group's consolidated financial statements and group management report and the separate financial statements and management reports for DZ BANK and the other entities in the Bank sector might not provide a true and fair view of the financial position and financial performance of the group and/or that publication might be delayed. These risks could then have an adverse impact on investors' confidence in the DZ BANK Group and the individual entities in the Bank sector or on their reputation. Furthermore, sanctions could be imposed, for example by banking regulators.

Financial statements do not provide a true and fair view of financial position and financial performance if the figures in the statements are materially inaccurate. Differences are classified as material if, individually or as a whole, they could influence economic decisions made by the users of the financial statements on the basis of the financial statements.

14.5.5. Legal risk

RISK MANAGEMENT

Legal risk could arise, in particular, from changes in the legal environment (legislation and decisions by the courts), changes in official interpretations, government interventions, legal or arbitration proceedings, and changes in the business environment. Tax risk with legal risk implications is not included at this point; it is described in section 14.5.6. below.

Decentralized systems for managing legal risk have been established in the entities in the Bank sector. Within the group entities, responsibility for managing legal disputes normally lies with their organizational units responsible for dealing with legal issues.

The entities in the Bank sector pursue a strategy of avoiding legal risk. The starting point for managing legal risk is the ongoing process of identifying, recording, and monitoring risk.

If any legal risk is identified, the risk parameters are assessed in terms of their probability of occurrence and possible impact in quantitative and qualitative terms. Identified risks are limited and mitigated by organizational measures, either legal or procedural, or are recognized by means of provisions or similar allowances for losses on loans and advances.

The legal affairs units in the Bank sector entities submit reports on risk-related aspects of lawsuits that are pending or actually imminent to the member of the Board of Managing Directors with relevant responsibility. Separately, and depending on materiality thresholds, ad hoc risk reports are also submitted to the member of the Board of Managing Directors with relevant responsibility.

PROVISIONS RECOGNIZED ON THE BALANCE SHEET

In accordance with the relevant financial reporting standards, the entities in the Bank sector, including DZ BANK, recognize provisions for potential losses arising from contingent liabilities resulting from legal risk, provided a potential loss is extremely probable and can be reliably estimated. The ultimate liability may vary from such provisions recognized for the probable outcome forecast for legal proceedings.

Based on the information available at the time, provisions for risks arising from ongoing legal disputes are recognized on the balance sheet in an amount sufficient to cover potential losses. Any concentration risk owing to similarities between individual cases is taken into consideration. Comparable cases are aggregated to form a group for this purpose.

The amount in which provisions are recognized for risks arising from ongoing legal disputes is based on the information available at the time and is subject to assumptions and to scope for discretion in how a dispute is assessed. For example, this may be because the entity in the Bank sector does not yet have at its disposal all the information required to make a final assessment of the legal risk attaching to the lawsuits in question, particularly during the early stages of proceedings. Moreover, predictions made by entities in the Bank sector in relation to changes to legal circumstances, changes to official interpretations, or – in the case of court cases – to procedural orders, decisions by the courts, or the arguments expected to be put forward by the opponent in the case may later turn out to be unfounded. Nor are estimates of potential losses arising from these proceedings, that could act as benchmarks or reliable assessments for other cases, generally suitable for statistical or quantitative analysis.

It is therefore difficult to predict the financial implications of such investigations and legal disputes or to assess when they will come to an end. The provisions recognized to cover the potential liabilities could be exceeded.

RISK FACTORS

The entities involved have recognized provisions on their balance sheets for the material legal risks listed below, so that all losses that appear conceivable on the basis of current information are covered.

A judgment reached by the German Federal Court of Justice on October 28, 2014 prohibited the administration fee for consumer finance that is charged by many banks. In the Bank sector, this verdict largely affects **TeamBank**.

As the result of changes in the law in Hungary that came into effect in 2014, a subsidiary of **VR-LEASING AG**, Lombard Pénzügyi és Lízing Zártkörûen Mûködo Részvénytársaság, Szeged, Hungary, (Lombard Lizing), has retrospective obligations to reimburse customers under existing contracts. This may lead to Lombard Lizing incurring significant losses. Additionally, if the scope of new Hungarian banking legislation is extended in 2015, there could be further costs for Lombard Lizing.

The entities in the Bank sector have also recognized provisions for legal risk in connection with **capital market products** and for risks that exist because of the current legal developments relating to incorrect **cancellation right notices for consumer loans**.

14.5.6. Tax risk

RISK MANAGEMENT

Tax risk can arise, in particular, from changes in tax circumstances (tax legislation, decisions by the courts), changes in interpretation by tax authorities, changes in non-tax regulations, and from changes in the business environment.

The entities in the Bank sector have decentralized systems for managing tax risk. Within the group entities, responsibility for managing tax risk normally lies with the organizational units responsible for dealing with tax issues.

The entities in the Bank sector pursue a strategy of avoiding tax risk. The starting point for managing tax risk is the ongoing process of identifying, recording, and monitoring risk. If any tax risk is identified, the risk parameters are assessed in terms of their probability of occurrence and possible impact in quantitative and qualitative terms. Identified risks are limited and mitigated by means of tax organizational measures.

The tax department at DZ BANK reports the group-wide data relevant to risk to the head of the Group Finance division and to the member of the Board of Managing Directors with relevant responsibility. Separately, and depending on materiality thresholds, ad hoc risk reports are also submitted to the above individuals.

RISK FACTORS

The entities in the Bank sector are subject to regular **audits by the tax authorities**. Currently, audits for the tax-assessment periods in 2010 and 2011 are being carried out by the tax authorities at **DZ BANK** (including the tax group) in relation to corporation tax, trade tax, and value added tax. Audits by the tax authorities for the same period are also currently under way at **other entities in the Bank sector**. The audit for payroll tax purposes for the period 2007 to 2010 inclusive is also due to start at **DZ BANK**.

In the context of these tax audits, an alternative assessment of the tax risk or, in some cases, other information could give rise to retrospective tax liabilities or retrospective liabilities in relation to social security contributions for periods that have already been assessed. If the retrospective liabilities exceed the provisions recognized for tax risk, this could have a negative effect on the financial performance of the DZ BANK Group and the individual entities in the Bank sector.

As there are still outstanding audits by the tax authorities relating to a number of years, there is a risk that retrospective tax payments could be required and these payments would be subject to interest charges.

Business transactions are assessed for tax purposes on the basis of current tax legislation, taking into account the latest decisions by the courts and interpretations by the authorities. The outcome is factored into the measurement of the allowances for losses on loans and advances. Further risks could arise as a result of **changes in tax law or in decisions by the courts**, which could also have retroactive implications.

14.5.7. Compliance risk

RISK MANAGEMENT

In the context of their operating activities, the entities in the Bank sector must comply with various legal requirements in a large number of countries. These include prohibitions on accepting or granting benefits in connection with efforts to attract business, and prohibitions on other unfair business practices. The management of risk arising from non-compliance with applicable laws, regulatory requirements, and internal rules and regulations is described in section 4.2.6.

RISK FACTORS

The compliance and risk management systems in the Bank sector are generally appropriate. Nevertheless, there is a risk that these systems could be inadequate for completely preventing or uncovering violations of legal provisions, for identifying and assessing all relevant risks for the entities in the Bank sector, or for initiating appropriate corrective measures.

The entities in the Bank sector cannot rule out the possibility of the existing compliance system proving to be inadequate, or of their employees violating domestic or foreign legal provisions regardless of the existing legal requirements, internal compliance guidelines and organizational requirements, and despite appropriate training and reviews, or of such activities remaining undiscovered.

A violation of legal provisions may have legal implications for the entity concerned, for the members of its decision-making bodies, or for its employees. It may give rise, for example, to fines, penalties, retrospective tax payments, or claims for damages by third parties. The reputation of the DZ BANK Group as a whole and of the individual entities in the Bank sector may also suffer as a result.

14.6. LOSS EVENTS

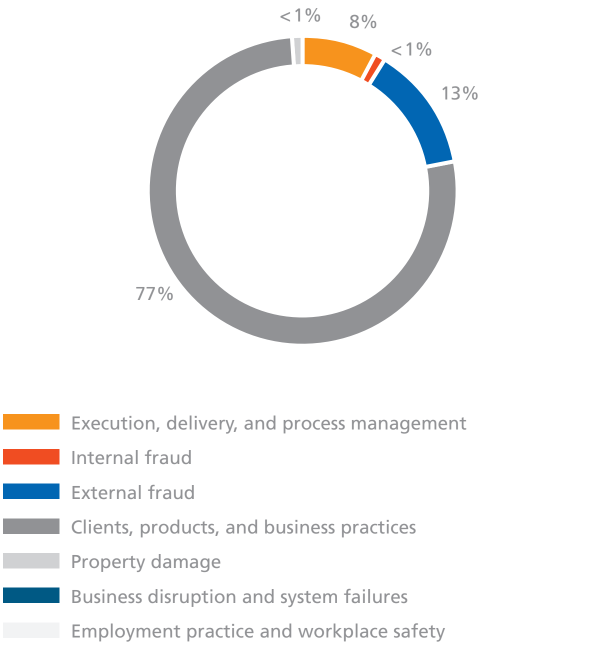
Figure 42 shows the losses for the Bank sector reported in 2014 classified by loss event category. Over the course of time, there are regular fluctuations in the pattern of losses as the frequency of relatively large losses in each individual case is very low.

The majority (77 percent) of the net losses in the **Bank sector** were in the 'Clients, products, and business practices' event category. This high proportion was attributable to losses resulting from changes in legal precedent and in how the law is interpreted.

At **DZ BANK,** the 'Clients, products, and business practices' and 'External fraud' event categories accounted for the largest shares of net losses (48 percent and 36 percent respectively). The net loss in the 'Clients, products, and business practices' event category is largely attributable to one loss event resulting from changes in legal precedent and in how the lawis interpreted. The net loss in the 'External fraud' category is attributable to a number of different loss events.

Losses did not reach a critical level relative to the upper loss limit at any point during 2014 in either the Bank sector or DZ BANK.

FIG. 42 – BANK SECTOR: NET LOSSES BY EVENT CATEGORY IN 2014[1]



1 In accordance with the CRR, losses caused by operational risks that are associated with risks such as credit risk are also shown.

RISK POSITION

As at December 31, 2014, the Bank sector's capital requirement for operational risk calculated in accordance with the Standardized Approach as specified by the CRR was €628 million (December 31, 2013: €650 million), with an upper loss limit of €689 million (December 31, 2013: €706 million). R+V has been eliminated from the original prior-year figures for the DZ BANK Group (risk capital requirement of €731 million; upper loss limit of €806 million) owing to the switch to the sectoral approach.

As at December 31, 2014, **DZ BANK**'s capital requirement for operational risk calculated in accordance with the Standardized Approach as specified by the CRR stood at €178 million (December 31, 2013: €219 million). The upper loss limit as at December 31, 2014 was €203 million (December 31, 2013: €219 million).

The risk capital requirements for both the Bank sector and for DZ BANK were within the applicable upper loss limits at all times during the course of 2014.

14.7. SUMMARY AND OUTLOOK

The reporting system for operational risk was restructured in 2014 and a validation of the model used to calculate economic risk capital throughout the sector was carried out. Furthermore, implementation of the framework for operational risk, which had been revised in 2013, was completed in all management units in the Bank sector in 2014.

In 2015, the risk capital requirement for operational risk will be calculated using an economic portfolio model for the whole sector, and an upper loss limit will be used to monitor the risk capital required. There are also plans to roll out an activities management system, an incentive system, and the revised reporting system across the sector.

15. LIQUIDITY RISK

15.1. DEFINITION, CAUSES AND RISK FACTORS

Liquidity risk is the risk that cash and cash equivalents will not be available in sufficient amounts to ensure that payment obligations can be met. In this way liquidity risk is equivalent to insolvency risk.

The level of liquidity risk incurred by the entities in the Bank sector is determined by the activities of DZ BANK and the following management units: BSH, DG HYP, DVB, DZ PRIVATBANK, TeamBank, and VR-LEASING AG.

Liquidity risk arises from a mismatch in the timing and amount of cash inflows and outflows. The following key factors affect the level of liquidity risk:

- the funding structure of lending transactions
- the uncertainty surrounding liquidity tied up in the funding of structured issues and investment certificates with termination rights and obligation acceleration;
- changes in the volume of deposits and loans, in which the cash-pooling function in the cooperative financial network is a significant determining factor;
- the funding potential in money markets and capital markets;
- the fluctuations in fair value and marketability of securities, and the eligibility of such securities for use in collateralized funding arrangements, such as bilateral repos or transactions in the tri-party market;
- the potential exercise of liquidity options, such as drawing rights in irrevocable loan or liquidity commitments, and termination or currency option rights in lending business;
- the obligation to pledge collateral in the form of cash or securities (for example, for derivative transactions or to guarantee payments as part of intraday liquidity).

Liquidity risk also arises from changes to an entity's own rating if contractual requirements to provide collateral depend on the rating.

15.2. RISK STRATEGY

The entities in the Bank sector operate on the principle that the assumption of liquidity risk is only permitted if it is considered together with the associated opportunities and complies with the **risk tolerance** specified by the Board of Managing Directors. Solvency must be ensured, even in times of serious crisis. Risk tolerance is expressed in the form of crisis scenarios, and stress tests must demonstrate that there is adequate cover for these scenarios. The crisis scenarios also take into account the specific MaRisk BA requirements for the structure of stress scenarios at capital-market-oriented banks.

However, further extreme scenarios are not covered by the risk tolerance. The risks arising in this regard are accepted and therefore not taken into account in the management of risk. Examples of such scenarios are a run on the bank, i.e. an extensive withdrawal of customer deposits as a result of damage to the reputation of the banking system, or a situation in which all non-collateralized funding sources on money markets completely dry up over the long term, also encompassing transactions with corporate customers, institutional customers, and customer banks with close ties to the entities in the Bank sector. On the other hand, the risk of a temporary interruption in unsecured funding provided by institutional investors is not accepted and this risk is the subject of relevant stress scenarios.

Liquidity reserves in the form of liquid securities are held by the entities so that they can remain solvent, even in the event of a crisis. Potential sources of funding in the secured and unsecured money markets are safeguarded by maintaining a broadly diversified national and international customer base comprising customers such as corporates, institutions and banks. This is achieved with active market and customer support, intensively maintained customer relationships, and an excellent reputation in the money markets. The local cooperative banks also provide a significant and stable source of funding.

The Bank sector's liquidity risk strategy is consistently aligned with its overall business strategy and to this end is reviewed at least once a year, adjustments being made to the strategy where appropriate.

15.3. ORGANIZATION, RESPONSIBILITY, AND RISK REPORTING

15.3.1. Organization and responsibility

The strategic guidelines for the management of liquidity risk by the entities in the Bank sector are established by the **Group and Risk and Finance Committee**. At the level of DZ BANK, this is the responsibility of the Treasury and the Capital Committee. With these guidelines as a basis, **liquidity risk management** for the Bank sector is coordinated by the Market working group.

Liquidity risk incurred by the entities in the Bank sector is managed by the Group Treasury division at DZ BANK and the individual subsidiaries. The individual entities are provided with funding by DZ BANK (**group funding**) or the entities exchange cash among themselves via DZ BANK (**group clearing**). Liquidity risk is managed within DZ BANK by head office treasury in Frankfurt and by treasuries in its foreign branches, although Frankfurt has primary responsibility.

Liquidity risk control in the Bank sector is coordinated by the Group Risk Management working group and carried out independently of the units in Risk Controlling at DZ BANK that are responsible for liquidity risk management. The risk data calculated by the subsidiaries on the basis of intra-group guidelines is aggregated to provide a sectoral perspective.

The liquidity variables reported for regulatory purposes resulting from the CRR are calculated for DZ BANK by the Group Finance division and they are aggregated at Bank sector level with the corresponding values for the subsidiaries.

15.3.2. Risk reporting

Liquidity up to 1 year and structural liquidity are reported on a daily basis to the **member of the Board of Managing Directors** of DZ BANK responsible for liquidity risk management and liquidity risk control. The **entire Board of Managing Directors** receives a monthly report on the current liquidity-risk situation, the variables reported for regulatory purposes and the changes over the previous month.

The DZ BANK **treasury** unit and the units in the subsidiaries responsible for the management of liquidity risk also receive detailed daily information showing the contribution from each individual position to the aggregate position.

The **Group Risk and Finance Committee** receives a quarterly report on the liquidity risk for the Bank sector and the individual group entities.

The **entities in the Bank sector** have their own corresponding reporting procedures that help to manage and monitor liquidity risk at individual entity level.

Group Treasury is informed on a daily basis of the largest providers of liquidity to DZ BANK in the unsecured money markets. This is reported to the **Treasury and Capital Committee** and the **entire Board of Managing Directors** on a monthly basis. The reports make a distinction between customers and banks and relate to DZ BANK in Frankfurt and to each foreign branch. These reports ensure that any possible concentration risk as regards sources of liquidity can be clearly identified at an early stage.

15.4. RISK MANAGEMENT

15.4.1. Measurement of liquidity risk

INTRADAY LIQUIDITY

The units responsible for liquidity risk management at the entities in the Bank sector ensure and monitor intraday liquidity by constantly managing accounts held with central banks and correspondent banks in Germany and abroad. To this end, the intraday cash flows at DZ BANK for each trading day are broken down by time of day; the collateral required to execute the payments is also measured. This allows DZ BANK to identify any payment concentrations during the course of a day as quickly as possible. The measurement results are also used to model the collateral required for intraday liquidity as part of the overall measurement of liquidity risk.

Within the Bank sector, the biggest intraday cash flows are at DZ BANK.

LIQUIDITY UP TO 1 YEAR

To determine liquidity risk for a 1-year time horizon, DZ BANK uses its own liquidity risk measurement and control method approved by BaFin in accordance with section 10 of the German Liquidity Regulation (LiqV) for the assessment of adequate liquidity in accordance with section 2 LiqV in place of the standard regulatory method.

The internal liquidity risk model is also used to determine the liquidity risk at Bank sector level. All entities in the Bank sector with a significant impact on liquidity risk are integrated into the model, which is used to simulate one risk scenario and four stress scenarios a day. The model also covers the liquidity risk arising from short-term funding of the ABCP programs.

A **minimum liquidity surplus** figure is calculated for each scenario. This figure quantifies the minimum surplus cash that would be available if the scenario were to materialize suddenly within the next 12 months. To carry out this calculation, cumulative cash flow (forward cash exposure) is compared against available liquidity reserves (counterbalancing capacity) on a day-by-day basis. Forward cash exposure includes both expected and unexpected payments. The counterbalancing capacity includes balances on nostro accounts, liquid securities, and unsecured funding capacity with customers and banks. By including the counterbalancing capacity, the calculation of the minimum liquidity surplus already takes into account the effect on liquidity of the measures that could be implemented to generate liquidity in each scenario. These measures include collateralized funding of securities in the repo market.

The **risk scenario** reflects the current market and company situation and takes into account the usual fluctuations in cash flow.

Stress tests are conducted for the forward cash exposure and for the counterbalancing capacity using the following four scenarios on which the limits are based: ‘downgrading’, ‘corporate crisis’, ‘market crisis’, and ‘combination crisis’. The stress scenarios look at sources of crises in both the market and the institution itself. A combination of market-specific and institution-specific sources is also taken into consideration. In crisis scenarios with institution-specific causes, such as a deterioration in the institution’s reputation, it is assumed for example that it will be very difficult to obtain unsecured funding from customers and banks in the 1-year forecast period. The simulated event in each stress scenario represents a serious deterioration in conditions.

Further stress scenarios in addition to the four scenarios on which the limits are based are analyzed, and an **inverse stress test** is carried out and reported on a monthly basis.

The internal liquidity risk model is constantly revised as part of an **appropriateness test** and adjusted in line with changes in the market, products, and processes.

The appropriateness test is conducted for each entity in the Bank sector and aggregated at sector level.

15.4.2. Management of limits for liquidity risk

Liquidity risk limits in the Bank sector are based on the minimum liquidity surplus calculated for the four stress scenarios on which the limits are based. The Board of Managing Directors of DZ BANK has set a **limit** for liquidity risk and an **observation threshold** that is higher than the limit. At the level of the entities in the Bank sector, the Board of Managing Directors of DZ BANK has set a limit only for each entity in the Bank sector. The liquidity risk control function at DZ BANK monitors the limits and observation threshold.

The limit system ensures that the Bank sector remains solvent even in serious stress scenarios. **Emergency liquidity plans** are in place so that the sector is able to respond to crisis events rapidly and in a coordinated manner. The emergency plans are revised annually.

Until June 30, 2014, '**introductory scenarios**' were analyzed alongside stress scenarios. They differ from the stress scenarios on which the limits are based in terms of the definition of the securities recognized for liquidity generation purposes, which means that only highly liquid securities are recognized within the first month of the forecast period. The ability to readily convert such securities into cash in private markets (as opposed to the ability to obtain funding from central banks) is a focal point of this analysis, especially for forecast periods of up to one week. Since June 30, 2014, the introductory scenarios have replaced the scenarios on which the limits had until then been based.

15.4.3. Liquidity risk mitigation

Measures to reduce liquidity risk are initiated by the treasuries of the group entities as part of their liquidity management function. Active liquidity risk management is made possible by holding a large number of instruments in the form of cash and liquid securities, and by managing the maturity profile of money-market and capital market transactions.

15.4.4. Liquidity transfer pricing system

The entities in the Bank sector aim to use liquidity – which is both a resource and a success factor – in line with opportunities and risks. Based on the liquidity transfer pricing system using internal prices charged by the units generating liquidity and paid by those consuming liquidity, costs relating to liquidity are allocated among the entities in the Bank sector. Care is taken to ensure that the transfer prices are consistent with risk measurement and risk management.

Transfer prices are generally set at DZ BANK for the liquidity costs of loans, loan commitments, securities, own issues, investment certificates and collateral for derivatives business. The transfer pricing system takes into account the maturity period and market liquidity of the products and has a significant impact on risk/return management. Major refinements to the transfer pricing system were carried out in 2014.

15.4.5. Regulatory liquidity ratios

The new liquidity coverage ratio (LCR) introduced as the result of Basel III requirements supplements internal liquidity management. DZ BANK has submitted reports on the LCR calculated in accordance with the CRR for itself and for the DZ BANK banking group to the regulators on a monthly basis since March 31, 2014.

Going forward, the LCR is to be supplemented by the NSFR, but as things stand, a binding minimum standard for a compulsory NSFR will not come into force until 2018 at the earliest.

As part of its implementation of the new regulatory liquidity requirements, DZ BANK is participating in Basel III monitoring, which involves submitting both ratios to the regulators. The LCR is submitted quarterly and the NSFR is submitted half-yearly.

15.5. QUANTITATIVE VARIABLES IN LIQUIDITY RISK

15.5.1. Liquid securities

Liquid securities, together with balances on nostro accounts and non-collaterallized funding capacity, form the **counterbalancing capacity**. Liquid securities are largely held in the portfolios of the treasury units at the entities in the Bank sector or in the portfolios held by DZ BANK's capital markets trading units. Only bearer bonds are eligible as liquid securities.

Liquid securities comprise highly liquid securities that are suitable for collateralizing funding in private markets, securities eligible as collateral for central bank loans and other securities that can be liquidated in the 1-year forecast period that is relevant for liquidity risk.

Securities are only eligible provided they are not pledged as collateral, e.g. for secured funding. Securities that have been borrowed or taken as collateral for derivatives business or in connection with secured funding, only become eligible when they are freely transferable. Eligibility is recognized on a daily basis and also takes into account factors such as restrictions on the period in which they are freely available.

Figure 43 shows the liquidity value of the liquid securities held by the **Bank sector** that would result from secured funding or if the securities were sold.

As at December 31, 2014, the total liquidity value at **Bank sector** level amounted to €49.5 billion (December 31, 2013: €51.9 billion). The total liquidity value attributable to **DZ BANK** as at December 31, 2014 was €38.2 billion (December 31, 2013: €41.5 billion).

Consequently, liquid securities represent the largest proportion of the counterbalancing capacity for both the Bank sector and DZ BANK, and make a major contribution to ensuring that the Bank sector remains solvent in the stress scenarios underlying the limits at all times during the relevant forecast period. In the first month, which is a particularly critical period in a crisis, liquid securities are almost exclusively responsible for maintaining solvency in the stress scenarios underlying the limits.

FIG. 43 – BANK SECTOR: LIQUID SECURITIES

€ billion	Dec. 31, 2014	Dec. 31, 2013
Liquid securities eligible for GC Pooling (ECB Basket)[1]	**34.7**	**35.0**
Securities in own portfolio	33.8	31.9
Securities received as collateral	43.3	43.8
Securities provided as collateral	-42.3	-40.7
Liquid securities eligible as collateral for central bank loans	**10.7**	**10.5**
Securities in own portfolio	10.2	10.3
Securities received as collateral	7.5	6.6
Securities provided as collateral	-7.0	-6.4
Other liquid securities	**4.1**	**6.4**
Securities in own portfolio	3.9	3.8
Securities received as collateral	1.7	3.7
Securities provided as collateral	-1.5	-1.2
Total	**49.5**	**51.9**
Securities in own portfolio	47.8	46.0
Securities received as collateral	52.6	54.2
Securities provided as collateral	-50.8	-48.3

1 GC = general collateral, ECB Basket = eligible collateral for ECB funding

15.5.2. Additional contractual obligations

Some OTC collateral agreements that entities in the Bank sector have concluded contain rating-based triggers. A downgrade in an entity's own credit rating would trigger collateral calls by counterparties. Because this collateral would no longer be available to generate liquidity if it were called in, the stress scenarios also include deductions arising from these additional contractual obligations.

Figure 44 shows the additional collateral across all currencies that would have to be provided to counterparties should **DZ BANK's** credit rating be downgraded. The table reflects the situation in virtually the entire **Bank sector**, because the additional contractual obligations of the other entities in the Bank sector to provide further collateral are negligible.

FIG. 44 – BANK SECTOR: ADDITIONAL CONTRACTUAL OBLIGATIONS

	One-notch deterioration in credit rating		Two-notch deterioration in credit rating		Three-notch deterioration in credit rating	
€ million	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Additional contractual obligations based on collateral agreements	11	6	155	187	576	724

Additional contractual obligation represent a minimal liquidity risk that is already covered by the stress scenarios on which the limits are based.

15.5.3. Funding and liquidity maturities

The level of liquidity risk in the Bank sector is largely determined by the short- and medium-term funding structure. Further details are provided in the business report (section II.5 of the (group) management report).

The maturity analysis of contractual cash inflows and cash outflows is set out in note 84 of the notes to the consolidated financial statements. The cash flows in these disclosures are not the same as the expected and unexpected cash flows used for internal management purposes in the Bank sector.

15.6. RISK POSITION

15.6.1. Minimum liquidity surplus

Fig. 45 shows the results of measuring the Bank sector's liquidity risk as at December 31, 2014 in the risk scenario and in the four stress scenarios on which the limits are based. The results are based on a daily calculation and comparison of forward cash exposure and counterbalancing capacity. The values reported are the values that occur on the day on which the liquidity surplus calculated over the forecast period of 1 year is at its lowest point.

In the risk scenario, the minimum liquidity surplus for the Bank sector measured as at December 31, 2014 on the basis of a forecast period of 1 year amounted to €29.2 billion (December 31, 2013: €27.6 billion). The value calculated for the stress scenario on which the limit is based that had the lowest minimum liquidity surplus was €11.4 billion (December 31, 2013: €13.0 billion). During the year under review, the Bank sector's liquidity did not fall below the observation threshold of €4.0 billion or the limit of €1.0 billion for the minimum liquidity surplus in any of the scenarios on which the limits are based. The observation threshold and limit were unchanged compared with December 31, 2013.

FIG. 45 – BANK SECTOR: LIQUIDITY UP TO 1 YEAR IN RISK SCENARIO AND IN THE STRESS SCENARIOS ON WHICH THE LIMITS ARE BASED – FIGURES FOR THE DAY WITH THE LOWEST LIQUIDITY SURPLUS

	Forward cash exposure		Counterbalancing capacity		Liquidity surplus	
€ billion	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Risk scenario (base scenario)	-16.4	-17.7	45.6	45.3	29.2	27.6
Stress scenarios						
Downgrading	-40.4	-39.4	63.4	60.4	23.0	20.9
Corporate crisis	-48.3	-37.3	60.7	53.7	12.4	16.4
Market crisis	-30.9	-37.3	51.0	57.9	20.1	20.7
Combination crisis	-30.1	-37.4	41.5	50.4	11.4	13.0

In the risk scenario, the minimum liquidity surplus for DZ BANK measured as at December 31, 2014 on the basis of a forecast period of 1 year amounted to €14.5 billion (December 31, 2013: €11.4 billion). The value calculated for the stress scenario on which the limit is based that had the lowest minimum liquidity surplus in the forecast period of 1 month set for the limit was €1.9 billion (December 31, 2013: €1.6 billion). The minimum liquidity surplus did not fall below the limit at any time in the year under review. The impact of the stress scenarios for DZ BANK over the period of 1 month to 1 year that is used to set the limit is measured and analyzed on a daily basis.

The results show that the minimum liquidity surplus as at December 31, 2014 was positive in all of the stress scenarios underlying the limits that are based on the risk tolerance. This is due to the fact that the counterbalancing capacity was greater than the cumulative cash outflows on each day of the defined forecast period for each scenario, which indicates that the cash outflows assumed to take place in a crisis can be comfortably covered.

15.6.2. Regulatory liquidity ratios

DZ BANK has submitted the LCR calculation forms specified by the EBA for the DZ BANK banking group and DZ BANK to the regulator on a monthly basis since March 31, 2014. This report does not show the resulting ratio because it is subsequently calculated by the regulatory body on the basis of the data reported by DZ BANK. However, for internal purposes, DZ BANK calculates the liquidity ratio in accordance with the Basel framework and the CRR independently of the regulator. The liquidity coverage ratios for the DZ BANK banking group and DZ BANK calculated in this way as at December 31, 2014 were 161 percent (December 31, 2013: 120 percent) and 122 percent (December 2013: 95 percent) respectively. As at June 30, 2014, the NSFR as defined by Basel III for the DZ BANK banking group was 102 percent (December 31, 2013: 100 percent). The NSFR as at December 31, 2014 was not available by the publishing deadline for this opportunity and risk report.

The ratios calculated for DZ BANK banking group and DZ BANK in accordance with the provisions of Basel III and the CRR are already above the minimum ratio of 100 percent that will apply from 2018 for the LCR and from 2019 at the earliest for the NSFR.

15.6.3. Possible impact from crystallized risk

One of the main operating activities of the entities in the Bank sector is to make available long-term liquidity for different maturity periods and in different currencies, for example in the form of loans. The entities generally organize their **funding** to match these transactions that tie up liquidity. Any funding needs that are not covered by the local cooperative banks are met by obtaining additional funding in the money and capital markets, with the deposit base from money-market funding reducing the need for long-term funding. When funding matures, it is therefore possible that the replacement funding required to fund transactions with longer maturities has to be obtained at unfavorable terms and conditions.

The entities in the Bank sector are also exposed to the risk that the **minimum liquidity surplus** will fall below the observation threshold or the limit. If it repeatedly fell below the observation threshold, there is an increased risk that the bank would not be able to keep within the limit. If the minimum liquidity surplus were to fall below the limit for an extended period, the possibility of reputational damage and a ratings downgrade could not be ruled out.

Failure to comply with the regulatory liquidity ratios, such as the **LCR** or the **NSFR**, that banks will be required to meet in the future also incurs the risk of reputational damage and ratings downgrades.

Crystallization of liquidity risk causes an unexpected reduction in the liquidity surplus, with negative consequences for an institution's financial position. If a crisis were to occur in which the circumstances were more serious or the combination of factors were significantly different from those assumed in the stress scenarios, there would be a risk of insolvency.

15.7. SUMMARY AND OUTLOOK

In 2014, liquidity risk management in the Bank sector formed part of standard daily processes. The solvency of the Bank sector was never in jeopardy at any point during the year.

Stress tests to measure and monitor liquidity are carried out on a daily basis, independently of the trading function. The results of the stress tests suggest that, in the four scenarios on which limits are based, neither DZ BANK nor the Bank sector will experience a liquidity squeeze in 2015, even if a serious crisis should arise.

In the reporting year, maturing securities in the liquidity portfolio were invested in highly liquid issues to improve the resilience of the entities in the Bank sector in stress situations.

There are plans for a further extension of the liquidity transfer pricing system among the entities in the Bank sector in 2015. Furthermore, the extension of the measurement of intraday liquidity that is currently under way will continue beyond 2015. The new regulatory reporting variables will also continue to be integrated into liquidity risk management in 2015.

Insurance sector

16. BASIC PRINCIPLES OF RISK MANAGEMENT IN THE INSURANCE SECTOR

16.1. RISK STRATEGY

The principles of risk management are based on R+V's approved risk strategy which is updated every year. The risk strategy is derived from the corporate strategy taking into account the strategic 4-year plan approved by the Board of Managing Directors at its spring meeting.

Life actuarial risk is managed with the objectives of holding a broadly diversified product portfolio guaranteeing a consistent performance across all areas of life and pension insurance and of developing existing products while structuring new, innovative products. The actuarial assumptions must be designed so as to build in adequate safety margins and address changes in the latest findings in order to withstand potential deviation risk as well as the current risk situation. Appropriaty policyholder participation is set. Underwriting guidelines and risk audits are used to prevent anti-selection.

The objectives of managing **health actuarial risk** are a risk-conscious underwriting policy – achieved by means of binding underwriting guidelines and careful risk selection – rigorous cost/benefit management, the development of existing products, and the structuring of new, innovative products. Again, the actuarial assumptions must be designed so as to build in adequate safety margins and address changes in the latest findings in order to withstand potential deviation risk as well as the current risk situation.

The objective of managing the **non-life actuarial risk** in direct business is to achieve a portfolio with an optimum risk/reward ratio. A balance of risk across geographical regions and types of business achieves the best possible risk diversification. Depending on its risk-bearing capacity and level of reserves, R+V reviews whether to purchase reinsurance cover to reduce earnings volatility, insure against major and maximum claims, and protect and boost existing financial strength and earnings power. In **inward non-life reinsurance business the objective is to** limit premiums and the portfolio to a defined proportion of the group.

R+V's investments are the main source of interest-rate risk, spread risk and equity risk. R+V's market risk strategy is determined by the provisions of the Regulation on the Investment of the Tied Assets of Insurance Companies (AnlV) and the basic regulatory investment principles and rules for tied assets specified in section 54 of the VAG. Insurance companies are under an obligation to invest coverage assets and other cover assets to achieve the greatest possible security and profitability while at the same time ensuring the liquidity of the insurance company with an appropriate mix and diversification of investments. In addition, well-established arrangements between R+V's actuarial and investment departments as part of the management of assets and liabilities ensure that insurance contract benefit obligations on the balance sheet are matched with investment opportunities.

The **market risk** assumed by R+V reflects the investment portfolio structure developed as part of strategic asset allocation taking into account the individual risk-bearing capacity and long-term income requirements of R+V subsidiaries. The risk is managed within the framework of the overall risk management system and in compliance with the upper loss limits specified at DZ BANK Group level.

The management of market risk is connected with the following fundamental objectives of risk policy: ensuring competitive returns on investments taking into account individual risk-bearing capacities, achieving defined minimum investment returns in stress scenarios, and securing a hidden reserve level sufficient to ensure consistent earnings. The aim is also to guarantee that there is a sufficient proportion of fungible investments. The methods used to limit interest-rate guarantee risk include setting an appropriate discount rate, and recognizing a supplementary change-in-discount-rate reserve as well as additional reserves.

In line with the risk strategy for **counterparty default risk**, R+V aims to maintain a high average credit rating for its portfolios, to avoid concentrations of issuers at portfolio level and to comply with the limits that have been set for counterparties and debtors of insurance and reinsurance companies.

The strategy for **operational risk** focuses on achieving a balance between cost and benefit when dealing with risk.

16.2. ORGANIZATION, RESPONSIBILITY, AND RISK REPORTING

The risk management process, which is implemented across all entities in the R+V group, defines rules for the way in which risks are identified, analyzed, assessed, managed and monitored, and the way in which they are reported and communicated. These rules form the basis for a central **early-warning system**.

Participations are also included in the R+V group's risk management system. The group's risk-bearing capacity is reviewed and measured at least once a quarter and the process includes a qualitative review of binding key performance indicators and threshold values. Corrective action must be initiated if a specified index value is exceeded. In addition, managers and employees are surveyed with the aim of ensuring that risks are identified at an early stage. Risk-bearing capacity and all material risks are subsequently evaluated at the Risk Conference, which is held every quarter.

The central **reporting of risk** at R+V is intended to provide transparent reporting. A system of reports to the member of R+V's Board of Managing Directors responsible for the business area concerned and to the member of R+V's Board of Managing Directors responsible for risk management allows for the notification of material changes in risks. Company information that has a bearing on risk exposure is passed to the relevant supervisory body at R+V on a regular basis.

17. ACTUARIAL RISK

17.1. DEFINITION AND CAUSES

17.1.1. Definition

Actuarial risk is the risk that the actual cost of claims and benefits deviates from the expected cost as a result of chance, error or change. It is broken down into the following categories defined by Solvency II:

– life actuarial risk
– health actuarial risk
– non-life actuarial risk

LIFE ACTUARIAL RISK

Life actuarial risk refers to the risk arising from the assumption of life insurance obligations, in relation to the risks covered and the processes used in the conduct of this business. Life actuarial risk is calculated as the combination of capital requirements for, as a minimum, the following sub-modules:

– **Mortality risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.

– **Longevity risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.

– **Disability-morbidity risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of disability, sickness, or morbidity rates.

– **Life catastrophe risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and assumptions when recognizing provisions related to extreme or unusual events.

– **Lapse risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, cancellations, renewals, and surrenders.

– **Life expense risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.

HEALTH ACTUARIAL RISK

Health actuarial risk refers to the risk arising from the assumption of health and casualty insurance obligations, in relation to the risks covered and the processes used in the conduct of this business.

NON-LIFE ACTUARIAL RISK

Non-life actuarial risk refers to the risk arising from the assumption of non-life insurance obligations, in relation to the risks covered and the processes used in the conduct of this business. It is calculated as the combination of capital requirements for the following submodules:

– **Premium and reserve risk** describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency, and severity of insured events, and in the timing and amount of claim settlements.

- **Non-life catastrophe risk** describes the risk of loss or adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and assumptions when recognizing provisions related to extreme or unusual events.

- **Lapse risk** describes uncertainty about the continuation of the direct insurance and reinsurance contracts. It results from the fact that the lapse of contracts that are profitable for the insurance company will lead to a reduction in capital.

17.1.2. Causes

In the DZ BANK Group, actuarial risk arises from the business activities of the insurance subsidiary R+V and its subsidiaries. The risk arises from the direct life insurance and health insurance business, the direct non-life insurance, and the inward reinsurance business.

Actuarial risk arises in the form of variances from the expected level of losses resulting from the uncertainty relating to the timing, frequency, and amount of claims. The risk may also arise from unpredictable changes in insured risks, claim distributions, expected values and mean variations due, for example, to changes in climatic and geological conditions or by technological, economic or social changes. Incomplete information about the genuine legitimacy of claims due to incorrect statistical analysis, or incomplete information about the future validity of claims identified as legitimate in the past could be other causes.

The actuarial risk situation in life insurance companies is also characterized to a large extent by fixed premiums and the long-term nature of the guaranteed benefits in the event of a claim.

The actuarial risk situation of a health insurance company is characterized to a large extent by a rise in the cost of claims, caused both by the performance of its portfolio and by the behavior of policyholders and service providers.

17.2. MANAGEMENT OF LIFE ACTUARIAL RISK

17.2.1. Risk measurement

The risk for insurance contracts subject to **mortality risk** is described as a 15 percent increase in mortality.

The risk for insurance contracts subject to **longevity risk** is described as a 20 percent increase in longevity.

The overall solvency requirement for **disability-morbidity risk** is analyzed on the basis of a permanent 35 percent rise in the disability rates expected for the next 12 months, a permanent 25 percent rise in the disability rates expected for the period after those 12 months, and a permanent 20 percent decrease in all expected likely cases of policyholders being able to return to work.

The risk for insurance contracts affected by **life catastrophe risk** is described as an immediate increase of 0.15 percentage points in mortality rates in the next 12 months.

The risk for insurance contracts subject to **lapse risk** is described for the following scenarios: for an increase in lapses, a 50 percent rise in the lapse rate; for a decrease in lapses, a 50 percent reduction in the lapse rate; for a mass lapse event, lapse of 40 percent of the contracts.

The overall solvency requirement for **life expense risk** is based on the following stress scenarios: a permanent 10 percent rise in the measurement of the costs reflected in the insurance liabilities; an increase in the cost inflation rate by one percentage point.

17.2.2. Risk management in direct life insurance business

Actuarial risk is minimized by carrying out a careful, prudent cost calculation while products are still in development. This applies to the development of existing products as well as the design of innovative new types of insurance and is carried out by incorporating adequate safety margins into actuarial assumptions in compliance with legislation. These assumptions are structured in such a way that they not only withstand the current risk situation, but also accommodate potential changes in the risk position. Actuarial control systems are used on a regular basis to decide whether the cost calculation needs to be changed. The calculation is also adjusted on an ongoing basis in line with the latest actuarial findings.

A number of measures are taken to prevent a concentration of adverse risks in the portfolio. Before contracts are signed, extensive risk reviews are carried out to limit **mortality and disability-morbidity risks**. In general, risk is only assumed in compliance with fixed underwriting guidelines. High levels of individual or cumulative risk are limited by an appropriate degree of reinsurance.

In principle, the broad diversification of insured risks within the group has the effect of mitigating risk. For example, an increase in mortality has an adverse impact on endowment life and risk insurance policies, but at the same time has a positive impact on the longevity risk associated with pension insurance.

Life expense risk is mitigated by cutting costs as far as possible and operating sustainably.

Lapse risk is mitigated by structuring life insurance contracts to provide maximum flexibility should policyholders' circumstances change. A range of different options therefore enables customers to maintain their contract instead of canceling it. Designing policyholder participation with an attractive final bonus also counteracts lapse risk.

Setting appropriate policyholder participation also indirectly mitigates the actuarial risk relating to life insurance.

17.3. MANAGEMENT OF HEALTH ACTUARIAL RISK

17.3.1. Risk measurement

Health actuarial risk is calculated by combining the capital requirements for the subcategories 'non-life health insurance', 'life health insurance', and 'health catastrophe risk'.

The methods described in the sections on life actuarial risk and non-life actuarial risk are used to measure risk in the subcategories.

Health actuarial risk also includes significant parts of the group's casualty insurance business as well as its health insurance business.

17.3.2. Risk management in health and casualty insurance

RISK MANAGEMENT IN HEALTH INSURANCE BUSINESS

In the health insurance business, actuarial risk is managed by means of a **risk-conscious underwriting policy**, the features of which are binding underwriting guidelines, careful selection of risk, and targeted management of benefits and costs. In many of the health insurance rate scales, deductibles are one of the specific mechanisms used to control the extent of claims. Provisions are recognized to ensure that all benefit obligations under insurance contracts can be met.

In accordance with VAG provisions, R+V regularly compares its calculations with the insurance benefits it is required to pay. If this comparison of claims for an observation unit within a particular scale of insurance rates reveals a variance that is other than temporary, the relevant **premiums** are adjusted. An independent trustee is consulted to ensure that the basis of the calculations is sufficiently secure. A safety margin factored into premiums also ensures that obligations can be met if claims are higher than the level provided for in cost calculations.

In the health insurance business, the **decrement tables** include assumptions regarding mortality and the probability of other relevant withdrawal factors. Under the requirements set out in the Calculation Regulation (KalV), these assumptions must be specified and regularly reviewed from the perspective of prudent risk assessment. It is for this reason that a new mortality table is developed at regular intervals by the Verband der privaten Krankenversicherung e.V. (PKV) [Association of German private healthcare insurers] in consultation with BaFin. In accordance with statutory provisions, R+V regularly compares its calculations against the most recently published mortality tables.

When determining **lapse probabilities** for the purposes of its calculations, R+V uses both its own observations and the latest figures published by BaFin.

Where premiums were adjusted on January 1, 2014, R+V used the new PKV mortality table valid for 2014 to determine both new business premiums and those **premium adjustments** in existing business.

Unisex insurance rate scales are offered in R+V's **new business**. The cost calculation for these rates is not only based on the existing gender breakdown, but also takes into account the expected pattern of switching by existing policyholders to the new rates. The appropriateness of the composition of the portfolio resulting from the calculations is reviewed by actuaries using comparable calculations.

RISK MANAGEMENT IN CASUALTY INSURANCE BUSINESS

The risk situation in the casualty insurance division is characterized by the fact that it is fixed-sum insurance and not indemnity insurance. Consequently, the maximum benefit per insured person is restricted to the sum insured.

A risk-conscious underwriting policy is adopted for casualty insurance. Premiums are reviewed on an ongoing basis to ensure that they remain appropriate. Claims are assessed on a case-by-case basis. Experts and assessors are selected very carefully in order to obtain assessments that are realistic and appropriate.

17.4. MANAGEMENT OF NON-LIFE ACTUARIAL RISK

17.4.1. Risk measurement

The capital requirements for **premium and reserve risk** are calculated on the basis of risk factors and volume measures for all branches of insurance in which business is conducted. The volume measures take account of geographical diversification. The risk factors (e.g. the standard deviation as a percentage of the volume measure) describe the degree of threat posed by the risk. The volume measures for the **premium risk** are essentially the net premium income earned in the financial year and in the first and second years after that. The volume measure for the **reserve risk** constitutes the claims provisions in the form of a best-estimate valuation.

To determine the overall solvency requirement as part of internal risk assessment, empirical distributions are generated for the relevant parameters for parts of the portfolio, such as the claim amount and the number of claims per sector and claim type (e.g. basic claims, major claims, catastrophe claims). The value-at-risk can then be determined with the required confidence level directly from the loss function generated. In non-life insurance, an example of such a loss function would be the underwriting result. The parameterization of the distributions taken into account uses historical portfolio data and their planning data and reflects the entity's actual risk position.

The overall solvency requirement is determined for **non-life catastrophe risk** (broken down into the following natural hazards: storm, earthquake, flood, hail, and subsidence), the catastrophe risk of non-proportional reinsurance in non-life insurance, risk of man-made catastrophe, and other catastrophe risk in non-life insurance.

In large parts of R+V's direct insurance business, the risk modeling for calculating basic claims and minor cumulative events relating to the natural hazards hail, storm, and flood is based on mathematical/statistical methods. Only basic claims are modeled for the risk of earthquake. The minimum and maximum claim amounts for minor cumulative events are selected on the basis of the group's own claims history. Modeling is based on the group's own claims data.

In R+V's direct insurance business, the risk modeling for calculating major cumulative events relating to the natural hazards hail, storm, flood, and earthquake uses probability-based natural hazard models. To this end, catastrophe claims are used that have been modeled by external providers for each natural hazard and take account of the entity-specific risk profile of R+V.

In its **inward reinsurance business**, R+V deploys a simulation tool for stochastic risk modeling. To model the natural catastrophe risk on an individual contract basis, event catalogs from external providers containing predefined scenarios based on historical observations are used. The event catalogs cover the material countries and natural hazards of the risk written for the risks in inward reinsurance. Modeling based on the group's own claims history is also used. This involves generating scenarios for the current portfolio on the basis of historical major claims.

In inward reinsurance, modeling based on the group's own claims history is used to determine the overall solvency requirement for the risk of **man-made catastrophe**. This involves generating scenarios for the current portfolio on the basis of the historical major claims.

The overall solvency requirement for **lapse risk** is determined on the basis of a stress scenario involving the lapse of 40 percent of those insurance contracts whose lapse would lead to an increase in the best-estimate valuation for the premium provision.

17.4.2. Risk management in direct non-life insurance business

Premium and reserve risk is managed through targeted risk selection, risk-oriented premiums and products, and profit-oriented underwriting guidelines. In order to maintain a balanced risk profile, R+V always seeks to avoid exposure to major individual risks. Managers use planning and control tools to ensure they are in a position at an early stage to identify unexpected or adverse portfolio or claim trends and to initiate appropriate corrective action in response to the changes in the risk situation. To make these risks manageable, pricing is based on a precise calculation with the help of mathematical/statistical modeling.

Market monitoring and ongoing checks on the action taken provide further options for managing the business at an early stage, taking into account the prevailing risk appetite.

The measurement of the overall solvency required for **natural catastrophe risk** is supplemented by regular analysis of the policy portfolio. This analysis carried out with the aid of tools such as the ZÜRS Geo information system (zoning system for flooding, backwater flooding and heavy rainfall) investigates regional concentrations and changes in regional concentrations over time. The use of geographical diversification and the deployment of underwriting guidelines form the basis for managing risks arising from natural disasters.

Conventional approaches for reducing underwriting risk include risk sharing (through obligatory or facultative reinsurance), risk exclusion, systematic review of the portfolio, and structuring of deductibles. Risk-bearing capacity is regularly reviewed as part of the reinsurance decision-making process. This is used as the basis for reinsurance structures and liability layers.

In order to prevent or limit losses, R+V provides a network of different subsidiaries that offer specialist services to help customers and sales partners with contract, risk prevention, or restructuring issues.

Estimating obligations arising from loss events that have occurred is subject to uncertainty. In compliance with Solvency II requirements, mathematical/statistical methods are used to calculate future payment obligations for the purpose of measuring insurance liabilities. Insurance liabilities are measured separately for premium and claims provisions. R+V's own experience, actuarial statistics, and additional sources of information are used for the calculations. The methods deployed are based on generally accepted principles of actuarial practice and R+V's own risk profile.

17.4.3. Risk management in inward non-life reinsurance business

R+V counters **premium and reserve risk** by continuously monitoring the market as well as the economic and political situation, by managing risk in accordance with its corporate strategy, and by setting insurance rates appropriate to the risk involved. Risk management is conducted via a clearly structured and earnings-driven underwriting policy. The assumption of risk is circumscribed by mandatory underwriting guidelines and limits that restrict potential liability arising from both individual and cumulative claims. R+V takes account of economic capital costs when underwriting risk. Compliance with these requirements is regularly monitored.

The material actuarial risks in the inward reinsurance portfolio are **catastrophe risk**, long tail risk, reserve risk and also far-reaching changes in the trends underlying the main markets. The actual and potential losses arising from the level and frequency of claims under natural disaster insurance are recorded and assessed using industry-standard software and R+V's own additional verification systems. The portfolio is continuously monitored for possible concentrations of natural disaster risk.

The objective in managing natural disaster risk is to ensure that there is a broad balance of risk across all categories and that the risk is diversified geographically around the globe.

Limits are set to support central management and limitation of cumulative risks arising from individual natural hazards. One of the key mechanisms for managing risk is a systematic check on the cumulative authorized limits for natural disaster risks. The modeled exposures remained within the authorized limits.

Action that can be taken to mitigate the risk includes management of deductibles and retrocession taking into account risk-bearing capacity and the effective costs of retrocession. Minimum requirements apply in relation to the credit rating of retrocessionaires. R+V has sufficient equity and reserves providing the necessary risk-bearing capacity so there is currently no need to purchase further reinsurance (retrocession).

R+V monitors the claims rate trend promptly and continuously, allowing it to initiate preventive measures so that it always has a sufficient level of reserves. The reserves position is monitored in a number of ways, including by means of an expert report, which is prepared once a year.

17.5. RISK FACTORS

In the case of products with long-term guarantees that constitute the bulk of the **direct life insurance business**, there is a risk of negative variances over the term of the contracts compared with calculation assumptions because of the length of time covered by the contracts. The relevant risk factors include changes in life expectancy, increasing rates of disability-morbidity, and disproportionately strong cost increases.

In its **direct non-life insurance and inward non-life reinsurance business**, R+V focuses on the provision of cover for disasters. This includes both natural disasters, such as earthquakes, storms, and floods, and man-made disasters.

These events cannot be predicted. Generally speaking, there is both the risk of particularly significant individual loss events and also the risk of a large number of loss events that are each not necessarily significant in themselves. In any one year, the actual impact from the size and frequency of losses could therefore substantially exceed the forecast impact.

An unfavorable pattern of claims could result in an increase in the insurance benefits reported in the income statement because of the higher claims expenses, and this in turn could have a negative effect on the DZ BANK Group's operating profit.

17.6. CLAIMS RATE TREND IN NON-LIFE INSURANCE

Compared with the claims made in 2013, there was a sharp fall in claims under **direct non-life insurance** in 2014. Claims relating to natural disasters were dominated by heavy losses of approximately €41.5 billion relating to summer storm Ela in June 2014. The underlying cost of claims (excluding those for natural catastrophes and major losses) was below the comparative figures for previous years with a slight fall in the average cost of claims. The expenses for major claims were above the 5-year average, due to a higher level of losses in the fire sectors and in indemnity insurance. The number of high-volume minor claims continued to decline, primarily due to changes in the motor insurance sector. Overall, this resulted in an annual claims rate for the reporting year that was lower than rates in the past.

Changes in claims rates and settlements (net of reinsurance) in R+V's direct non-life insurance and inward non-life reinsurance business are shown in figure 46.

17.7. RISK POSITION

As at December 31, 2014, the overall solvency requirement for **life actuarial risk** amounted to €387 million (December 31, 2013: €417 million). The upper loss limit was set at €450 million as at the balance sheet date (December 31, 2013: €410 million). The upper loss limit was not exceeded at any time during 2014.

As at December 31, 2014, the overall solvency requirement for **health actuarial risk** was measured at €57 million (December 31, 2013: €59 million), with an upper loss limit of €80 million (December 31, 2013: €90 million). Again, the risk capital requirement was below the upper loss limit at all times during the course of 2014.

As at December 31, 2014, the overall solvency requirement for **non-life actuarial risk** amounted to

FIG. 46 – INSURANCE SECTOR: CLAIMS RATE AND SETTLEMENTS (NET OF REINSURANCE)[1]

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Claims rate (net) as % of premiums earned										
Including major/natural disaster claims	75.5	78.2	75.6	77.7	77.3	73.0	72.6	73.7	71.0	71.5
Excluding major/natural disaster claims	73.8	69.1	72.7	71.4	75.0	73.0	70.6	70.1	69.8	70.4
Settlements (net) as % of provision for incoming claims										
Non-life	2.1	0.5	0.3	1.9	4.8	4.8	8.4	6.1	7.1	5.7

1 Direct non-life insurance business and inward non-life reinsurance.

€2,177 million (December 31, 2013: €2,034 million). The upper loss limit was set at €2,300 million as at the balance sheet date (December 31, 2013: €2,170 million). It was not exceeded at any time in the year under review.

The changes in the key figures for the various types of non-life actuarial risk are shown in figure 47.

FIG. 47 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR NON-LIFE ACTUARIAL RISK

€ million	Dec. 31, 2014	Dec. 31, 2013
Premium and reserve risk	1,129	1,063
Non-life catastrophe risk	1,600	1,489
Lapse risk	51	23
Diversification effect	-603	-540
Total	**2,177**	**2,034**

17.8. SUMMARY AND OUTLOOK

R+V possesses a number of tools for effectively controlling actuarial risks that have been identified and for identifying new risks at an early stage. The capital it holds, its well-diversified product portfolio, strong distribution channels, and cost-conscious business operations generally enable R+V to manage these risks and benefit from opportunities that arise.

The changes in actuarial risk in direct non-life insurance in 2015 will be shaped by the strategy of achieving long-term profitable growth in all segments of R+V.

In its inward reinsurance business, R+V will be expanding its business (aligned with the level of risk involved) by continuing the earnings-driven underwriting policy it has pursued in previous years.

18. MARKET RISK

18.1. DEFINITION AND CAUSES

Market risk describes the risk arising from fluctuation in the level or volatility of market prices of assets, liabilities and financial instruments that have an impact on the value of the assets and liabilities of the entity. It suitably reflects the structural mismatch between assets and liabilities, in particular with respect to their duration.

Market risk is broken down into the following subcategories:

- **Interest-rate risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the term structure of interest rates or in the volatility of interest rates. The persistently low level of interest rates has resulted in an increased level of interest-rate guarantee risk, particularly for portfolios of life-insurance contracts with a high guaranteed return.

- **Spread risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of credit spreads above the risk-free interest rate term structure. Default risk and migration risk are also examined in this subcategory. The credit spread is the difference in interest rates between a fixed-income investment and a risk-free fixed-income investment. Changes in the credit spread lead to changes in the market value of the corresponding securities.

- **Equity risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of the market prices of equities. Equity investment risk is also a part of equity risk. Equity risk arises from existing equity exposures as a result of market volatility.

- **Currency risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of exchange rates. Currency risk arises as a result of exchange rate volatility either from investments held in a foreign currency or the existence of a currency imbalance between insurance liabilities and investments.

– **Real-estate risk** describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of the market prices of real estate. Real-estate risk can arise as a result of negative changes in the fair value of real estate held directly or indirectly. This may be the result of a deterioration in the specific characteristics of the real estate or a general decline in market prices (for example in connection with a real-estate crash).

– **Concentration risk** represents the additional risk for an insurance or reinsurance company stemming either from lack of diversification in the asset portfolio or from a large exposure to the risk of default by a single issuer of securities or a group of related issuers.

According to the Solvency II definition, the bulk of credit risk within market risk is assigned to spread risk. The other parts of credit risk are measured within counterparty default risk and other risk types.

18.2. RISK MANAGEMENT

18.2.1. Market risk measurement

When measuring market risk, shock scenarios are examined that have been taken from **Solvency II** and, in some cases, supplemented by the group's own parameterization.

The capital requirements for **interest-rate risk** are determined on the basis of shock scenarios calculated for an increase in interest rates and a decrease in interest rates. For maturities for which the market is sufficiently liquid, the overall solvency requirement for interest-rate risk is calculated using the group's own stress factors derived from market data.

The capital requirements for **spread risk** are calculated using a factor approach based on the relevant lending volume. The level of the stress factor is determined by the security's rating and the modified duration of the investment. With loan securitizations, a distinction is made between single, double, and multiple securitization structures. Depending on which is applicable, different rating-dependent stress factors are used. R+V uses its own stress factors, based on a portfolio model and with particular regard to concentration risk, to calculate the overall solvency requirement.

The capital requirements for **equity risk** are determined on the basis of stress scenarios calculated for a decrease in market value. The stress amounts depend on the equity type, e.g. whether it is listed on a regulated market in a member state of the European Economic Area or Organisation for Economic Co-operation and Development (OECD). The capital requirement for equity risk is based on the relevant equity exposure. It is determined using modeling and risk quantification based on observable data. The parameters are increased in order to take account of default risk and concentration risk. Default risk describes the risk of loss resulting from issuer insolvency.

Currency risk is calculated using a scenario approach that reflects the impact of a decrease or increase in the exchange rate for a foreign currency. The stress factor for determining the overall solvency requirement is based on the individual currency portfolio of R+V. Lower factors are applied for currencies that are pegged to the euro than those that are not pegged to the euro.

The calculation of **real-estate risk** looks at both property held directly (e.g. land and buildings) and real-estate funds. The stress factor for determining the overall solvency requirement for real-estate risk is a stress scenario adapted from the standard formula and reflects the fact that direct holdings consist overwhelmingly of investments in German real estate and fund holdings consist primarily of European real estate.

The overall solvency requirement for **concentration risk** is not calculated separately because this risk is taken into account as part of the calculations for equity risk, spread risk and counterparty default risk.

18.2.2. Principles of market risk management

The management of market risk is a significant element in the management of overall risk at R+V. Market risk at R+V is limited in part by the upper loss limits applicable throughout the group that are set at the level of the DZ BANK Group.

The risk attaching to investment is managed within the framework provided by the provisions of the VAG and of the AnlV, circulars from the regulator and internal investment guidelines. Compliance with AnlV and with other regulatory investment principles and regulations at R+V is ensured by means of highly skilled investment management, appropriate internal investment guidelines and control procedures, a forward looking investment policy and other organizational measures. The management of risk encompasses both economic and accounting aspects.

R+V continuously expands and refines the range of instruments used to assess and evaluate the risk attaching to new investments and to monitor risk in the investment portfolio, in order to be able to respond to any changes in the capital markets and to recognize, limit or avoid risk at an early stage.

R+V counters investment risk by observing the general principle of achieving the greatest possible security and profitability while ensuring liquidity at all times. By maintaining an appropriate mix and diversification of investments, the investment policy of R+V takes particular account of the objective of risk reduction.

R+V monitors changes in all types of market risk through constant measurement and a process of reporting to the relevant bodies. Risk in all subcategories is quantified in the context of group-specific economic calculations. Stress tests represent an important early warning system. In addition to natural diversification via maturity dates, issuers, countries, counterparties and asset classes, limits are also applied in order to mitigate risk.

Regular asset-liability management investigations are carried out at R+V. The necessary capital requirement to maintain solvency is reviewed on an ongoing basis with the support of stress tests and scenario analyses. Specifically, a systematic review is carried out to assess the effects of a long period of low interest rates and volatile capital markets. R+V uses derivatives to manage market risk.

18.2.3. Management of individual market risk categories

In the management of **interest-rate risk** R+V adheres to the principle of a broad mixture and diversification of investments, combined with balanced risk-taking in all selected asset classes and duration management that takes account of the structure of obligations. In addition, the use of pre-emptive purchases helps to provide a constant return from investments and to manage changes in interest rates and duration.

In the management of **spread risk** R+V pays particular attention to very high credit ratings for investments, with the overwhelming majority of its fixed-income portfolio being held in investment-grade paper (see figure 53 in section 18.4.2.). A significant proportion of the portfolio is also backed by further collateral. The use of R+V's own credit risk evaluations, which are often more rigorous than the credit ratings available in the market, serves to further reduce risk.

Mortgage lending is also subject to strict internal rules that help to limit credit risk. Analysis has shown that accounting considerations do not require any loan loss allowances to be recognized at portfolio level.

The management of **equity risk** is based on a core-satellite approach in which the core comprises shares in large, stable companies in indices that can be hedged to which satellite equities are added to improve the risk/return profile. Asymmetric strategies are also used to reduce or increase the rules-based equity exposure.

Currency risk is controlled by systematic foreign-exchange management. Virtually all reinsurance assets and liabilities are denominated in the same currency.

Real-estate risk is mitigated by diversifying holdings across different locations and types of use. Because real estate forms a small proportion of the overall portfolio and R+V adopts a prudent investment policy, this risk is not material for R+V.

Concentration risk is of minor relevance to R+V and is reduced by maintaining an appropriate mixture and diversification of investments. This is particularly apparent from the granular structure of the issuers in the portfolio.

18.2.4. Distinctive features of managing market risk in personal insurance business

Due to the persistently low level of interest rates, there is a heightened risk that the guaranteed minimum interest agreed for certain products when contracts are signed cannot be generated on the capital markets over the long term. This particularly applies to life insurance contracts and casualty insurance contracts with premium refund clauses that guarantee minimum returns. In the case of products with long-term guarantees, there is a risk of negative variances over the term of the contracts compared with calculation assumptions because of the length of time covered by the contracts. The main reasons for variances are the change in the capital market environment and maturity mismatches between investments and insurance contracts. A protracted period of low interest rates increases the market risk arising from investments.

Market risk can be countered by underwriting new business that takes into account the current capital market situation and by taking the following action to boost the portfolio's risk-bearing capacity. It is crucial to ensure that there is enough free capital that can be made available even in adverse capital market scenarios. The necessary capital requirement to maintain solvency is reviewed on an ongoing basis with the aid of stress tests and scenario analyses as part of asset/liability management.

Risk is mitigated by setting up a supplementary discount rate reserve as specified in the Regulation on the Principles Underlying the Calculation of Benefit Reserves (DeckRV) and adding this to benefit reserves for existing contracts, thereby reducing the average interest rate return required on liabilities. In 2014, R+V added a total of €385 million to these supplementary reserves in its life insurance business, bringing the overall amount to €955 million. In its direct non-life business, it increased the reserves to €9 million. R+V expects to make further additions in 2015 and these additions have been included in the budget accounts. Setting the level of policyholder participation also offers the opportunity for indirect mitigation of market risk arising from life insurance.

The breakdown of benefit reserves by discount rate for the main life and casualty insurance portfolios is shown in figure 48.

A summary of the actuarial assumptions for calculating the benefit reserves for the main life and casualty insurance portfolios is presented in section 11 of the notes to the consolidated financial statements. It forms part of the notes on the accounting policies applicable to the ‘Benefit reserve’ line item on the balance sheet.

The discount rate for health insurance is regularly checked in accordance with the procedure developed by the Deutsche Aktuarvereinigung e.V. (DAV) [German Actuarial Association] for calculating the company actuarial discount rate. When unisex insurance rates were introduced, R+V Krankenversicherung AG set a discount rate of 2.75 percent for new business based on them. This was also in line with a recommendation made by the DAV. The discount rate used in the existing portfolio with separate male and female

FIG. 48 – INSURANCE SECTOR: BENEFIT RESERVES BY DISCOUNT RATE FOR THE MAIN INSURANCE PORTFOLIOS[1]

Discount rate	Proportion of total benefit reserve in 2014[2]		Proportion of total benefit reserve in 2013[2]	
	(€ million)	(%)	(€ million)	(%)
0.00%	3,096	6.2	1,918	4.1
1.25%	–	–	–	–
1.50%	43	0.1	11	–
1.75%	3,909	7.9	2,460	5.3
2.00%	76	0.2	87	0.2
2.25%	8,530	17.2	8,127	17.5
2.50%	127	0.3	176	0.4
2.75%	6,798	13.7	6,289	13.5
3.00%	4,496	9.0	5,027	10.8
3.25%	6,687	13.4	6,871	14.8
3.50%	4,654	9.4	4,772	10.3
3.75%	563	1.1	692	1.5
4.00%	7,278	14.6	7,183	15.5

1 The table covers the following insurance products that include an interest-rate guarantee:
– Casualty insurance policies with premium refund
– Casualty insurance policies with premium refund as pension insurance
– Pension insurance policies
– Endowment insurance policies, including capital accumulation, risk, and credit insurance policies
– Pension plans with guaranteed insurance-based benefits
– Capital deposit products.
2 The share of the total benefit reserve attributable to supplementary insurance policies is listed under the relevant basis of calculation for the associated main insurance policy.

rates remained unchanged at 3.5 percent in 2014. Due to the current level of interest rates, the adjustment of premiums on January 1, 2015 will make it necessary to reduce the discount rate used for the separate male and female rates.

18.2.5. Managing risk arising from defined benefit pension obligations

R+V has various pension obligations (defined benefit obligations) to its current and former employees. By entering into such direct defined benefit obligations, it assumes a number of risks, including risks associated with the measurement of the amounts recognized on the balance sheet, in particular risk arising from a change in the discount rate, risk of longevity, inflation risk, and risk in connection with salary and pension increases. A requirement may arise to adjust the existing provisions for pensions and other post employment benefits as a result of decisions by the courts, legislation, or accounting changes. All the plan assets at R+V without exception are assets in reinsured support funds and are subject to interest-rate risk. The strategy adopted for the pension assets is predominantly driven by the defined benefit obligations.

18.3. RISK FACTORS

Generating the guaranteed return required in its life insurance business may present R+V with additional challenges if interest rates remain low and **credit spreads** remain narrow. Compared with actuarial risk, interest-rate risk plays a fairly minor role in non-life insurance business.

A widening of credit spreads on bonds in the market would lead to a drop in fair values. Falls in fair value of this nature could have a temporary impact on operating profit, or a permanent impact if bonds have to be sold. Given that cash flows in connection with insurance liabilities in the area of life insurance can be readily forecast and the fact that R+V's investments are well diversified, there is only a reduced risk that bonds might have to be sold at a loss before their maturity date.

Credit risk arises if there is a deterioration in the financial circumstances of issuers or borrowers, resulting in the risk of partial or complete default on receivables or in ratings-related impairment losses. The credit quality of R+V's investments is generally very high with a sound collateralization structure. In the dominant public and financial sectors, they are largely loans and advances in the form of Government Bonds and German and European Pfandbriefe with collateral backed by statute.

At R+V, equities are used as part of a long-term investment strategy to guarantee that **obligations to policyholders** can be satisfied; generating profits by exploiting short-term fluctuations to sell shares is not its objective. The risk of having to sell equities at an inopportune moment is mitigated by its broadly diversified portfolio of investments.

18.4. LENDING VOLUME

18.4.1. Reconciliation of the lending volume

The amount and structure of the lending volume are key factors for the aspects of credit risk reflected in market risk and counterparty default risk. To identify possible risk concentrations, the volume liable to credit risk is broken down by sector, country group, and rating class.

In the Insurance sector, counterparty default risk is of secondary importance compared with market risk and actuarial risk.

Risk management and risk measurement do not include R+V's existing investment exposure to the assets held by its Italian subsidiaries Assimoco S.p.A., Segrate, (Assimoco) and Assimoco Vita S.p.A., Segrate, (Assimoco Vita). Figure 49 shows a reconciliation of the lending volume on which the risk management is based to individual balance sheet items in order to provide a transparent illustration of the link between the consolidated financial statements and risk management. There are discrepancies between the internal management and external financial reporting measurements for some portfolios owing to the focus on the risk content of the items. The other main reasons for the discrepancies between the internal management figures and those in the external financial statements are differences in the scope of consolidation, differences in the definition of lending volume, and various differences in recognition and measurement methods.

FIG. 49 – INSURANCE SECTOR: RECONCILIATION OF THE LENDING VOLUME

€ billion

Lending volume for internal management accounts		Reconciliation: Scope of consolidation		Reconciliation: Definition of the lending volume		Reconciliation: Carrying amount and measurement		Lending volume for the consolidated financial statements		
Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Investments held by insurance companies
								8.0	7.3	of which: mortgage loans
								9.0	9.2	of which: promissory notes and loans
								10.3	10.0	of which: registered bonds
								1.0	1.3	of which: other loans
								6.2	5.2	of which: variable-yield securities
								34.6	28.4	of which: fixed-income securities
								0.5	0.2	of which: derivatives (positive fair values)
								0.2	0.2	of which: deposits with ceding insurers
71.4	62.1	3.1	2.4	-0.2	-0.1	-4.1	-2.7	70.2	61.7	Total
				Balance as at Dec. 31, 2014				-1.2	-1.7%	
				Balance as at Dec. 31, 2013				-0.4	-0.6%	

18.4.2. Change in lending volume

As at December 31, 2014, the total lending volume of R+V had increased by 15 percent to €71.4 billion (December 31, 2013: €62.1 billion). The expansion of the investment portfolios was driven by the growth in insurance business.

The lending volume in the home finance totaled €8.6 billion as at December 31, 2014 (December 31, 2013: €8.1 billion). Of this amount, 92 percent was accounted for by loans for less than 60 percent of the value of the property, a situation that was unchanged on the end of 2013. The volume of home finance was broken down by finance type as at December 31, 2014 as follows:

– consumer home finance: €8.1 billion (December 31, 2013: €7.7 billion)
– commercial home finance: €0.2 billion (December 31, 2013: €0.2 billion)
– commercial finance: €0.4 billion (December 31, 2013: €0.2 billion).

R+V held **loan collateral** primarily in respect of home finance (consumer and commercial home finance and commercial finance). In this type of business, the entire volume disbursed is usually backed by collateral.

The financial sector and the public sector, which are the dominant sectors, together accounted for 73 percent of the total lending volume at the balance sheet date (December 31, 2013: 74 percent). This lending mainly comprised loans and advances in the form of German and European Pfandbriefe with collateral backed by statute. Loans and advances to the public sector and consumer home finance (retail) highlight the safety of this investment. Fig. 50 shows the sectoral breakdown of the lending volume in the Insurance sector.

R+V has examined its credit portfolio with regard to those banks that failed the ECB stress test. This revealed that R+V's portfolio of lending to such banks was not of material significance and was almost entirely collateralized.

An analysis of the **geographical breakdown** of lending volume in figure 51 reveals that Germany and other industrialized countries accounted for the lion's share – 91 percent – of the lending volume as at the balance sheet date (December 31, 2013: 92 percent). European countries dominated within the broadly diversified exposure in industrialized countries.

The high proportion of obligations in connection with the life insurance business requires investments with longer maturities. This is reflected in the breakdown of **residual maturities** shown in figure 52. As at December 31, 2014, 77 percent (December 31, 2013: 75 percent) of the total lending volume had a residual maturity of more than 5 years. By contrast, just 4 percent of the total lending volume was due to mature within a year as at December 31, 2014, which was unchanged on the previous year. The increase in long residual maturities was mainly the result of investments in bonds.

The **rating structure** of the lending volume in the Insurance sector is shown in figure 53. Of the total lending volume as at December 31, 2014, 81 percent continued to be attributable to investment-grade borrowers (December 31, 2013: 80 percent). This reflects the regulatory requirements and the safety-oriented risk strategy of R+V. The lending volume that is not rated, which made up 17 percent of the total volume (December 31, 2013: 18 percent), essentially comprised low-risk consumer home finance for which external ratings were not available.

To rate the creditworthiness of its lending exposures, R+V uses the external ratings permitted by the AnlV. R+V generally also applies its own credit rating judgment. The external ratings are matched to the DZ BANK credit rating master scale using the methodology shown in figure 15 (section 8.4.1.).

As at December 31, 2014, the ten counterparties associated with the largest lending volumes accounted for 23 percent of R+V's total lending volume.

18.5. CREDIT PORTFOLIOS WITH INCREASED RISK CONTENT

R+V continuously reviews its credit portfolio for countries where crises are developing (e.g. Russia and Ukraine). As a result of these reviews, portfolios are

FIG. 50 – INSURANCE SECTOR: LENDING VOLUME, BY SECTOR

€ billion	Dec. 31, 2014	Dec. 31, 2013
Financial sector	35.5	32.0
Public sector	16.8	13.9
Corporates	10.4	8.0
Retail	8.1	7.7
Industry conglomerates	0.6	0.6
Other	–	–
Total	71.4	62.1

FIG. 51 – INSURANCE SECTOR: LENDING VOLUME, BY COUNTRY GROUP[1]

€ billion	Dec. 31, 2014	Dec. 31, 2013
Germany	32.8	30.1
Other industrialized countries	32.2	27.2
Advanced economies	1.0	0.7
Emerging markets	3.4	2.8
Supranational institutions	1.9	1.3
Total	71.4	62.1

1 The headings 'Other industrialized nations' and 'Non-industrialized nations' that were previously used for country groups have been changed to 'Other industrialized countries' and 'Emerging markets' respectively.

FIG. 52 – INSURANCE SECTOR: LENDING VOLUME, BY RESIDUAL MATURITY

€ billion	Dec. 31, 2014	Dec. 31, 2013
≤ 1 year	2.6	2.3
> 1 year to ≤ 5 years	13.6	13.4
> 5 years	55.2	46.5
Total	71.4	62.1

adjusted as required. In the year under review, no notable country risks were identified other than exposures to eurozone periphery states.

The following disclosures form part of the above analyses of the entire credit portfolio. However, a separate analysis of R+V's exposure in eurozone periphery

FIG. 53 – INSURANCE SECTOR: LENDING VOLUME, BY RATING CLASS

€ billion		Dec. 31, 2014	Dec. 31, 2013
Investment grade	1A	20.3	17.0
	1B	4.7	3.7
	1C	–	–
	1D	6.3	5.2
	1E	–	–
	2A	8.2	7.0
	2B	6.6	5.1
	2C	3.5	3.6
	2D	5.5	4.2
	2E	–	–
	3A	2.4	3.7
Non-investment grade	3B	0.5	0.5
	3C	0.6	0.3
	3D	–	–
	3E	0.1	0.4
	4A	0.2	0.2
	4B	0.1	–
	4C	0.1	0.1
	4D	–	–
	4E	–	0.1
Default		0.1	–
Not rated		12.2	11.2
Total		71.4	62.1

countries and in securitizations has been included because of their significance for the risk position in the Insurance sector.

18.5.1. Eurozone periphery countries

Since the start of the financial crisis, R+V has stepped up the monitoring of its credit portfolio, with attention focused on exposure to the countries directly affected by the **European sovereign debt crisis**. The risks in subportfolios are observed, analyzed, and managed with the aid of a regular reporting system and discussions in the operational decision-making committees.

The investments in this subportfolio totaled €4,859 million as at December 31, 2014 (December 31, 2013: €4,229 million), a rise of 15 percent. This increase was essentially the result of higher market values because there have been sharp declines in interest rates and in the risk premiums for bonds originating in eurozone periphery countries owing to the economic recovery in those countries and the interest rate policy of the ECB. There were also adjustments to the portfolio of government bonds during the course of the year. Figure 54 shows the country breakdown of the exposure.

In addition to the portfolios shown in figure 54, R+V held additional exposures through its investments in the Italian subsidiaries Assimoco and Assimoco Vita. As at December 31, 2014, €2,446 million of these companies' total investments of €2,716 million were invested in Italian government bonds, corresponding to their liabilities.

In the 2013 opportunity and risk report, R+V's exposures to eurozone periphery countries were reported as having a carrying amount of €5,443 million. In accordance with the sectoral approach, exposure has been determined on a fair value basis since January 1, 2014. Furthermore, the Assimoco and Assimoco Vita subsidiaries have been recognized as long-term equity investments. This has resulted in a change to the way that exposure to eurozone periphery countries is reported in the 2014 opportunity and risk report.

18.5.2. Securitizations

R+V's **securitization portfolio** consisted entirely of CDOs as at December 31, 2014, as it had on December 31, 2013. The fair value of the portfolio was €586 million (December 31, 2013: €579 million). 89 percent (December 31, 2013: 83 percent) of the underlying loans and receivables originated from Europe and 11 percent (December 31, 2013: 17 percent) from the United States. As at the balance sheet date, a total of 74 percent (December 31, 2013: 67 percent) of exposures were classified as investment grade (BBB- or higher). 41 percent (December 31, 2013: 25 percent) of the portfolio was in the two highest rating categories (AAA and AA). The credit rating awarded was based on the lowest available rating issued by the external rating agencies used by R+V.

FIG. 54 – INSURANCE SECTOR: LOANS AND ADVANCES TO BORROWERS IN THE COUNTRIES PARTICULARLY AFFECTED BY THE SOVEREIGN DEBT CRISIS

€ million	Dec. 31, 2014	Dec. 31, 2013
Portugal	**25**	**95**
of which: public sector	–	74
of which: non-public sector	25	22
of which: financial sector	15	15
Italy	**2,060**	**1,720**
of which: public sector	1,308	1,030
of which: non-public sector	752	689
of which: financial sector	342	491
Ireland	**845**	**746**
of which: public sector	92	73
of which: non-public sector	753	673
of which: financial sector	675	663
Greece	**1**	**3**
of which: public sector	–	–
of which: non-public sector	1	3
of which: financial sector	1	–
Spain	**1,929**	**1,665**
of which: public sector	1,204	625
of which: non-public sector	724	1,041
of which: financial sector	478	846
Total	**4,859**	**4,229**
of which: public sector	2,604	1,802
of which: non-public sector	2,255	2,427
of which: financial sector	1,512	2,015

18.6. RISK POSITION

As at December 31, 2014, the overall solvency requirement for market risk amounted to €2,329 million (December 31, 2013: €2,048 million). The Insurance sector also set an upper loss limit of €2,350 million (December 31, 2013: €2,520 million). The higher overall solvency requirement is attributable to an increase in the interest-rate risk because the prevailing level of low interest rates has increased the insurance liabilities resulting from guarantees. The upper loss limit was not exceeded at any time in the reporting period.

Figure 55 shows the changes in the key figures for the various types of market risk.

FIG. 55 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR MARKET RISK

€ million	Dec. 31, 2014	Dec. 31, 2013
Interest-rate risk	663	465
Spread risk	743	597
Equity risk	1,195	1,058
Currency risk	249	197
Real-estate risk	99	91
Diversification effect	-620	-359
Total	2,329	2,048

18.7. SUMMARY AND OUTLOOK

As in prior years, market risks were manageable in 2014 and did not have any detrimental impact on the risk position or financial performance of the DZ BANK Group.

However, the persistently low level of interest rates, combined with a possible resurgence of the sovereign debt crisis, does represent a potential risk. This is being countered, particularly with regard to interest-rate risk, by proactive and rigorous management of assets and liabilities and by careful management of risks and investments.

19. COUNTERPARTY DEFAULT RISK

19.1. DEFINITION AND CAUSES

Counterparty default risk reflects possible losses due to unexpected default or deterioration in the credit standing of counterparties and debtors of insurance and reinsurance companies over the following 12 months. It covers risk-mitigating contracts, such as reinsurance arrangements, securitizations and derivatives, and receivables from intermediaries, as well as any other credit risk that is not otherwise covered by risk measurement.

Counterparty default risk takes account of collateral or other security that is held by or for the insurance or reinsurance company and any associated risks.

At R+V, risks of this nature particularly relate to counterparties in derivatives transactions, reinsurance counterparties and defaults on receivables from policyholders and insurance brokers.

19.2. RISK MANAGEMENT

The capital requirements for counterparty default risk are determined on the basis of the relevant exposure and the expected losses per counterparty.

R+V manages counterparty default risk at the level of the individual entities within the R+V Group.

Transactions involving derivatives are subject to explicit internal guidelines, particularly those regarding volume and counterparty limits. A comprehensive, real-time reporting system enables the various risks to be monitored regularly and presented transparently. Only economic hedges are used and they are not reported on a net basis in the consolidated financial statements.

R+V uses the views expressed by the international rating agencies in conjunction with its own credit ratings to help it to assess counterparty and issuer risk. Compliance with the limits for major counterparties is reviewed on an ongoing basis, with regular checks on limit utilization and compliance with investment guidelines.

Effective default management mitigates the risks arising from defaults on receivables relating to direct insurance operations with policyholders and insurance brokers. The risk of default on receivables is also addressed by recognizing appropriate portfolio loan loss allowances that are deemed to be adequate on the basis of past experience. The average ratio of defaults to gross premiums written in recent years was 0.2 percent (December 31, 2013: 0.1 percent).

The credit risk for receivables arising from inward and ceded reinsurance business is limited by constantly monitoring credit ratings and making use of other sources of information in the market. As was the case at the end of 2013, virtually all receivables arising from ceded reinsurance, which amounted to €190 million as at December 31, 2014 (December 31, 2013: €66 million), were due from entities with a rating of A or higher. In 2014, receivables arising from reinsurance did not represent a material risk due to the excellent credit quality of the reinsurers. There were no material defaults in 2014 or in previous years.

Receivables that were due for payment more than 90 days after the balance sheet date amounted to €35 million as at December 31, 2014 (December 31, 2013: €36 million).

19.3. RISK POSITION

As at December 31, 2014, the overall solvency requirement for counterparty default risk amounted to €42 million (December 31, 2013: €35 million) with an upper loss limit of €80 million (December 31, 2013: €50 million). The increase in the overall solvency requirement was largely attributable to the rise in receivables from intermediaries owing to seasonal effects.

The upper loss limit was not exceeded at any point during 2014.

20. OPERATIONAL RISK

20.1. DEFINITION AND CAUSES

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel, or systems, or from external events. It includes legal risk.

20.2. RISK MANAGEMENT

The risk capital requirement for operational risk in the Insurance sector is determined in accordance with the standard formula in Solvency II. Risk is calculated as a factor of premiums and provisions and, in the case of unit-linked business, as a factor of costs.

R+V's internal control system is the key instrument it uses to limit operational risk. Rules and controls in each specialist division and reviews of the use and effectiveness of the internal control system carried out by Group Internal Audit avert the risk of errors and fraud. Payments are largely automated.

Powers of attorney and authorizations stored in user profiles, as well as automated submissions for approval based on a random generator, provide additional security. Manual payments are always approved by a second member of staff.

In addition, operational risk is identified and quantified using a scenario-based risk self-assessment. The focus is on scenarios that, if they were to occur, would cause material financial risks. Particular attention is paid to operational risks with a low frequency of occurrence that would have a major impact.

In addition to the internal control system and risk self-assessment, risk indicators help the Insurance sector to identify risk trends and concentrations at an early stage and to detect weaknesses in business processes. A system of warning lights is used to indicate risk situations based on specified threshold values. Risk indicators are collected systematically and regularly on a wide scale.

To ensure that it is operational at all times, R+V has a fully integrated business continuity management system with a central coordination function. A committee of the crisis managers responsible for IT, premises, and human resources provides specialist support, ensures that emergency business continuity management activities are coordinated within the R+V group and reports to the Risk Conference on any major findings and any business continuity exercises that have been carried out.

Business continuity management ensures that R+V's operating activities can be maintained in the event of a crisis. Contingency planning also includes time-critical business processes and the resources needed to maintain them.

20.3. RISK FACTORS

20.3.1. HR risk

The future success of R+V is dependent upon capable managers and employees with the necessary skills and qualifications. There is fierce competition for managerial and administrative staff in the labor market, driven by high demand and insufficient numbers of suitable individuals. Unless the necessary number of suitable managerial and administrative staff can be attracted within the required timeframe, and/or existing managers and employees can be retained, there will be a heightened risk that tasks will not be performed or will not be performed satisfactorily as a result of inadequate expertise in terms of either quality or quantity. R+V provides long-term professional development and enhanced talent-management activities to ensure that staff members undergo the continuous development and training that will also make it possible to meet future staffing requirements from within the organization. The tools it uses for this purpose include a system for assessing high-potential employees, systematic succession planning, and skills upgrading programs. In the interest of long-term staff retention, R+V runs programs to establish and enhance its appeal as a place to work, such as corporate health management, support for achieving a work-life balance and regular staff surveys.

R+V counters operational risk in sales and distribution by providing continuous professional development courses for field sales staff in accordance with the general guidelines of the German Insurance Association (GDV). In 2013, R+V signed up to the new, revised version of the GDV's code of conduct for sales and distribution. This voluntary undertaking focuses on a relationship between customers, insurance companies and brokers that is defined by fairness and trust. The requirements set out in the code of conduct are reflected in the principles, policies and processes of each company.

20.3.2. IT risk

Malfunctions or breakdowns in data processing systems or in the programs used on these systems, including attacks from external sources – such as hackers or malware –, could have an adverse impact on the ability to efficiently maintain the processes necessary to carry out operating activities, protect saved data, ensure sufficient control, or continue to develop products and services. Furthermore, such malfunctions or breakdowns could lead to temporary or permanent loss of data, or cause additional costs because the original capability would need to be restored and/or preventive measures introduced to provide protection against similar events in the future.

Quality assurance in IT is based on well-established processes that follow best practice. A daily meeting is held to discuss current topics and assign people to work on them. In addition, appropriate measures relating to adherence to service level agreements (e.g. system availability and system response times) are decided upon at monthly meetings attended by the IT divisional managers.

Comprehensive physical and logical precautionary measures guarantee the security of data and applications and ensure that day-to-day operations are maintained. A particular risk would be a partial or total breakdown in data processing systems.

R+V counters this risk by using two segregated data processing centers in which the data and systems are mirrored, special access security, fire control systems, and an uninterruptible power supply supported by emergency power generators. Regular exercises are carried out to test a defined restart procedure to be used in disaster situations with the aim of checking the efficacy of this procedure. Data is backed up and held within highly secure environments in various buildings. Furthermore, data is mirrored to a tape library at a remote, off-site location. This means that data will still be available, even if all of the data processing centers in Wiesbaden are completely destroyed.

As part of contingency and crisis management systems, R+V has initiated a range of measures to cope with business interruptions. However, the possibility cannot be ruled out that disruption to processes and workflows could be sustained over several days. Moreover, sensitive internal and external interfaces could be jeopardized by long-term business interruptions.

20.3.3. Legal risk

The matters mentioned in section 14.5.5. under 'Provisions recognized on the balance sheet' for the Bank sector essentially relate equally to the Insurance sector.

The legal disputes referred to below are predominantly legal proceedings being taken against other insurance companies that are of fundamental significance to the insurance industry and thus potentially to R+V as well:

On July 25, 2012, the German Federal Court of Justice (BGH) ruled against a German insurance company, deciding that the clauses it used in life insurance and pension insurance policies in relation to **surrender values, cancellation fees, and allocation of acquisition costs** were ineffective. A decision was not reached on the resulting legal consequences for the calculation of surrender values. The BGH ruled on this issue in two judgments on September 11, 2013. According to these judgments, a minimum of 50 percent of the non-zillmerized benefit reserves must be paid to policyholders who terminate their contract prematurely. This applies uniformly to all life insurance and pension insurance contracts concluded between 1995 and 2007. Following these judgments, R+V amended its process for winding up insurance contracts and recognized additional benefit reserves. Proceedings brought by the consumer protection organization Verbraucherzentrale Hamburg e.V. against R+V Lebensversicherung AG are currently pending at the Frankfurt am Main regional court. The case is aimed at prohibiting R+V Lebensversicherung AG from invoking certain clauses in its insurance terms and conditions relating to the calculation of surrender values and paid-up sums insured and to cancellation fees when winding up insurance contracts. The court is expected to reach a judgment in early 2015.

On May 7, 2014 and July 16, 2014, the BGH reached important decisions in relation to the **policy model** used by insurance companies, including R+V, for insurance contracts from 1994 to 2007. According to the decision dated May 7, 2014, the customers of life insurance companies who were not, or not adequately, notified of their cancellation rights and/or who did not receive their consumer information or insurance terms and conditions continue to have a right of cancellation, even years after taking out the policy. The legal consequences – particularly the type of recession – are not yet clear because no decision has yet been reached by the highest court. During the aforementioned pertinent timeframe, R+V notified its life insurance customers about their cancellation rights in a different form than that on which the BGH's decision was based. Regional appeal courts have not found fault with these notifications to date, but the proceedings are still pending with the BGH. In its judgment on July 16, 2014, BGH also clarified that, in its opinion, the policy model's solution of cancellation by opt-out was in compliance with European law. However, the BGH explained that this was not relevant because the policyholder invoked his right of cancellation after having performed his contract in good faith for many years. The policyholder brought a complaint of unconstitutionality against the judgment.

In judgments on March 10, 2009 and August 15, 2012, the BGH decided that consumers taking out **real-estate loans** who had not been, or had not been adequately, notified of their cancellation rights continued to have a right of cancellation, even years after signing the real-estate loan contract. Accordingly, customers can exercise the right of cancellation and pay back the loan. Exercise of the cancellation right results in loss of interest because of the deterioration in reinvestment conditions. It is not necessary to recognize provisions for this matter.

20.4. RISK POSITION

As at December 31, 2014, the overall solvency requirement for operational risk amounted to €436 million (December 31, 2013: €408 million).

The upper loss limit applicable at the balance sheet date was set at €510 million (December 31, 2013: €490 million). The upper loss limit was not exceeded at any time during 2014.

21. ENTITIES IN OTHER FINANCIAL SECTORS

At R+V, the entities in other financial sectors mainly consist of pension funds and occupational pension schemes.

Risk is quantified in accordance with the requirements currently specified by the insurance regulator. This means applying the capital requirements in Solvency I, which are essentially calculated as a factor of the volume measures of benefit reserves and capital at risk.

The risk situation of R+V Pensionskasse is comparable with the risk situation of the life insurance companies in the R+V Group. In particular, the relevant activities within risk management apply as described in the sections on life actuarial risk, market risk, counterparty default risk, and operational risk.

The risk situation in a pension fund is determined to a significant degree by the nature of the pension plans offered. In pension plans offered by R+V involving defined contributions with a minimum benefit, it must be ensured that at least the sum of the contributions paid into the plan (net of any contributions covering biometric risk assumed by R+V) is available on the agreed pension start date.

R+V also offers pension plans that include guaranteed insurance-based occupational incapacity cover as well as pension benefits and benefits for surviving dependants. Market risk and all the risk types covered by actuarial risk are relevant as far as occupational pension provision is concerned. Longevity risk is also important in relation to pensions because of the guaranteed benefits involved. Here too, the relevant activities within risk management apply as described in the sections on life actuarial risk, market risk, counterparty default risk, and operational risk.

In the pension plans involving a benefit commitment without any insurance-based guarantees, R+V does not assume responsibility for any of the pension fund risk or investment risk because the first contributions paid in by the employer (thus initiating the contract) are subject to the proviso that the employer will also make up any difference required. This also applies to the period in which pensions are drawn. If an employer fails to make the payments of additional capital required, R+V's commitment to insurance-based guaranteed benefits determined by the amount of capital still available is reduced. The ongoing pension plan contributions and the benefit reserve include sufficient amounts to cover the costs of managing pension fund contracts.

As at December 31, 2014, the overall solvency requirement for entities in other financial sectors amounted to €73 million (December 31, 2013: €68 million). The upper loss limit was unchanged year on year at €80 million. The upper loss limit was not exceeded at any point during 2014.

2014 ANNUAL FINANCIAL STATEMENTS OF DZ BANK AG

Balance sheet as at December 31, 2014

ASSETS

€ million	(Notes)				Dec. 31, 2014	Dec. 31, 2013
1. Cash and cash equivalents						
a) Cash on hand				177		223
b) Balances with central banks				1,197		1,060
of which: with Deutsche Bundesbank		240				(544)
					1,374	**1,283**
2. Debt instruments from public-sector entities and bills of exchange eligible for refinancing by central banks						
a) Treasury bills, non-interest-bearing treasury notes and similar debt instruments from public-sector entities				72		39
					72	**39**
3. Loans and advances to banks	(04, 06)					
a) Repayable on demand				8,076		9,522
b) Other loans and advances				72,640		73,173
					80,716	**82,695**
4. Loans and advances to customers	(04)				**22,443**	**22,634**
of which: secured by mortgages		107				(132)
local authority loans		711				(634)
5. Bonds and other fixed-income securities	(04, 12, 13, 15)					
a) Money market instruments				267		374
aa) from public-sector issuers			–			65
ab) from other issuers			267			309
b) Bonds				39,554		39,451
ba) from public-sector issuers			14,748			13,681
of which: eligible as collateral at Deutsche Bundesbank		14,393				(13,372)
bb) from other issuers			24,806			25,770
of which: eligible as collateral at Deutsche Bundesbank		12,820				(14,344)
					39,821	**39,825**
6. Shares and other variable-yield securities	(12, 13, 15)				**66**	**315**
6a. Trading assets	(14)				**45,540**	**56,652**
7. Long-term equity investments	(13, 15)				**403**	**471**
of which: in banks		220				(305)
8. Shares in affiliated companies	(13, 15)				**10,419**	**10,564**
of which: in banks		6,037				(6,044)
in financial services institutions		253				(253)
9. Trust assets	(08)				**1,110**	**1,126**
of which: trust loans		128				(144)
10. Intangible assets	(15)					
b) Purchased concessions, industrial and similar rights and assets, including licenses for such rights and assets				34		46
d) Payments in advance				12		11
					46	**57**
11. Property, plant and equipment	(15)				**191**	**194**
12. Other assets	(16)				**758**	**672**
13. Prepaid expenses and accrued income	(17)					
a) In connection with issuing and lending business				44		47
b) Other				7		6
					51	**53**
14. Deferred tax assets	(18)				**1,172**	**1,316**
15. Excess of plan assets over pension liabilities	(02)				**2**	**2**
Total assets					**204,184**	**217,898**

EQUITY AND LIABILITIES

€ million	(Notes)				Dec. 31, 2014	Dec. 31, 2013
1. Deposits from banks	(04, 06)					
a) Repayable on demand				24,273		23,005
b) With agreed maturity or notice period				61,115		64,752
					85,388	**87,757**
2. Deposits from customers	(04)					
b) Other deposits				22,855		29,505
ba) Repayable on demand			4,578			7,187
bb) With agreed maturity or notice period			18,277			22,318
					22,855	**29,505**
3. Debt certificates issued including bonds	(04)					
a) Bonds issued				30,144		32,118
b) Other debt certificates issued				8,872		2,508
of which: commercial paper		8,872				(2,508)
					39,016	**34,626**
3a. Trading liabilities	(14)				**37,028**	**47,245**
4. Trust liabilities	(08)				**1,110**	**1,126**
of which: trust loans		128				(144)
5. Other liabilities	(23)				**103**	**387**
6. Deferred income and accrued expenses	(17)					
a) In connection with issuing and lending business				59		77
b) Other				2		4
					61	**81**
7. Provisions	(02, 04, 24)					
a) Provisions for pensions and other post-employment benefits				46		25
b) Provisions for taxes				147		133
c) Other provisions				632		588
					825	**746**
8. Subordinated liabilities	(04, 25)				**5,262**	**5,436**
9. Profit-sharing rights	(04, 26)				**292**	**319**
of which: maturing within two years		18				(45)
10. Fund for general banking risks	(02)				**4,250**	**4,209**
of which: special item in accordance with section 340e (4) HGB		209				(168)
11. Equity	(20)					
a) Subscribed capital				3,646		3,160
b) Capital reserve				2,369		1,377
c) Revenue reserves				1,766		1,766
ca) Statutory reserve			105			105
cd) Other revenue reserves			1,661			1,661
d) Distributable profit				213		158
					7,994	**6,461**
Total equity and liabilities					**204,184**	**217,898**
1. Contingent liabilities	(45)					
b) Liabilities under guarantees and indemnity agreements*				5,406		4,739
					5,406	**4,739**
2. Other obligations	(38, 45)					
c) Irrevocable loan commitments				17,223		16,142
					17,223	**16,142**

* See also details under 'Other disclosures' in Notes 39 and 40.

Income statement for the period January 1 to December 31, 2014

€ million	(Notes)				2014	2013
1. Interest income from						
a) Lending and money market business			2,126			2,234
b) Fixed-income securities and book-entry securities			775			996
				2,901		3,230
2. Interest expense				2,563		2,696
					338	**534**
of which: expenses incurred by the unwinding of discounts on provisions		3				(4)
3. Current income from						
a) Shares and other variable-yield securities				21		21
b) Long-term equity investments				12		19
c) Shares in affiliated companies				227		204
					260	**244**
4. Income from profit-pooling, profit-transfer and partial profit-transfer agreements					**252**	**424**
5. Fee and commission income	(32)			554		547
6. Fee and commission expenses	(32)			278		290
					276	**257**
7. Net trading income					**380**	**267**
of which: amounts added in accordance with section 340e (4) HGB	(02)	41				(30)
income from the discounting of provisions		–				(0)
expenses incurred by the unwinding of discounts on provisions		1				(–)
8. Other operating income	(34)				**98**	**101**
of which: income from the discounting of provisions		0				(0)
9. General and administrative expenses						
a) Staff expenses				495		472
aa) Wages and salaries			426			411
ab) Social security, post-employment and other employee benefit expenses			69			61
of which: post-employment benefit expenses		19				(15)
b) Other administrative expenses				407		397
					902	**869**
10. Amortization and write-downs on intangible assets, and depreciation and write-downs on property, plant and equipment					**41**	**36**
11. Other operating expenses	(34)				**88**	**122**
of which: expenses incurred by the unwinding of discounts on provisions		20				(50)
12. Write-downs on and allowances for losses on loans and advances and certain securities, and additions to provisions for losses on loans and advances					**55**	**292**

€ million	(Notes)				2014	2013
13. Write-downs on and allowances for long-term equity investments, shares in affiliated companies, and securities treated as fixed assets					**–**	50
14. Income from the reversal of write-downs on long-term equity investments, shares in affiliated companies, and securities treated as fixed assets					**50**	–
15. Addition to the fund for general banking risks	(02)				**–**	135
16. Expenses from the transfer of losses					**236**	73
17. Result from ordinary activities					**332**	250
18. Extraordinary income	(35)				**37**	–
19. Extraordinary expenses	(35)				**11**	8
20. Extraordinary result					**26**	-8
21. Income taxes	(36)			145		75
of which: from deferred taxes		144				(24)
22. Other taxes not included under 'Other operating expenses'				0		1
					145	76
23. Net income for the year	(37)				**213**	166
24. Profit brought forward from 2013					**0**	0
25. Additions to revenue reserves					**–**	8
a) To statutory reserve				–		8
26. Distributable profit					**213**	158

NOTES

A. General disclosures

» 01
BASIS OF PREPARATION

The annual financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) for the year ended December 31, 2014 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). At the same time, the annual financial statements comply with the provisions of the German Stock Corporation Act (AktG), the DG BANK Transformation Act, and the Articles of Association of DZ BANK.

DZ 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. Unless stated otherwise, all amounts are shown in millions of euros (€ million). All figures are rounded to the nearest whole number. This may result in very small discrepancies in the calculation of totals and percentages.

The accounting policies applied in 2014 were essentially the same as those used in 2013. Any changes compared with 2013 are set forth in Note 02 'Accounting policies'.

» 02
ACCOUNTING POLICIES

LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Loans and advances to banks and customers are carried at their principal amounts or at cost. The difference between the principal amount and the amount disbursed is recognized under deferred income and apportioned pro rata over the term of the loan. Promissory notes, registered bonds, and lease receivables acquired from third parties are recognized at cost.

Loans and advances, which are classified as current assets, are measured strictly at the lower of cost and market. The carrying amount for loans and advances to banks and customers includes promissory notes, registered bonds, and lease receivables assigned to the banking book and for which the bank has entered into interest-rate hedges as part of its overall risk management.

Provisions for lending risks comprise valuation allowances and provisions for credit risk and latent credit risk for all portfolios of loans and advances on the balance sheet and off-balance-sheet transactions at individual transaction level and/or on a portfolio basis.

Based on specific measurement of each risk, provisions are recognized for all identifiable credit risks in the amount of the expected loss as dictated by prudent business practice. Latent credit risk is recognized in the form of portfolio loan loss allowances. The calculation of the portfolio loan loss allowance is based on the method for calculation of expected losses used for regulatory purposes. Other measurement factors are determined on the basis of internal parameters. DZ BANK also recognizes allowances for general banking risks as permitted by section 340f HGB.

BONDS AND OTHER FIXED-INCOME SECURITIES, AND SHARES AND OTHER VARIABLE-YIELD SECURITIES

These line items on the balance sheet comprise long-term securities and securities in the liquidity reserve. Securities in the liquidity reserve are measured strictly in accordance with the principle of lower of cost and market. Long-term securities that are permanently impaired are written down to the lower of cost and market. In 2014, as in the previous year, temporarily impaired long-term securities were optionally measured at the lower of cost and market or their carrying amount was retained in accordance with section 340e (1) HGB. Under the item 'Bonds and other fixed-income securities', the carrying amount of marketable securities not measured at the lower of cost and market was €3,228 million. For further information on the impact on net assets, financial position, and results of operations, please refer to Note 15 'Changes in intangible assets and in property, plant and equipment, and investments'.

The fair value of securities is largely determined by reference to current market prices or by using generally accepted valuation methods on the basis of parameters that are broadly observable in the market, such as yield curves, spreads, volatility, or exchange rates. If specific parameters relevant to the measurement cannot be observed or cannot be determined directly from market data, the bank's own internal estimated parameters are used.

DZ BANK individually measures securities that are held either as long-term investments or in the liquidity reserve.

Owing to the sustained low level of interest rates, premiums and discounts on the fixed-income securities in the banking book have been recognized in accordance with the effective interest method since 2014. Previously, premiums were recognized using the internal linear repayment value method. The change in the method of recognition resulted in additional interest expense of €192 million, of which €93 million was attributable to previous years.

Dividend income from shares and other variable-yield securities that are held either as long-term investments or in the liquidity reserve is reported as current income from shares and other variable-yield securities.

TRADING ASSETS AND TRADING LIABILITIES

Trading assets and trading liabilities comprise bonds and other fixed-income securities, shares and other variable-yield securities, promissory notes, registered bonds, sale and repurchase agreements, and derivatives (interest-rate, currency, credit, and equity derivatives). DZ BANK reports its own structured issues of credit-linked notes and share certificates – because they are held for trading purposes – as trading liabilities in accordance with the criteria specified in accounting guidance statement 2 issued by the banking committee of the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) [Institute of Public Auditors in Germany].

Over-the-counter (OTC) derivatives held for trading purposes, for which variation margins have been agreed on the basis of bilateral master agreements in the Collateralization Annex and for which the variation margins have been paid daily, are netted for the first time at the end of the financial year and shown on the balance sheet on a net basis. For each master agreement, the netting covers the fair values of the OTC derivatives and the variation margin. As at December 31, 2014, this netting reduced loans and advances to banks by €5,003 million, loans and advances to customers by €14 million, the carrying amount of trading assets by €12,184 million, deposits from banks by €985 million, deposits from customers by €150 million, and the carrying amount of trading liabilities by €16,066 million. The amounts are presented on a gross basis in Note 27 'List of derivatives recognized at fair value by product area' and in Note 28 'List of derivatives recognized at fair value by counterparty structure'.

As in 2013, the fair values of OTC interest-rate derivatives that are traded through a central counterparty have also been netted with the carrying amounts of the underlying derivatives positions contained in the trading assets and trading liabilities line items on the balance sheet. As at December 31, 2014, this netting reduced the carrying amount of trading assets by €6,581 million, the carrying amount of other assets by €1,620 million, and the carrying amount of trading liabilities by €8,201 million. As part of the clearing service for our customers, the fair values of OTC interest-rate derivatives that are traded through a central counterparty are recognized and netted with the carrying amounts of the underlying derivatives positions contained in the trading assets and trading liabilities line items on the balance sheet.

Financial instruments held for trading purposes are measured at their fair value in accordance with section 340e (3) HGB in conjunction with section 255 (4) HGB, minus any risk premiums or adjustments. To ensure that the income statement only includes unrealized gains from positions that are substantially closed, a risk adjustment is applied to the net gains and losses. This adjustment comprises a value-at-risk adjustment, a mathematical calculation that describes the maximum potential loss that is considered to be highly probable. An internal model is used to calculate the value-at-risk adjustment based on regulatory requirements. It applies the 10-day value-at-risk adjustment required by the regulator. The calculation of the value-at-risk adjustment was based on an observation period of 250 trading days and a confidence level of 99 percent. The value-at-risk adjustment amounted to €15 million.

Where markets are inactive, generally accepted valuation methods are used to determine fair value. When measuring its structured products, DZ BANK uses models that are based on certain distribution assumptions and/or smile modeling. Fair value is determined on the basis of parameters that are broadly observable in the market; only in justified exceptional cases is it determined using parameters that are not observable in the market. In order to determine fair value reliably, measurement adjustments are also made for uncertain measurements.

The amounts added to the special item, which is included in the fund for general banking risks in accordance with section 340e (4) HGB, are reported as net trading income on the income statement.

Fair value gains and losses, current interest payments and dividend income from securities held for trading purposes, current payments arising from derivatives and from sale and repurchase agreements and securities lending transactions entered into for trading purposes, promissory notes and other receivables, foreign exchange, and precious metals – including the corresponding deferrals – are all recognized as part of the net trading result. In addition, the funding costs attributable to trading assets and trading liabilities in the form of internal fixed-term deposits and imputed overnight rates are also reported as part of the net trading result.

SECURITIES LENDING

For securities involved in securities lending transactions, the accounting treatment of securities lending is the same as the accounting treatment for genuine sale and repurchase agreements (i.e. agreements in which the buyer is under an obligation to sell back the securities) in accordance with section 340b HGB. The securities remain on the balance sheet. Borrowed securities are not recognized on the balance sheet.

LONG-TERM EQUITY INVESTMENTS AND SHARES IN AFFILIATED COMPANIES

Long-term equity investments and shares in affiliated companies are measured at amortized cost or, if expected to be permanently impaired, at the lower of cost and fair value. If the reasons for a previous write-down no longer exist, the write-down is reversed so that the asset is measured at fair value. However, the reversal must not result in a carrying amount higher than the original cost.

PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

Property, plant and equipment is measured at cost and reduced by depreciation over its estimated useful life. Useful life is based on the depreciation tables published by the German tax authorities.

Low-value assets with an individual net value of up to €150 are written off in full in the year of acquisition and expensed. In the case of assets with an individual net value between €150 and €1,000, the aggregate item that needs to be recognized on an annual basis for tax purposes has been included in the HGB financial statements to simplify matters. In accordance with tax rules, annual aggregate items with overall carrying amounts that are not material are depreciated at a flat rate of 20 percent in the year of recognition and then in each of the 4 subsequent years.

Office furniture and equipment including operating equipment is depreciated on a straight-line basis.

Assets are written down if they are considered to be impaired on a permanent basis. If the reasons for a previous write-down no longer exist, the write-down is reversed.

Intangible fixed assets are measured at cost and amortized on a straight-line basis. A useful life in the range of 3 to 10 years is used as the basis for the amortization.

LIABILITIES

Liabilities are carried at the settlement amount. The difference between the notional amount and the amount disbursed is recognized under prepaid expenses and apportioned pro rata over the term of the loan.

PROVISIONS

Pension obligations are calculated in accordance with actuarial principles. Their computation is based on the projected unit credit method. The discount rate used is the average market interest rate, for a residual maturity of 15 years, published by Deutsche Bundesbank over the past 7 years (4.53 percent). In Germany, the biometric tables used in these calculations are the 2005 G mortality tables published by Professor Dr. Klaus Heubeck, Cologne. Measurement is based on anticipated annual rates of increase of 2.0 percent for salaries and 1.9 percent for pensions. In order to provide cover for its pension obligations, DZ BANK has transferred assets to DZ BANK Pension Trust e.V., Frankfurt am Main, which acts as a trustee on behalf of the pension beneficiaries. The valuation of pension obligations outside Germany is based on the applicable country-specific biometric factors and parameters. The requirement to offset pension obligations against individual plan assets resulted in excess cover of €2 million in the New York branch, which is reported on the balance sheet as 'Excess of plan assets over pension liabilities'. Unfunded pension plans and the bank's early-retirement obligations gave rise to provisions for pensions and other post-employment benefits of €46 million.

DZ BANK recognizes provisions for current taxes in accordance with German tax law.

It recognizes its other provisions at the amounts needed to settle contingent liabilities and/or anticipated losses as dictated by prudent business practice.

Provisions that are recognized for more than one year are discounted at the average market interest rate for the past 7 years, which corresponds to their residual maturity and is calculated and published by Deutsche Bundesbank.

Income from the discounting of provisions for banking business and expenses incurred by the unwinding of discounts on such provisions are reported as interest income and interest expenses respectively. If the provisions are related to trading activities, the income resulting from discounting and expenses incurred by the unwinding of discounts are shown in the net trading result. Income from the discounting of residual provisions and expenses incurred by the unwinding of discounts on such provisions are reported as other operating income and other operating expenses respectively.

INTEREST-LINKED CONTRACTS OF THE BANKING BOOK

In accordance with the principles of write-downs to anticipate identifiable expected losses, evidence was provided for all on-balance-sheet and off-balance-sheet interest-linked financial instruments of the banking book to show that no losses will be incurred on contracted interest-linked items in the future. This was done using the present value/carrying amount method. In this method, the carrying amounts of the interest-bearing transactions of the banking book are offset against the interest-rate-related present values, taking account of the associated costs of managing the risk and the portfolio. Any remaining shortfall after offsetting would require a corresponding provision to be recognized. As at December 31, 2014, there was no need to recognize a provision for anticipated losses pursuant to section 340a HGB in conjunction with section 249 (1) sentence 1 HGB.

MISCELLANEOUS

Expenses in connection with investments are offset against investment income in accordance with section 33 RechKredV in conjunction with section 340c (2) HGB. Fair value gains and losses on the measurement of loans and advances and the securities in the liquidity reserve are reported as a net figure in accordance with section 32 RechKredV in conjunction with section 340f (3) HGB.

The fund for general banking risks amounted to €4,250 million as at December 31, 2014 (December 31, 2013: €4,209 million). This fund for general banking risks includes a special item in accordance with section 340e (4) HGB, to which €41 million was added in the reporting year. The reserves pursuant to section 340g HGB were unchanged year on year.

The methods used to recognize and measure internal transactions are the same as those applied to external transactions. These transactions are shown as netted amounts in the respective line items on the balance sheet.

If there are differences between the carrying amounts of assets, liabilities, and prepaid expenses/accrued income and deferred income/accrued expenses recognized in the financial statements in accordance with HGB and their carrying amounts in the financial statements for tax purposes, and these differences are likely to be eliminated in subsequent years, any resulting tax expense is recognized under 'Deferred tax liabilities' and any resulting tax benefit is recognized under 'Deferred tax assets' on the balance sheet. Deferred tax assets and liabilities are reported as a net figure. The calculation of deferred tax assets takes account of tax loss carryforwards in the amount of the losses expected to be offset within the next 5 years.

Deferred tax assets and liabilities from temporary differences from the subsidiaries are recognized at DZ BANK level. The resulting tax expenses and benefits are recognized using the entity-specific tax rates at the time the differences are eliminated and are not discounted.

» 03 CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies as well as claims and delivery obligations under currency transactions are translated in compliance with section 256a HGB in conjunction with section 340h HGB. This legislation requires that foreign currencies be translated at the middle spot exchange rate on the balance sheet date.

All currency exposures arising in connection with trading assets and trading liabilities are recognized and measured in accordance with the rules governing trading assets and trading liabilities. The corresponding exchange gains and losses on foreign-currency transactions designated as trading assets and trading liabilities are reported as net trading income on the income statement.

Under the strategy for managing currency risk, DZ BANK's foreign currency exposures and foreign-currency transactions are deemed to be specifically covered in the same currency. Assets are deemed to be specifically covered in the same currency if they are matched by liability items, forward transactions, or options. The excess fair value measurement of these derivatives is reported as an offsetting item for currency translation under 'Other assets'. The fair value gains and losses on non-trading transactions that are specifically covered in the same currency are reported under 'Net trading income'.

Measurement in respect of transactions and exposures that are not specifically covered in the same currency is based on the HGB imparity principle, i.e. unrealized losses are recognized, but any unrealized gains are not recognized. The resulting fair value gains and losses are reported as other operating income and other operating expenses respectively.

If DZ BANK has entered into currency forwards in connection with the hedging of interest-bearing balance sheet items, the swap income and expenses are treated as interest income and expense reflecting the nature of the income and expense involved.

B. Balance sheet disclosures

ASSET ITEMS

» 04 MATURITY STRUCTURE

€ million	Dec. 31, 2014	Dec. 31, 2013
Other loans and advances to banks	**72,640**	**73,173**
– up to 3 months	8,244	9,328
– between 3 months and 1 year	8,513	8,063
– between 1 year and 5 years	29,392	30,326
– more than 5 years	26,491	25,456
Loans and advances to customers	**22,443**	**22,634**
– up to 3 months	4,941	5,472
– between 3 months and 1 year	2,111	1,938
– between 1 year and 5 years	8,763	8,619
– more than 5 years	4,944	4,696
– no fixed maturity	1,684	1,909
Bonds and other fixed-income securities	**39,821**	**39,825**
– up to 3 months (maturing in subsequent year)	1,630	999
– between 3 months and 1 year (maturing in subsequent year)	3,670	3,468
– between 1 year and 5 years	19,319	21,035
– more than 5 years	15,202	14,323

LIABILITY ITEMS

€ million	Dec. 31, 2014	Dec. 31, 2013
Deposits from banks with agreed maturity or notice period	**61,115**	**64,752**
– up to 3 months	11,627	13,491
– between 3 months and 1 year	6,492	7,006
– between 1 year and 5 years	18,876	19,773
– more than 5 years	24,120	24,482
Deposits from customers		
Other deposits with agreed maturity or notice period	**18,277**	**22,318**
– up to 3 months	9,215	12,486
– between 3 months and 1 year	1,696	1,552
– between 1 year and 5 years	1,277	939
– more than 5 years	6,089	7,341
Debt certificates issued including bonds		
Bonds issued	**30,144**	**32,118**
– of which: maturing in subsequent year	10,456	6,146
Other debt certificates issued	**8,872**	**2,508**
– up to 3 months	7,542	2,350
– between 3 months and 1 year	1,330	158
Provisions	**825**	**746**
– up to 3 months	88	62
– between 3 months and 1 year	294	281
– between 1 year and 5 years	176	130
– more than 5 years	267	273
Subordinated liabilities	**5,262**	**5,436**
– up to 3 months	183	103
– between 3 months and 1 year	136	160
– between 1 year and 5 years	1,902	1,549
– more than 5 years	3,041	3,624
Profit-sharing rights	**292**	**319**
– up to 3 months	18	20
– between 3 months and 1 year	–	25
– between 1 year and 5 years	211	211
– more than 5 years	63	63

» 05 AFFILIATED COMPANIES AND OTHER LONG-TERM INVESTEES AND INVESTORS

Loans and advances to and deposits from affiliated companies:

€ million	Dec. 31, 2014	Dec. 31, 2013
Loans and advances to banks	23,237	22,747
Loans and advances to customers	4,931	4,795
Bonds and other fixed-income securities	11,057	11,619
Deposits from banks	6,959	6,237
Deposits from customers	1,491	1,802
Debt certificates issued including bonds	453	453
Subordinated liabilities	2,184	2,190

Loans and advances to and deposits from other long-term investees and investors:

€ million	Dec. 31, 2014	Dec. 31, 2013
Loans and advances to banks	38,294	38,816
Loans and advances to customers	299	434
Bonds and other fixed-income securities	1,988	2,184
Deposits from banks	25,864	29,871
Deposits from customers	293	258
Debt certificates issued including bonds	20,883	26,152
Subordinated liabilities	223	194

The list of shareholdings compiled in accordance with section 285 no. 11 HGB is shown in Note 51.

» 06 LOANS AND ADVANCES TO AND DEPOSITS FROM AFFILIATED BANKS

Loans and advances to and deposits from banks include the following amounts:

€ million	Dec. 31, 2014	Dec. 31, 2013
Loans and advances to affiliated banks	**49,301**	**50,817**
of which: to cooperative central institutions	57	11
Deposits from affiliated banks	**32,157**	**36,891**
of which: from cooperative central institutions	6	4

» 07 SUBORDINATED ASSETS

The following balance sheet items include subordinated assets in the amounts stated:

€ million	Dec. 31, 2014	Dec. 31, 2013
Loans and advances to banks	**1,549**	**1,521**
of which: to affiliated companies	1,495	1,447
to investees	0	11
Loans and advances to customers	**73**	**80**
of which: to investees	–	0
Bonds and other fixed-income securities	**337**	**348**
of which: to affiliated companies	161	141
Shares and other variable-yield securities	**20**	**20**
Trading assets	**520**	**626**
of which: to affiliated companies	20	225
to investees	1	16
Total	**2,499**	**2,595**

» 08 TRUST ACTIVITIES

Total trust assets and trust liabilities are broken down as follows:

€ million	Dec. 31, 2014	Dec. 31, 2013
Trust assets		
Loans and advances to banks	120	134
Loans and advances to customers	8	10
Long-term equity investments	982	982
Total	**1,110**	**1,126**

€ million	Dec. 31, 2014	Dec. 31, 2013
Trust liabilities		
Deposits from banks	123	139
Deposits from customers	987	987
Total	**1,110**	**1,126**

» 09 FOREIGN CURRENCY

Assets and liabilities denominated in foreign currency are as follows:

€ million	Dec. 31, 2014	Dec. 31, 2013
Assets	22,940	23,138
Liabilities	25,026	13,744

» 10 SALE AND REPURCHASE AGREEMENTS

The carrying amount of assets subject to sale and repurchase agreements as at December 31, 2014 was €8,935 million (December 31, 2013: €9,232 million).

» 11 ASSETS ASSIGNED AS COLLATERAL

The following table lists liabilities for which assets in the amount shown have been pledged as collateral:

€ million	Dec. 31, 2014	Dec. 31, 2013
Deposits from banks	33,775	32,664
Trading liabilities	9,010	9,283
Total	**42,785**	**41,947**

The amount pledged as collateral for exchange-traded forward transactions and in connection with collateral agreements as part of OTC trading business was €11,389 million (December 31, 2013: €7,982 million).

» 12 STRUCTURE OF SECURITIES PORTFOLIO BY PURPOSE

The table below shows the breakdown of the securities portfolio by purpose:

€ million	Dec. 31, 2014	Dec. 31, 2013
Bonds and other fixed-income securities		
Fixed assets	39,718	39,458
Liquidity reserve	103	367
Total	**39,821**	**39,825**

€ million	Dec. 31, 2014	Dec. 31, 2013
Shares and other variable-yield securities		
Fixed assets	49	298
Liquidity reserve	17	17
Total	**66**	**315**

» 13 MARKETABLE SECURITIES

The following asset items include marketable securities in the amounts shown:

€ million	Dec. 31, 2014	Dec. 31, 2013
Bonds and other fixed-income securities	**39,821**	**39,825**
of which: listed on a stock exchange	34,350	34,542
Shares and other variable-yield securities	**29**	**29**
of which: listed on a stock exchange	11	11
Long-term equity investments	**0**	**78**
of which: listed on a stock exchange	0	78
Shares in affiliated companies	**3,151**	**3,041**
of which: listed on a stock exchange	536	536

» 14 TRADING ASSETS AND TRADING LIABILITIES

The table below shows a breakdown of trading assets and trading liabilities:

€ million	Dec. 31, 2014	Dec. 31, 2013
Trading assets		
Derivatives	16,104	21,934
Loans and advances to banks	12,991	15,055
Loans and advances to customers	1,773	3,653
Bonds and other fixed-income securities	14,324	15,792
of which: own bonds	(1,561)	(1,599)
Shares and other variable-yield securities	705	563
Other (risk adjustments)	-357	-345
Total	**45,540**	**56,652**

€ million	Dec. 31, 2014	Dec. 31, 2013
Trading liabilities		
Derivatives	10,736	20,619
Deposits from banks	8,926	10,486
Deposits from customers	2,163	1,221
Debt certificates issued including bonds	15,203	14,919
Total	**37,028**	**47,245**

The changes in fixed assets were as follows:

» 15
CHANGES IN INTANGIBLE ASSETS AND IN PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENTS

INTANGIBLE ASSETS, AND PROPERTY, PLANT AND EQUIPMENT

	Cost				Reversals of write-downs	Depreciation/ amortization and write-downs		Net carrying amount	
€ million	Jan. 1, 2014	Additions	Disposals	Reclassifi-cations		Current year	Cumulative	Dec. 31, 2014	Dec. 31, 2013
Intangible assets	327	16	0	–	–	28	297	**46**	57
Land and buildings	165	–	–	-6	–	2	23	**136**	139
of which: used for own operations	(165)	(–)	(–)	(-6)	(–)	(2)	(23)	(136)	(139)
Office furniture and equipment	198	12	6	7	–	11	157	**54**	47
Payments in advance on property, plant and equipment	8	0	–	-7	–	–	–	**1**	8
Total	698	28	6	-6	–	41	477	**237**	251

INVESTMENTS

	Change	Carrying amount	
€ million		Dec. 31, 2014	Dec. 31, 2013
Bonds and other fixed-income securities	260	39,718	39,458
Shares and other variable-yield securities	-249	49	298
Long-term equity investments	-68	403	471
Shares in affiliated companies	-145	10,419	10,564
Total	-202	**50,589**	50,791

The fair value of financial instruments reported under investments and reported at a carrying amount exceeding their fair value because write-downs have not been recognized in accordance with section 253 (3) sentence 4 HGB was €3,060 million (carrying amount: €3,228 million) for bonds and other fixed-income securities. Internal analyses of long-term securities revealed that none were expected to be permanently impaired. Since the impairment of these securities was only temporary, the securities were not written down to fair value. In the case of asset-backed securities (ABSs), DZ BANK carried out detailed cash flow analyses related to the receivables in the securitization pool taking into account the waterfall structure of each ABS tranche.

» 16 OTHER ASSETS

Other assets largely include tax credits of €363 million (December 31, 2013: €501 million), receivables arising from currency translation of €195 million (December 31, 2013: €88 million), and variation margin payments arising from interest-rate derivatives and repos of €160 million (December 31, 2013: €32 million).

» 17 PREPAID EXPENSES/ ACCRUED INCOME AND DEFERRED INCOME/ACCRUED EXPENSES

€ million	Dec. 31, 2014	Dec. 31, 2013
Prepaid expenses/accrued income		
Discount on deposits	44	47
Other prepaid expenses/accrued income	7	6
Total	**51**	**53**

€ million	Dec. 31, 2014	Dec. 31, 2013
Deferred income/accrued expenses		
Discount on loans and advances	12	18
Premium on bonds issued	47	59
Other deferred income/accrued expenses	2	4
Total	**61**	**81**

» 18 DEFERRED TAX ASSETS

This line item included deferred tax assets in accordance with section 274 HGB amounting to €1,172 million as at December 31, 2014 (December 31, 2013: €1,316 million). Deferred tax assets were recognized primarily in respect of temporary balance sheet differences and in respect of the fund for home savings risk recognized by Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall. Deferred taxes are measured using the national and entity-specific tax rates expected to apply at the time of realization. The income tax group was subject to a standard tax rate of 30.91 percent (trade tax of 15.085 percent and corporation tax/solidarity surcharge of 15.825 percent). Deferred taxes at branches outside Germany were measured at the statutory rates applicable in the countries concerned, which vary between 12.00 percent and 45.43 percent.

» 19 NETTING OF ASSETS AND LIABILITIES

The table below shows the cost and the fair value of netted assets that are protected from the claims of all other creditors and are used solely to settle liabilities arising from pension obligations; it also shows the amount needed to settle these netted liabilities. It also shows the pertinent netted income and expenses resulting from discounting and from the netted assets.

€ million	Dec. 31, 2014	Dec. 31, 2013
Cost of netted assets	742	757
Fair value of netted assets	802	777
Amount needed to settle the netted liabilities	830	787
Netted expenses	76	63
Netted income	63	21

The offsetting of pension obligations against individual plan assets resulted in excess cover of €2 million in the New York branch. Taking account of unfunded pension plans, which amounted to €13 million, provisions for pensions stood at €43 million.

» 20 CHANGES IN EQUITY

The subscribed capital of DZ BANK consists of 1,402,410,350 registered non-par-value shares each with an imputed value of €2.60. All shares in issue are fully paid-up.

The changes in equity were as follows:

€ million	Jan. 1, 2014	Additions/ (-)Withdrawals	Dec. 31, 2014
Subscribed capital	3,160	486	**3,646**
Capital reserve	1,377	992	**2,369**
Revenue reserves	1,766	–	**1,766**
Statutory reserve	105	–	105
Other revenue reserves	1,661	–	1,661
Distributable profit	158	55	**213**
Dividend	158	-158	–
Profit carried forward	0	–	0
Net income for 2014	–	213	213
Total equity	6,461	1,533	**7,994**

In 2014, the Board of Managing Directors used its existing authorizations, with the approval of the Supervisory Board, to adopt a resolution to increase the subscribed capital (share capital) by €486,168,922.20 from €3,160,097,987.80 to €3,646,266,910.00. The implementation of the capital increase by way of an issue of 186,988,047 registered non-par-value shares at a subscription price per share of €7.90 for cash was entered in the commercial register of the Frankfurt am Main local court on July 29, 2014. Dividends are payable on the new shares from January 1, 2014.

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to increase the share capital by June 30, 2019 on one or more occasions by up to a total of €100 million by way of issuing new registered non-par-value shares in return for cash or non-cash contributions. The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to exclude the subscription right of shareholders both in the case of capital increases in return for non-cash contributions and in the case of capital increases in return for cash contributions if the capital is increased for the purpose of

a) issuing new shares to employees of the company (employee shares),

b) issuing new shares to one or more cooperative banks which, measured in terms of their total assets, directly or indirectly have a below-average stake in the company's share capital, i.e. less than 0.44 percent of their total assets (using the nominal value of €2.60 per DZ BANK share),

c) acquiring companies, equity investments in companies or for granting equity investments in the corporation in order to back strategic partnerships.

The Board of Managing Directors is also authorized, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders ('Authorized Capital I').

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to increase the share capital by June 30, 2019 on one or more occasions by up to a total of €150 million by issuing new registered non-par-value shares in return for cash contributions. The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders ('Authorized Capital II').

» 21 AMOUNTS NOT ALLOWED TO BE DISTRIBUTED AS DIVIDENDS

The table below gives a breakdown of the total amount that is not allowed to be distributed as a dividend pursuant to section 268 (8) HGB:

€ million	Dec. 31, 2014	Dec. 31, 2013
Recognition of deferred taxes	1,172	1,316
Recognition of assets at fair value	60	20

The total amounts of €1,232 million that were not allowed to be distributed as dividends were more than offset by readily available revenue reserves of €1,661 million. Consequently, the distributable profit of €213 million is not prohibited from being paid out as a dividend.

» 22 DISCLOSURES ON SHAREHOLDERS

At the end of 2014, 99.4 percent of DZ BANK's share capital was held by cooperative enterprises. These cooperative enterprises include the cooperative banks, the cooperative central institutions, and other legal entities and trading companies economically associated with the cooperative movement or cooperative housing sector.

» 23 OTHER LIABILITIES

Other liabilities include profit-participation certificates that matured at the end of 2014 and are due to be repaid in 2015 (including dividend distribution) of €27 million (December 31, 2013: €293 million) and liabilities owed to the tax authorities of €15 million (December 31, 2013: €30 million).

» 24 CHANGES IN TAX PROVISIONS AND OTHER PROVISIONS

The table below shows the changes in tax provisions and other provisions:

CHANGES IN PROVISIONS

€ million	Jan. 1, 2014	Additions	Utilizations	Reversals	Reclassifications	Changes recognized directly in equity	Changes resulting from discounts and unwinding of discounts	**Dec. 31, 2014**
Provisions for taxes	133	79	22	43	–	–	–	**147**
Other provisions	588	332	211	89	–	4	8	**632**

Provided that the necessary conditions were met, provisions for corporation tax were netted with entitlements to reimbursement of creditable tax.

» 25 SUBORADINATED LIABILITIES

There are no early redemption obligations in respect of the subordinated capital. In the event of insolvency or liquidation, all rights in connection with these liabilities, including rights to interest, are subordinated to the claims of all non-subordinated creditors.

The conversion of these funds into capital or another form of debt has not been agreed, nor are there any plans for any such conversion.

The subordinated liabilities carry an average interest rate of 3.85 percent (2013: 3.65 percent) and have initial maturities of between 5 and 30 years.

Subordinated liabilities are issued in the form of fixed-income and variable-yield securities, promissory notes, and registered bonds.

The interest expense for the liabilities reported under this item amounted to €202 million in 2014 (2013: €209 million).

Accrued interest not yet due for payment amounting to €83 million (December 31, 2013: €91 million) is included within the subordinated liabilities balance sheet item.

» 26 PROFIT-SHARING RIGHTS

Profit-sharing rights also incur a share of losses of up to their full amount. Interest payments are subject to the availability of distributable profit. Claims by holders of profit-sharing rights to the repayment of the capital are subordinated to the claims of other creditors. DZ BANK has issued the following bearer profit-sharing rights:

Year of issue	Nominal amount	Coupon	Maturity
	€ million	%	
2008	139	7.40	2018
2008	72	4.06[1]	2018

1 Dependent on market interest rate.

DZ BANK has issued registered profit-participation certificates with a volume of €63 million. Total registered profit-participation certificates comprise 6 separate issues with an original maturity of 16 years and a coupon of 7.06 percent each.

The total interest expense in respect of profit-sharing rights in 2014 was €26 million (2013: €39 million).

Accrued interest not yet due for payment amounting to €18 million (December 31, 2013: €20 million) is included within the profit-sharing rights balance sheet item.

The table below shows a list of the derivatives recognized at fair value by product area:

» 27
LIST OF DERIVATIVES RECOGNIZED AT FAIR VALUE BY PRODUCT AREA

	Nominal amount					Fair value			
	Time to maturity			Total amount		Positive		Negative	
€ million	≤ 1 year	> 1-5 years	> 5 years	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
INTEREST-LINKED CONTRACTS	**145,527**	**260,782**	**280,912**	**687,221**	**731,764**	**25,021**	**18,791**	**23,585**	**18,108**
OTC products									
Forward rate agreements	5,673	–	–	5,673	5,753	0	0	0	0
Interest-rate swaps (same currency)	100,884	220,441	250,698	572,023	596,706	22,038	16,806	18,696	14,794
Interest-rate options – call	15,683	16,673	11,452	43,808	53,928	2,856	1,870	20	45
Interest-rate options – put	18,562	22,960	18,762	60,284	67,794	127	115	4,869	3,269
Exchange-traded products									
Interest-rate futures	4,725	708	–	5,433	7,583	–	–	–	–
CURRENCY-LINKED CONTRACTS	**16,622**	**3,856**	**140**	**20,618**	**18,421**	**321**	**190**	**386**	**315**
OTC products									
Forward forex transactions	8,363	1,842	99	10,304	7,550	180	95	229	201
Forex options – call	3,871	814	–	4,685	5,275	33	14	7	21
Forex options – put	4,061	1,171	–	5,232	5,245	11	16	38	19
Exchange-traded products									
Forex futures	133	–	–	133	73	–	–	–	–
Forex options	194	29	41	264	278	97	65	112	74
SHARE-/INDEX-LINKED CONTRACTS	**8,938**	**5,762**	**1,618**	**16,318**	**19,621**	**816**	**950**	**1,146**	**1,184**
OTC products									
Share/index options – call	424	116	38	578	590	28	42	0	0
Share/index options – put	141	233	–	374	365	–	2	32	40
Other share/index contracts	467	2,542	1,104	4,113	5,165	84	106	29	127
Exchange-traded products									
Share/index futures	370	10	–	380	457	–	–	–	–
Share/index options	7,536	2,861	476	10,873	13,044	704	800	1,085	1,017

	Nominal amount					Fair value			
	Time to maturity			Total amount		Positive		Negative	
€ million	≤ 1 year	> 1-5 years	> 5 years	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
OTHER CONTRACTS	**7,687**	**17,946**	**6,598**	**32,231**	**36,592**	**817**	**890**	**1,492**	**525**
OTC products									
Cross-currency swaps	6,992	17,190	6,503	30,685	34,972	736	836	1,388	473
Precious metal contracts	1	7	–	8	8	–	0	1	1
Commodities contracts	256	605	1	862	1,110	8	19	8	7
Exchange-traded products									
Futures	117	29	2	148	108	0	0	0	0
Options	321	115	92	528	394	73	35	95	44
CREDIT DERIVATIVES	**7,622**	**24,584**	**2,538**	**34,744**	**45,059**	**328**	**406**	**187**	**475**
Protection buyer									
Credit default swaps	3,565	10,737	462	14,764	19,019	59	131	136	167
Total return swaps	1	160	–	161	2,721	0	3	3	194
Protection seller									
Credit default swaps	4,056	13,687	2,076	19,819	23,319	269	272	48	114
Total	**186,396**	**312,930**	**291,806**	**791,132**	**851,457**	**27,303**	**21,227**	**26,796**	**20,607**

A substantial proportion of the transactions listed were entered into for the purposes of hedging interest-rate, exchange-rate, market, or credit risk.

The table below shows a list of the derivatives recognized at fair value by counterparty structure:

» 28
LIST OF DERIVATIVES RECOGNIZED AT FAIR VALUE BY COUNTERPARTY STRUCTURE

	Fair value			
	Positive		Negative	
€ million	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
OECD central governments	246	194	451	285
OECD banks	23,940	18,221	24,245	17,732
OECD financial services institutions	0	7	–	0
Other companies, private individuals	3,099	2,704	1,822	2,366
Non-OECD central governments	0	0	–	–
Non-OECD banks	18	101	278	224
Total	**27,303**	**21,227**	**26,796**	**20,607**

The table below shows a list of the derivatives not recognized at fair value by product area:

» 29
LIST OF DERIVATIVES NOT RECOGNIZED AT FAIR VALUE BY PRODUCT AREA

	Nominal amount					Fair value			
	Time to maturity			Total amount		Positive		Negative	
€ million	≤ 1 year	> 1-5 years	> 5 years	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
INTEREST-LINKED CONTRACTS	**1,416**	**654**	**3,355**	**5,425**	**6,746**	**898**	**754**	**581**	**514**
OTC products									
Interest-rate swaps (same currency)	425	596	3,355	4,376	5,697	897	753	581	514
Interest-rate options – put	–	20	–	20	20	1	1	–	–
Exchange-traded products									
Interest-rate futures	991	38	–	1,029	1,029	0	–	0	–
CURRENCY-LINKED CONTRACTS	**26,085**	**1,909**	**153**	**28,147**	**32,503**	**665**	**332**	**295**	**186**
OTC products									
Forward forex transactions	26,085	1,909	153	28,147	32,503	665	332	295	186
OTHER CONTRACTS	**412**	**1,065**	**582**	**2,059**	**2,678**	**50**	**33**	**210**	**104**
OTC products									
Cross-currency swaps	412	1,065	582	2,059	2,678	50	33	210	104
CREDIT DERIVATIVES	**100**	**–**	**42**	**142**	**42**	**0**	**–**	**1**	**2**
Protection buyer									
Credit default swaps	100	–	42	142	42	0	–	1	2
Total	**28,013**	**3,628**	**4,132**	**35,773**	**41,969**	**1,613**	**1,119**	**1,087**	**806**

The transactions listed were entered into for the purposes of hedging interest-rate, exchange-rate, market, or credit risk.

The carrying amounts of non-trading derivatives not recognized at fair value included the offsetting item for currency translation of €195 million (December 31, 2013: €88 million) and variation margins on exchange-traded futures and options of €0 million (December 31, 2013: –) under other assets and variation margins on exchange-traded futures and options of €0 million (December 31, 2013: –) and premiums from options of €0 million (December 31, 2013: €0 million) under other liabilities.

Prepaid expenses and accrued income include upfront payments of €0 million on interest-rate swaps (December 31, 2013: €0 million). Deferred income and accrued expenses include upfront payments of €0 million on interest-rate swaps (December 31, 2013: €1 million). Deferred interest income from non-trading derivatives not recognized at fair value is reported in the amount of €49 million (December 31, 2013: €59 million) under loans and advances to banks and in the amount of €14 million (December 31, 2013: €16 million) under loans and advances to customers, while accrued interest expense on non-trading derivatives not recognized at fair value is reported in the amount of €41 million (December 31, 2013: €54 million) under deposits from banks, and in the amount of €16 million (December 31, 2013: €12 million) under deposits from customers.

The table below shows a list of the derivatives not recognized at fair value by counterparty structure:

» 30
LIST OF DERIVATIVES NOT RECOGNIZED AT FAIR VALUE BY COUNTERPARTY STRUCTURE

	Fair value			
	Positive		Negative	
€ million	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
OECD banks	1,325	917	1,033	638
Other companies, private individuals	288	202	49	168
Non-OECD banks	0	–	5	0
Total	**1,613**	**1,119**	**1,087**	**806**

C. Income statement disclosures

» 31 BREAKDOWN OF INCOME BY GEOGRAPHICAL MARKET

The table below shows the geographical breakdown of total interest income, current income from shares and other variable-yield securities, long-term equity investments and shares in affiliated companies, fee and commission income, net trading income, and other operating income:

%	2014	2013
Germany	93.78	94.20
International	6.22	5.80

» 32 FEE AND COMMISSION INCOME AND EXPENSES

The surplus of fee and commission income over fee and commission expenses resulted from the following services:

€ million	2014	2013
Securities business	89	86
Transaction banking/international business	55	51
Lending and financial guarantee business	105	93
Other	27	27
Total	**276**	**257**

» 33 ADMINISTRATION AND AGENCY SERVICES PROVIDED FOR THIRD PARTIES

Services provided for third parties relate primarily to custody services and the management of trust assets.

» 34 OTHER OPERATING INCOME AND EXPENSES

The other operating income of €98 million largely comprised income of €35 million from the reversal of provisions, rental income of €17 million, income of €11 million resulting from completed settlement negotiations in connection with the New York branch’s ABS business, and interest income from tax rebates of €9 million.

Other operating expenses of €88 million were mainly attributable to operating costs of €23 million in connection with premises not used for banking operations, net expenses of €13 million incurred by the measurement of pension plans, an addition to provisions of €12 million, the unwinding of discounts on other provisions amounting to €7 million, and interest expenses of €6 million on revised tax liabilities.

» 35 EXTRAORDINARY INCOME AND EXPENSES

The extraordinary income essentially comprised gains from the merger of AGAB AG für Anlagen und Beteiligungen, Frankfurt am Main, of €30 million, and from the merger of DZ Immobilien GmbH & Co. KG WH10, Frankfurt am Main, of €5 million.

The extraordinary expenses resulted from restructuring of the Poland branch's business activities.

» 36 INCOME TAXES

The expenses reported under income taxes arose from corporation tax and trade tax gains allocated to the tax groups amounting to €175 million, a tax expense of €232 million for the current year, income from foreign withholding tax of €4 million, tax income of €45 million relating to prior years, and income of €7 million from the unwinding of the discount on the corporation tax credit claim. This item also included deferred tax expenses of €144 million in accordance with section 274 HGB in 2014. Income taxes are recognized exclusively in respect of the result from ordinary activities.

» 37 PROPOSED APPROPRIATION OF PROFITS

It will be proposed to the Annual General Meeting that the distributable profit be appropriated for a dividend payment of €0.15 (2013: €0.13) per non-par-value share.

D. Other disclosures

» 38 TYPE, PURPOSE, RISKS, AND BENEFITS OF OFF-BALANCE-SHEET TRANSACTIONS

The following unused liquidity lines were available as at December 31, 2014 in connection with asset-backed commercial paper (ABCP) transactions:

Transaction	Type of transaction	Purpose of transaction	Unused liquidity lines (€ million)	Risks
CORAL	ABCP conduit	Customer-focused corporate funding to generate commission income	127	Utilization of available liquidity lines
AUTOBAHN	ABCP conduit	Customer-focused corporate funding to generate commission income	2,079	Utilization of available liquidity lines
Non-DZ BANK Group conduits	ABCP conduit	Customer-focused corporate funding to generate commission income	150	Utilization of available liquidity lines
Total			2,356	

These unused liquidity lines are the undrawn portions of lines granted externally to ABCP conduits. The purpose of the liquidity lines is to ensure that the individual conduits can be funded if commercial paper cannot be placed in the market. The above-mentioned risks are included in DZ BANK's liquidity risk models in full.

As part of the strategic management of the DZ BANK Group, Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, (DG HYP) has been granted a standby commitment amounting to €2,000 million. This can be used for funding purposes at short notice, if required.

» 39 OTHER FINANCIAL OBLIGATIONS

As at December 31, 2014, the total amount of other financial obligations for the following year was €164 million (December 31, 2013: €239 million). Most of these obligations related to follow-up obligations under memoranda and articles of association and to obligations under lease agreements, capital expenditure projects, and pending transactions. This amount includes obligations to affiliated companies of €24 million (December 31, 2013: €26 million).

Other financial obligations will amount to €388 million for years from 2016 onward. This amount includes obligations to affiliated companies of €143 million.

DZ BANK has given transfer guarantee declarations to domestic entities and public institutions in respect of certain deposits at its branches in London and New York covering eventualities in which the branches may be prevented from meeting their repayment obligations by the decision of governments.

DZ BANK is a participant in the protection scheme operated by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks], Berlin. This facility comprises a guarantee fund and a guarantee network. Under the terms of its statutes, DZ BANK is bound, if the need arises, to lodge a guarantee bond of up to €90 million with the BVR in support of the guarantee network.

» 40 LETTERS OF COMFORT

Except in the event of political risk, DZ BANK has undertaken to ensure in proportion to its shareholding for the consolidated entity DZ PRIVATBANK S.A., Luxembourg-Strassen, for VR Equitypartner GmbH, Frankfurt am Main, and in total for DZ BANK Ireland plc, Dublin, for DG HYP, and for DZ PRIVATBANK Singapore Ltd., Singapore, that these companies are able to meet their contractual obligations. These companies are identified in the list of DZ BANK's shareholdings (Note 51) as being covered by a letter of comfort. DZ BANK has also issued subordinated letters of comfort in respect of DZ BANK Capital Funding LLC I, DZ BANK Capital Funding LLC II, and DZ BANK Capital Funding LLC III, all based in Wilmington. In addition, DZ BANK has issued 8 subordinated letters of comfort in respect of DZ BANK Perpetual Funding (Jersey) Limited, St. Helier, each relating to different classes of preferred shares.

» 41 HEDGE ACCOUNTING

DZ BANK has recognized a micro-hedge and included it in hedge accounting in accordance with section 254 HGB in order to hedge the currency risk arising from the long-term equity investment in DG Funding LLC, New York, in its banking book. The bank funded the carrying amount of its investment by raising US dollar-denominated fixed-term deposits. These fixed-term deposits are rolled over every 3 months. This perfect hedge ensures that the exchange-rate fluctuations in the hedge over the term of the deposits totally cancel each other out. DZ BANK proves the effectiveness of its hedge both prospectively and retrospectively by reconciling the measurement-related parameters.

» 42 EMPLOYEES

Average number of employees by employee group:

	2014	2013
Female employees	**1,801**	**1,729**
Full-time employees	1,161	1,129
Part-time employees	640	600
Male employees	**2,449**	**2,382**
Full-time employees	2,331	2,267
Part-time employees	118	115
Total employees	**4,250**	**4,111**

» 43 AUDITOR FEES

For information on the total fees billed for 2014 by the auditors Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, please refer to Note 93 'Auditor fees' in DZ BANK's 2014 consolidated financial statements.

» 44 INVESTMENT FUND ASSETS

DZ BANK owned the following holdings of more than 10 percent of the units in investment fund assets within the meaning of section 285 no. 26 HGB as at December 31, 2014:

INVESTMENT FUND ASSETS BY INVESTMENT OBJECTIVE

€ million	Carrying amount	Fair value	Difference between fair value and carrying amount	Distributions paid for 2014
Mixed fund (pension fund)	779	779	–	18
Mixed fund	1	1	–	–

DZ BANK uses its investments in the pension fund to cover and fund its direct pension obligations in Germany over the long term.

» 45 CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

DZ BANK only assumes liabilities in the form of guarantees and indemnity agreements after it has carefully assessed the risks involved. Having constantly evaluated the risks attaching to the guarantees and indemnity agreements that it has entered into, the bank is currently of the view that the principal debtors concerned will be able to meet the obligations underlying these guarantees and indemnity agreements. DZ BANK believes that these guarantees and indemnity agreements are unlikely to be utilized.

In order to cover acute risks arising from guarantees, indemnity agreements and irrevocable loan commitments, the bank has recognized provisions of an appropriate amount and has reduced the relevant figures reported by a corresponding amount.

» 46
COVER STATEMENT

The following cover is in place for outstanding covered bonds and derivatives:

€ million	Dec. 31, 2014	Dec. 31, 2013
Total cover assets	**21,801**	23,190
Ordinary cover	**21,799**	23,188
Loans and advances to banks	12,245	13,451
Loans and advances to customers	817	788
Bonds and other fixed-income securities	8,737	8,949
Derivatives held as cover	**2**	2
Cover requirement	**15,189**	17,673
Outstanding, covered		
– bearer bonds	5,450	6,894
– registered bonds	9,739	10,779
Derivatives	0	0
Excess cover	**6,612**	5,517

» 47
TRUSTEES OF COVER ASSETS

The trustees are appointed by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [Federal Financial Supervisory Authority] and have a duty under law to ensure that the issuance, administration, and collateralization of DZ BANK's covered bonds comply with statutory requirements, the provisions of the Articles of Association, and the terms and conditions of the bonds.

TRUSTEE

KLAUS SCHLITZ
Vice President of the
Frankfurt am Main regional court (retired)
(until January 31, 2014)

KLAUS SCHMITZ
Presiding Judge at the
Frankfurt am Main regional court (retired)
(since February 1, 2014)

DEPUTY TRUSTEE

KLAUS SCHMITZ
Presiding Judge at the
Frankfurt am Main regional court (retired)
(until January 31, 2014)

KLAUS SCHLITZ
Vice President of the
Frankfurt am Main regional court (retired)
(from February 1 to September 30, 2014)

KLAUS WIENS
Presiding Judge at the
Frankfurt am Main regional court (retired
since January 1, 2015)
(since October 1, 2014)

» 48 RELATED-PARTY DISCLOSURES

The exercise of DZ BANK's normal business activities involves parties related to DZ BANK. Transactions with related parties within the meaning of section 285 no. 21 HGB are conducted on an arm's length basis.

» 49 DECISION-MAKING BODIES

The total remuneration for the members of the Board of Managing Directors of DZ BANK in 2014 was €8,159 thousand (2013: €8,453 thousand). The total remuneration for the Supervisory Board was €592 thousand (2013: €573 thousand). The total remuneration for the Board of Managing Directors in 2014 and 2013 includes the total bonus awarded to the Board of Managing Directors for the year in question. A sum of 20 percent of the total bonus determined on the basis of targets achieved is paid out in the subsequent year immediately after the annual financial statements have been formally adopted. Payment of the remaining 80 percent of the bonus of €1,261 thousand granted for 2014 (2013: €1,278 thousand) depends on the sustained share price performance based on a calculation of enterprise value per DZ BANK share and is spread out over a period of up to 4 years in total.

A total amount of €8,740 thousand (2013: €8,721 thousand) was paid to former members of the Board of Managing Directors or their surviving dependants, for whom pension obligations of €98,495 thousand (2013: €96,039 thousand) were also recognized.

BOARD OF MANAGING DIRECTORS OF DZ BANK

WOLFGANG KIRSCH
(Chief Executive Officer)
Responsibilities: Legal, Communication & Marketing, Verbund, Audit

LARS HILLE
Responsibilities: Capital Markets Trading, Capital Markets Retail, Research and Economics

WOLFGANG KÖHLER
Responsibilities: Group Treasury, Capital Markets Institutional Clients

ALBRECHT MERZ
(Member of the Board of Managing Directors until May 20, 2014)

DR. CORNELIUS RIESE
(Member of the Board of Managing Directors since April 1, 2014; Deputy Member of the Board of Managing Directors until March 31, 2014)
Responsibilities: Finance, Strategy & Controlling

THOMAS ULLRICH
Responsibilities: IT, Organisation, Operations/Services, Human Resources

FRANK WESTHOFF
Responsibilities: Credit, Risk Controlling, Compliance Office

STEFAN ZEIDLER
Responsibilities: Corporate Banking, Structured Finance

SUPERVISORY BOARD OF DZ BANK

HELMUT GOTTSCHALK
(Chairman of the Supervisory Board)
Spokesman of the Board of
Managing Directors
Volksbank Herrenberg-Nagold-
Rottenburg eG

WOLFGANG APITZSCH
(Deputy Chairman of the
Supervisory Board)
Attorney

HENNING DENEKE-JÖHRENS
(Deputy Chairman of the
Supervisory Board)
Chief Executive Officer
Volksbank eG
Lehrte-Springe-Pattensen-Ronnenberg

HEINER BECKMANN
Senior manager
R+V Allgemeine Versicherung AG

RÜDIGER BEINS
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

ULRICH BIRKENSTOCK
Employee
R+V Allgemeine Versicherung AG

WERNER BÖHNKE
(Member of the Supervisory Board
until May 20, 2014)
Chairman of the Supervisory Board
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

HERMANN BUERSTEDDE
Employee
Union Asset Management Holding AG

KARL EICHELE
Employee
Schwäbisch Hall Kreditservice AG

UWE FRÖHLICH
President
Bundesverband der Deutschen Volksbanken
und Raiffeisenbanken e.V. (BVR)

KLAUS HOLDERBACH
(Member of the Supervisory Board
since May 20, 2014)
Chief Executive Officer
Volksbank Franken eG

BERND HÜHN
Chief Executive Officer
Volksbank Alzey-Worms eG

SIGMAR KLEINERT
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

RAINER MANGELS
Employee
R+V Rechtsschutz-
Schadenregulierungs-GmbH

WALTER MÜLLER
(Member of the Supervisory Board
until May 20, 2014)
Chief Executive Officer
Volksbank Raiffeisenbank
Fürstenfeldbruck eG

GERHARD J. RASTETTER
(Member of the Supervisory Board
until May 20, 2014)
Bank Director (ret.)

DIETER REMBDE
Member of the Board of
Managing Directors
VR-Bank Schwalm-Eder
Volksbank Raiffeisenbank eG

STEPHAN SCHACK
Spokesman of the Board of
Managing Directors
Volksbank Raiffeisenbank eG, Itzehoe

GREGOR SCHELLER
(Member of the Supervisory Board
since May 20, 2014)
Chief Executive Officer
Volksbank Forchheim eG

GUDRUN SCHMIDT
Regional Group Director (ret.)
ver.di Landesbezirk Hessen

UWE SPITZBARTH
National Group Director Banks
ver.di Bundesverwaltung

DR. WOLFGANG THOMASBERGER
Chief Executive Officer
VR Bank Rhein-Neckar eG

HANS-BERND WOLBERG
(Member of the Supervisory Board
since May 20, 2014)
Chief Executive Officer
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

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SUPERVISORY MANDATES HELD BY MEMBERS OF THE BOARD OF MANAGING DIRECTORS AND EMPLOYEES

As at December 31, 2014, members of the Board of Managing Directors and employees also held mandates on the statutory supervisory bodies of major companies. These and other notable mandates are listed below. Companies included in the consolidation are indicated with an asterisk (*).

MEMBERS OF THE BOARD OF MANAGING DIRECTORS

WOLFGANG KIRSCH
(Chief Executive Officer)

Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall,
Chairman of the Supervisory Board (*)

R+V Versicherung AG, Wiesbaden,
Chairman of the Supervisory Board (*)

Südzucker AG, Mannheim,
Member of the Supervisory Board

Union Asset Management Holding AG,
Frankfurt am Main,
Chairman of the Supervisory Board (*)

LARS HILLE	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Member of the Supervisory Board (*)
	Cassa Centrale Banca – Credito Cooperativo del Nord Est S.p.A., Trento, Member of the Board of Directors
	Deutsche WertpapierService Bank AG, Frankfurt am Main, Member of the Supervisory Board
	DZ PRIVATBANK (Schweiz) AG, Zurich, Chairman of the Board of Directors (*)
	DZ PRIVATBANK S.A., Luxembourg-Strassen, Chairman of the Supervisory Board (*)
	TeamBank AG Nürnberg, Nuremberg Chairman of the Supervisory Board (*)
	Union Asset Management Holding AG, Frankfurt am Main, Member of the Supervisory Board (*)
WOLFGANG KÖHLER	DVB Bank SE, Frankfurt am Main, Member of the Supervisory Board (*)
	DZ PRIVATBANK S.A., Luxembourg-Strassen, Member of the Supervisory Board (*)
	R+V Lebensversicherung AG, Wiesbaden, Member of the Supervisory Board (*)
DR. CORNELIUS RIESE	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, Member of the Supervisory Board (*)
	DZ Polska S.A., Warsaw, Chairman of the Supervisory Board
	R+V Allgemeine Versicherung AG, Wiesbaden, Member of the Supervisory Board (*)
	R+V Lebensversicherung AG, Wiesbaden, Member of the Supervisory Board (*)
	VR-LEASING AG, Eschborn, Member of the Supervisory Board (*)

THOMAS ULLRICH	Deutsche WertpapierService Bank AG, Frankfurt am Main, Deputy Chairman of the Supervisory Board
	Equens SE, Utrecht, Member of the Supervisory Board
	FIDUCIA IT AG, Karlsruhe, Member of the Supervisory Board (until December 31, 2014)
FRANK WESTHOFF	BAG Bankaktiengesellschaft, Hamm, Member of the Supervisory Board
	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, Chairman of the Supervisory Board (*)
	Deutsche WertpapierService Bank AG, Frankfurt am Main, Member of the Supervisory Board
	DVB Bank SE, Frankfurt am Main, Chairman of the Supervisory Board (*)
	DZ BANK Ireland plc, Dublin, Chairman of the Board of Directors (*)
	TeamBank AG Nürnberg, Nuremberg, Deputy Chairman of the Supervisory Board (*)
STEFAN ZEIDLER	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, Member of the Supervisory Board (*)
	EDEKABANK AG, Hamburg, Member of the Supervisory Board
	VR-LEASING AG, Eschborn, Chairman of the Supervisory Board (*)

EMPLOYEES

ROLF BÜSCHER	Volksbank Romania S.A., Bucharest, Member of the Supervisory Board
DR. LUIS-ESTEBAN CHALMOVSKY	Banco Cooperativo Español S.A., Madrid, Member of the Board of Directors
DIETMAR ILG	DZ Polska S.A., Warsaw, Vice Chairman of the Supervisory Board
THOMAS KALTWASSER	DZ BANK Ireland plc, Dublin, Member of the Board of Directors (*)
DR. THOMAS KETTERN	Raiffeisen-Warenzentrale Kurhessen-Thüringen GmbH, Kassel, Member of the Supervisory Board
VERA KONERMANN	ReiseBank AG, Frankfurt am Main, Member of the Supervisory Board (*)
BERNHARD KUHN	DZ Polska S.A., Warsaw, Member of the Supervisory Board
WINFRIED MÜNCH	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main, Member of the Supervisory Board
DR. PETER NEU	Equens SE, Utrecht, Member of the Supervisory Board
CLAUDIO RAMSPERGER	Cassa Centrale Banca – Credito Cooperativo del Nord Est S.p.A., Trento, Member of the Board of Directors
GREGOR ROTH	ConCardis GmbH, Frankfurt am Main, Member of the Supervisory Board
	Deutsche WertpapierService Bank AG, Frankfurt am Main, Member of the Supervisory Board
	Equens SE, Utrecht, Deputy Chairman of the Supervisory Board
	ReiseBank AG, Frankfurt am Main, Chairman of the Supervisory Board (*)
DAGMAR WERNER	Banco Cooperativo Español S.A., Madrid, Member of the Board of Directors

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LIST OF SHAREHOLDINGS

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
ABO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	94.80		-85	-111
Adger Ocean KS (I)[1]	Oslo, Norway	0.00		0	0
Adger Ocean KS II[1]	Oslo, Norway	0.00		0	0
Adger Ocean KS III[1]	Oslo, Norway	0.00		0	0
Adirondack Shipping LLC[1]	Majuro, Marshall Islands	0.00		0	0
AER Holding N.V.[1]	Willemstad, Netherlands Antilles	100.00		0	0
AFK Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		28	0
AFK Grundstücksverwaltungsgesellschaft mbH & Co. Objekt-Betreuung KG[1,6]	Eschborn	94.00	66.67	10	4
AFU Grundstücksverwaltungsgesellschaft mbH[1,5]	Eschborn	100.00		112	0
AGIMA Aktiengesellschaft für Immobilien-Anlage[5]	Frankfurt am Main	100.00		84,025	0
Al Sahaab Aircraft Leasing Company[1]	Mirgab, Cayman Islands	0.00		0	0
American Flirtation N.V.[1]	Curaçao, Netherlands Antilles	100.00		0	0
Aquila Aircraft Leasing Ltd.[1]	Dublin, Ireland	0.00		0	0
Aran Airfinance Ltd.[1]	Tokyo, Japan	100.00		3	-4
ARATOS GmbH[1]	Eschborn	100.00		84	58
ARATOS GmbH & Co. Immobilien KG[1,6]	Eschborn	6.00	76.00	125	96
ARGINUS GmbH[1]	Eschborn	100.00		153	24
ARMIDA GmbH[1]	Eschborn	100.00		45	20
Asgard Shipping LLC[1]	Majuro, Marshall Islands	0.00		0	0
ASPASIA GmbH[1]	Eschborn	100.00		53	28
Assimoco S.p.A.[1]	Segrate (Mi), Italy	78.20		95,762	11,024
Assimoco Vita S.p.A.[1]	Segrate (Mi), Italy	80.80		95,307	3,631
Assimocopartner S.r.l. Unipersonale[1]	Segrate (Mi), Italy	100.00		221	-40
attrax S.A.[1]	Luxembourg, Luxembourg	100.00		28,484	14,893
Aufbau und Handelsgesellschaft mbH[1]	Stuttgart	94.90		525	0
AURIGA GmbH[1]	Eschborn	100.00		-577	-18
AXICA Kongress- und Tagungszentrum Pariser Platz 3 GmbH[5]	Berlin	100.00		26	0
BAL Grundstücksverwaltungsgesellschaft mbH[1,5]	Eschborn	100.00		31	0
Bathgate Trading Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –[5]	Schwäbisch Hall	81.80		1,812,302	0
Beteiligungsgesellschaft Westend 1 mbH & Co. KG[1]	Frankfurt am Main	94.90		17,485	-11
BFL Gesellschaft des Bürofachhandels mbH & Co. KG[1]	Eschborn	73.92	74.00	12,350	4,547
BFL Gesellschaft des Bürofachhandels Verwaltungsgesellschaft mbH[1]	Eschborn	100.00		32	0
BFL Leasing GmbH[1]	Eschborn	100.00		13,499	6,161
BIG-Immobilien Gesellschaft mit beschränkter Haftung[1]	Frankfurt am Main	100.00		736	-4
BIG-Immobilien GmbH & Co. Betriebs KG[1]	Frankfurt am Main	100.00		4,562	375
Blasket Airfinance Ltd.[1]	Tokyo, Japan	100.00		3	-4
Blue Moon Shipping Limited[1]	St. John's, Antigua and Barbuda	0.00		0	0
Bluebell Aircraft Leasing Ltd.[1]	Floriana, Malta	100.00	0.00	0	0
Bonham Aircraft Leasing Ltd.[1]	George Town, Cayman Islands	0.00		0	0
Braveheart Shipping Holdco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Braveheart Shipping Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Bukit Merah Shipping Pte. Ltd.[1]	Singapore, Singapore	0.00		0	0
Bulls Aircraft Leasing (Malta) Ltd.[1]	Floriana, Malta	100.00	0.00	0	0
Buzzard Aircraft Leasing Limited i.L.[1]	Dublin, Ireland	100.00	0.00	0	0
BWG Baugesellschaft Württembergischer Genossenschaften mbH[1]	Stuttgart	94.78		9,965	0
Calidris Shipping LLC[1]	Majuro, Marshall Islands	100.00		0	0
CALYPSO GmbH[1]	Eschborn	100.00		-363	-113
CANOPOS GmbH[1]	Eschborn	100.00		46	21
CANOPOS GmbH & Co. Immobilien KG[1,6]	Eschborn	100.00		27	26
Capital Lease Limited[1]	Hong Kong, Hong Kong	0.00		0	0
carexpert Kfz-Sachverständigen GmbH[1]	Walluf	60.00		3,071	-567
Cash Express Gesellschaft für Finanz- und Reisedienstleistungen mbH[1,5]	Frankfurt am Main	100.00		1,543	0
CATHENA GmbH[1]	Eschborn	100.00		52	27

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
CeDeOs 1 Limited	St. Helier, Jersey	0.00		0	0
CELES Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		332	-5
Centra Leasing Anlagen GmbH[1 5]	Eschborn	100.00		5,899	0
Centra Leasing Anlagen GmbH & Co. Objektbeteiligungs KG[1 6]	Eschborn	100.00		8	-1
CHEMIE Pensionsfonds AG[1]	Munich	100.00		18,318	2,000
Chiefs Aircraft Holding (Malta) Limited[1]	Floriana, Malta	100.00	0.00	0	0
CI Assekuradeur GmbH[1]	Hamburg	100.00		118	0
CI CONDOR Immobilien GmbH[1 5]	Hamburg	100.00		28,500	0
compertis Beratungsgesellschaft für betriebliches Vorsorgemanagement mbH[1]	Wiesbaden	100.00		3,301	321
Condor Allgemeine Versicherungs-Aktiengesellschaft[1 5]	Hamburg	100.00		41,762	0
Condor Beteiligungsgesellschaft mbH[1]	Hamburg	100.00		31	4
Condor Dienstleistungs GmbH[1]	Hamburg	100.00		200	4
Condor Lebensversicherungs-Aktiengesellschaft[1 5]	Hamburg	94.99		38,588	0
Container Investment Fund I LLC[1]	Majuro, Marshall Islands	0.00		0	0
Container Investment Fund II LLC[1]	Majuro, Marshall Islands	0.00		0	0
Cruise/Ferry Master Fund I N.V.[1]	Willemstad, Netherlands Antilles	0.00		0	0
D8 Product Tankers I LLC[1]	Majuro, Marshall Islands	0.00		0	0
DAC Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		59	33
DAC Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Lüneburg KG[1 6]	Eschborn	99.00	83.67	41	40
Dalian Deepwater Developer Ltd.[1]	St. Helier, Jersey	0.00		0	0
DCAL 1 Leasing Ltd.[1]	Majuro, Marshall Islands	0.00		0	0
DCAL 2 Leasing Ltd.[1]	Majuro, Marshall Islands	0.00		0	0
DEGEACTA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGEAKZENT Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		41	16
DEGEALBUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		24	0
DEGEALPHA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	1
DEGEALPHA Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Hamm-Heessen KG[1 6]	Eschborn	90.00	66.67	3	0
DEGEARKADE Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		76	50
DEGEARKADE Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		61	60
DEGEASPEKT Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		53	27
DEGEASPEKT Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		34	33
DEGEASTURA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		60	34
DEGEASTURA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		-966	47
DEGEAVUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGEAVUS Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		-134	-126
DEGEBALTA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		72	46
DEGEBALTA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	94.90	75.00	64	58
DEGECAMPUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	-51
DEGECANDOR Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		49	24
DEGECASTELL GmbH[1]	Eschborn	100.00		1,906	1,884
DEGECEBER Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		42	16
DEGECEBER Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		21	20
DEGECEDO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		683	29
DEGECENSUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		43	18
DEGECENSUS Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		22	21
DEGECENUM Grundstücksverwaltungsgesellschaft mbH[1 5]	Eschborn	100.00		26	0
DEGECIVO Grundstücksverwaltungsgesellschaft mbH Berlin[1]	Berlin	100.00		28	2
DEGECOMO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		25	0
DEGECONTRACT Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		31	5
DEGECULA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		83	57
DEGEDELTA Vermietungsgesellschaft für Betriebsvorrichtungen mbH[1]	Eschborn	100.00		26	0
DEGEDENAR Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		62	37

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
DEGEDESTRA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		26	1
DEGEDOMUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGEDOMUS Grundstücksverwaltungsgesellschaft mbH & Co. Gewerbeobjekte Süd KG[16]	Eschborn	100.00		3	15
DEGEFELIX Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGEFILA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	1
DEGEFILA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[16]	Eschborn	94.00	75.50	3	522
DEGEFULVA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		36	10
DEGEGAMMA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	0
DEGEHAVEL Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		26	1
DEGEHAVEL Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[16]	Eschborn	100.00		3	108
DEGEIDEAL Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		28	0
DEGEIMPULS Grundstücksverwaltungsgesellschaft Objekt Hattingen mbH[1]	Eschborn	100.00		2,280	2,220
DEGEKONKRET Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		22	0
DEGEKONZEPT Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	1
DEGEKONZEPT Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Worms KG[16]	Eschborn	100.00		1	0
DEGEMALVA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGEMALVA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[16]	Eschborn	100.00		3	39
DEGEMARO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	1
DEGEMEDIUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	1
DEGEMEDIUS Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Voerde KG[16]	Eschborn	90.00	66.67	3	1
DEGEMENAR Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGEMILA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		69	43
DEGEMINAX Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		45	19
DEGEMIOS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	1
DEGEMOBIL Vermietungsgesellschaft für Betriebsvorrichtungen mbH[1]	Eschborn	100.00		-41	-31
DEGEMOLA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGEMOLTO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		57	31
DEGEMONDO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		26	0
DEGEMONTES Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		173	148
DEGEMONTES Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[16]	Eschborn	95.00	75.00	-715	771
DEGEMOX Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		26	1
DEGEMOX Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[16]	Eschborn	100.00		3	32
DEGEMULTI Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGENASUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGENATUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGENAUTA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGENAVIGO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGENAVIS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		144	118
DEGENAVIS Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[16]	Eschborn	94.00	75.50	142	141
DEGENAVO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGENITOR Grundstücksverwaltungsgesellschaft mbH[15]	Eschborn	100.00		26	0
DEGEPALLAS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		18	-58
DEGEPALMA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGEPALMA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[16]	Eschborn	100.00		3	41
DEGEPATRO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		47	1
DEGEPATRO Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[16]	Eschborn	94.00	66.67	-8	0
DEGEPEXUM Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	1
DEGEPRIMUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		54	28
DEGEPROJEKT Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		108	-44
DEGEPROLOG Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		26	0
DEGEPROMO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		31	1

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
DEGEPROMO Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		-20	-1
DEGEREAL Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		61	36
DEGEREAL Grundstücksverwaltungsgesellschaft mbH & Co. Objekte Pfalz KG[1 6]	Eschborn	95.00	83.67	44	37
DEGEREKORD Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		43	18
DEGEREKORD Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		23	380
DEGEREMEX Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	1
DEGEREX Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		54	28
DEGERIA Beteiligungsgesellschaft mbH[1]	Eschborn	100.00		26	0
DEGERIMA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		26	1
DEGERIPA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		41	16
DEGERISOR Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGERIXOR Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	1
DEGEROTA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		26	1
DEGEROTA Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	94.00	75.50	-12	1
DEGERUDENS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		20	-1
DEGERUMEX Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		69	44
DEGERUMEX Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		-185	111
DEGERUTILO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		26	0
DEGESALUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		24	-2
DEGESAMOS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGESAMOS Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Neuss KG[1 6]	Eschborn	90.00	66.67	3	0
DEGESAPOR Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	1
DEGESAPOR Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		3	37
DEGESERA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGESERVO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGESERVO Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		-614	125
DEGESIDO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		24	-1
DEGESIDUX Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		63	37
DEGESIDUX Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	94.91	75.00	765	230
DEGESIGNUM Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		53	27
DEGESILEX Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		72	47
DEGESILVA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		37	11
DEGESISTO Grundstücksverwaltungsgesellschaft mbH[1 5]	Eschborn	100.00		114	0
DEGESOLOR Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		151	125
DEGESOLVO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGESPRIO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		26	1
DEGESTRENA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		68	42
DEGESUR Grundstücksverwaltungsgesellschaft mbH[1 5]	Eschborn	100.00		634	0
DEGETAMESIS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		48	22
DEGETANTUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		43	18
DEGETANTUS Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[2 6]	Eschborn	100.00		-371	27
DEGETEMPUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		29	1
DEGETEMPUS Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		3	24
DEGETERRA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		40	14
DEGETEXTUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		24	0
DEGETIBUR Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		51	25
DEGETRACTUS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		61	35
DEGETRINUM Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		49	23
DEGETUTOR Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGETUTOR Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		3	13

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
DEGEVIA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		27	1
DEGEVIA Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Rhede Gronauer Strasse 21 KG[1 6]	Eschborn	90.00	66.67	3	0
DEGEVITRO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		49	23
DEGEVITRO Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien-Vermietungs KG[1 6]	Eschborn	100.00		-93	129
DESPINA GmbH[1]	Eschborn	100.00		81	26
Deucalion Capital I (UK) Ltd.[1]	London, UK	0.00		0	0
Deucalion Capital II (MALTA) Limited[1]	Valletta, Malta	0.00		0	0
Deucalion Capital II (UK) Ltd.[1]	London, UK	0.00		0	0
Deucalion Capital II Limited[1]	George Town, Cayman Islands	0.00		0	0
Deucalion Capital VI Limited[1]	George Town, Cayman Islands	0.00		0	0
Deucalion Capital VII Limited[1]	George Town, Cayman Islands	0.00		0	0
Deucalion Capital VIII Limited[1]	George Town, Cayman Islands	0.00		0	0
Deucalion Capital XI Limited[1]	George Town, Cayman Islands	0.00		0	0
Deucalion Engine Leasing (Ireland) Ltd.[1]	Dublin, Ireland	0.00		0	0
Deucalion Engine Leasing France[1]	Paris, France	0.00		0	0
Deucalion Ltd.[1]	George Town, Cayman Islands	0.00		0	0
Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft[3 5]	Hamburg	100.00		1,407,258	0
DEVIF-Fonds Nr. 150 Deutsche Gesellschaft für Investmentfonds[1]	Frankfurt am Main	0.00		0	0
DEVIF-Fonds Nr. 2 Deutsche Gesellschaft für Investmentfonds[1]	Frankfurt am Main	0.00		0	0
DEVIF-Fonds Nr. 250 Deutsche Gesellschaft für Investmentfonds[1]	Frankfurt am Main	0.00		0	0
DEVIF-Fonds Nr. 500 Deutsche Gesellschaft für Investmentfonds[1]	Frankfurt am Main	0.00		0	0
DEVIF-Fonds Nr. 528 Deutsche Gesellschaft für Investmentfonds[1]	Frankfurt am Main	0.00		0	0
DEVIF-Fonds Nr. 60 Deutsche Gesellschaft für Investmentfonds[1]	Frankfurt am Main	0.00		0	0
DG Betriebsservice Verwaltungs-Gesellschaft mbH	Frankfurt am Main	100.00		7	0
DG Funding LLC	New York, USA	100.00		370,280	4,447
DG Holding Trust	New York, USA	100.00		328,678	4,729
DG LEASING GmbH[1]	Eschborn	100.00		26	0
DG Participacoes Ltda.[1]	São Paulo, Brazil	100.00		0	0
DINO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		188	162
DOBAS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		68	42
DRITTE DG Vermietungsgesellschaft für Immobilien mbH[1 5]	Eschborn	100.00		26	0
DUNAVAGON s.r.o.[1]	Dunajská Streda, Slovakia	100.00	0.00	0	0
DURO Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		65	40
DV01 Szarazfoldi Jarmukolcsonzo rt[1]	Áporka, Hungary	0.00		0	0
DVB Aviation Finance Asia Pte Ltd.[1]	Singapore, Singapore	100.00		50	2,699
DVB Bank America N.V.[1]	Willemstad, Netherlands Antilles	100.00		223,391	9,759
DVB Bank SE	Frankfurt am Main	95.45		528,405	27,880
DVB Capital Markets LLC[1]	Wilmington, USA	100.00		2,592	1,398
DVB Container Finance America LLC[1]	Ajeltake Island, Marshall Islands	100.00		-1,311	992
DVB Group Merchant Bank (Asia) Ltd.[1]	Singapore, Singapore	100.00		385,010	12,578
DVB Holding (US) Inc.[1]	Greenwich, USA	100.00		1,412	-362
DVB Holding GmbH[1 5]	Frankfurt am Main	100.00		13,000	0
DVB Invest (Suisse) AG[1]	Zurich, Switzerland	99.90		206	-15
DVB Investment Management N.V.[1]	Willemstad, Netherlands Antilles	100.00		-107	0
DVB Objektgesellschaft Geschäftsführungs GmbH[1]	Frankfurt am Main	100.00		23	0
DVB Service (US) LLC[1]	Delaware, USA	100.00		610	-81
DVB Transport (US) LLC[1]	New York, USA	100.00		6,190	1,149
DVB Transport Finance Limited[1]	London, UK	100.00		47,553	2,030
DVG Deutsche Vermögensverwaltungs-Gesellschaft mit beschränkter Haftung[5]	Frankfurt am Main	100.00		82	0
DVL Deutsche Verkehrs-Leasing GmbH[1]	Eschborn	74.90		2,550	-7
DZ BANK Capital Funding LLC I[2 4]	Wilmington, USA	100.00		301,100	8,346
DZ BANK Capital Funding LLC II[2 4]	Wilmington, USA	100.00		500,890	9,317
DZ BANK Capital Funding LLC III[2 4]	Wilmington, USA	100.00		56,528	6,156
DZ BANK Capital Funding Trust I	Wilmington, USA	0.00	100.00	300,001	8,409
DZ BANK Capital Funding Trust II	Wilmington, USA	0.00	100.00	500,001	9,440
DZ BANK Capital Funding Trust III	Wilmington, USA	0.00	100.00	350,001	6,227
DZ BANK Ireland public limited company[3]	Dublin, Ireland	100.00		248,655	-3,660
DZ BANK Mitarbeiter-Unterstützungseinrichtung GmbH i.L.	Frankfurt am Main	100.00		11	-3
DZ BANK Perpetual Funding (Jersey) Limited[4]	St. Helier, Jersey	0.00	100.00	260,636	2,754
DZ BANK Perpetual Funding Issuer (Jersey) Limited	St. Helier, Jersey	0.00		1	0

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
DZ BANK Perpetual Funding Private Issuer (Jersey) Limited	St. Helier, Jersey	0.00		1	0
DZ BANK Sao Paulo Representacao Ltda.[2]	São Paulo, Brazil	100.00		158	18
DZ Beteiligungsgesellschaft mbH Nr. 11[5]	Frankfurt am Main	100.00		6,620	0
DZ Beteiligungsgesellschaft mbH Nr. 14[5]	Frankfurt am Main	100.00		51	0
DZ Beteiligungsgesellschaft mbH Nr. 16[5]	Frankfurt am Main	100.00		160	0
DZ Beteiligungsgesellschaft mbH Nr. 18[5]	Frankfurt am Main	100.00		124,726	0
DZ Beteiligungsgesellschaft mbH Nr. 3[5]	Frankfurt am Main	100.00		18,881	0
DZ Capital Management GmbH	Frankfurt am Main	100.00		636	353
DZ FINANCIAL MARKETS LLC	New York, USA	100.00		2,846	390
DZ Gesellschaft für Grundstücke und Beteiligungen mbH[5]	Frankfurt am Main	100.00		4,037	0
DZ Polska Spolka Akcyjna	Warsaw, Poland	100.00		68,805	-1,256
DZ PRIVATBANK (Schweiz) AG[1]	Zurich, Switzerland	100.00		191,532	517
DZ PRIVATBANK S.A.[3]	Luxembourg-Strassen, Luxembourg	70.04		739,184	45,529
DZ PRIVATBANK Singapore Ltd.[1 3]	Singapore, Singapore	100.00		9,173	-933
DZ Vermögensverwaltung I GmbH	Frankfurt am Main	100.00		34	3
DZ Versicherungsvermittlung Gesellschaft mbH[5]	Frankfurt am Main	100.00		51	0
DZ Vierte Beteiligungsgesellschaft mbH[5]	Frankfurt am Main	100.00		334,687	0
e@syCredit Marketing und Vertriebs GmbH[1]	Nuremberg	100.00		25	4
Eagle Aircraft Leasing Limited[1]	George Town, Cayman Islands	0.00		0	0
EC Verwertungsgesellschaft 2 GmbH i.L.[1]	Eschenbach i.d.Opf.	100.00		1,839	-396
Elli LLC[1]	Majuro, Marshall Islands	0.00		0	0
ENDES Grundstücksverwaltungsgesellschaft mbH[1 5]	Eschborn	100.00		26	0
Englische Strasse 5 GmbH[1]	Wiesbaden	90.00		18,030	350
EPI Grundstücksverwaltungsgesellschaft mbH[1 5]	Eschborn	100.00		26	0
Europäische Genossenschaftsbank S. A.[1]	Luxembourg-Strassen, Luxembourg	100.00		12,473	38
EXERT Grundstücksverwaltungsgesellschaft mbH[1 5]	Eschborn	100.00		26	0
Falcon Aircraft Leasing Limited i.L.[1]	Dublin, Ireland	0.00		0	0
Finassimoco S.p.A.[1]	Segrate (Mi), Italy	56.95		94,021	266
Finch Aircraft Leasing Limited[1]	Dublin, Ireland	0.00		0	0
FLORIN GmbH[1]	Eschborn	100.00		52	27
France Maritime LLC[1]	Majuro, Marshall Islands	100.00		0	0
Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt.[1]	Budapest, Hungary	51.25		156,739	21,127
Fundamenta-Lakáskassza Pénzügyi Közvetitö Kft.[1]	Budapest, Hungary	100.00		5,374	1,502
GAF Active Life 1 Renditebeteiligungs-GmbH & Co. KG[1]	Nidderau	64.33		58,144	-10,861
GAF Active Life 2 Renditebeteiligungs-GmbH & Co. KG[1]	Nidderau	63.36		69,520	600
Gandari Shipping Pte. Ltd.[1]	Singapore, Singapore	0.00		0	0
GENO Broker GmbH (formerly DZ DirektService GmbH, before that DZ Beteiligungsgesellschaft mbH Nr. 20)[5]	Frankfurt am Main	100.00		26	0
GENO-Haus Stuttgart GmbH & Co. KG Verwaltungsgesellschaft[2]	Stuttgart	55.20		13	0
Genossenschaftlicher Informations Service GIS GmbH	Frankfurt am Main	100.00		3,966	723
Genussschein, Prime Capital Issuance II S.A.[1]	Luxembourg, Luxembourg	0.00		0	0
Glen Campbell Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Glen More Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Glen Shee Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Glen Shiel Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Glencoe Shipping Holdco LLC[1]	Majuro, Marshall Islands	0.00		0	0
GMS Management und Service GmbH[1]	Nidderau	66.67		78	28
Gola Airfinance Ltd.[1]	Tokyo, Japan	100.00		4	0
Goldberg Zweite Grundstücksverwaltungsgesellschaft Sütex mbH & Co. KG[1 6]	Eschborn	94.50	88.00	127	318
Gram Car Carriers Holdings Pte Ltd[1]	Singapore, Singapore	0.00		0	0
Great Glen Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Green Eagle Investments N.V.[1]	Willemstad, Netherlands Antilles	0.00		0	0
Green Mountain Shipping Ltd.[1]	Willemstad, Netherlands Antilles	0.00		0	0
Grundstücksverwaltungsgesellschaft Sütex mbH[1]	Eschborn	100.00		25	1
GWG 1. Wohn GmbH & Co. KG[1]	Stuttgart	100.00		2,000	279
GWG 2. Wohn GmbH & Co. KG[1]	Stuttgart	100.00		3,000	566
GWG 3. Wohn GmbH & Co. KG[1]	Stuttgart	100.00		7,000	1,287
GWG 4. Wohn GmbH & Co. KG[1]	Stuttgart	100.00		8,929	-35
GWG Beteiligungsgesellschaft mbH[1]	Stuttgart	100.00		22	1
GWG Gesellschaft für Wohnungs- und Gewerbebau Baden-Württemberg AG[1]	Stuttgart	91.34		214,533	13,926
GWG ImmoInvest GmbH[1]	Stuttgart	94.90		5,800	668
GWG Wohnpark Sendling GmbH[1]	Stuttgart	94.00		-1,149	-227

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
GZ-Immobilien-Management GmbH & Co. Objekt KG	Frankfurt am Main	100.00		-708	-2
GZ-Trust Consult GmbH i.L.	Stuttgart	100.00		496	-1
HANSEATICA Sechzehnte Grundbesitz Investitionsgesellschaft mbH & Co. KG[1]	Berlin	100.00		24,778	660
Havel Nordost Zweite Grossmobilien GmbH[1]	Liebenwalde-Kreuzbruch	100.00		25	-1
Hawk Aircraft Leasing Limited[1]	Dublin, Ireland	0.00		0	0
Hibiscus Aircraft Leasing Limited[1]	Floriana, Malta	0.00		0	0
Highlanders Aircraft Leasing (IRL) Ltd.[1]	Dublin, Ireland	100.00	0.00	0	0
HLCA I - Universal Fonds[1]	Frankfurt am Main	0.00		0	0
HLCL-Universal-Fonds II[1]	Frankfurt am Main	0.00		0	0
Hollandse Scheepshypotheekbank N.V.[1]	Rotterdam, Netherlands	100.00		567	0
Hudson Services LLC[1]	Majuro, Marshall Islands	0.00		0	0
HumanProtect Consulting GmbH[1]	Cologne	100.00		215	99
Hypotheken-Management GmbH[1,5]	Mannheim	100.00		6,647	0
Ibon Leasing Limited[1]	George Town, Cayman Islands	100.00		0	0
Immobilien-Gesellschaft 'DG Bank-Turm, Frankfurt am Main, Westend' mbH & Co. KG des genossenschaftlichen Verbundes[1]	Frankfurt am Main	95.88		194,113	-6,140
Immobilien-Verwaltungsgesellschaft 'DG BANK-Turm, Frankfurt am Main, Westend' mbH	Frankfurt am Main	100.00		132	17
Infifon XI B. V.[1]	Rotterdam, Netherlands	100.00		42	0
Intermodal Investment Fund VI LLC[1]	Majuro, Marshall Islands	100.00		0	0
IPConcept (Luxemburg) S.A.[1]	Luxembourg-Strassen, Luxembourg	100.00		6,232	2,652
IPConcept (Schweiz) AG[1]	Zurich, Switzerland	100.00		4,001	357
ITF Suisse AG[1]	Zurich, Switzerland	100.00		49,702	1,733
Ivanhoe Shipping Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
IZD-Beteiligung S.à.r.l.[1]	Luxembourg, Luxembourg	99.50		19,865	-12
JASPIS GmbH[1]	Eschborn	100.00		39	14
JASPIS GmbH & Co. Immobilien KG[1,6]	Eschborn	100.00		5	18
KALAMOS GmbH[1]	Eschborn	100.00		55	30
KBIH Beteiligungsgesellschaft für Industrie und Handel mbH[1]	Frankfurt am Main	100.00		1,344	7
KISSELBERG Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		12	-2
KRAVAG Umweltschutz und Sicherheitstechnik GmbH[1]	Hamburg	100.00		195	9
KRAVAG-ALLGEMEINE Versicherungs-Aktiengesellschaft[1]	Hamburg	100.00		76,250	6,735
KRAVAG-LOGISTIC Versicherungs-Aktiengesellschaft[1]	Hamburg	51.00		149,197	19,210
KV MSN 27602 Aircraft Ltd[1]	Dublin, Ireland	0.00		0	0
Landes Canada Inc.[1]	Granby, Quebec, Canada	100.00		2,756	-182
Landes de Mexico, S. de R. L. de C.V.[1]	Aguascaleintes, AGS, Mexico	100.00		0	0
Landes Holding GmbH[1]	Isny im Allgäu	72.35	74.90	10,238	-2,062
Landes Hong Kong Limited[1]	Kwun Tong, Kowloon, Hong Kong	100.00		715	74
Landes Lederwarenfabrik GmbH[1]	Isny im Allgäu	100.00		6,691	0
Lantana Aircraft Leasing Limited[1]	Floriana, Malta	0.00		0	0
LEKANIS GmbH[1]	Eschborn	100.00		40	15
LEKANIS GmbH & Co. Immobilien KG[1,6]	Eschborn	100.00		19	39
Lexi Limited[1]	George Town, Cayman Islands	100.00		0	0
LISENE GmbH[1]	Eschborn	100.00		41	16
LITOS GmbH[1]	Eschborn	100.00		40	15
LogPay Financial Services GmbH[1,5]	Eschborn	100.00		3,750	0
LogPay Fuel Italia S.R.L.[1]	Bolzano, Italy	100.00		0	0
LogPay Fuel Spain S.L.U.[1]	Barcelona, Spain	100.00		27	9
LogPay Mobility Services GmbH[1]	Eschborn	100.00		0	0
LogPay Transport Services GmbH[1,5]	Eschborn	90.91		201	0
Loki LLC[1]	Majuro, Marshall Islands	0.00		0	0
Lombard Bérlet Gépjármüpark-kezelö és Kereskedelmi Korlátolt Felelösségû Társaság[1]	Szeged, Hungary	100.00		7,866	945
Lombard Ingatlan Lízing Zártkörûen Mûködõ Részvénytársaság[1]	Szeged, Hungary	100.00		1,590	-595
Lombard Pénzügyi és Lízing Zártkörûen Mûködõ Részvénytársaság[1]	Szeged, Hungary	96.76		8,862	-8,337
Longspur Limited[1]	Grand Cayman, Cayman Islands	100.00		0	0
Mandarin Containers Limited[1]	Amsterdam, Netherlands	0.00		0	0
Maple Leaf Shipping Holdco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Maple Leaf Trading Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
MD Aviation Capital Pte. Ltd.[1]	Singapore, Singapore	0.00		0	0
MDAC 1 Pte Ltd.[1]	Singapore, Singapore	0.00		0	0

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
MDAC 10 (Ireland) Pte Ltd.[1]	Singapore, Singapore	0.00		0	0
MDAC 11 Pte Ltd.[1]	Singapore, Singapore	0.00		0	0
MDAC 2 Pte Ltd.[1]	Singapore, Singapore	0.00		0	0
MDAC 3 Pte Ltd.[1]	Singapore, Singapore	0.00		0	0
MDAC 4 Pte Ltd.[1]	Singapore, Singapore	0.00		0	0
MDAC 5 Pte. Ltd.[1]	Singapore, Singapore	0.00		0	0
MDAC 6 Pte Ltd.[1]	Singapore, Singapore	0.00		0	0
MDAC 7 (Ireland) Pte Ltd.[1]	Singapore, Singapore	0.00		0	0
MDAC 8 Pte Ltd.[1]	Singapore, Singapore	0.00		0	0
MDAC 9 Pte Ltd.[1]	Singapore, Singapore	0.00		0	0
MDAC Malta Ltd.[1]	Singapore, Singapore	0.00		0	0
Mediterra LLC[1]	Ajeltake Island, Marshall Islands	0.00		0	0
Mertus einhundertsiebte GmbH[1]	Frankfurt am Main	100.00		25	0
MI-Fonds 384 Metzler Investment GmbH[1]	Frankfurt am Main	0.00		0	0
MI-Fonds 388 Metzler Investment GmbH[1]	Frankfurt am Main	0.00		0	0
MI-Fonds 391 Metzler Investment GmbH[1]	Frankfurt am Main	0.00		0	0
MI-Fonds 392 Metzler Investment GmbH[1]	Frankfurt am Main	0.00		0	0
MI-Fonds F 57 Metzler Investment GmbH[1]	Frankfurt am Main	0.00		0	0
MI-Fonds F 59 Metzler Investment GmbH[1]	Frankfurt am Main	0.00		0	0
MI-Fonds J01 Metzler Investment GmbH[1]	Frankfurt am Main	0.00		0	0
MI-Fonds J03 Metzler Investment GmbH[1]	Frankfurt am Main	0.00		0	0
MINTAKA GmbH[1]	Eschborn	100.00		44	19
MINTAKA GmbH & Co. Immobilien KG[1,6]	Eschborn	100.00		-19	-28
MODULUS GmbH[1]	Eschborn	100.00		48	23
MoRe Mobile Ressourcen GmbH[1,5]	Mannheim	100.00		25	0
Morgenstern Miet + Leasing GmbH[1]	Eschborn	95.00		26	0
Mount Kaba Shipping LLC[1]	Majuro, Marshall Islands	100.00	0.00	0	0
Mount Kinabalu LLC[1]	Majuro, Marshall Islands	0.00		0	0
Mount Lawu LLC[1]	Majuro, Marshall Islands	100.00	0.00	0	0
Mount Mulu LLC[1]	Majuro, Marshall Islands	0.00		0	0
Mount Pleasant Shipping Pte. Ltd.[1]	Singapore, Singapore	0.00		0	0
Mount Rinjani Shipping Pte. Ltd.[1]	Singapore, Singapore	100.00	0.00	0	0
Mount Santubong Ltd.[1]	Labuan, Malaysia	0.00		0	0
MS 'GEORG SCHULTE' Schifffahrtsgesellschaft mbH & Co. KG i. L.[1]	Hamburg	78.77		12,499	0
MS 'Mumbai Trader' GmbH & Co. KG[1]	Bremen	0.00		0	0
MSU Management-, Service- und Unternehmensberatung GmbH[1]	Landau in der Pfalz	74.00		603	205
NALINUS GmbH[1]	Frankfurt am Main	83.00		1,942	-14,610
Nedship Participation (Norway) B.V.[1]	Rotterdam, Netherlands	100.00		2,919	279
Nedship Shipping B.V.[1]	Rotterdam, Netherlands	100.00		3,373	-118
NELO Dritte GmbH[1]	Eschborn	100.00		45	20
NELO Erste GmbH[1]	Eschborn	100.00		305	280
NELO Fünfte GmbH[1]	Eschborn	100.00		43	18
NELO Zweite GmbH[1]	Eschborn	100.00		39	14
Netherlands Shipmortgage Corporation Ltd.[1]	Hamilton, Bermuda	100.00		0	0
NewStar Business Funding 2010-1 LLC	Dallas, USA	0.00		0	0
NF Nordstrand GmbH & Co. Heidenkampsweg 100 Nord KG[1]	Norderfriedrichskoog	94.00	49.00	0	16
NF Nordstrand GmbH & Co. Heidenkampsweg 100 Süd KG[1]	Norderfriedrichskoog	94.00	49.00	0	-27
NFC Labuan Shipleasing I Ltd.[1]	Labuan, Malaysia	0.00		0	0
NFC Shipping Fund C LLC[1]	Majuro, Marshall Islands	0.00		0	0
NFC Shipping Fund II LLC[1]	Majuro, Marshall Islands	0.00		0	0
NFC Shipping Fund VII LLC[1]	Majuro, Marshall Islands	0.00		0	0
NOMAC AIRCRAFT LEASING (IRL) Ltd. i.L.[1]	Dublin, Ireland	0.00		0	0
NOVA Achte GmbH[1]	Eschborn	100.00		45	20
NOVA Elfte GmbH[1]	Eschborn	100.00		21	3
NOVA Neunte GmbH[1]	Eschborn	100.00		39	14
NOVA Siebte GmbH[1]	Eschborn	100.00		40	15
NTK Immobilien GmbH[1]	Hamburg	100.00		41	0
NTK Immobilien GmbH & Co. Management KG[2]	Hamburg	100.00		1,196	605
Ocean Container II[1]	Oslo, Norway	0.00		0	0
Odin LLC[1]	Majuro, Marshall Islands	0.00		0	0
Old Winterport Corp.[1]	Portland, USA	100.00		0	0

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
PARLA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		24	0
Pascon GmbH[1]	Wiesbaden	100.00		25	0
Paul Ernst Versicherungsvermittlungs mbH[1]	Hamburg	51.00		22	12
PAVONIS GmbH[1]	Eschborn	100.00		67	42
PDZ Personaldienste & Zeitarbeit GmbH[5]	Darmstadt	100.00		60	0
Pension Consult-Beratungsgesellschaft für Altersvorsorge mbH[1]	Munich	100.00		1,559	95
Philip Trading Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Provide VR 2002-1 Plc.	Dublin, Ireland	0.00		0	0
Provide-VR 2003-1 PLC	Dublin, Ireland	0.00		0	0
Provide-VR 2004-1 PLC	Dublin, Ireland	0.00		0	0
Puffin Aircraft Leasing Ltd.[1]	Dublin, Ireland	0.00		0	0
Q, Inc.[1]	San Francisco, USA	63.17		0	0
Quoniam Asset Management GmbH[1]	Frankfurt am Main	87.00	100.00	21,582	11,741
Quoniam Funds Selection SICAV – Emerging Markets Equities MinRisk GBP I[1]	Luxembourg, Luxembourg	0.00		0	0
Quoniam Funds Selection SICAV – Euro Credit EUR I[1]	Luxembourg, Luxembourg	0.00		0	0
Quoniam Funds Selection SICAV – Global Credit MinRisk EUR I[1]	Luxembourg, Luxembourg	0.00		0	0
Quoniam Funds Selection SICAV – Global Non-Financials Libor EUR A[1]	Luxembourg, Luxembourg	0.00		0	0
Quoniam Funds Selection SICAV – Global Non-Financials Libor EUR I[1]	Luxembourg, Luxembourg	0.00		0	0
Quoniam Funds Selection SICAV – Global TAA Total Return I[1]	Luxembourg, Luxembourg	0.00		0	0
R+V Allgemeine Versicherung Aktiengesellschaft[1,5]	Wiesbaden	95.00		774,177	0
R+V Deutschland Real (RDR)[1]	Hamburg	0.00		0	0
R+V Direktversicherung AG[1,5]	Wiesbaden	100.00		9,500	0
R+V Erste Anlage GmbH[1]	Wiesbaden	100.00		1,076	-4
R+V Gruppenpensionsfonds Service GmbH[1]	Munich	100.00		69	6
R+V Immobilienfonds OIK Nr. 4[1]	Frankfurt am Main	0.00		0	0
R+V INTERNATIONAL BUSINESS SERVICES Ltd., Dublin[1]	Dublin, Ireland	100.00		1,539	-2,046
R+V KOMPOSIT Holding GmbH[1,5]	Wiesbaden	100.00		1,801,622	0
R+V Krankenversicherung AG[1]	Wiesbaden	100.00		58,485	5,500
R+V Kureck Immobilien GmbH[1]	Wiesbaden	100.00		81	4
R+V Leben Wohn GmbH & Co. KG[1]	Wiesbaden	100.00		92,079	3,672
R+V Lebensversicherung Aktiengesellschaft[1,5]	Wiesbaden	100.00		364,981	0
R+V Luxembourg Lebensversicherung S.A.[1]	Luxembourg-Strassen, Luxembourg	100.00		239,597	38,875
R+V Mannheim P2 GmbH[1]	Wiesbaden	94.00		65,593	2,166
R+V Pensionsfonds AG[1]	Wiesbaden	100.00		23,966	550
R+V Pensionskasse AG[1]	Wiesbaden	100.00		59,972	500
R+V Personen Holding GmbH[1,5]	Wiesbaden	100.00		622,089	0
R+V Real Estate Belgium N.V./S.A.[1]	Brussels, Belgium	100.00		2,145	-333
R+V Rechtsschutz-Schadenregulierungs-GmbH[1,5]	Wiesbaden	100.00		53	0
R+V Service Center GmbH[1,5]	Wiesbaden	100.00		2,869	0
R+V Service Holding GmbH[1,5]	Wiesbaden	100.00		171,910	0
R+V Treuhand GmbH[1]	Wiesbaden	100.00		37	3
R+V Versicherung AG[5]	Wiesbaden	74.95		2,058,714	0
RAS Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		74	6
RAS Grundstücksverwaltungsgesellschaft mbH & Co. Objektbeteiligungs KG[1,6]	Eschborn	100.00		-27	0
Rathlin Airfinance Ltd.[1]	Tokyo, Japan	100.00		3	0
RC II S.a.r.l.[1]	Luxembourg, Luxembourg	90.00		9,041	72
ReiseBank Aktiengesellschaft[1,5]	Frankfurt am Main	100.00		17,724	0
RISALIS GmbH[1]	Eschborn	100.00		39	14
RUBINOS GmbH[1]	Eschborn	100.00		130	105
Rushmore Shipping LLC[1]	Majuro, Marshall Islands	0.00		0	0
RUV Agenturberatungs GmbH[1]	Wiesbaden	100.00		410	143
S1 Offshore Pte. Ltd.[1]	Singapore, Singapore	100.00		0	0
S2 Shipping and Offshore Ptd Ltd[1]	Singapore, Singapore	0.00		0	0
Sage Funding LLC[1]	New York, USA	0.00		0	0
SAREMA GmbH[1]	Eschborn	100.00		51	26
Scheepvaartschappij Ewout B.V.[1]	Rotterdam, Netherlands	0.00		0	0
Schuster Versicherungsmakler GmbH[1]	Bielefeld	51.00		122	32
Schuster Versicherungsservice GmbH[1]	Bielefeld	100.00		26	0
Schwäbisch Hall Facility Management GmbH[1]	Schwäbisch Hall	51.00		4,237	517
Schwäbisch Hall Kreditservice AG[1,5]	Schwäbisch Hall	100.00		27,775	0

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
Schwäbisch Hall Wohnen GmbH Gesellschaft für wohnwirtschaftliche Dienstleistungen[1]	Schwäbisch Hall	100.00		638	7
SECURON Hanse Versicherungsmakler GmbH[1]	Hamburg	51.00		30	-3
SECURON Versicherungsmakler GmbH[1]	Munich	51.00		483	185
Shamrock Trading Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Shark Aircraft Leasing (Ireland) Limited i.L.[1]	Dublin, Ireland	0.00		0	0
Shipping Capital Antilles N.V.[1]	Willemstad, Netherlands Antilles	100.00		20,520	-14
Shipping Capital B.V.[1]	The Hague, Netherlands	100.00		6,868	5
SHT Schwäbisch Hall Training GmbH[1]	Schwäbisch Hall	100.00		5,090	826
SIIM Fund I (Shipping and Intermodal Investment Management Fund)[1]	Majuro, Marshall Islands	0.00		0	0
SIIM Fund II (Shipping and Intermodal Investment Management Fund II) LLC[1]	Majuro, Marshall Islands	0.00		0	0
SIKINOS GmbH[1]	Eschborn	100.00		49	24
SINALOA Aircraft Leasing Limited[1]	Floriana, Malta	0.00		0	0
Sprint Sanierung GmbH[1]	Cologne	100.00		29,768	2,516
SRF I Limited[1]	Floriana, Malta	0.00		0	0
SRF II Limited[1]	Floriana, Malta	0.00		0	0
SRF III Limited[1]	Floriana, Malta	0.00		0	0
Stani Trading Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
Stephenson Capital Limited[1]	George Town, Cayman Islands	0.00		0	0
Stormers Aircraft Leasing (Malta) Ltd.[1]	Floriana, Malta	100.00	0.00	0	0
Taigetos Funding LLC[1]	Majuro, Marshall Islands	0.00		0	0
Taigetos II LLC[1]	Majuro, Marshall Islands	0.00		0	0
Taigetos III LLC[1]	Majuro, Marshall Islands	0.00		0	0
TBS I Trading Opco LLC[1]	Majuro, Marshall Islands	0.00		0	0
TeamBank AG Nürnberg[2,5]	Nuremberg	92.14		489,725	0
Technology DZ Venture Capital Fund I GmbH & Co. KG i.L.[1]	Munich	68.29		7,157	-4,374
TEGANON GmbH[1]	Eschborn	100.00		35	10
TEGANON GmbH & Co. Immobilien KG[1,6]	Eschborn	100.00		14	19
Terra Maris I LLC[1]	Majuro, Marshall Islands	0.00		0	0
TEU Asset Company N.V.[1]	Willemstad, Netherlands Antilles	100.00	0.00	0	0
TEU Management Company N.V.[1]	Willemstad, Netherlands Antilles	100.00	0.00	0	0
Thor LLC[1]	Majuro, Marshall Islands	0.00		0	0
Tiger Aircraft Leasing (UK) Limited[1]	London, UK	0.00		0	0
TILIAS GmbH[1]	Eschborn	100.00		43	18
TILIAS GmbH & Co. Immobilien KG[1,6]	Eschborn	50.00	76.00	23	22
TOPAS GmbH[1]	Eschborn	100.00		52	27
Tubbataha Aviation Ltd.[1]	George Town, Cayman Islands	100.00		0	0
TUKANA GmbH[1]	Eschborn	100.00		42	17
UI Vario: 2 issued by Union Investment Luxembourg S.A.[1]	Luxembourg, Luxembourg	0.00		0	0
UII Issy 3 Moulins SARL[1]	Paris, France	100.00		17,197	-3,570
UIN MultiAssetFonds issued by Union Investment Institutional GmbH[1]	Frankfurt am Main	0.00		0	0
UIN Union Investment Institutional Fonds Nr. 560[1]	Frankfurt am Main	0.00		0	0
UIN Union Investment Institutional Fonds Nr. 578[1]	Frankfurt am Main	0.00		0	0
UIN Union Investment Institutional Fonds Nr. 635[1]	Frankfurt am Main	0.00		0	0
UIN Union Investment Institutional Fonds Nr. 669[1]	Frankfurt am Main	0.00		0	0
UIN Union Investment Institutional Fonds Nr. 715[1]	Frankfurt am Main	0.00		0	0
UIN Union Investment Institutional Fonds Nr. 716[1]	Frankfurt am Main	0.00		0	0
UIN Union Investment Institutional Fonds Nr. 772[1]	Frankfurt am Main	0.00		0	0
UIR FRANCE 1 S.a.r.l.[1]	Paris, France	100.00		30	1
UIR FRANCE 2 S.a.r.l.[1]	Paris, France	100.00		33	1
UIR Verwaltungsgesellschaft mbH[1]	Hamburg	100.00		85	6
UMB Unternehmens-Managementberatungs GmbH[1,5]	Wiesbaden	100.00		924	0
UniAkcje Daleki Wschôd SFIO[1]	Warsaw, Poland	0.00		0	0
UNIBESSA[1]	Warsaw, Poland	0.00		0	0
UniGlobalne Rynki FIZ[1]	Warsaw, Poland	0.00		0	0
UniInstitutional European Equities Concentrated[1]	Luxembourg, Luxembourg	0.00		0	0
UniObligacje Zamienne SFIO[1]	Warsaw, Poland	0.00		0	0
Union Asset Management Holding AG[2]	Frankfurt am Main	78.69		639,198	274,910
Union Investment Financial Services S.A.[1]	Luxembourg, Luxembourg	100.00		17,055	3,168
Union Investment Institutional GmbH[1,5]	Frankfurt am Main	100.00		53,970	0
Union Investment Institutional Property GmbH[1]	Hamburg	90.00		13,277	2,148

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
Union Investment Luxembourg S.A.[1]	Luxembourg, Luxembourg	100.00		246,670	85,889
Union Investment Privatfonds GmbH[15]	Frankfurt am Main	100.00		185,942	0
Union Investment Real Estate Asia Pacific Pte. Ltd.[1]	Singapore, Singapore	100.00		1,831	699
Union Investment Real Estate France S.A.S.[1]	Paris, France	100.00		2,419	1,187
Union Investment Real Estate GmbH[2]	Hamburg	94.50		115,839	63,733
Union Investment Service Bank AG[15]	Frankfurt am Main	100.00		36,115	0
Union Investment Towarzystwo Funduszy Inwestycyjnych S. A.[1]	Warsaw, Poland	100.00		9,653	4,584
Union IT-Services GmbH[15]	Frankfurt am Main	100.00		2,879	0
Union Service-Gesellschaft mbH[15]	Frankfurt am Main	100.00		6,464	0
UniStrategie Dynamiczny SFIO[1]	Warsaw, Poland	0.00		0	0
UniVorsorge 1 issued by Union Investment Luxembourg S.A.[1]	Luxembourg, Luxembourg	0.00		0	0
Unterstützungskasse der Condor Versicherungsgesellschaften GmbH[1]	Hamburg	66.67		26	0
VAUTID (SHANGHAI) Wear Resistant Material Trading Co. Ltd.[1]	Shanghai, China	100.00		1,012	462
VAUTID Austria GmbH[1]	Marchtrenk, Austria	100.00		593	15
VAUTID GmbH[1]	Ostfildern	82.51		2,540	-631
Vautid North America, Inc.[1]	Pittsburgh, USA	0.00	100.00	-240	-40
Vautid-Belgium PGmbH[1]	Raeren-Eynatten, Belgium	100.00		1,437	-18
VMB Vorsorgemanagement für Banken GmbH[1]	Overath	90.00		116	48
VR BKE Beratungsgesellschaft für Klima & Energie GmbH[1]	Wiesbaden	66.67		60	-384
VR DISKONTBANK GmbH[15]	Eschborn	100.00		71,147	0
VR Equitypartner Beteiligungskapital GmbH & Co. KG UBG[2]	Frankfurt am Main	100.00		8,190	-482
VR Equitypartner GmbH[3]	Frankfurt am Main	78.00		69,138	7,097
VR Equitypartner Management GmbH[1]	Frankfurt am Main	100.00		490	-59
VR FACTOREM GmbH[15]	Eschborn	100.00		23,285	0
VR GbR[2]	Frankfurt am Main	88.75		205,213	60,246
VR Hausbau AG[1]	Stuttgart	94.48		2,750	0
VR HYP GmbH[1]	Hamburg	100.00		25	0
VR Kreditservice GmbH[15]	Hamburg	100.00		25	0
VR Real Estate GmbH[1]	Hamburg	100.00		25	0
VR WERT Gesellschaft für Immobilienbewertung mbH[15]	Hamburg	100.00		100	0
VR.medico LEASING GmbH[1]	Eschborn	100.00		4,304	3,928
VR-IMMOBILIEN-LEASING GmbH[15]	Eschborn	100.00		14,123	0
VRL-Beteiligungs GmbH[1]	Eschborn	100.00		31	2
VR-LEASING ABYDOS GmbH[1]	Eschborn	100.00		56	30
VR-LEASING ABYDOS GmbH & Co. Immobilien KG[16]	Eschborn	6.00	76.00	-31	38
VR-LEASING AKANTHUS GmbH[1]	Eschborn	100.00		42	17
VR-LEASING AKANTHUS GmbH & Co. Immobilien KG[16]	Eschborn	100.00		21	20
VR-LEASING Aktiengesellschaft[5]	Eschborn	83.46		211,070	0
VR-LEASING ALDEBARA GmbH[1]	Eschborn	100.00		43	18
VR-LEASING AMETRIN GmbH[1]	Eschborn	100.00		48	23
VR-LEASING AMETRIN GmbH & Co. Immobilien KG[16]	Eschborn	100.00		29	28
VR-LEASING ANDROS GmbH[1]	Eschborn	100.00		46	21
VR-LEASING ANDROS GmbH & Co. Immobilien KG[16]	Eschborn	100.00		27	213
VR-LEASING ARINA GmbH[1]	Eschborn	100.00		47	22
VR-LEASING ARKI GmbH[1]	Eschborn	100.00		23	-23
VR-LEASING ARRIANUS GmbH[1]	Eschborn	100.00		40	15
VR-LEASING ASARO GmbH[1]	Eschborn	100.00		146	99
VR-LEASING ASINE GmbH[1]	Eschborn	100.00		47	22
VR-LEASING ASINE GmbH & Co. Immobilien KG[16]	Eschborn	6.00	76.00	-95	-13
VR-LEASING ASOPOS GmbH[1]	Eschborn	100.00		27	2
VR-LEASING ASOPOS GmbH & Co. Immobilien KG[16]	Eschborn	100.00		3	15
VR-LEASING ATRIA GmbH[1]	Eschborn	100.00		42	17
VR-LEASING AVENTURIN GmbH[1]	Eschborn	100.00		39	14
VR-LEASING AVENTURIN GmbH & Co. Immobilien KG[16]	Eschborn	6.00	76.00	18	17
VR-LEASING BETA GmbH[1]	Eschborn	100.00		45	20
VR-LEASING BETA GmbH & Co. Immobilien KG[16]	Eschborn	100.00		26	25
VR-LEASING Beteiligungs GmbH & Co. KG[16]	Eschborn	100.00		54,631	9,431
VR-LEASING DELOS GmbH[1]	Eschborn	100.00		45	20
VR-LEASING DELOS GmbH & Co. Immobilien KG[16]	Eschborn	100.00		25	24
VR-LEASING DIVO GmbH[1]	Eschborn	100.00		58	33
VR-LEASING DIVO GmbH & Co. Immobilien KG[16]	Eschborn	6.00	76.00	43	39

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
VR-LEASING DOBAS GmbH & Co. Immobilien KG[1, 6]	Eschborn	100.00		54	53
VR-LEASING Einkaufs-GmbH[1, 5]	Eschborn	100.00		80,008	0
VR-LEASING ERIDA GmbH[1]	Eschborn	100.00		33	2
VR-LEASING FABIO GmbH[1]	Eschborn	100.00		36	11
VR-LEASING FACTA GmbH[1]	Eschborn	100.00		25	0
VR-LEASING FAGURA GmbH & Co. Erste Immobilien KG[1, 6]	Eschborn	100.00		15	14
VR-LEASING FAGUS GmbH[1]	Eschborn	100.00		30	5
VR-LEASING FARINA GmbH[1]	Eschborn	100.00		37	11
VR-LEASING FIXUM GmbH[1]	Eschborn	100.00		37	12
VR-LEASING FLAVUS GmbH[1]	Eschborn	100.00		39	14
VR-LEASING FLAVUS GmbH & Co. Immobilien KG[1, 6]	Eschborn	100.00		-1,400	-988
VR-LEASING FOLIO GmbH[1]	Eschborn	100.00		26	1
VR-LEASING FORTUNA GmbH[1]	Eschborn	100.00		25	0
VR-LEASING FULVIUS GmbH[1]	Eschborn	100.00		48	23
VR-LEASING IKANA GmbH[1]	Eschborn	100.00		52	27
VR-LEASING IKANA GmbH & Co. Immobilien KG[1, 6]	Eschborn	6.00	76.00	21	30
VR-LEASING Immobilien-Holding GmbH & Co. KG[1, 6]	Eschborn	94.80	95.91	151	24
VR-LEASING IRIS GmbH[1]	Eschborn	100.00		38	13
VR-LEASING ISORA GmbH[1]	Eschborn	100.00		34	9
VR-LEASING KOSMOS GmbH[1, 5]	Eschborn	100.00		89	0
VR-LEASING LEROS GmbH[1]	Eschborn	100.00		37	12
VR-LEASING LIMNOS GmbH[1]	Eschborn	100.00		41	16
VR-LEASING LOTIS GmbH[1]	Eschborn	100.00		56	31
VR-LEASING LYRA GmbH[1]	Eschborn	100.00		57	32
VR-LEASING LYRA GmbH & Co. Immobilien KG[1, 6]	Eschborn	6.00	76.00	37	27
VR-LEASING MADIUM GmbH[1]	Eschborn	100.00		47	22
VR-LEASING MADIUM GmbH & Co. Immobilien KG[1, 6]	Eschborn	100.00		21	27
VR-LEASING MADRAS GmbH[1]	Eschborn	100.00		333	20
VR-LEASING MADURA GmbH[1]	Eschborn	100.00		36	11
VR-LEASING MAGADIS GmbH[1]	Eschborn	100.00		68	43
VR-LEASING MAGARO GmbH[1]	Eschborn	100.00		23	-2
VR-LEASING MALAKON GmbH[1]	Eschborn	100.00		38	12
VR-LEASING MANEGA GmbH[1]	Eschborn	100.00		38	13
VR-LEASING MANIOLA GmbH[1]	Eschborn	100.00		39	13
VR-LEASING MARKASIT GmbH[1]	Eschborn	100.00		59	34
VR-LEASING MARKASIT GmbH & Co. Immobilien KG[1, 6]	Eschborn	100.00		-54	51
VR-LEASING MAROS GmbH[1]	Eschborn	100.00		41	16
VR-LEASING MARTES GmbH[1]	Eschborn	100.00		39	13
VR-LEASING MAXIMA GmbH[1]	Eschborn	100.00		25	0
VR-LEASING MELES GmbH[1]	Eschborn	100.00		39	14
VR-LEASING MENTHA GmbH[1]	Eschborn	100.00		35	9
VR-LEASING MENTUM GmbH[1]	Eschborn	100.00		47	22
VR-LEASING MERGUS GmbH[1]	Eschborn	100.00		43	18
VR-LEASING METIS GmbH[1]	Eschborn	100.00		42	17
VR-LEASING METRO GmbH & Co. Objekte Rhein-Neckar KG[1, 6]	Eschborn	100.00		-912	122
VR-LEASING MILETOS GmbH[1]	Eschborn	100.00		44	19
VR-LEASING MILIUM GmbH[1]	Eschborn	100.00		39	14
VR-LEASING MILVUS GmbH[1]	Eschborn	100.00		29	4
VR-LEASING MORIO GmbH[1]	Eschborn	100.00		45	19
VR-LEASING MORIO GmbH & Co. Immobilien KG[1, 6]	Eschborn	94.00	75.50	-458	47
VR-LEASING MUNDA GmbH[1]	Eschborn	100.00		70	44
VR-LEASING MUNDA GmbH & Co. Immobilien KG[1, 6]	Eschborn	100.00		40	120
VR-LEASING MUSCAN GmbH[1]	Eschborn	100.00		35	9
VR-LEASING MUSCARI GmbH[1]	Eschborn	100.00		73	48
VR-LEASING MUSCARI GmbH & Co. Immobilien KG[1, 6]	Eschborn	6.00	76.00	-307	154
VR-LEASING MUSTELA GmbH[1]	Eschborn	100.00		53	28
VR-LEASING NALANDA GmbH[1]	Eschborn	100.00		43	17
VR-LEASING NALANDA GmbH & Co. Immobilien KG[1, 6]	Eschborn	6.00	75.50	17	21
VR-LEASING NAPO GmbH[1]	Eschborn	100.00		24	0
VR-LEASING NAPOCA GmbH[1]	Eschborn	100.00		39	14
VR-LEASING NARUGO GmbH[1]	Eschborn	100.00		30	0

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
VR-LEASING NATANTIA GmbH[1]	Eschborn	100.00		29	2
VR-LEASING NAVARINO GmbH[1]	Eschborn	100.00		63	37
VR-LEASING NAVARINO GmbH & Co. Immobilien KG[16]	Eschborn	100.00		-662	108
VR-LEASING NEKTON GmbH[1]	Eschborn	100.00		38	12
VR-LEASING NESTOR GmbH[1]	Eschborn	100.00		47	21
VR-LEASING NETTA GmbH[1]	Eschborn	100.00		56	24
VR-LEASING NETTA GmbH & Co. Immobilien KG[16]	Eschborn	94.00	51.00	8	30
VR-LEASING NOVA Fünfte GmbH[1]	Eschborn	100.00		55	30
VR-LEASING NOVA Vierte GmbH[1]	Eschborn	100.00		55	30
VR-LEASING OBLONGA GmbH[1]	Eschborn	100.00		325	0
VR-LEASING ONDATRA GmbH[1]	Eschborn	100.00		53	28
VR-LEASING ONYX GmbH[1]	Eschborn	100.00		39	13
VR-LEASING ONYX GmbH & Co. Immobilien KG[16]	Eschborn	100.00		-1,646	251
VR-LEASING OPAL GmbH[1]	Eschborn	100.00		25	0
VR-LEASING OPAVA GmbH[1]	Eschborn	100.00		26	1
VR-LEASING OPAVA GmbH & Co. Immobilien KG[16]	Eschborn	100.00		-2,956	61
VR-LEASING OPHIR GmbH[1]	Eschborn	100.00		39	14
VR-LEASING OPHIR GmbH & Co. Immobilien KG[16]	Eschborn	100.00	75.50	-8,640	575
VR-LEASING OPTIMA GmbH[1]	Eschborn	100.00		72	47
VR-LEASING ORDO GmbH[1]	Eschborn	100.00		41	16
VR-LEASING ORION GmbH[1]	Eschborn	100.00		21	-6
VR-LEASING OSMERUS GmbH[1]	Eschborn	100.00		41	16
VR-LEASING PAROS GmbH[1]	Eschborn	100.00		37	12
VR-LEASING RUSSLAND Holding GmbH[1]	Eschborn	100.00		538	1
VR-LEASING SALA GmbH[1]	Eschborn	100.00		11	0
VR-LEASING SALIX GmbH[1]	Eschborn	100.00		73	48
VR-LEASING SALMO GmbH[1]	Eschborn	100.00		48	22
VR-LEASING SALONA GmbH[1]	Eschborn	100.00		34	9
VR-LEASING SALTA GmbH[1]	Eschborn	100.00		152	127
VR-LEASING SALVIA GmbH[1]	Eschborn	100.00		46	21
VR-LEASING SALVIS GmbH[1]	Eschborn	100.00		23	0
VR-LEASING SAMARA GmbH[1]	Eschborn	100.00		84	59
VR-LEASING SANAGA GmbH[1]	Eschborn	100.00		42	17
VR-LEASING SANAGA GmbH & Co. Immobilien KG[16]	Eschborn	100.00		22	21
VR-LEASING SANIDOS GmbH[1]	Eschborn	100.00		42	17
VR-LEASING SARITA GmbH[1]	Eschborn	100.00		41	16
VR-LEASING SASKIA GmbH[1]	Eschborn	100.00		41	16
VR-LEASING SEGUSIO GmbH[1]	Eschborn	100.00		24	0
VR-LEASING SEPIA GmbH[1]	Eschborn	100.00		30	5
VR-LEASING SIGUNE GmbH[1]	Eschborn	100.00		44	19
VR-LEASING SIMA GmbH[1]	Eschborn	100.00		49	23
VR-LEASING SIMA GmbH & Co. Immobilien KG[1]	Eschborn	0.00	51.00	29	28
VR-LEASING SINABIS GmbH[1]	Eschborn	100.00		34	8
VR-LEASING SINABIS GmbH & Co. Immobilien KG[16]	Eschborn	6.00	75.50	12	11
VR-LEASING SIRIUS GmbH[1]	Eschborn	100.00		49	23
VR-LEASING SIRIUS GmbH & Co. Immobilien KG[16]	Eschborn	100.00		30	28
VR-LEASING SOLIDUS Achtzehnte GmbH[1]	Eschborn	100.00		30	3
VR-LEASING SOLIDUS Dreizehnte GmbH[1]	Eschborn	100.00		44	19
VR-LEASING SOLIDUS Dritte GmbH[1]	Eschborn	100.00		92	67
VR-LEASING SOLIDUS Elfte GmbH[1]	Eschborn	100.00		45	20
VR-LEASING SOLIDUS Elfte GmbH & Co. Immobilien KG[16]	Eschborn	94.00	76.00	25	24
VR-LEASING SOLIDUS Erste GmbH[1]	Eschborn	100.00		41	16
VR-LEASING SOLIDUS Fünfte GmbH[1]	Eschborn	100.00		29	4
VR-LEASING SOLIDUS Neunte GmbH[1]	Eschborn	100.00		35	10
VR-LEASING SOLIDUS Neunzehnte GmbH[1]	Eschborn	100.00		43	18
VR-LEASING SOLIDUS Objekt Karben GmbH[1]	Eschborn	94.00		-1,766	40
VR-LEASING SOLIDUS Sechzehnte GmbH[1]	Eschborn	100.00		40	15
VR-LEASING SOLIDUS Siebte GmbH[1]	Eschborn	100.00		58	33
VR-LEASING SOLIDUS Vierzehnte GmbH[1]	Eschborn	100.00		40	15
VR-LEASING SOLIDUS Zehnte GmbH[1]	Eschborn	100.00		25	0
VR-LEASING SOLIDUS Zweite GmbH[1]	Eschborn	100.00		51	26

SUBSIDIARIES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
VR-LEASING SOLIDUS Zwölfte GmbH[1]	Eschborn	100.00		46	21
VR-LEASING SOREX GmbH[1]	Eschborn	100.00		20	0
VR-LEASING TELLUR GmbH[1]	Eschborn	100.00		45	20
Wadi Funding LLC[1]	Majuro, Marshall Islands	0.00		0	0
Wadi Woraya I LLC[1]	Majuro, Marshall Islands	0.00		0	0
Wadi Woraya III LLC[1]	Majuro, Marshall Islands	0.00		0	0
Waldhof Verwaltungsgesellschaft mbH i.L.[1]	Hamburg	100.00		29	-1
Wasps Aircraft Leasing (Ireland) Limited[1]	Dublin, Ireland	0.00		0	0
Waverley Shipping Opco LLC[1]	George Town, Cayman Islands	0.00		0	0
WBS Wohnwirtschaftliche Baubetreuungs- und Servicegesellschaft mbH[1]	Stuttgart	94.90		13,098	819
Weinmann GmbH & Co. Objekt Eichwald KG[1][6]	Eschborn	100.00		49	204
Yellow Moon Shipping Limited[1]	St. John's, Antigua and Barbuda	0.00		0	0
ZBA Grundstücksverwaltungsgesellschaft mbH[1]	Eschborn	100.00		26	-1
ZPF Asia Pacific Pte. Ltd.[1]	Singapore, Singapore	100.00		0	0
ZPF Foundry4 GmbH[1]	Hochheim am Main	74.87		552	13
ZPF Holding GmbH i.L.[1]	Siegelsbach	95.58		21	-680
ZPF Industrial Furnaces (Taicang) Co. Ltd.[1]	Taicang, China	100.00		0	0
ZPF Services GmbH[1]	Heilbronn	100.00		61	36
ZPF Therm Maschinenbau GmbH i.L.[1]	Siegelsbach	100.00		5,371	-338

JOINT VENTURES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
AerCap Partners I Ltd.[1]	Shannon, Ireland	50.00	0.00	0	0
AerCap Partners II Ltd.[1]	Shannon, Ireland	0.00		0	0
BAU + HAUS Management GmbH[1]	Wiesbaden	50.00		11,757	998
BEA Union Investment Management Limited[1]	Hong Kong, Hong Kong	49.00		51,699	6,872
Capital Equipment Management Holding GmbH[1]	Hamburg	50.00		17	-2
Ceskomoravska stavebni sporitelna a.s.[1]	Prague, Czech Republic	45.00		359,487	50,497
D8 Product Tankers Investments LLC[1]	Majuro, Marshall Islands	0.00		0	0
D8 Product Tankers Ltd.[1]	Singapore, Singapore	0.00		0	0
Deucalion MC Engine Leasing (Ireland) Ltd.[1]	Dublin, Ireland	0.00		0	0
Deutsche WertpapierService Bank AG	Frankfurt am Main	50.00		215,204	4,233
DGVR Alpha Mobilien-Verwaltungsgesellschaft mbH[1]	Eschborn	50.00		26	0
DUO PLAST Holding GmbH[1]	Lauterbach	47.43		-23	-48
DZ BANK Galerie im Städel Kunstverwaltungsgesellschaft mbH	Frankfurt am Main	50.00		19	-1
First BD Feederships Shipping Limited[1]	St. John's, Antigua and Barbuda	0.00		0	0
Herakleitos 3050 LLC[1]	Majuro, Marshall Islands	50.00		0	0
Intermodal Investment Fund II LLC[1]	Majuro, Marshall Islands	0.00		0	0
Intermodal Investment Fund IV LLC[1]	Majuro, Marshall Islands	0.00		0	0
Intermodal Investment Fund VII LLC[1]	Majuro, Marshall Islands	50.00		0	0
IZD-Holding S.à.r.l.[1]	Luxembourg, Luxembourg	50.30	50.00	39,339	0
Modex Energy Rental LLC[1]	Majuro, Marshall Islands	50.00		0	0
MS Oceana Schifffahrtsgesellschaft mbH & Co. KG[1]	Hamburg	0.00		0	0
MS Octavia Schifffahrtsgesellschaft mbH & Co. KG[1]	Hamburg	0.00		0	0
Prvá stavebná sporiteľna, a.s.[1]	Bratislava, Slovakia	32.50		243,029	25,442
R+V Kureck Immobilien GmbH Grundstücksverwaltung Braunschweig[1]	Wiesbaden	50.00		8,550	544
Raiffeisen Banca Pentru Locuinte S.A.[1]	Bucharest, Romania	33.32		15,061	380
TAG ASSET Management LLC[1]	Majuro, Marshall Islands	0.00		0	0
VB-Leasing International Holding GmbH[1]	Vienna, Austria	50.00		212,490	129,017
Versicherungs-Vermittlungsgesellschaft des Sächsischen Landesbauernverbandes mbH[1]	Dresden	50.00		161	18
Versicherungs-Vermittlungsgesellschaft mbH des Bauernverbandes Mecklenburg-Vorpommern e.V. (VVB)[1]	Neubrandenburg	50.00		143	11
Versicherungs-Vermittlungsgesellschaft mbH des Landesbauernverbandes Brandenburg (VVB)[1]	Teltow	50.00		33	3
Versicherungs-Vermittlungsgesellschaft mbH des Landesbauernverbandes Sachsen-Anhalt e.V. (VVB)[1]	Magdeburg	50.00		23	20
VR Consultingpartner GmbH[2]	Frankfurt am Main	90.00		1,809	-191
VR Corporate Finance GmbH	Düsseldorf	50.00		2,283	-678
Zhong De Zuh Fang Chu Xu Yin Hang (Sino-German-Bausparkasse) Ltd.[1]	Tianjin, China	24.90		305,906	18,714

ASSOCIATES

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
8F Leasing S.A.[1]	Contern, Luxembourg	0.00		0	0
A330 Parts Ltd[1]	New Ark, USA	0.00		0	0
Aer Lucht Limited[1]	Dublin, Ireland	0.00		0	0
Aviateur Capital Limited[1]	Dublin, Ireland	20.00		1,783	186
bbv-service Versicherungsmakler GmbH[1]	Munich	25.20		1,409	227
Cassa Centrale Banca – Credito Cooperativo del Nord Est Società per Azioni	Trento, Italy	25.00	26.47	227,988	14,343
DEGECIVIS Grundstücksverwaltungsgesellschaft mbH i.L.[1]	Eschborn	49.00		131	0
Epic Pantheon International Gas Shipping Ltd.[1]	Tortola, Virgin Islands	0.00		0	0
Equens SE	Utrecht, Netherlands	31.05		335,244	12,209
European Property Beteiligungs-GmbH[1]	Frankfurt am Main	38.90	33.20	1,075	-28
GHM Holding GmbH[1]	Regenstauf	40.00		17,361	-139
GHM MPP Reserve GmbH[1]	Regenstauf	50.00		370	-5
GHM MPP Verwaltungs GmbH[1]	Regenstauf	50.00		23	-2
Global Asic GmbH[1]	Dresden	30.80		18,864	-1,971
Global Offshore Services B.V[1]	Amsterdam, Netherlands	0.00		0	0
Goldeck Zetti Beteiligungsgesellschaft mbH[1]	Leipzig	39.23		32,512	908
HEIMAG München GmbH[1]	Munich	30.00		240,271	-3,503
Hör Technologie GmbH[1]	Weiden i.d.OPf.	61.54	49.99	6,325	-865
Intermodal Investment Fund V LLC[1]	Majuro, Marshall Islands	50.00		0	0
ismet Holding GmbH[1]	Villingen-Schwenningen	57.50	49.00	8,104	677
Janz IT AG[1]	Paderborn	40.12		3,442	205
KCM Bulkers Ltd.[1]	Road Town, Virgin Islands	0.00		0	0
KMT MedTec Holding GmbH[1]	Düsseldorf	44.10		6,446	1,765
KOTANI JV CO. BV[1]	Amsterdam, Netherlands	0.00		0	0
KTP Holding GmbH[1]	Bous	49.82		21,950	3,542
MK Metallfolien GmbH[1]	Hagen	37.23		48,385	222
Modex Holding Limited (BVI)[1]	Road Town, Virgin Islands	0.00		0	0
MON A300 Leasing Ltd.[1]	George Town, Cayman Islands	0.00		0	0
MON Engine Parts Inc.[1]	Wilmington, USA	20.00		0	0
Mount Faber KS[1]	Oslo, Norway	0.00		0	0
Neida Holding AG[1]	Appenzell, Switzerland	35.00		2,253	-951
SCL GmbH[1]	Butzbach	49.00		7,377	2,981
Shipping and Intermodal Investment Management Fund II LLC[1]	Majuro, Marshall Islands	0.00		0	0
SRF Railcar Leasing Limited[1]	Portroe, Nenagh, Ireland	100.00	0.00	0	0
TES Holding Ltd.[1]	Bridgend, UK	40.00		31,506	3,310
TREVA Entertainment GmbH[1]	Hamburg	32.70		1,797	-1,007
Wessel-Werk Beteiligungsverwaltung GmbH i.L.[1]	Karlsruhe	45.00		-2,088	-1,527
West Supply III A/S[1]	Haugesund, Norway	22.22		326	19
West Supply III KS[1]	Haugesund, Norway	20.00		3,177	241
WÜRTT. GENO-HAUS GmbH & Co. KG[2]	Stuttgart	37.16		40,189	1,514

SHAREHOLDINGS OF 20% OR MORE

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
1-2-3. TV GmbH[1]	Unterföhring	20.93		4,527	701
Assical S.r.l.[1]	Rende (CS), Italy	30.00		160	3
Assiconf S.r.l.[1]	Turin, Italy	20.00		65	12
ASSICRA Servizi Assisurativi Banche di Credito Cooperativo Abruzzo e Molise S.r.l.[1]	Pescara, Italy	25.00		327	18
ATRION Immobilien GmbH & Co. KG[1]	Grünwald	31.63		40,241	9,013
BCC RISPARMIO & PREVIDENZA S.G.R.P.A.[1]	Milan, Italy	25.00		30,959	5,406
BLE Bau- und Land-Entwicklungsgesellschaft Bayern GmbH[1]	Munich	20.00		399	-120
BRASIL FLOWERS S.A.[1]	Barbacena, Brazil	45.00		0	0
Burghofspiele GmbH[1]	Eltville	20.00		61	-14
Bürgschaftsbank Brandenburg GmbH	Potsdam	25.31		23,308	4,354
Bürgschaftsbank Mecklenburg-Vorpommern GmbH	Schwerin	30.38		15,794	306
Bürgschaftsbank Sachsen-Anhalt GmbH	Magdeburg	29.73		14,782	2,157
Bürgschaftsbank Thüringen GmbH	Erfurt	22.13		22,487	1,248
CardProcess GmbH	Karlsruhe	29.70		30,764	3,584
Credit Suisse Global Infrastructure SCA SICAR[1]	Luxembourg, Luxembourg	30.09		217,512	48,728
Dacos Software GmbH[1]	Saarbrücken	29.96		0	0
DZ BANK Mikrofinanzfonds eG[2]	Frankfurt am Main	32.09	0.90	166	0
Elbank S.A.[1]	Warsaw, Poland	30.36	24.49	-19	-11
European Convenience Food GmbH[1]	Frankfurt am Main	41.75		25	0
Finatem II GmbH & Co. KG[1]	Frankfurt am Main	20.20		51,207	7,712
FREUNDE DER EINTRACHT FRANKFURT Aktiengesellschaft[1]	Frankfurt am Main	32.05		2,895	0
GbR Ottmann GmbH & Co. Südhausbau KG, München VR Hausbau AG, Stuttgart (GbR 'Ackermannbogen.de-Wohnen am Olympiapark')[1]	Munich	50.00		62	-4
GENO-Haus Stuttgart Beteiligungs GmbH	Stuttgart	33.33		27	2
German Equity Partners III GmbH & Co. KG[1]	Frankfurt am Main	24.19		20,793	19,424
Gesellschaft für ernährungswirtschaftliche Beteiligungen mbH	Ochsenfurt	49.90		6,088	745
GIMB Gesellschaft für Internet- und mobile Bezahlungen mbH	Eschborn	37.50		0	0
Golding Mezzanine SICAV IV[1]	Munsbach, Luxembourg	49.98		9,477	3,736
GTIS Brazil II S-Feeder LP[1]	Edinburgh, UK	100.00	0.00	11,401	-1,822
HGI Immobilien GmbH[1]	Frankfurt am Main	50.00		121	68
HGI Immobilien GmbH & Co. GB I KG[1]	Frankfurt am Main	73.91	73.21	23,189	-1,312
Kredit-Garantiegemeinschaft des bayerischen Handwerks Gesellschaft mit beschränkter Haftung	Munich	20.00		4,806	0
Kreditgarantiegemeinschaft in Baden-Württemberg Verwaltungs-GmbH	Stuttgart	20.00		1,023	0
Laetitia Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs-KG	Pullach	39.00		0	-30
Locanis AG[1]	Unterföhring	41.28		-3,789	-37,557
MB Asia Real Estate Feeder (Scot.) L.P.[1]	Edinburgh, UK	39.20	0.00	43,900	-3,686
Medico 12 GmbH & Co. KG[1]	Frankfurt am Main	99.98		8,350	-927
Mercateo Beteiligungsholding AG[1]	Taufkirchen	32.83		4,467	-68
P 21 GmbH – Power of the 21st Century i.L.[1]	Brunnthal	27.00	22.23	0	0
Piller Entgrattechnik GmbH[1]	Ditzingen	26.25	35.00	8,799	1,621
PWR Holding GmbH[1]	Munich	33.33		117	87
RV-CVIII Holdings, LLC[1]	Camden, USA	100.00		0	0
Schroder Italien Fonds GmbH & Co. KG[1]	Frankfurt am Main	23.08	19.74	3,112	-9,142
Schroder Property Services B.V.[1]	Amsterdam, Netherlands	30.00		252	201
Seguros Generales Rural S.A. de Seguros y Reaseguros[1]	Madrid, Spain	30.00		168,416	12,461
Sementis GmbH Stephan Behr Vermögensverwaltung[1]	Eisenach	24.90	0.00	11,238	-164
TFH Technologie-Finanzierungsfonds Hessen GmbH	Frankfurt am Main	33.33		645	53
Tishman Speyer Brazil Feeder (Scots/D), L.P.[1]	Edinburgh, UK	100.00		29,666	5,834
Tishman Speyer European Strategic Office Fund Feeder, L.P.[1]	London, UK	97.18		15,333	363
TXS GmbH[1]	Ellerau	24.50		895	689
VAUTID Arabia Coating and Treatment of Metals L.L.C.[1]	Ras Al Khaimah, United Arab Emirates	24.50	0.00	297	36
VAUTID HUIFENG (WUHU) Wear Resistant Material Co. Ltd.[1]	Wuhu, China	50.00		1,216	692
VAUTID-SHAH HARDFACE Pvt. Ltd.[1]	Navi Mumbai, India	37.49		344	93
vohtec Rissprüfung GmbH[1]	Aalen	49.15		6,973	73
VR FinanzDienstLeistung GmbH	Berlin	24.50		1,886	253
VR-NetWorld GmbH[2]	Bonn	39.05		4,017	441
VV Immobilien GmbH & Co. United States KG[1]	Munich	25.00		19,622	3,782
Weisshaar Holding GmbH[1]	Frankfurt am Main	84.94	49.92	25	0
Zarges Tubesca Finance GmbH[1]	Weilheim	26.67		25	0

MORE THAN 5% OF VOTING RIGHTS (LARGE CORPORATIONS)

Name	Location	Shareholding	Voting rights, if different	Equity in € '000	Profit/loss in € '000
ARS Altmann AG[1]	Wolnzach	10.00		36,041	5,457
Banco Cooperativo Español S.A.	Madrid, Spain	12.02		330,943	42,472
ConCardis Gesellschaft mit beschränkter Haftung	Eschborn	19.60		46,585	11,688
DEPFA BeteiligungsHolding II Gesellschaft mit beschränkter Haftung[1]	Düsseldorf	10.00		105,642	-16
EDEKABANK Aktiengesellschaft	Hamburg	8.35		86,957	3,632
EURO Kartensysteme Gesellschaft mit beschränkter Haftung	Frankfurt am Main	19.60		10,757	360
Karlsruher Lebensversicherung AG	Karlsruhe	10.00		8,939	1,749
PANELLINIA BANK SOCIETE ANONYME	Athens, Greece	8.42	5.28	50,143	-12,637
Protektor Lebensversicherungs-AG[1]	Berlin	5.27		90,500	128
Raiffeisendruckerei GmbH[1]	Neuwied	7.88		38,041	4,133
SCHUFA Holding AG[1]	Wiesbaden	17.94		37,097	15,406

1 Held indirectly.
2 Including shares held indirectly.
3 A letter of comfort exists.
4 A subordinated letter of comfort exists.
5 Profit-and-loss transfer agreement.
6 The company makes use of the exemptions provided for under section 264b HGB.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements of DZ BANK give a true and fair view of the assets, liabilities, financial position and profit or loss of DZ BANK, and the management report of DZ BANK includes a fair review of the development and performance of the business and the position of DZ BANK, together with a description of the principal opportunities and risks associated with the expected development of DZ BANK.

Frankfurt am Main, March 3, 2015

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

The Board of Managing Directors

Kirsch

Hille	Köhler	Dr. Riese
Ullrich	Westhoff	Zeidler

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 DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, for the fiscal year from January 1, 2014 to December 31, 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and the supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German 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 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 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 management, as well as evaluating the overall presentation of the annual financial statements and 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 incorporation 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 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.

Eschborn/Frankfurt am Main, March 9, 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Professor Dr. Pfitzer	Dombek
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

DZ BANK ADVISORY COUNCILS

MEMBERS OF THE FINANCIAL SERVICES ADVISORY COUNCIL FOR THE DZ BANK GROUP

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ANDREAS HOF
Chief Executive Officer
VR Bank
Main-Kinzig-Büdingen eG
Büdingen

DEPUTY CHAIRMAN:
EBERHARD HEIM
Chief Executive Officer
Volksbank Tübingen eG
Tübingen

REPRESENTATIVES OF THE COOPERATIVE BANKS:

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Chief Executive Officer
VR meine Raiffeisenbank eG
Altötting

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Spokesman of the Board of
Managing Directors
VR-Bank Erlangen-Höchstadt-Herzogenaurach eG
Erlangen

RICHARD ERHARDSBERGER
Chief Executive Officer
VR-Bank Vilsbiburg eG
Vilsbiburg

UWE GUTZMANN
Chief Executive Officer
Volks- und Raiffeisenbank eG
Wismar
(until December 2014)

MARTIN HEINZMANN
Spokesman of the Board of
Managing Directors
Volksbank Kinzigtal eG
Wolfach

KLAUS HOLDERBACH
Chief Executive Officer
Volksbank Franken eG
Buchen
(until July 2014)

THOMAS JANSSEN
Member of the Board of
Managing Directors
Volksbank Braunlage eG
Braunlage

FRANZ-JOSEF JAUMANN
Chief Executive Officer
Volksbank Trossingen eG
Trossingen
(since March 2014)

KLAUS KRÖMER
Member of the Board of
Managing Directors
Emsländische Volksbank eG
Meppen

ANDREAS LORENZ
Chief Executive Officer
Volksbank Karlsruhe eG
Karlsruhe
(since August 2014)

RUDOLF MÜLLER
Spokesman of the Board of
Managing Directors
Volksbank Kur- und Rheinpfalz eG
Speyer

MANFRED ROTH
Chief Executive Officer
VR Bank Weimar eG
Weimar

REINHARD SCHLOTTBOM
(personal representative for
the member from the
Sparda-Bank Group)
Chief Executive Officer
PSD Bank Westfalen-Lippe eG
Münster

MARTIN SCHMITT
Chief Executive Officer
Kasseler Bank eG
Volksbank Raiffeisenbank
Kassel

KLAUS TREIMER
Spokesman of the Board of
Managing Directors
VR Bank Ostholstein Nord –
Plön eG
Lensahn
(since January 2015)

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Member of the Board of
Managing Directors
Raiffeisenbank Holzheim eG
Holzheim

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Chief Executive Officer
Sparda-Bank Hessen eG
Frankfurt am Main

HEINZ-WALTER WIEDBRAUCK
Chief Executive Officer
Volksbank Hameln-Stadthagen eG
Hameln

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Chief Executive Officer
VR-Bank Westmünsterland eG
Borken

JÜRGEN BRINKMANN
Chief Executive Officer
Volksbank eG
Braunschweig Wolfsburg
Wolfsburg

UWE FRÖHLICH
President
Bundesverband der
Deutschen Volksbanken und
Raiffeisenbanken (BVR)
Berlin

PETER GEUSS
Chief Executive Officer
VR Bank
Starnberg-Herrsching-Landsberg eG
Starnberg

CARSTEN GRAAF
(member coopted
as Chairman of the
BVR Association Council)
Chief Executive Officer
Volksbank Meerbusch eG
Meerbusch

ROSEMARIE MILLER-WEBER
Chief Executive Officer
Leutkircher Bank –
Raiffeisen- und Volksbank – eG
Leutkirch im Allgäu
(since September 2014)

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Member of the Board of
Managing Directors
Volksbank Trier eG
Trier

ANTON SPROLL
Leutkircher Bank –
Raiffeisen- und Volksbank – eG
Leutkirch im Allgäu (until Sep. 14)

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Volksbank Kraichgau
Wiesloch-Sinsheim eG
Wiesloch

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Volksbank Göppingen eG
Göppingen

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Volksbank Freiburg eG
Freiburg
(since February 2014)

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BBBank eG
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Managing Directors
Volksbank Backnang eG
Backnang

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Managing Directors
VR Bank eG
Steinlach-Wiesaz-Härten
Mössingen

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Managing Directors
Volksbank Dreiländereck eG
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Heidenheimer Volksbank eG
Heidenheim an der Brenz

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Volksbank Strohgäu eG
Korntal-Münchingen

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Achern

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Raiffeisenbank Aichhalden-
Hardt-Sulgen eG
Hardt

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Volksbank Kinzigtal eG
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Volksbank Bruhrain-
Kraich-Hardt eG
Oberhausen-Rheinhausen

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Ehingen-Hochsträß eG
Ehingen (Donau)

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Ellwangen (Jagst)

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Raiffeisenbank Aidlingen eG
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Managing Directors
Leutkircher Bank –
Raiffeisen- und Volksbank – eG
Leutkirch im Allgäu

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Volksbank Albstadt eG
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Volksbank
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Isny im Allgäu

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Managing Directors
Volksbank Heilbronn eG
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Volksbank Baden-Baden Rastatt eG
Baden-Baden

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Eberbach

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Volksbank Bruchsal-Bretten eG
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Plochingen

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Hülben

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Ehingen (Donau)

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Crailsheim eG
Schwäbisch Hall

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Rottenburg eG
Herrenberg

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Volksbank eG
Villingen-Schwenningen

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Chief Executive Officer
Raiffeisenbank Oberstenfeld eG
Oberstenfeld

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Volksbank Wilferdingen-Keltern eG
Remchingen

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Volksbank eG
Constance

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Volksbank-Raiffeisenbank
Riedlingen eG, Riedlingen

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Oberbayern Südost eG
Bad Reichenhall

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Aschaffenburg

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Garmisch-Partenkirchen

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Raiffeisen-Volksbank Ebersberg eG
Grafing b. München

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Raiffeisen-Volksbank
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Cham

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Managing Directors
Volksbank Raiffeisenbank
Würzburg eG
Würzburg

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Managing Directors
Raiffeisenbank Bobingen eG
Bobingen

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Member of the Board of
Managing Directors
Münchner Bank eG
Munich

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Managing Directors
Volksbank Raiffeisenbank
Bad Kissingen-Bad Brückenau eG
Bad Kissingen

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Chief Executive Officer
RaiffeisenVolksbank eG
Gewerbebank
Ansbach

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VR-Bank Rottal-Inn eG
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Managing Directors
VR-Bank Memmingen eG
Memmingen

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Managing Directors
Volksbank Lindenberg eG
Lindenberg i. Allgäu
(until July 2014)

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VR Bank Hof eG
Hof

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Raiffeisenbank Tölzer Land eG
Bad Tölz

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Volksbank Raiffeisenbank
Dachau eG
Dachau

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Managing Directors
Raiffeisenbank
Neumarkt i.d.OPf. eG
Neumarkt i.d.OPf.

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Managing Directors
VR-Bank Donau-Mindel eG
Dillingen a.d. Donau

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Chief Executive Officer
Raiffeisenbank Seebachgrund eG
Heßdorf

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Chief Executive Officer
Raiffeisenbank Pfeffenhausen-
Rottenburg-Wildenberg eG
Rottenburg a.d. Laaber

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Raiffeisen-Volksbank
Donauwörth eG
Donauwörth

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Raiffeisenbank Hollfeld-Waischenfeld-Aufseß eG
Hollfeld

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Chief Executive Officer
Raiffeisenbank Bad Abbach-Saal eG
Bad Abbach

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Member of the Board of Managing Directors
Volksbank Lindenberg eG
Lindenberg i. Allgäu
(since August 2014)

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Member of the Board of Managing Directors
Volksbank Raiffeisenbank Rosenheim-Chiemsee eG
Rosenheim

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Chief Executive Officer
Raiffeisenbank Vilshofener Land eG
Vilshofen an der Donau

HEINRICH REISENLEITER
Chief Executive Officer
Raiffeisenbank Bad Windsheim eG
Bad Windsheim

GREGOR SCHELLER
Chief Executive Officer
Volksbank Forchheim eG
Forchheim

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Raiffeisen-Volksbank Ebern eG
Ebern

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VR Bank Kitzingen eG
Kitzingen

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VR Bank Kaufbeuren-Ostallgäu eG
Marktoberdorf

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Augusta-Bank eG
Raiffeisen-Volksbank
Augsburg

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Member of the Board of Managing Directors
Volksbank Straubing eG
Straubing

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Member of the Board of Managing Directors
Raiffeisenbank im Naabtal eG
Nabburg

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Chief Executive Officer
Raiffeisenbank Weißenburg-Gunzenhausen eG
Weißenburg i. Bay.

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Member of the Board of Managing Directors
Raiffeisenbank Weiden eG
Weiden i.d.OPf.

HERBERT ZOPP
Deputy Chief Executive Officer
Volksbank Raiffeisenbank Bayern Mitte eG
Ingolstadt
(since April 2014)

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Chief Executive Officer
VR Bank Südpfalz eG
Landau in der Pfalz

DEPUTY CHAIRMAN:

CHRISTOPH KOTHE
Spokesman of the Board of Managing Directors
Leipziger Volksbank eG
Leipzig

MATHIAS BEERS
Chief Executive Officer
Vereinigte Volksbank eG
Dillingen · Dudweiler · Sulzbach/Saar
Sulzbach

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Member of the Board of Managing Directors
Raiffeisenbank eG Großenlüder
Großenlüder

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Spokesman of the Board of Managing Directors
VR Bank Biedenkopf-Gladenbach eG
Biedenkopf

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Chief Executive Officer
Raiffeisenbank Oberursel eG
Oberursel (Taunus)

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Member of the Board of Managing Directors
Volksbank Daaden eG
Daaden

JOHANN BÜCHLER
Chief Executive Officer
PSD Bank Nürnberg eG
Nuremberg

SVEN FIEDLER
Member of the Board of
Managing Directors
Volksbank Raiffeisenbank
Niederschlesien eG
Görlitz

THOMAS FLUCK
Deputy Chief Executive Officer
Raiffeisenbank Freinsheim eG
Freinsheim

GERHARD GALES
Member of the Board of
Managing Directors
Bank 1 Saar eG
Saarbrücken

BERND HELL
Chief Executive Officer
levoBank eG
Lebach

DR. MATTHIAS HILDNER
Chief Executive Officer
Wiesbadener Volksbank eG
Wiesbaden

ANDREAS HOSTALKA
Member of the Board of
Managing Directors
Volksbank Vogtland eG
Plauen

DIETER JERGENS
Member of the Board of
Managing Directors
Vereinigte Genossenschafts- und
Raiffeisenbank Westpfalz eG
VR-Bank Westpfalz
Landstuhl
(until February 2015)

ENRICO KAHL
Chief Executive Officer
Sparda-Bank Münster eG
Münster
(since January 2015)

THOMAS KATZENMAYER
Chief Executive Officer
Evangelische Bank eG
Kassel

HORST KLUMB
Chief Executive Officer
vr bank Südthüringen eG
Suhl

HUBERT KNEUSSEL
Member of the Board of
Managing Directors
Volksbank eG Grebenhain
Grebenhain

THOMAS KÖHLER
Spokesman of the Board of
Managing Directors
Volksbank Butzbach eG
Butzbach

WERNER KOLLE
Chief Executive Officer
Raiffeisenbank eG
Calden

WALTER KONRAD
Spokesman of the Board of
Managing Directors
Volksbank Darmstadt-
Südhessen eG
Darmstadt
(until December 2014)

GERD KOSCHMIEDER
Member of the Board of
Managing Directors
Volksbank Chemnitz eG
Chemnitz

JOHANNES LECHNER
Member of the Board of
Managing Directors
Sparda-Bank Ostbayern eG
Regensburg

FRANK MÖLLER
Member of the Board of
Managing Directors
Raiffeisenbank eG
Wolfhagen

ANDREAS PFEIL
Member of the Board of
Managing Directors
Raiffeisen-Volksbank
Saale-Orla eG
Pößneck

HUBERT RÖBIG
Deputy Spokesman of the
Board of Managing Directors
VR Genossenschaftsbank
Fulda eG Volksbank
Raiffeisenbank seit 1862
Fulda

MANFRED RUMPF
Spokesman of the Board of
Managing Directors
Raiffeisenbank eG
Rodenbach

FRANK SCHÄFER
Member of the Board of
Managing Directors
Volksbank Hunsrück-Nahe eG
Simmern

RAINER SCHÄFER-PRÖSSER
Member of the Board of
Managing Directors
Volksbank Heuchelheim eG
Heuchelheim

HEINZ-PETER SCHAMP
Member of the Board of
Managing Directors
Mainzer Volksbank eG
Mainz

BERNHARD SOEKEN
Chief Executive Officer
PSD Bank Berlin-Brandenburg eG
Berlin

ODO STEINMANN
Member of the Board of
Managing Directors
Volksbank Rhein-Nahe-Hunsrück eG
Bad Kreuznach

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Spokesman of the Board of
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Raiffeisenbank eG
Offenbach/M.-Bieber
Offenbach am Main

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Member of the Board of
Managing Directors
Vereinigte Volksbank
Raiffeisenbank eG
Wittlich

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Member of the Board of
Managing Directors
VR Bank Weimar eG
Weimar

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Member of the Board of
Managing Directors
Raiffeisenbank Schaafheim eG
Schaafheim

EVA WUNSCH-WEBER
Chief Executive Officer
Frankfurter Volksbank eG
Frankfurt am Main

YVONNE ZIMMERMANN
Member of the Board of
Managing Directors
Sparda-Bank Hamburg eG
Hamburg
(until February 2015)

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ANDREAS MERTKE
Member of the Board of
Managing Directors
Berliner Volksbank eG
Berlin

DEPUTY CHAIRMAN:
MICHAEL ENGELBRECHT
Chief Executive Officer
Volksbank Jever eG
Jever

RAINER ADAMCZYK
Member of the Board of
Managing Directors
Volksbank Uelzen-Salzwedel eG
Uelzen

FRANK BAER
Member of the Board of
Managing Directors
Volksbank Spree-Neiße eG
Spremberg

PETER BAHLMANN
Member of the Board of
Managing Directors
VR Bank Oldenburg
Land West eG
Hatten

JÖRG BIETHAN
Member of the Board of
Managing Directors
Volksbank Hildesheimer Börde eG
Söhlde

GUIDO BLOCH
Member of the Board of
Managing Directors
Raiffeisenbank eG
Hagenow

WERNER BRUNS
Member of the Board of
Managing Directors
Zevener Volksbank eG
Zeven

RALPH CARSTENSEN
Member of the Board of
Managing Directors
Raiffeisenbank eG
Todenbüttel

RALF EVERTS
Member of the Board of
Managing Directors
Raiffeisen-Volksbank Fresena eG
Norden

HEINZ FEISMANN
Member of the Board of
Managing Directors
Volksbank Süd-Emsland eG
Spelle

CHRISTIAN FERCHLAND
Member of the Board of
Managing Directors
Evangelische Bank eG
Kiel

STEFAN FRAHM
Member of the Board of
Managing Directors
VR Bank
Ostholstein Nord - Plön eG
Lensahn

HOLGER FRANZ
Chief Executive Officer
Ostfriesische Volksbank eG
Leer (Ostfriesland)

ANDREAS FRYE
Chief Executive Officer
Volksbank Bösel eG
Bösel

THOMAS GENSCH
Member of the Board of
Managing Directors
Raiffeisenbank Ostprignitz-Ruppin eG
Neuruppin

ARMIN GERNHÖFER
Member of the Board of
Managing Directors
Volksbank eG
Seesen
(until January 2014)

NORBERT GÖSSLING
Member of the Board of
Managing Directors
Volksbank im Harz eG
Osterode am Harz
(since August 2014)

BEREND H. GORTMANN
Member of the Board of
Managing Directors
Volksbank Niedergrafschaft eG
Uelsen

BJÖRN GROSSMANN
Former Member of the Board of
Managing Directors
Volksbank Kehdingen eG
Drochtersen
(until July 2014)

ERNST GRUBER
Spokesman of the Board of
Managing Directors
Volksbank Wolfenbüttel-Salzgitter eG
Wolfenbüttel

AHLRICH HAMEL
Member of the Board of
Managing Directors
Volksbank eG Westrhauderfehn
Rhauderfehn

CORD HASSELMANN
Member of the Board of
Managing Directors
Volksbank Lüneburger Heide eG
Winsen (Luhe)

ULRICH JANZEN
Member of the Board of
Managing Directors
Volksbank Nordhümmling eG
Börger

DETLEF KOMMISCHKE
Member of the Board of
Managing Directors
Volks- und Raiffeisenbank
Eisleben eG
Lutherstadt Eisleben

JOHANN KRAMER
Chief Executive Officer
Raiffeisen-Volksbank eG
Aurich

DR. MARTIN KÜHLING
Member of the Board of
Managing Directors
Volksbank Vechta eG
Vechta

JAN MACKENBERG
Member of the Board of
Managing Directors
Volksbank eG
Osterholz-Scharmbeck
Osterholz-Scharmbeck

JÜRGEN MANEGOLD
Spokesman of the Board of
Managing Directors
EDEKABANK AG
Hamburg

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Managing Directors
Volksbank Elsterland eG
Jessen (Elster)

JOACHIM MEYER
Member of the Board of
Managing Directors
Volksbank eG
Nienburg (Weser)

MICHAEL MÖLLER
Member of the Board of
Managing Directors
VR Bank Flensburg-Schleswig eG
Schleswig

AXEL NEUBERT
Member of the Board of
Managing Directors
Rostocker Volks- und
Raiffeisenbank eG
Rostock

GERHARD OPPERMANN
Deputy Spokesman of the
Board of Managing Directors
Hannoversche Volksbank eG
Hannover

MATTHIAS OSTERHUES
Member of the Board of
Managing Directors
Volksbank Oldenburg eG
Oldenburg

THORSTEN RATHJE
Member of the Board of
Managing Directors
Hamburger Volksbank eG
Hamburg

FRANK RAUSCHENBACH
Member of the Board of
Managing Directors
Volksbank Bramgau-Wittlage eG
Bramsche

REINER SCHOMACKER
Member of the Board of
Managing Directors
Norderstedter Bank eG
Norderstedt

SVEN VAN HAREN
Member of the Board of Managing Directors
Volksbank eG
Fredenbeck-Oldendorf
Fredenbeck
(since January 2015)

ANDREAS WOBST
Member of the Board of Managing Directors
Volksbank eG
Seesen

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Johann Wolfgang Goethe University Frankfurt
Institute of Business Informatics
Chief Executive Officer
E-Finance Lab
Frankfurt am Main

DR. STELLA A. AHLERS
Chief Executive Officer
Ahlers AG
Herford

DR. WOLFGANG BAUR
Managing Director
CMC Caravan GmbH & Co. Beteiligungs KG
Bad Waldsee

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Member of the Board of Managing Directors
German Federal Employment Agency
Nuremberg

DR. GÜNTHER BECKSTEIN
Minister President (retired)
Munich

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Member of the Board of Managing Directors
Landwirtschaftliche Rentenbank
Frankfurt am Main

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SAP AG
Walldorf
(until June 2014)

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Managing Director
Develey Senf + Feinkost GmbH
Unterhaching

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Chief Executive Officer
Faber-Castell AG
Stein

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DZ BANK AG
Deutsche Zentral-Genossenschaftsbank
Frankfurt am Main

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CLAAS KGaA mbH
Harsewinkel
(until December 2014)

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Spokesman of the Central Managing Board
Adolf Würth GmbH & Co. KG
Künzelsau

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Chairman of the Supervisory Board
Süddeutsche Zuckerrüben-verwertungs-Genossenschaft eG
Ochsenfurt

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Association President
Chief Executive Officer
Genossenschaftsverband Bayern e.V.
Munich

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Former Chief Executive Officer
Allianz-Versicherungs AG
Munich

DR. WOLFGANG HEER
Chief Executive Officer
Südzucker AG
Mannheim/Ochsenfurt

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Heraeus Holding GmbH
Hanau

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President
DER MITTELSTANDS-
VERBUND - ZGV e. V.
Berlin

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JASS-TEICHMANN
Managing Partner
Papierfabrik Adolf Jass
GmbH & Co. KG
Fulda

PROFESSOR DR. JAN PIETER
KRAHNEN
Johann Wolfgang Goethe
University Frankfurt
Chair of Corporate Finance
Frankfurt am Main
(until December 2014)

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Chief Executive Officer
Sanacorp Pharmahandel GmbH
Planegg

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Chief Executive Officer
Lapp Holding AG
Stuttgart

JOHANN C. LINDENBERG
Former Chief Executive Officer
Unilever Deutschland GmbH
Hamburg

KLAUS JOSEF LUTZ
Chief Executive Officer
BayWa Aktiengesellschaft
Munich

ROLAND MACK
Managing Partner
Europa-Park GmbH & Co
Mack KG
Rust

BERNARD MEYER
Managing Partner
MEYER WERFT GmbH
Papenburg

MANFRED NÜSSEL
President
Deutscher Raiffeisenverband e.V.
Berlin

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Director
Johannes Gutenberg University
Institute of Financial Studies
Mainz

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Managing Directors
Deutsche Apotheker- und
Ärztebank eG
Düsseldorf

JÜRGEN RUDOLPH
Managing Partner
Rudolph Logistik Group/
Rudolph Holding GmbH
Baunatal

JOACHIM RUKWIED
President
Deutscher Bauernverband e.V.
Berlin

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Aareal Bank AG
Wiesbaden

DR. JOSEF SCHWAIGER
Spokesman of the Executive Board
DMK Deutsches
Milchkontor GmbH
Zeven

JENS SCHWANEWEDEL
Chief Financial Officer
Verlagsgruppe
Georg von Holtzbrinck GmbH
Stuttgart

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Member of the Board of
Managing Directors
Fresenius SE & Co. KGaA
Bad Homburg

PAUL-HEINZ WESJOHANN
Joint Owner
PHW Group
Visbek

DR. MATTHIAS ZIESCHANG
Member of the Board of
Managing Directors
Fraport AG
Frankfurt am Main

PRINCIPAL SHAREHOLDINGS OF DZ BANK

BANKS

Name & registered office	Group company[1]	Shareholding (%)
Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall	•	81.8
Ceskomoravska stavebni sporitelna a.s., Prague		45.0
Fundamenta-Lakáskassza Zrt., Budapest	•	51.2
Prvá stavebná sporitel'na a.s., Bratislava		32.5
Zhong De Zuh Fang Chu Xu Yin Hang (Sino-German-Bausparkasse) Ltd., Tianjin		24.9
Schwäbisch Hall Kreditservice AG, Schwäbisch Hall	•	100.0
Banco Cooperativo Español S.A., Madrid		12.0
Deutsche Genossenschafts-Hypothekenbank AG, Hamburg[2]	•	100.0
Deutsche WertpapierService Bank AG, Frankfurt am Main		50.0
DVB Bank SE, Frankfurt am Main	•	95.4
DZ BANK Ireland public limited company, Dublin[2]	•	100.0
DZ PRIVATBANK S.A., Luxembourg-Strassen[2]	•	70.0
DZ PRIVATBANK (Schweiz) AG, Zurich	•	100.0
ReiseBank AG, Frankfurt am Main (indirect)	•	100.0
TeamBank AG Nürnberg, Nuremberg	•	92.1

1 Consolidated in accordance with IAS 27 and total shareholding held by DZ BANK or relevant parent.
2 Letter of comfort from DZ BANK.

Percentages in accordance with IFRS from the perspective of the relevant subgroup parent company.

OTHER SPECIALIZED SERVICE PROVIDERS

Name & registered office	Group company[1]	Shareholding (%)
VR Equitypartner GmbH, Frankfurt am Main[2]	•	78.0
Equens SE, Utrecht		31.1
VR-LEASING Aktiengesellschaft, Eschborn	•	83.5
BFL LEASING GmbH, Eschborn	•	73.6
VR DISKONTBANK GmbH, Eschborn	•	100.0
VR FACTOREM GmbH, Eschborn	•	100.0
VR-IMMOBILIEN-LEASING GmbH, Eschborn	•	100.0

1 Consolidated in accordance with IAS 27 and total shareholding held by DZ BANK or relevant parent.
2 Letter of comfort from DZ BANK.

ASSET MANAGEMENT COMPANIES

Name & registered office	Group company[1]	Shareholding (%)
Union Asset Management Holding AG, Frankfurt am Main	•	73.5
Quoniam Asset Management GmbH, Frankfurt am Main	•	100.0[2]
R+V Pensionsfonds AG, Wiesbaden (together with R+V Versicherung AG)	•	25.1
Union Investment Institutional GmbH, Frankfurt am Main	•	100.0
Union Investment Institutional Property GmbH, Hamburg	•	90.0
Union Investment Luxembourg S.A., Luxembourg	•	100.0
Union Investment Privatfonds GmbH, Frankfurt am Main	•	100.0
Union Investment Real Estate GmbH, Hamburg	•	94.0

1 Consolidated in accordance with IAS 27 and total shareholding held by DZ BANK or relevant parent.
2 Share of voting power.

INSURANCE COMPANIES

Name & registered office	Group company[1]	Shareholding (%)
R+V Versicherung AG, Wiesbaden	•	74.9
Condor Allgemeine Versicherungs-Aktiengesellschaft, Hamburg	•	100.0
Condor Lebensversicherungs-Aktiengesellschaft, Hamburg	•	95.0
KRAVAG-Allgemeine Versicherungs-Aktiengesellschaft, Hamburg	•	76.0
KRAVAG-LOGISTIC Versicherungs-Aktiengesellschaft, Hamburg	•	51.0
R+V Allgemeine Versicherung Aktiengesellschaft, Wiesbaden	•	95.0
R+V Krankenversicherung AG, Wiesbaden	•	100.0
R+V Lebensversicherung AG, Wiesbaden	•	100.0
R+V Pensionsfonds AG, Wiesbaden (together with Union Asset Management Holding AG)	•	74.9

1 Consolidated in accordance with IAS 27 and total shareholding held by DZ BANK or relevant parent.

Percentages in accordance with IFRS from the perspective of the relevant subgroup parent company.

EDITORIAL INFORMATION

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DZ BANK
Zusammen geht mehr.