Genossenschaftliche FinanzGruppe

Full Rating Report

Ratings

Foreign Currency	
Long-Term IDR	AA−
Short-Term IDR	F1+
Viability Rating	aa−
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

Outlooks

Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency	Stable

Financial Data

Genossenschaftliche FinanzGruppe

	31 Dec 14	31 Dec 13
Total assets (USDm)	1,378,852	1,490,229
Total assets (EURm)	1,135,760	1,080,565
Total equity (EURm)	86,186	78,906
Operating profit (EURm)	10,655	9,553
Published net income (EURm)	7,807	6,862
Fitch comprehensive income (EURm)	7,294	7,417
Operating ROAE (%)	12.91	12.69
Operating ROAA (%)	0.96	0.88
Fitch Core Capital ratio (%)	14.81	14.27
Tier 1 regulatory capital ratio (%)	11.5	11.4
Total regulatory capital ratio (%)	15.1	16.1
Loans/customer deposits (%)	94.0	93.6

Amendment
This report, originally published on 25 November 2015 has been amended to update Figures 3, 15 and 20. All other content is as of the original publication date.

Related Research

Fitch Revises German Cooperative and Savings Banks' SRFs to 'No Floor'; IDRs Unchanged (May 2015)

Genossenschaftliche FinanzGruppe (BVR) – Ratings Navigator (April 2015)

Fitch Upgrades German Cooperative Banks and DZ BANK to 'AA-' (March 2015)

German Retail Banks Dominate Profit Generation (July 2015)

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Key Rating Drivers

Strong, Low-Risk Retail Franchise: The ratings of Genossenschaftliche FinanzGruppe (GFG, Germany's cooperative banking group) reflect its strong and nationwide franchise in retail and SME banking, strong asset-quality indicators that benefit from GFG's diversified and granular risk profile, strong and resilient retail deposit base, sound capitalisation, and good profitability.

Group Ratings: Fitch Ratings assigns Issuer Default Ratings (IDRs) to all 1,042 members of the group's institutional protection scheme (IPS), in line with Fitch's *Global Bank Rating Criteria*. Members include 1,034 largely small, regional Volks- and Raiffeisenbanks and GFG's central institutions, DZ BANK AG (Deutsche Zentral-Genossenschaftsbank) and WGZ BANK AG (Westdeutsche Genossenschafts-Zentralbank).

New Two-Tier Support Scheme: In 2015, the cooperative sector established an additional support fund intended to add flexibility to responding to problems in member banks. Both IPSs are managed by the National Association of German Cooperative Banks (BVR), which is also responsible for risk monitoring.

Strong Support Track Record: We consider institutional (mutual) support extremely strong as the IPS and support fund are designed to protect the viability of all member banks in their entirety. Outstanding support measures are limited to a small number of local banks. While GFG is a homogeneous risk group, the group is highly decentralised and its members have a large degree of autonomy.

Strong and Stable Profitability: The performance of GFG's retail-focused local banks is strong and predictable. The profitability of GFG's central institutions, accounting for around a third of GFG's EUR10.7bn pre-tax profit in 2014, tends to be more volatile. We expect GFG's profitability to remain sound, although continued low interest rates and increasing loan impairment charges are likely to moderately hurt profitability.

Granular Credit Risk Profile: We consider GFG's largest risk exposure, its residential mortgage and SME loan books, to be relatively low risk. More vulnerable credit risk exposure at GFG's central banks (notably shipping, commercial real estate, asset-backed securities and peripheral eurozone exposure) has been reduced, improving GFG's overall risk profile.

Strong Funding and Capitalisation: As Germany's second-largest domestic deposit-taker and diversified covered bond issuer, GFG's funding and liquidity profile is strong. GFG's capital ratios are strong, mitigating skewed capital allocation in the group, with weaker capitalisation at central institutions. We expect GFG members to be able and willing to address capital needs at central institutions, as shown by capital increases in 2014, fully subscribed by GFG members, at DZ BANK (EUR1.5bn), WGZ BANK (EUR0.3bn) and Muenchener Hyp (EUR0.4bn).

Rating Sensitivities

Limited Downside Risk to VR: GFG's IDRs are based on its VR. Downside risks to the VR are limited but could arise from a severe domestic recession resulting in sharply higher corporate default rates or from significant regulatory changes affecting the group's cohesiveness, neither of which Fitch expects. Further risk reductions at GFG's central institutions in conjunction with efficiency gains would support an upgrade of GFG's VR.

- Strong correlation between domestic macroeconomic environment and GFG's performance
- Benefiting from resilient operating environment with adequate credit growth and low corporate default rates

Whenever available, financial data used in this report refers to GFG's consolidated IFRS accounts, which include WGZ BANK, DZ BANK and their respective subsidiaries. Where data only refer to the local banks (and excludes the central institutions), this is clearly stated.

GFG Main Legal Entities (3Q15)

- 1,034 primary banks ("Volksbank", "Raiffeisenbank")
- DZ BANK (central institution)
- WGZ BANK (central institution)
- DG HYP (commercial real estate)
- Bausparkasse Schwaebisch Hall (building society)
- Union Investment (asset management)
- Muenchener Hyp (residential and commercial real estate)
- DZ PRIVATBANK (private banking)
- VR Leasing
- TeamBank (consumer finance)
- R+V (insurance)
- WL Bank (public sector lending)

Related Criteria

Global Bank Rating Criteria (March 2015)

Operating Environment

Benign Operating Environment

GFG is primarily a domestic banking group and its risk profile is correlated with economic conditions in Germany (AAA/Stable). Both the fiscal and macroeconomic situation in Germany compare favourably with its European and other 'AAA' peers, providing GFG with a generally benign operating environment. Germany's debt/GDP ratio is decreasing, economic growth is accelerating and nominal interest rates are low.

The coalition government is committed to reducing debt/GDP to 70% in this parliament's lifetime (by 2017), which Fitch believes is achievable. The risk from contingent liabilities from the eurozone crisis continues to ease due to improved regional governance, economic recovery and ECB policy.

The economic environment remains favourable for German banks in 2015, although economic growth will slow. Asset values, in particular real estate, should remain resilient due to a low interest rate environment, low domestic unemployment and increasing private consumption.

Figure 1
Fitch Forecasts

	2015	2016
Real GDP growth	1.7	1.9
General government balance (% of GDP)	0.6	0.5
General government debt (% of GDP)	72.0	68.9
Consumer prices (annual avg. % growth)	0.3	1.5

Source: Fitch

Financial Market Development and Regulatory Framework

German banks benefit from well-developed and deep financial markets and the banking system as a whole is well capitalised (banking system capital ratio of 17.7% at end-2013 compared to 16.1% for the 'AAA' median). Both Fitch's banking system indicator ('a') and macro-prudential indicator ('1') indicate a low risk of system-wide problems in the German banking sector. Fitch views the legal and regulatory framework in Germany as strong. Banks are subject to regulatory oversight by the German regulator (Federal Financial Supervisory Authority; BaFin) and since late 2014 Germany's largest banks have been under the direct supervision of the ECB.

Bank Creditor Hierarchies Changing

Legislation passed in October 2015 will result in all other obligations of a bank, including large wholesale deposits and counterparty exposures, ranking ahead of non-structured securities, including senior unsecured bonds and Schuldscheine, in case of insolvency. Therefore, it appears the amended §46f of the KWG would make it clear to investors and potential investors in German banks that senior unsecured bondholders would be bailed in ahead of other senior unsecured creditors in resolution. We expect the minimum requirement for eligible liabilities to be met by German banks from core and subordinated regulatory capital plus senior debt.

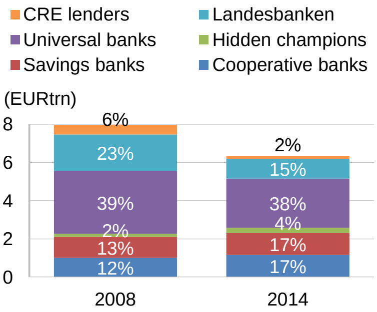
Our IDRs capture the default likelihood of any of a bank's senior liabilities (with certain, limited exceptions). The legislation should therefore have no direct effect on our German bank IDRs. The legislation could weaken recovery prospects for senior unsecured creditors, but we do not expect any immediate implications for German bank senior unsecured debt ratings, which we rate in line with German banks' IDRs, reflecting "average" corporate recovery prospects (typically 31%-50%). We usually require a high burden of proof to notch senior debt downwards based on recovery prospects due to the high uncertainty about what a bank's balance sheet will look like on default. This is most likely to happen at low rating levels ('B' category or lower).

We expect that the legislation could raise funding costs or even reduce market access for banks dependent on senior debt issuance, which could be negative for ratings. However, Schuldschein issues of GFG members are marginal and, in our opinion, GFG's solid funding profile will not be affected.

Fitch believes resolution and potential bail-in of senior unsecured debt of GFG members to be very remote in light of the group's tested support mechanism. Furthermore, potential financial problems at primary banks have been resolved on a group level at an early stage without any losses for investors or restructuring of debt.

Figure 2

Total Assets



Percentages: Share of total assets
(FYE08: EUR8.4trn; FYE14: EUR6.8trn)
Source: Fitch

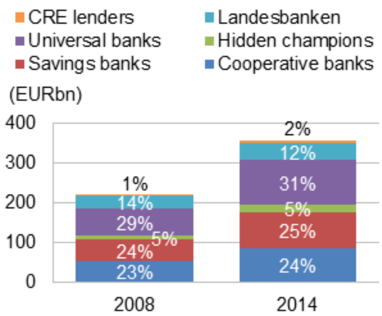
German Banking Assets: Increasingly Retail Focused

Retail-focused banks have generated about 75% of the banking sector's pre-tax profits each year since 2012. Cooperative and savings banks dominate, with 82% of the sector's pre-tax profit since 2008. This shift to domestic retail business is now largely completed but it will continue to support the banking sector's profits in the short term as domestic retail assets remain solid. However, the shift has also reduced the banking sector's geographic diversification. In the longer term, this will amplify the banks' vulnerability to domestic cycles.

We expect some profit generation to shift gradually from the savings and cooperative banks to the large universal banks: while the latter become less focused on restructuring, the downward repricing of their asset base and normalisation of their loan impairment charges (LICs) should increase pressure on the former.

Figure 3

Common Equity

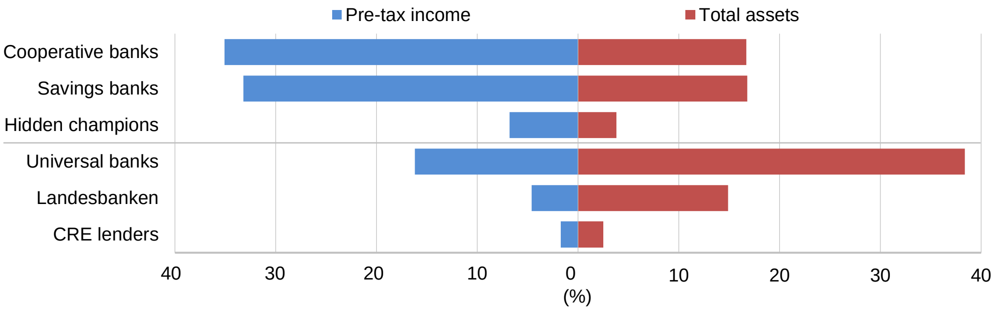


Percentages: Share of total equity
(FYE08: EUR227bn; FYE14: EUR360bn)
Source: Fitch

Figure 4

Performance vs. Size: Two Distinct Hierarchies

Contributions to the banking system's 2014 pre-tax income (EUR30.2bn) and total assets (EUR6.7trn)



The six sub-sectors represent 96% and 93% of the banking sector's total pre-tax profit and total assets respectively
Source: Fitch

Company Profile

Germany's Cooperative Banking Group

GFG is Germany's cooperative banking group and consists of two relatively distinct parts: the sector's primary (local) banks, primarily focusing on retail and SME banking activities in their respective regions, and GFG's two central institutions, DZ BANK (AA−/Stable/F1+) and WGZ BANK (AA−/Stable/F1+). DZ BANK and WGZ BANK are large in relation to GFG (38% of total assets) and unlike the local banks are exposed to riskier asset classes such as commercial real estate and shipping. However, the local banks' generally low-risk retail business dominates GFG's profit generation.

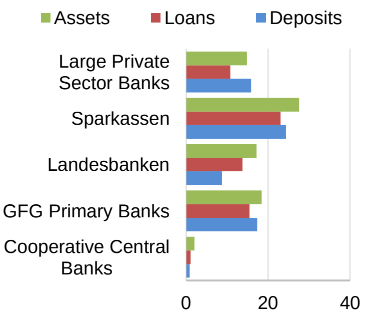
GFG's market shares are between 15% and 20% in most deposit and loan products but the group is particularly strong in retail and small business banking. Its vast retail franchise includes 30 million clients, more than half of whom (18 million at end-2014) are also cooperative members, which enhances the stability of its client base.

As in previous years, GFG's local banks continued to increase their market shares in all relevant lending segments and achieved an overall lending market share of 15.5% (from 14.9% at end-2013 and 13.7% at end-2012). Local banks' total deposit market share also improved to 17.3% (from 17.0% at end-2012). Increasing cross-selling between primary banks and central institutions could gradually improve GFG's penetration in the larger SME segment.

Figure 5

GFG Domestic Market Shares

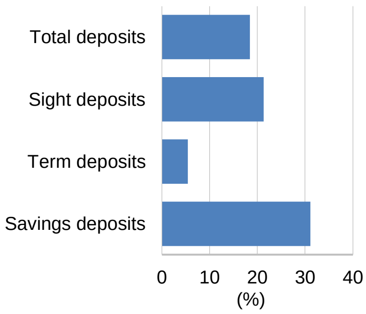
(As of July 2015)



Source: Bundesbank, Fitch

Figure 6

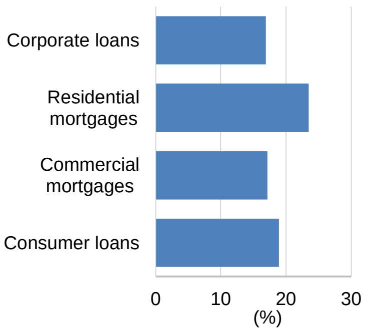
GFG Deposit Market Shares
(As of July 2015; primary banks only)



Source: Bundesbank, Fitch

Figure 7

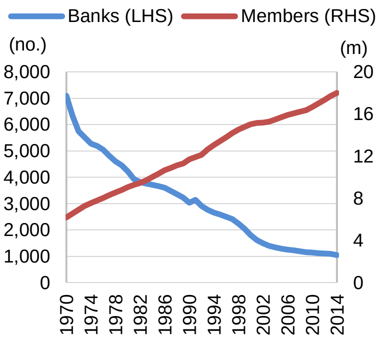
GFG Lending Market Shares
(As of July 2015; primary banks only)



Source: Bundesbank, Fitch

Figure 8

GFG - Gradual Consolidation



Source: BVR, Fitch

Decentralised Group Structure

GFG's local banks benefit from a high level of independence compared with most European cooperative banking groups and in general DZ BANK and WGZ BANK's strategic orientations are defined by their owners, the local banks. While limiting the group's ability to anticipate or quickly coordinate reactions to external shocks, this strict decentralisation has, on balance, positive risk management implications. It generally limits risk correlations and promotes local management's cautious risk culture and fairly effective checks and balances. More negatively, GFG's decentralised structure means that optimising costs (eg through further consolidation at primary bank level) is more challenging. As a result, duplication of back-office functions within GFG is likely to remain considerable, affecting its cost base.

We understand that GFG has begun a number of projects aiming to improve products, processes and reduce the group's cost base. In 3Q15, parcIT took over operations from BVR as the group's centre of competence for rating and credit portfolio models. This entity is fully owned by the main local banks' computing centre (Fiducia & GAD IT AG).

As one of the first banking groups in Germany, GFG also intends to implement Paydirekt, a transaction platform to compete with Paypal, by the end of this year.

Management and Strategy

Highly Decentralised

BVR provides some guidance at GFG level, notably regarding risk monitoring, but day-to-day management of the primary banks (and central institutions) is the responsibility of each legal entity's management.

Overall, Fitch considers corporate governance neutral to GFG's ratings. Corporate governance at GFG consolidated level is fairly loose, due to its structure as a cooperative and decentralised group, with BVR only having limited powers to influence corporate governance at local bank and central institution level.

We understand that the gradual consolidation of primary banks and the reduction of branches will continue. The management is increasing its focus on online banking while a broad network of branches will give customers the opportunity to meet their personal relationship manager.

Regulatory Treatment Under Basel III Clarified

In early 2014, BaFin confirmed that the existing regulatory treatment for the decentralised banking groups' IPS will remain unchanged under the Basel III implementation in the EU. The zero per cent regulatory risk-weighting on GFG intragroup exposures remained unchanged. This regulatory treatment is a key element of GFG's cohesiveness as it improves funding fungibility and facilitates intragroup risk transfers. We understand that GFG's dual system of support mechanisms will also address a potential EU-wide risk collectivisation in the form of a deposit protection scheme.

Two Separate Support Schemes

The new legislation led the BVR to opt for a dual system of support mechanisms and set up the BVR Institutssicherung GmbH (BVR-ISG). The BVR-ISG has been officially recognised as a deposit insurance system and fulfils the statutory requirement of ensuring that depositors affected by a bank's insolvency are compensated.

The co-operative group also retained its existing mutual support scheme, BVR-Sicherungseinrichtung (BVR-SE). In contrast to the BVR-ISG, BVR-SE is less regulated and monitored[1] by the regulatory authorities and has no statutory limits on the amount of financial support it can provide to a member bank for restructuring without the consent of the regulator.

Risk Appetite

Risk Appetite Defined at Local Bank Level

Defining the local banks' risk appetite is the responsibility of each bank's management board. However, the mutual support fund (at the BVR) indirectly influences the local banks' risk-taking as the banks' contribution to the support fund are based on BVR's assessment of their individual risk profiles. The BVR is also in charge of risk monitoring on a group level.

- Decentralised approach to risk management
- Credit risk exposure from lending activities significant but risks mitigated by considerable granularity and positive macroeconomic backdrop
- Market risk exposure largely from structural interest rate positions, which are manageable in the current interest-rate environment

Primary banks and central institutions are primarily exposed to credit risk from their lending activities (with loans accounting for almost 60% of total assets). As very few local banks are registered as trading institutions, market risk within GFG is largely limited to (fairly significant) structural interest rate risk and some trading activities at the sector's two central institutions.

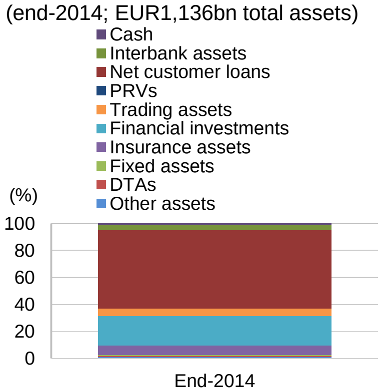
Credit Risk Benefits From Focus on Low-Risk Assets and Robust Economy

Credit risk benefits from the sector's considerable diversification. Mortgage loans, primarily for owner-occupied residential real estate, represent GFG's largest risk concentration, accounting for just over a third of total gross loans. Just over 50% of GFG's loans are classified as corporate and (non-mortgage) retail loans. Corporate loans are dominated by SME loans and the local banks have a relatively strong focus on self-employed clients and micro-SMEs (independent workers, farmers and shopkeepers). Consumer loans only represent a moderate proportion of loans.

Figure 9

GFG Balance Sheet Breakdown

(end-2014; EUR1,136bn total assets)



Source: BVR, Fitch

Apart from GFG's lending activities, credit risk also arises from the sector's large financial investments (around a fifth of total assets) and to a lesser extent its trading assets and interbank placements.

Significant Structural Interest Rate Risk

Fitch considers structural interest rate risk as GFG's predominant source of market risk, reflecting the group's short-term (deposit) funding franchise and large long-term mortgage book. Overall market risk is managed at the level of the individual banks (based on their respective risk-bearing capacity) and monitored by BVR. Average interest rate sensitivity among the local banks is high but in our view manageable due to the current outlook for interest rates in the eurozone.

In 2014, around 20% of local banks' net interest income related to maturity mismatches but the level of interest rates and the shape of the yield curve means this proportion is likely to decline in the next two to three years. This will exacerbate pressure on GFG's profitability, but we believe the reduction in non-interest income (NII) to be manageable for the group.

Financial Profile

Asset Quality

Strong Asset Quality Indicators in Core Lending Activities

The quality of GFG's retail and SME loan books is strongly correlated with the state of the German economy and has in recent years benefitted from the relatively benign domestic operating environment. Impaired loans (classes 4a to 4e in GFG's rating classification system)

[1] Regulatory oversight is limited to sending the audited report to the BaFin and Bundesbank. BaFin also has the right to obtain information from, and audit, the protection scheme in accordance with section 44 (1) KWG.

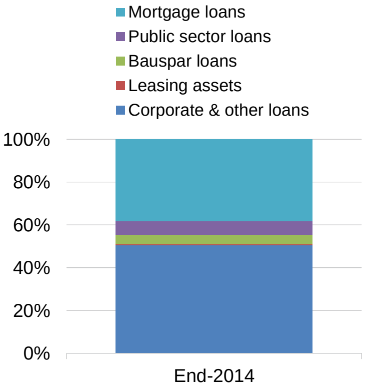
further decreased and have remained remarkably low. GFG's watchlist loan ratio has remained broadly unchanged.

As impaired loans in GFG's loan book are predominantly driven by SME loans, the trend in corporate insolvencies is a key indicator for the development of the local banks' asset quality. The German SMEs generally built up material capital and liquidity buffers during the economic recovery since 2010 and are likely to maintain their focus on balance-sheet consolidation. As a result, they should be adequately prepared for the next cyclical downturn. While small SME loans – in our view typically more vulnerable than larger ones – still represent most of the local banks' exposure, GFG and its central banks intend to increase their market share among SMEs with annual sales of EUR50m-500m.

Figure 10

Gross Loan Book Breakdown

(EUR670.7bn at end-2014)



Source: BVR, Fitch

Local Banks Have Limited Vulnerable Asset Classes

Apart from well-diversified credit exposure to mostly very small and small corporates (with an average internal rating equivalent to 'BB−'), credit exposure to the German real estate market is the local banks' main credit risk concentration. We understand that local banks' real estate exposure was around 42% of total end-2014 gross loans (around three-quarters residential real estate), but GFG's nationwide presence should be sufficient to mitigate some overheating at the local level. In addition, unlike most of its peers, GFG's presence is skewed towards more rural regions of Germany, which limits its exposure to more overheated, urban areas.

GFG's exposure to more vulnerable asset classes such as ship finance, ABS securities and commercial real estate is predominately concentrated at DZ BANK (and its subsidiaries) and to a lesser extent WGZ BANK and Muenchener Hyp.

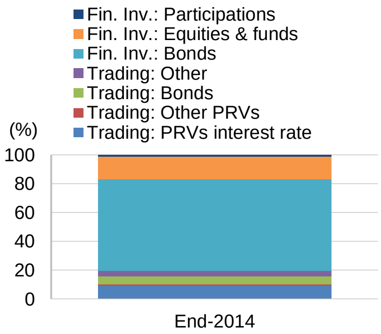
Adequate Coverage Levels

While the local banks' loan loss reserve coverage ratio appears low in an international context, this has to be viewed in light of GFG's large proportion of mortgage loans. Consequently, the local banks' loan loss reserve and collateral/impaired loans ratio remained relatively close to 100%. The local banks net impaired loans/common equity ratio – although quite significant – has remained stable in recent years.

Figure 11

Trading Book & Fin. Investments

(Trading: EUR61bn, Fin. Invest: EUR249bn)



Source: BVR, Fitch

Moderate Credit Risk in Large Securities Portfolio

GFG's securities portfolio (excluding derivatives and fair-valued loans) totalled around EUR263.1bn at end-2014 (EUR252.6bn at end-2013). Around EUR217.4bn of this (EUR207.5bn at end-2013) related to local banks. Exposure to participation or subordinated debt was limited (largely to entities within the sector), reflecting relatively prudent investment policies at local banks, and the vast majority related to senior fixed-income securities.

At end-1H15, around a third[2] was invested intragroup (largely with the local banks' respective central banks in both senior and subordinated form) and a further third related to covered and government bonds. The rest largely related to bonds issued by highly rated banks and to a lesser extent corporate issuers (around 10% of the total). By external rating, almost all were investment grade ('AAA'-'BBB'). Corporate bonds were relatively well diversified by sector.

Figure 12

GIIPS Exposure

(Consolidated; book values)

(EURm)	2014	2013	2011
Italy	8,182	6,305	4,873
Spain	4,451	3,918	4,432
Portugal	725	786	899
Ireland	563	506	675
Greece	1	10	546
Total GIIPS	13,922	11,525	11,425
As % of FCC	17.4	14.7	18.9

Bond portfolio only
Source: Fitch, BVR

The total book value of GFG's exposure to public-sector assets in peripheral eurozone countries was equivalent to 17.4% of the group's Fitch Core Capital (FCC) at end-2014 and largely related to Spanish and Italian exposures. While German GAAP generally does not require the marking of non-impaired exposures to market, the local banks book most of their securities in the German GAAP "liquidity reserve" (the bulk of "Depot A"), where securities valuation must reflect market price volatility. This prudent approach, alongside transfers to the §340f reserves, is in line with the local banks' policy of maximising their valuation reserves.

[2] Fitch assumes that GFG's securities portfolio is invested in similar patterns as its liquidity reserve ("Depot A").

Earnings and Profitability

Sound and Resilient Profitability

The local banks typically account for two-thirds to three-quarters of GFG's operating profitability, which largely explains GFG's earnings stability even in volatile periods. The local banks' unchanged retail and SME lending strategy and gradual risk reductions at GFG's central institutions mean Fitch expects GFG's profitability to remain resilient and ample. Some pressure will most likely come from lower NII (as NII from maturity transformations falls) and an increase in unsustainably low LICs, although Fitch expected the occurrence of both trends earlier. However, we believe the pressure will be gradual and manageable for GFG as a whole.

- Resilient and diversified earnings base; lending volume growth compensating for continued low interest rates
- Profitability in 2015 and 2016 likely to be below 2014 due to low interest rates and moderately higher LICs
- Considerable scope for cost efficiency improvements if required

Strong Performance Driven by Retail

While GFG is a diversified banking group, overall profitability trends will clearly be driven by its retail segment, which accounts for most of revenue and profit. GFG's profitability in 2014 (EUR10.6bn pre-tax profit; 12.9% operating ROAE (return on average equity)) is again somewhat overstated as it includes a valuation gain on DZ BANK's large fixed-income securities portfolio, but to a clearly lesser extent than in 2013. Pre-tax profit was further supported by almost doubled insurance income. Based on DZ BANK's stated normalised annual pre-tax profit target of around EUR1.5bn and the primary banks' resilient earnings capacity, we expect GFG to report pre-tax profit of between EUR8bn and EUR9bn in 2015 and 2016. This would equate to an acceptable pre-tax ROE of between 9% and 10%.

Local Banks Strong Performance Largely Volume Driven

The local banks' strong performance in 2014 was largely underpinned by above-average loan growth but also reflected the cooperative banks' considerable pricing power in lending and deposit-taking. Over half of GFG's clients are at the same time its cooperative owners and this limits its vulnerability to increasing deposit competition in Germany and facilitates cross-selling within the sector. Customer/owner loyalty is further underpinned by the local banks' long track record of maintaining a low ratio of paid-in capital/total equity (14% according to IFRS) and simultaneously a stable and relatively attractive dividend yield of around 5% (of paid-in capital).

The local banks' net interest margin contracted moderately in 2014 as a result of loan growth (up 4.1%) outstripping net interest income growth (up 1.2% yoy). Overall loans at local banks grew by EUR19bn to EUR482bn, with loans to household clients (mostly residential mortgage lending) increasing by 4.6% to EUR251bn (compared with 2.6% for the market as a whole). Loans to SMEs grew by 5% to EUR231bn, also outpacing overall market growth (0.9%).

Net fee income at local banks improved by 3.3% yoy with cross-selling initiatives ("Verbund First" initiative) between specialist suppliers (notably insurance, Bauspar and asset management) and local banks starting to bear fruit. In our view GFG still has ample scope to improve cross-selling revenue and benefit from its special companies in other ways (eg improving asset pricing in products such as commercial real estate or public sector lending).

LICs Below Long-Term Average

In 2014, LICs (EUR85m or 2bp of gross loans at local banks, EUR332m or 5bp for GFG as a whole) decreased and remained below the long-term average. While we expect unsustainably low LICs to increase in 2016, due to the local banks' loan book composition and the generally positive outlook for the German economy, any deterioration is likely to remain moderate and easily absorbable by GFG's considerable earnings base.

Local banks continued to build up 340g reserves (fund for general banking risk, qualifying as Tier 1 capital), while 340f reserves (qualifying as Tier 2 capital but phasing out) remained stable. However, under IFRS 340f, reserves are considered as core capital, and we understand that it remains in GFG's discretion to transfer them to 340g reserves. The total amount transferred to the fund for general banking risk in 2014 (EUR2.8bn) was broadly in line with previous years.

Figure 13

Local Banks and Consolidated Capitalisation

(EURbn)	2014	2013
Local banks only		
Common equity German GAAP (“Verbundkapital”)	46.1	44.1
340f and 340g reserves (combined)	30.6	27.7
Common equity IFRS (“Verbundkapital”)	75.5	71.6
Consolidated capitalisation		
Total regulatory capital	81.6	83.5
Of which core capital	62.1	59.3
Tier 1 capital ratio excluding 340f reserves (%)	11.5	11.4
Tier 1 capital ratio including 340f reserves (%)	13.8	13.8
Total capital ratio (%)	15.1	16.1
Fitch Core Capital ratio (%)	14.8	14.3

Source: BVR; Fitch

Capitalisation and Leverage

Strong Capital Ratios

GFG’s regulatory capital, calculated under German GAAP, largely consists of subscribed capital and retained earnings as well as 340g (fund for general banking risk) and 340f reserves. The latter are not eligible as Tier 1 regulatory capital under German GAAP but as they are fully loss-absorbing in a going-concern scenario and can be converted into 340g reserves at management’s discretion, we consider them to be part of GFG’s Fitch Core Capital base.

We consider GFG’s capitalisation and leverage strong and a positive rating driver. Internal capital generation is sound, partly due to GFG’s cooperative structure minimising “dividend” pay-outs, and its leverage ratio benefits from the prevalence of the standardised approach when calculating risk-weighted assets (except at DZ BANK and some smaller specialised entities).

Basel III Implementation: Broadly Favourable Outcome for GFG

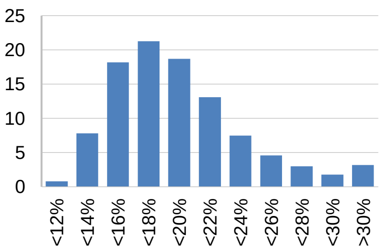
The implementation of Basel III in the EU was broadly favourable for GFG as the Capital Requirements Directive IV and Capital Requirements Regulation (CRR) continues to treat cooperative capital as core capital and allows the primary banks to continue to apply a 0% risk-weight to intragroup exposures. This also means that exposures to the central institutions are not treated as large exposures, and participations in other GFG members are not deducted from regulatory capital. Fitch understands that LCR and NSFR will for the time being be calculated at bank level, so all GFG banks have to comply individually when and if they become mandatory.

Figure 14

Distribution by Total Capital Ratio

(end-2014)

(% total banks)



Source: BVR, Fitch

Figure 15

Peer Group – Capitalisation

End-2014	VR	RWA/total assets (%)	Basel credit risk approach	FCC (%) 2014	FCC (%) 2013	FCC (%) 2012	Tier 1 ratio (%) 2014	Tier 1 ratio (%) 2013	Tier 1 ratio (%) 2012	TCE ratio (%) 2014	TCE ratio (%) 2013	TCE ratio (%) 2012
GFG	**aa−**	**47.6**	**>70% standard**	**14.8**	**14.3**	**13.1**	**11.5**	**11.4**	**10.1**	**7.6**	**7.3**	**6.5**
SFG	a+	54.5.	100% standard	14.4	13.4	12.4	14.5	13.4	12.5	7.9	7.5	6.8
Rabobank	a+	31.1	100% adv. IRB	12.7	12.1	13.2	16.0	16.6	17.2	4.1	4.8	4.1
CA	a	28.1	68% IRB	11.6	11.7	9.9	13.9	13.1	12.9	3.9	3.7	3.3
CM11-CIC	a+	33.4	71% adv. IRB	12.6	12.9	11.2	14.4	14.6	14.1	5.6	5.3	4.9
BPCE	a	32.1	60% IRB	12.3	11.1	9.6	12.7	12.8	12.2	4.3	4.2	3.8
Swedbank	a+	19.5	85% IRB	24.9	11.5	10.8	22.4	11.3	10.9	4.9	5.3	4.9
Median	a+	33.2	32% standard	13.0	12.1	11.2	14.4	13.1	12.5	4.9	5.3	4.9

Source: Fitch, bank financial statements; TCE=tangible common equity

The favourable treatment of SME loans for the purpose of risk-weighted asset calculations is positive for GFG due to its large SME loan book. Consequently, with the exception of a gradual phase-out (linear over five years from 1 January 2014) of 340f reserves and contingent capital (Haftsummenzuschlag) from Tier 2 capital, GFG's capitalisation will not be overly affected by Basel III implementation. This positive result reflects the generally favourable view German and European regulators have of decentralised, retail-focused banking groups.

GFG's net income pay-out ratio is low compared with peers (typically around 10%). This, in conjunction with GFG's sound profitability, results in above-average internal capital generation: between 2010 and 2014 GFG increased its IFRS equity by around EUR24bn and by EUR7bn in 2014 alone. However, regulatory capital decreased by EUR1.9bn to EUR81.6bn due to changes in the calculation under CRR. At the same time, the group's highly granular ownership structure represents an increasing competitive advantage in a Basel III environment that is likely to make many listed competitors struggle to meet their shareholders' risk/return expectations, potentially structurally impeding their ability to attract external capital. In 2014, consolidated capital ratios were for the first time calculated under CRR. Regulatory capital requirements on local banks' level are monitored by BVR-ISG and BVR-SE.

We understand that DZ BANK's non-CRR-compliant additional Tier 1 bonds to be partly replaced by new CRR-compliant bonds held by local banks in 2H15. In general, capital increases in central institutions and Muenchner Hyp were subscribed by local banks.

Figure 16

Key Funding Ratios

(%)	2014	2013	2012	2011
Loans/customer deposits	94	93.55	95.13	93.82
Interbank assets/interbank liabilities	36.99	34.73	37.7	43.18
Customer deposits/total funding (excl. derivatives)	78.48	78.56	75.52	74.52

Source: BVR, Fitch

Funding and Liquidity

Solid and Well-Balanced Funding Profile

GFG's funding profile is in our view strong and a key positive rating driver: local banks are almost exclusively deposit funded and wholesale funding needs at central institutions, notably DZ BANK, are partly met by local banks placing excess liquidity with central institutions. The local banks' excess liquidity is considerable (customer deposits typically exceed customer loans by around EUR100bn; EUR99bn at end-2014), which results in strong and remarkably stable loans/deposits ratios both at local banks and at group level (83% and 94%, respectively, at end-2014). External wholesale funding needs are predominantly met by covered bond issuance (around 8% of GFG's total funding).

In 2014, deposit growth at local banks (EUR21bn or +3.8% yoy) matched their loan growth (EUR19bn or +4.1% yoy). However, reflecting the current interest rate environment, deposit growth was unevenly distributed between products: while sight deposits increased strongly (by 9% yoy to EUR325bn), growth in savings deposits stagnated (EUR189bn) and term deposit balances fell (by 6% to EUR57bn). This – in conjunction with strong growth of longer-term mortgage loans – has led to a marginally worse balance-sheet structure, with significant balances of sight deposits funding increasingly longer-term assets.

The size of the German deposit market, underpinned by the country's strong household savings rate, and the German banking system's above-average depositor protection framework mean we expect competition for German deposits to remain fierce. However, GFG enters this competition from a position of strength due to its leading deposit market share and proven customer loyalty. In addition, GFG is typically less aggressive than many peers in terms of pricing, which means its depositor base is typically stickier than those of its peers.

Figure 19
Covered Bond Issuance

(EURbn)	2012	2013	2014	1H15
Total covered bonds issued	82.7	76.6	72.4	72.7
O/w mortgage covered bonds	38.6	38.5	39.8	42.1
O/w public sector covered bonds	44.1	38.1	32.6	30.6

Source: BVR, VdP, Fitch

Anticipating increasing deposit competition, GFG is putting more emphasis on its online presence by harmonising its members' internet presence via a shared platform and a shared app for smart phones promoting their common branding. However, this will not result in standardised pricing as this approach has been rejected by the local banks.

Total outstanding covered bonds (including covered bonds placed within the group) totalled around EUR73bn at end-1H15. GFG's main Pfandbrief issuers are DG HYP, WL Bank and Muenchener Hyp. Total outstanding covered bond volumes overstate GFG's reliance on wholesale funding markets as a significant proportion of covered bonds is placed within the group. While public-sector covered bonds are generally falling in importance at GFG as the existing cover pool is only partly replenished, this should be compensated for by increasing mortgage covered bond issuance, largely issued by DG HYP.

Structural subordination for senior unsecured creditors from covered bond issuance is limited at group level but significant at the issuing entities (DG HYP, WL Bank and Muenchener Hyp). However, in our view this is of limited relevance as GFG's mutual support means that their insolvency risk is strongly correlated to that of GFG as a whole.

GFG's funding profile also benefits from very low capital market scrutiny of GFG as a cooperative banking group. This partly masks the fact that DZ BANK, as Germany's third-largest bank, is also one of the country's most frequent debt issuers.

Liquidity

Liquidity is managed at legal entity level (ie, separately for each local bank and specialist lender or central institution) and consequently an analysis of GFG's consolidated liquidity position is of secondary relevance. Nonetheless, we view GFG's liquidity profile as strong.

GFG's total bond portfolio totalled EUR250bn or around 22% of assets and 35% of customer deposits at end-2014. The liquidity buffer of local banks was around EUR160bn at end-2014 (EUR150bn at end-2013), 90% of which was unencumbered and ECB eligible. Around a third of the local banks' liquidity buffer was placed intragroup, largely with DZ BANK, WGZ BANK and Muenchener Hyp. A further 30% were invested in covered and government bonds and 10% in corporate bonds. Around two-thirds were invested with German entities. Except for significant intragroup concentrations (DZ BANK), concentration risk is limited.

We understand that most local banks already comply with LCR requirements. Nonetheless, GFG's liquidity management and liquidity profile is sensitive to any regulatory changes regarding the treatment of intragroup positions.

Segment Reporting

Figure 18

Reporting by Segments

(EURm)	Corporates 2014	Corporates 2013	Retail 2014	Retail 2013	Real Estate 2014	Real Estate 2013	Insurance 2014	Insurance 2013	Consolidation 2014	Consolidation 2013
NII	1,917	2,096	17,277	17,083	1,552	1,554	-	-	-699	-723
Net fee income	576	567	5,542	5,239	-146	-292	-	-	-505	-453
Net trading income	570	269	210	227	-18	14	-	-	-10	-3
Results from financial invest.	61	-88	54	-408	8	-20	-	-	25	-7
Other valuation gains/(losses)	-39	39	12	21	454	1,021	-	-	8	-4
Other operating revenue	-167	-12	-196	5	57	55	-4	-57	29	24
Total operating revenue	2,918	2,871	22,899	22,167	1,907	2,332	3,144	2,435	-1,152	-1,166
Total operating expenses	1,675	1,652	14,880	14,530	735	693	2,284	2,126	395	389
Pre-imp. op. profit	1,243	1,219	8,019	7,637	1,172	1,639	856	252		
LICs	147	416	174	291	-9	34	-	-	13	33
Pre-tax profit	1,096	803	7,845	7,346	1,181	1,605	856	252	-323	-453
Cost/income ratio (%)	57.4	57.5	65.0	65.5	38.5	30				

Source: BVR, Fitch

Figure 19

Reporting by Legal Entities

(EURm)	Local banks 2014	Local banks 2013	DZ BANK (group) 2014	DZ BANK (group) 2013	WGZ BANK (group) 2014	WGZ BANK (group) 2013	Muenchener Hyp 2014	Muenchener Hyp 2013	GFG consolidated 2014	GFG consolidated 2013
NII	16,592	16,394	3,049	3,118	514.3	468.3	168.8	141.3	20,047	20,010
Net fee income	4,428	4,285	1,415	1,104	68.8	67.4	-60.1	-49.3	5,467	5,061
Net trading income	201	215	471	148	211.9	152.0	-	-	752	507
Results from financial invest.	92	-397	109	-124	-132.6	-86.6	1.7	2.1	148	-523
Other valuation gains/(losses)	-	-	327	1,100	-8	-19.4	-4.8	13.7	435	1,077
Other operating revenue	-105	3	2,930	2,359	-27.3	16.8	3.2	6.9	1,000	681
Total operating revenue	21,208	20,500	8,301	7,705	627.1	598.2	108.7	114.7	27,849	26,813
Total operating expenses	13,807	13,565	5,243	4,944	296.1	284.0	79.7	72.1	16,895	16,486
Pre-imp. op. profit	7,401	6,935	3,058	2,761	331.0	314.2	29.0	42.6	10,954	10,327
LICs	85	188	191	540	23.1	8.1	2.2	21.4	299	774
Pre-tax profit	7,316	6,747	2,867	2,221	307.9	306.1	27.0	21.2	10,655	9,553
Net income	5,254	4,900	2,157	1,467	234.3	227.2	16.3	6.7	7,807	6,862

Source: BVR, Fitch

Figure 20

Peer Analysis

LT IDR/ST IDR/VR	Genossenschaftliche FinanzGruppe AA−/Stable/aa−		Sparkassen-Finanzgruppe (Sparkassen) A+/Stable/a+		Credit Agricole A/Positive/a		Rabobank Group AA−/Stable/a+		CM11-CIC A+/Stable/a+		Groupe BPCE A/Stable/a		Peer group median	
Statement dates	Dec 14	Dec 13	Dec 14	Dec 13	Dec 14	Dec 13	Dec 14	Dec 13	Dec 14	Dec 13	Dec 14	Dec 13	Dec 14	Dec 13
Profitability														
Net interest margin (%)	2	2	2	2	1	1	1	1	1	1	1	1	1	1
Non-interest income/revenue(%)	28	25	23	22	31	29	34	19	53	48	50	49	33	27
Cost income ratio (%)	61	61	66	65	63	62	67	85	63	62	69	70	65	64
Pre-impairment ROAE (%)	13	14	10	11	13	16	14	5	13	15	12	13	13	14
Pre-impairment ROAA (%)	1	1	1	1	1	1	1	0	1	1	1	1	1	1
Operating ROAE (%)	13	13	10	11	10	10	5	-3	11	11	9	10	10	10
Operating ROAA (%)	1	1	1	1	0	0	0	0	1	1	0	0	1	1
Asset quality														
Loan growth (%)	3.4	2.5	1.4	2.4	0.1	-1.7	-0.1	-5.0	4.0	2.8	3.2	2.0	2.3	2.2
LICs/av. loans (%)	0.1	0.1	0.0	0.1	0.4	0.5	0.6	0.6	0.3	0.4	0.3	0.3	0.3	0.4
NPL ratio (%)	n.a.	n.a.	n.a.	n.a.	3.7	3.8	3.6	3.6	4.4	4.6	3.9	4.1	3.8	3.9
Reserves for impaired loans/gross loans (%)	1.3	1.4	n.a.	n.a.	3.0	3.1	2.1	1.9	2.9	3.1	2.1	2.1	2.1	2.1
Net NPL/equity (%)	n.a.	n.a.	n.a.	n.a.	8.3	9.1	25.1	29.7	20.2	21.6	21.9	27.0	21.1	24.3
RWA/total assets (%)	47.6	48.0	54.5	55.7	28.1	26.2	31.1	31.5	33.4	30.5	32.1	32.8	32.7	32.2
Funding & liquidity														
Loans/deposits (%)	94.0	93.6	94.2	96.7	119.0	114.5	139.8	139.7	127.5	124.0	132.9	129.2	123.2	119.2
Client deposits/total funding (%)	78.5	78.6	76.9	74.5	57.2	58.8	57.3	57.5	58.7	61.4	46.6	49.7	58.0	60.1
Interbank assets/liabilities (%)	37.0	34.7	34.9	32.1	100.5	87.4	103.1	131.8	181.8	198.7	141.7	156.1	101.8	109.6
Capitalisation & leverage														
Fitch core capital ratio (%)	14.8	14.3	14.4	13.4	11.6	11.7	13.0	12.7	12.6	12.9	12.3	11.1	12.7	12.5
Tier 1 ratio (%)	11.5	11.4	14.5	13.4	13.9	13.1	16.0	16.6	14.4	14.6	12.7	12.8	14.2	13.3
Total capital ratio (%)	15.1	16.1	17.0	16.4	16.7	16.3	21.3	19.8	17.5	14.6	15.4	14.4	16.9	16.2
Tangible common equity ratio (%)	7.6	7.3	7.9	7.5	3.9	3.7	4.1	4.0	5.6	5.3	4.3	4.2	4.93	4.73
Balance sheet & income statement														
Operating profit (EURm)	10,655	9,553	8,744	8,642	8,408	8,069	1,614	-1,022	3,626	3,429	5,532	5,127	6,970	6,598
Total assets (EURm)	1,135,760	1,080,565	1,115,181	1,104,421	1,762,763	1,706,326	681,086	669,095	543,735	510,256	1,223,298	1,123,520	1,125,470	1,092,493
Total gross loans (EURm)	670,683	648,470	703,145	693,752	729,663	729,234	453,500	453,793	295,695	284,234	592,737	574,320	631,710	611,395
Total customer deposits (EURm)	713,485	693,191	746,324	717,733	612,972	636,682	324,446	324,748	232,006	229,311	446,127	444,573	529,550	540,628
Total equity (EURm)	86,186	78,906	87,635	82,260	85,279	79,630	31,298	30,000	34,856	31,997	59,392	54,640	72,336	66,773
Fitch Core Capital (EURm)	80,006	74,007	87,635	82,260	57,458	52,439	26,980	25,551	22,831	20,056	48,470	40,874	52,964	46,657

Source: Fitch

Debt Ratings

We do not rate any debt issued by GFG. We do however rate various debt instruments issued by DZ BANK and other BVR members. See www.fitchratings.com for additional details.

Appendix 1: BVR-Run Dual System of Mutual Support and Deposit Guarantee Scheme

The BVR set up the new BVR Institutssicherung GmbH (BVR-ISG), and the co-operative group also decided to retain its existing mutual support scheme, BVR-Sicherungseinrichtung (BVR-SE). The two schemes are called the dual system and are linked by an indemnity declaration of BVR-SE for BVR-ISG. The co-operative banks' membership in the mutual support scheme allows a 0% weighting of GFG's intragroup receivables (standardised approach) under Art. 113 (7) CRR. This regulatory forbearance is an important element of the group's cohesiveness as it improves funding fungibility and facilitates intragroup risk transfers. In addition, participations in group members do not have to be deducted from members' equity under Art. 49 (3) 3 CRR and intra-group receivables are only included at 50% in members' large loan limits.

While "banking union" developments could weaken GFG's institutional protection schemes (through EU-wide risk collectivisation) the fact that any collectivisation will be phased in over 10 years means that Fitch's base case for GFG does not yet include this risk.

BVR-ISG starts off with an initial transfer of an undisclosed amount from BVR-SE; the funds of the latter are not publicly disclosed. With the same approach as for the savings banks we calculated the target amount for BVR-ISG at around EUR3.6bn. BVR-SE is obligated to provide the necessary funds, if available, to BVR-ISG in case of need for deposit protection. We expect BVR to face no challenge reaching this target, which was around 24% of the group's pre-tax profit in 2014.

Additional Voluntary Mutual Support For Member Banks (BVR-SE)

In addition to the new BVR-ISG, the group retained the existing mutual support fund (BVR-SE), which is a legally segregated trust, governed by specific statutes and BVR's by-laws. As a non-member of the fund, the BVR itself does not benefit directly from GFG's group ratings. In theory, GFG's members are allowed to exit BVR and the scheme, and BVR can exclude any bank that fails to monitor risks sufficiently.

Beyond all members' non-bank deposits, the fund protects the viability of all members, and therefore of all their obligations (institutional protection). All members, including major banks, have always received sufficient support when needed.

All deposit-taking members of GFG are affiliated to the fund and make mandatory annual cash contributions ("Garantiefonds") based on risk-weighted assets and adjusted for their individual risk profile. Interest income earned on the accumulated cash contributions is retained by the fund. If the funds accumulated in the Garantiefonds prove insufficient, BVR is entitled to call guarantees ("Garantieverbund", based on irrevocable letters of credit from the members) from the members based on their individual risk profile.

The uncertain timeliness of payment could become an issue if the combination of Garantiefonds and Garantieverbund proved insufficient to cover the failure of a large member, and therefore needed replenishment. However, in practice we would expect the fund to borrow against its future cash flow to ensure timely payment or arrange timely support from another source (eg members might provide the troubled entity with subordinated debt directly).

Centralised Monitoring Tools

Several capital, profitability and asset-quality ratios are calculated annually for each local bank based on annual reports. A resulting internal classification managed by BVR determines preventive measures and, if needed, turnaround management of distressed banks. The local banks' accounts are typically audited by GFG's regional audit associations.

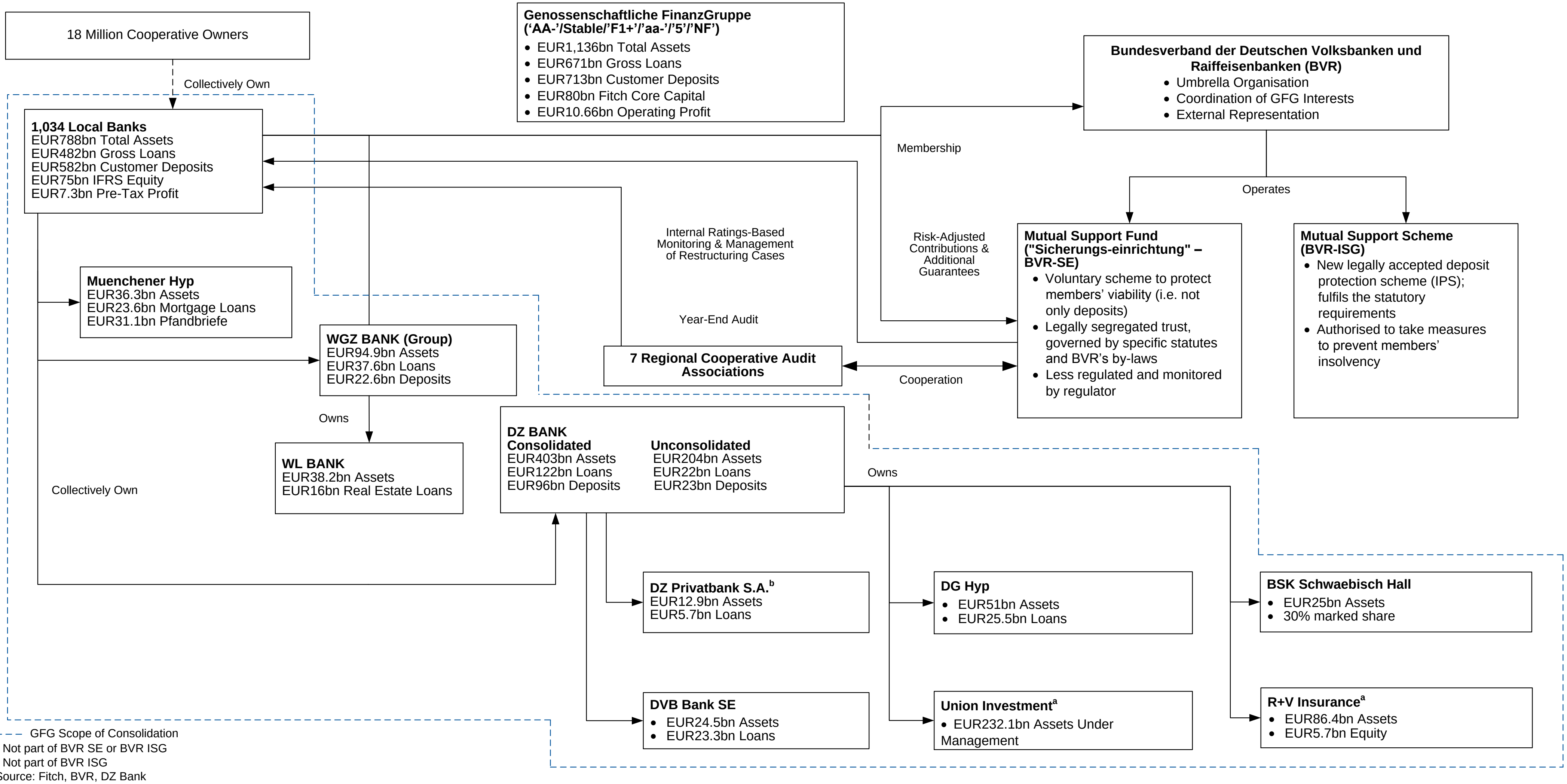
This classification is validated by regular back-testing. Low-rated banks are subject to extended reporting requirements. Banks in these categories may also be subject to special audits or recommendations from BVR on actions needed. They may also have to present a turnaround plan, which, if accepted, will be closely monitored by GFG's auditors and BVR. The number of local banks subject to preventive measures or restructuring procedures has fallen materially since the mid-2000s, reflecting the efficiency of BVR's monitoring processes and Germany's generally benign operating environment.

GFG's members use an internal credit rating system ("VR Rating System") for retail and SME loans designed by BVR, DZ BANK and WGZ BANK. A value-based risk management system used by many (but not all) members, VR Control, contains a series of controlling instruments. Its primary objective is to manage income, costs and risks by business sector to optimise the portfolio's risk/return. DZ BANK and WGZ BANK manage several tools that offer the local banks access to synthetic risk diversification and standardised deficiency guarantees without affecting their client relationships.

Appendix 2

Figure 22

Simplified Organisational Chart (as of End-2014)



[a] Not part of BVR SE or BVR ISG
[b] Not part of BVR ISG
Source: Fitch, BVR, DZ Bank

Genossenschaftliche FinanzGruppe
Income Statement

	31 Dec 2014 Year End EURm Reviewed	31 Dec 2013 Year End EURm Unaudited	31 Dec 2012 Year End EURm Unaudited	31 Dec 2011 Year End EURm Unaudited
1. Interest Income on Loans	25,709.0	26,443.0	28,128.0	28,774.0
2. Other Interest Income	4,948.0	5,379.0	6,166.0	6,780.0
4. Gross Interest and Dividend Income	**30,657.0**	**31,822.0**	**34,294.0**	**35,554.0**
6. Other Interest Expense	10,610.0	11,812.0	14,650.0	16,123.0
7. Total Interest Expense	**10,610.0**	**11,812.0**	**14,650.0**	**16,123.0**
8. Net Interest Income	**20,047.0**	**20,010.0**	**19,644.0**	**19,431.0**
9. Net Gains (Losses) on Trading and Derivatives	727.0	552.0	811.0	683.0
10. Net Gains (Losses) on Other Securities	148.0	(523.0)	390.0	(1,496.0)
11. Net Gains (Losses) on Assets at FV through Income Statement	460.0	1,032.0	37.0	(1,779.0)
12. Net Insurance Income	1,281.0	666.0	817.0	616.0
13. Net Fees and Commissions	5,467.0	5,061.0	4,860.0	4,788.0
14. Other Operating Income	(281.0)	15.0	135.0	78.0
15. Total Non-Interest Operating Income	**7,802.0**	**6,803.0**	**7,050.0**	**2,890.0**
16. Personnel Expenses	10,059.0	9,782.0	9,682.0	9,486.0
17. Other Operating Expenses	6,836.0	6,704.0	6,666.0	6,409.0
18. Total Non-Interest Expenses	**16,895.0**	**16,486.0**	**16,348.0**	**15,895.0**
20. Pre-Impairment Operating Profit	**10,954.0**	**10,327.0**	**10,346.0**	**6,426.0**
21. Loan Impairment Charge	332.0	765.0	1,034.0	738.0
22. Securities and Other Credit Impairment Charges	(33.0)	9.0	n.a.	n.a.
23. Operating Profit	**10,655.0**	**9,553.0**	**9,312.0**	**5,688.0**
29. Pre-tax Profit	**10,655.0**	**9,553.0**	**9,312.0**	**5,688.0**
30. Tax expense	2,848.0	2,691.0	2,440.0	1,226.0
32. Net Income	**7,807.0**	**6,862.0**	**6,872.0**	**4,462.0**
33. Change in Value of AFS Investments	1,397.0	460.0	1,944.0	(726.0)
35. Currency Translation Differences	12.0	(10.0)	13.0	0.0
36. Remaining OCI Gains/(losses)	(1,922.0)	105.0	(1,784.0)	207.0
37. Fitch Comprehensive Income	**7,294.0**	**7,417.0**	**7,045.0**	**3,943.0**
38. Memo: Profit Allocation to Non-controlling Interests	252.0	198.0	165.0	86.0
39. Memo: Net Income after Allocation to Non-controlling Interests	7,555.0	6,664.0	6,707.0	4,376.0
40. Memo: Common Dividends Relating to the Period	645.0	574.0	580.0	569.0
Exchange rate	USD1 = EUR0.82370	USD1 = EUR0.72510	USD1 = EUR0.75790	USD1 = EUR0.77290

Genossenschaftliche FinanzGruppe

Balance Sheet

	31 Dec 2014 Year End EURm	31 Dec 2013 Year End EURm	31 Dec 2012 Year End EURm	31 Dec 2011 Year End EURm
Assets				
A. Loans				
1. Residential Mortgage Loans	286,663.0	265,407.0	252,200.0	237,970.0
5. Other Loans	384,020.0	383,063.0	380,248.0	368,850.0
6. Less: Reserves for Impaired Loans	8,519.0	9,284.0	9,785.0	9,648.0
7. Net Loans	**662,164.0**	**639,186.0**	**622,663.0**	**597,172.0**
8. Gross Loans	**670,683.0**	**648,470.0**	**632,448.0**	**606,820.0**
9. Memo: Impaired Loans included above	0.0	0.0	n.a.	n.a.
10. Memo: Loans at Fair Value included above	0.0	0.0	n.a.	n.a.
B. Other Earning Assets				
1. Loans and Advances to Banks	38,293.0	33,413.0	41,785.0	44,589.0
3. Trading Securities and at FV through Income	29,297.0	32,989.0	31,719.0	38,379.0
4. Derivatives	39,991.0	30,143.0	41,874.0	42,579.0
7. Equity Investments in Associates	2,094.0	2,194.0	2,540.0	2,769.0
8. Other Securities	247,125.0	235,063.0	239,621.0	232,497.0
9. Total Securities	**318,507.0**	**300,389.0**	**315,754.0**	**316,224.0**
10. Memo: Government Securities included Above	0.0	0.0	n.a.	n.a.
12. Investments in Property	93.0	88.0	89.0	123.0
13. Insurance Assets	77,545.0	67,868.0	64,100.0	56,934.0
15. Total Earning Assets	**1,096,602.0**	**1,040,944.0**	**1,044,391.0**	**1,015,042.0**
C. Non-Earning Assets				
1. Cash and Due From Banks	15,656.0	15,980.0	14,277.0	17,958.0
4. Fixed Assets	11,336.0	10,580.0	10,355.0	10,545.0
5. Goodwill	121.0	120.0	180.0	189.0
6. Other Intangibles	272.0	292.0	289.0	312.0
7. Current Tax Assets	1,973.0	2,384.0	2,813.0	3,269.0
8. Deferred Tax Assets	2,511.0	2,523.0	2,938.0	3,503.0
10. Other Assets	7,289.0	7,742.0	15,093.0	7,661.0
11. Total Assets	**1,135,760.0**	**1,080,565.0**	**1,090,336.0**	**1,058,479.0**
Liabilities and Equity				
D. Interest-Bearing Liabilities				
1. Customer Deposits - Current	339,360.0	314,037.0	282,226.0	248,622.0
2. Customer Deposits - Savings	237,205.0	234,160.0	228,244.0	226,104.0
3. Customer Deposits - Term	136,920.0	144,994.0	154,369.0	172,034.0
4. Total Customer Deposits	**713,485.0**	**693,191.0**	**664,839.0**	**646,760.0**
5. Deposits from Banks	103,526.0	96,210.0	110,824.0	103,257.0
8. Total Money Market and Short-term Funding	**817,011.0**	**789,401.0**	**775,663.0**	**750,017.0**
10. Subordinated Borrowing	4,518.0	4,886.0	5,037.0	4,639.0
12. Other Long-term Funding	66,981.0	67,507.0	83,259.0	87,539.0
13. Total LT Funding (original maturity > 1 year)	**71,499.0**	**72,393.0**	**88,296.0**	**92,178.0**
14. Derivatives	43,180.0	31,406.0	52,295.0	47,093.0
15. Trading Liabilities	20,570.0	20,546.0	16,364.0	25,727.0
16. Total Funding	**952,260.0**	**913,746.0**	**932,618.0**	**915,015.0**
E. Non-Interest Bearing Liabilities				
2. Credit impairment reserves	432.0	422.0	454.0	534.0
3. Reserves for Pensions and Other	9,088.0	7,018.0	7,296.0	5,402.0
4. Current Tax Liabilities	816.0	755.0	984.0	843.0
5. Deferred Tax Liabilities	382.0	246.0	264.0	786.0
6. Other Deferred Liabilities	4,141.0	3,916.0	4,058.0	3,999.0
8. Insurance Liabilities	74,670.0	67,386.0	63,260.0	57,437.0
9. Other Liabilities	7,252.0	7,157.0	7,763.0	7,351.0
10. Total Liabilities	**1,049,041.0**	**1,000,646.0**	**1,016,697.0**	**991,367.0**
F. Hybrid Capital				
1. Pref. Shares and Hybrid Capital accounted for as Debt	218.0	533.0	1,441.0	1,683.0
2. Pref. Shares and Hybrid Capital accounted for as Equity	315.0	480.0	510.0	538.0
G. Equity				
1. Common Equity	81,563.0	75,335.0	68,601.0	63,272.0
2. Non-controlling Interest	3,348.0	3,120.0	2,943.0	2,770.0
3. Securities Revaluation Reserves	1,258.0	435.0	104.0	(1,131.0)
4. Foreign Exchange Revaluation Reserves	32.0	12.0	36.0	5.0
5. Fixed Asset Revaluations and Other Accumulated OCI	(15.0)	4.0	4.0	(25.0)
6. Total Equity	**86,186.0**	**78,906.0**	**71,688.0**	**64,891.0**
7. Total Liabilities and Equity	**1,135,760.0**	**1,080,565.0**	**1,090,336.0**	**1,058,479.0**
8. Memo: Fitch Core Capital	80,006.0	74,007.0	66,748.0	60,353.0
9. Memo: Fitch Eligible Capital	80,006.0	74,007.0	66,748.0	60,353.0
Exchange rate	USD1 = EUR0.82370	USD1 = EUR0.72510	USD1 = EUR0.75790	USD1 = EUR0.77290

Genossenschaftliche FinanzGruppe

Summary Analytics

	31 Dec 2014 Year End	31 Dec 2013 Year End	31 Dec 2012 Year End	31 Dec 2011 Year End
A. Interest Ratios				
1. Interest Income on Loans/ Average Gross Loans	3.90	4.13	4.54	4.84
3. Interest Income/ Average Earning Assets	2.87	3.04	3.33	3.57
4. Interest Expense/ Average Interest-bearing Liabilities	1.14	1.28	1.59	1.80
5. Net Interest Income/ Average Earning Assets	1.88	1.91	1.91	1.95
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	1.84	1.84	1.81	1.88
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	1.88	1.91	1.91	1.95
1. Non-Interest Income/ Gross Revenues	28.02	25.37	26.41	12.95
2. Non-Interest Expense/ Gross Revenues	60.67	61.49	61.24	71.21
3. Non-Interest Expense/ Average Assets	1.52	1.52	1.52	1.53
4. Pre-impairment Op. Profit/ Average Equity	13.27	13.72	15.15	10.15
5. Pre-impairment Op. Profit/ Average Total Assets	0.99	0.95	0.96	0.62
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	2.73	7.49	9.99	11.48
7. Operating Profit/ Average Equity	12.91	12.69	13.64	8.98
8. Operating Profit/ Average Total Assets	0.96	0.88	0.87	0.55
9. Operating Profit / Risk Weighted Assets	1.97	1.84	1.83	1.13
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	9.46	9.11	10.06	7.05
2. Net Income/ Average Total Assets	0.70	0.63	0.64	0.43
3. Fitch Comprehensive Income/ Average Total Equity	8.84	9.85	10.32	6.23
4. Fitch Comprehensive Income/ Average Total Assets	0.66	0.68	0.66	0.38
5. Taxes/ Pre-tax Profit	26.73	28.17	26.20	21.55
6. Net Income/ Risk Weighted Assets	1.45	1.32	1.35	0.89
D. Capitalization				
1. Fitch Core Capital/ Risk Weighted Assets	14.81	14.27	13.09	12.01
2. Fitch Eligible Capital/ Risk Weighted Assets	14.81	14.27	13.09	12.01
3. Tangible Common Equity/ Tangible Assets	7.55	7.26	6.51	6.02
4. Tier 1 Regulatory Capital Ratio	11.50	11.40	10.10	9.10
5. Total Regulatory Capital Ratio	15.10	16.10	14.70	14.00
7. Equity/ Total Assets	7.59	7.30	6.57	6.13
8. Cash Dividends Paid & Declared/ Net Income	8.26	8.36	8.44	12.75
9. Internal Capital Generation	8.31	7.97	8.78	6.00
E. Loan Quality				
1. Growth of Total Assets	5.11	(0.90)	3.01	3.74
2. Growth of Gross Loans	3.43	2.53	4.22	4.03
3. Impaired Loans/ Gross Loans	n.a.	n.a.	n.a.	n.a.
4. Reserves for Impaired Loans/ Gross Loans	1.27	1.43	1.55	1.59
8. Loan Impairment Charges/ Average Gross Loans	0.05	0.12	0.17	0.12
9. Net Charge-offs/ Average Gross Loans	0.16	0.19	0.15	0.27
F. Funding and Liquidity				
1. Loans/ Customer Deposits	94.00	93.55	95.13	93.82
2. Interbank Assets/ Interbank Liabilities	36.99	34.73	37.70	43.18
3. Customer Deposits/ Total Funding (excluding derivatives)	78.48	78.56	75.52	74.52
4. Liquidity Coverage Ratio	n.a.	n.a.	n.a.	n.a.
5. Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.

Genossenschaftliche FinanzGruppe

Reference Data

	31 Dec 2014 Year End EURm	31 Dec 2013 Year End EURm	31 Dec 2012 Year End EURm	31 Dec 2011 Year End EURm
B. Average Balance Sheet				
Average Loans	659,576.5	640,459.0	619,634.0	595,073.0
Average Earning Assets	1,068,773.0	1,046,120.0	1,029,716.5	996,425.5
Average Assets	1,108,162.5	1,085,450.5	1,074,407.5	1,039,396.0
Average Managed Securitized Assets (OBS)	0.0	0.0	n.a.	n.a.
Average Interest-Bearing Liabilities	933,003.0	923,497.0	923,816.5	897,801.0
Average Common equity	78,449.0	71,968.0	65,936.5	61,345.0
Average Equity	82,546.0	75,297.0	68,289.5	63,307.0
Average Customer Deposits	703,338.0	679,015.0	655,799.5	633,372.5
C. Maturities				
Total Subordinated Debt on Balance Sheet	4,518.0	4,886.0	5,037.0	4,639.0
D. Risk Weighted Assets				
1. Risk Weighted Assets	540,165.6	518,652.0	510,000.0	502,500.0
3. Fitch Adjusted Risk Weighted Assets	540,165.6	518,652.0	510,000.0	502,500.0
E. Equity Reconciliation				
1. Equity	86,186.0	78,906.0	71,688.0	64,891.0
2. Add: Pref. Shares and Hybrid Capital accounted for as Equity	315.0	480.0	510.0	538.0
4. Published Equity	86,501.0	79,386.0	72,198.0	65,429.0
F. Fitch Eligible Capital Reconciliation				
1. Total Equity as reported (including non-controlling interests)	86,186.0	78,906.0	71,688.0	64,891.0
4. Goodwill	121.0	120.0	200.0	189.0
5. Other intangibles	272.0	292.0	300.0	312.0
6. Deferred tax assets deduction	89.0	99.0	268.0	709.0
7. Net asset value of insurance subsidiaries	5,698.0	4,388.0	4,172.0	3,328.0
9. Fitch Core Capital	**80,006.0**	**74,007.0**	**66,748.0**	**60,353.0**
12. Fitch Eligible Capital	**80,006.0**	**74,007.0**	**66,748.0**	**60,353.0**
Exchange Rate	USD1 = EUR0.82370	USD1 = EUR0.72510	USD1 = EUR0.75790	USD1 = EUR0.77290

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.