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cooperative financial network

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ANNUAL REGULATORY RISK REPORT OF THE DZ BANK BANKING GROUP

DZ BANK Group

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1. BASIS OF REGULATORY RISK REPORTING

1.1. LEGAL BASIS AND IMPLEMENTATION IN THE DZ BANK BANKING GROUP

By making recommendations on capital adequacy (Basel II), the Basel Committee on Banking Supervision has defined internationally accepted standards for the amount of capital that banks need to hold to cover potential risks. The Solvency Regulation (SolvV) has transposed into national law the minimum European capital adequacy standards (collectively known as the Capital Requirement Directive (CRD)) prescribed in the Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC) as well as the equivalent requirements of Basel II. The Solvency Regulation defines in more detail the capital adequacy requirements for institutions prescribed in section 10 of the German Banking Act (KWG). The Solvency Regulation was amended in response to the first stage of amendments to Basel II ('revised Basel II') and the package of amendments referred to as 'CRD II', which transposed parts of revised Basel II being transposed into EU law, and it came into effect from December 31, 2010.

The DZ BANK banking group's regulatory risk reporting is performed in accordance with section **26a KWG** in conjunction with sections **319 to 337 SolvV**. The enhanced disclosure requirements resulting from the revised Basel II framework are recognized in this risk report. They require a more sharply differentiated disclosure of Tier 1 capital (section 324 (2) SolvV), disclosure of ongoing changes in value-at-risk and of the results of backtesting market risk as measured by internal models permitted for regulatory purposes. The value-at-risk during the reporting period has to be disclosed as daily maximum, minimum and average figures (section 330 (3) number 1 SolvV). The disclosure of backtesting results consists of the hypothetical changes in fair value calculated every trading day in the reporting period and explanations for occasions when backtesting revealed that the value-at-risk limits had been exceeded (section 330 (3) number 2 SolvV).
DZ BANK has already met the requirements resulting from further amendments to SolvV with regard to editorial adjustments to the presentation of capital ratios (section 325 (2) number 5 SolvV) and the more detailed disclosure of collateralized exposures (section 336 (2) SolvV) before these were made an explicit regulatory reporting requirement and therefore does not need to make any changes in its regulatory risk report.

This risk report implements the disclosure recommendations made in the report of the **Financial Stability Forum on Enhancing Market and Institutional Resilience** dated April 7, 2008, with respect to securitization and leveraged finance. These are implemented in addition to the statutory solvency requirements (SolvV) and take into account the specific situation of the DZ BANK banking group. The DZ BANK banking group's commercial-law and regulatory risk reporting as at December 31, 2010, also fulfils the main requirements of the '**Principles for disclosures in times of stress**' formulated by the Committee of European Banking Supervisors (CEBS) in April 2010.

Since 2007, the DZ BANK banking group has mainly used the foundation internal ratings-based approach (IRB approach or IRBA) to calculate the regulatory capital requirements for credit risk. The regulatory credit risk measurement methods used by DVB are largely based on the advanced IRB approach. The IRB approach is used to calculate the credit risk of the retail businesses of BSH, DG HYP and TeamBank, although the probability of default (PD) and the loss given default (LGD) are based on accounting estimates. Capital requirements for market risk are mainly measured according to internal calculation models. The Standardized Approach is used for the regulatory estimation of operational risk at the banking group level.

This disclosure is performed pursuant to section 319 (2) SolvV by DZ BANK as the parent company of the regulatory banking group and is conducted in aggregated form at group level.

DZ BANK's external risk reporting is based on the **disclosure policy** adopted by the Board of Managing Directors, which documents principles and fundamental decisions concerning the methods, organizational structures, and IT systems used in risk disclosure and how this is embedded in the DZ BANK Group's general financial disclosure and internal risk reporting. By adopting this disclosure policy, the Board of Managing Directors has put in place the necessary risk-related disclosure procedures and has communicated them throughout the DZ BANK Group. The disclosure policy is updated as part of the annual review of the

adequacy of the DZ BANK Group's risk disclosure procedures, thereby complying with the requirements of section 26a (1) KWG.

The **figures disclosed** are presented in the table formats – the so-called 'use cases' – recommended by Deutsche Bundesbank's specialist subcommittee on disclosure requirements. The tables' numbering and headings follow these recommendations and are based on the third pillar of Basel II. This ensures that the regulatory risk disclosure procedures used by the DZ BANK banking group meet the relevant international, European, and German standards. The DZ BANK banking group has used its own disclosure templates based on the revised Basel II requirements for the enhanced disclosures as at December 31, 2010, in accordance with section 324 (2) and section 330 (3) numbers 1 and 2 SolvV.

Corresponding comparable values for 2009 are reported on a voluntary basis for all the 2010 figures disclosed. In the tables specified below, the values reported for December 31, 2009 for comparison purposes differ from the values in the group's 2009 regulatory risk report because the accounts of DZ BANK Polska, DZ PRIVATBANK Schweiz and Union Asset Management Holding have been included for the first time:

- Table 5: Exposure under the Standardized Approach to credit risk subject to the simple risk-weighting method
- Table 7b: Collateralized exposure under the Standardized Approach to credit risk (excluding securitizations)
- Table 8b (I): Derivative counterparty risk exposure, including and excluding offsetting agreements and collateral
- Table 8b (II): Weighted counterparty risk in relation to derivative counterparty risk exposures and broken down by the approach used
- Table 9f: Retained and purchased securitization exposure
- Table 9g and 9i (I): Total amount and capital requirements of retained and purchased securitization exposure broken down by risk-weighting band
- Table 13b and 13c: Measurement of equity instruments

The information disclosed in the tables specified below would consist of one figure or a small number of figures so for reasons of simplicity, these figures are reported within the explanatory text rather than in table format.

- Table 8b (II): Weighted counterparty risk in relation to derivative counterparty risk exposure broken down by the approach used
- Table 8b (III): Notional amounts of credit derivatives used for hedging derivative-counterparty risk exposure
- Table 9j: Securitizations during the reporting year
- Table 11f (I+II): Value-at-risk in the trading book using the internal modeling approach

The following quantitative requirements are not included in the present disclosure:

- Table 8d: Alpha factor defined in section 223 (6) SolvV (disclosure pursuant to section 326 (2) number 5 SolvV), since no internal DZ BANK banking group models approved by the regulatory authorities were currently used to calculate regulatory capital requirements for derivative counterparty risk exposure in 2010.
- Table 9h and 9i: Securitizations under the early amortization approach (disclosure pursuant to section 334 (2) number 5 SolvV, since no such securitizations were transacted by the group's companies in 2010).

The DZ BANK banking group's **qualitative regulatory risk reporting** is in large part integrated into the risk report contained in the 2010 group management report. The DZ BANK banking group utilizes the option available under section 320 (1) SolvV. Please refer to the group risk report for qualitative disclosures.

As part of the audit of its **annual financial statements** and in accordance with section 29 (1) sentence 2 KWG, the group report was audited by DZ BANK's auditors with respect to formal procedures, rules on disclosure and compliance with disclosure requirements. With the exception of those sections that are disclosed within the group risk report, this report has not been audited.

1.2. CONCEPT OF REGULATORY RISK REPORTING

Regulatory capital adequacy relates to the following risk types: credit risk (including equity risk), market risk, and operational risk. In addition to these risk categories, business risk, strategic risk and actuarial risk are also backed by economic risk capital as part of the internal economic capital adequacy process under the second pillar of Basel II. At the same time, liquidity risk is also taken into account in a separate liquidity-related risk-bearing-capacity analysis, which recognizes interdependencies between the two 'Capital' and 'Liquidity' steering committees. Further details can be found from page 105 onward in Chapter 7 (entitled 'Liquidity risk') of the risk report contained in the group management report.

The regulatory risk report covers the subsidiaries that are consolidated as part of the DZ BANK banking group for regulatory purposes under the KWG. Further risks that arise at subsidiaries that are not consolidated for regulatory purposes are disclosed in detail in the risk report at the DZ BANK Group level. This relates especially to the risks to which R+V is exposed.

In addition, the recognition of certain risk types differs depending on whether economic risk capital requirements or regulatory requirements are being determined. In particular, actuarial risk, business risk and strategic risk are included in the calculation of economic risk capital requirements, although they are not backed by capital for regulatory purposes.

FIG.1 – FIGURES IN THE RISK REPORTS BROKEN DOWN BY RISK TYPES

Risk types	Regulatory risk report	Commercial-law risk report
Credit risk (including default risk from trading transactions and securitizations)	Regulatory capital requirement	Upper loss limit and economic risk capital requirement
	Lending volume and collateral	Lending volume
	Allowances for losses on loans and advances, and loss data	Allowances for losses on loans and advances
Equity risk	Regulatory capital requirement	Upper loss limit and economic risk capital requirement
	Volume of securities in the banking book and conventional long-term equity investments	Volume of conventional long-term equity investments
	Realized gains and losses on equity instruments	
Market risk	Regulatory capital requirements for trading book broken down by market risk type	Upper loss limit and economic risk capital requirement
	Value-at-risk and hypothetical changes in fair value of trading book and of foreign-currency, commodity and other market risk exposure in the banking book	Value-at-risk in the trading and non-trading portfolios in the banking business
	Value-at-risk due to interest-rate risk in the banking book	Value-at-risk and hypothetical changes in fair value of trading portfolios
Liquidity risk	Not included	Liquidity up to 1 year
		Structural liquidity
		Funding
Actuarial risk	Not included	Upper loss limit and economic risk capital requirement
		Insurance claim rate and settlements
		Credit insurance
Operational risk	Regulatory capital requirement	Upper loss limit and economic risk capital requirement
		Net losses by event category
Strategic and business risks	Not included	Upper loss limit and economic risk capital requirement

Market risk in the banking book is included with interest-rate risk in the calculation of economic risk capital requirements, whereas it is not included for regulatory purposes.

The credit risk exposure presented in Table groups 5, 6, 7, 8, and 9 of this risk report and the allowances for losses on loans and advances are based on the measurement methods and carrying amounts of the German accounting standards (HGB). In the risk report prepared under German commercial law, on the other hand, the presentation of the total volume of loans extended is based on the figures from the Bank's internal management accounts.

When the regulatory capital requirements and the related disclosure requirements are being determined, risk-bearing exposures that are allocated to the trading book are treated differently from those that are allocated to the banking book in terms of the quantification of their risks. For example, the on-balance sheet and off-balance sheet exposures of the banking book and the counterparty risks arising from derivatives exposure in the banking book and trading book are treated as credit risks. The on-balance sheet exposures in the trading book are treated as market risk exposures and are therefore backed with regulatory capital, whereas for internal management purposes they are treated as issuer risks and allocated to credit risk. The different treatment of the trading book and banking book also applies to the disclosure of securitization exposures as part of the overall credit portfolio.

Figure 1 compares the quantitative information disclosed in both the regulatory and commercial-law risk report for the various risk types.

FIG. 2 – TABLE 1B: CONSOLIDATION MATRIX/DIFFERENCES BETWEEN COMPANIES CONSOLIDATED FOR REGULATORY PURPOSES AND THOSE CONSOLIDATED FOR THE PURPOSES OF COMMERCIAL LAW

		Treatment for regulatory purposes					
		Consolidation				Consolidation under IFRS	
Classification	Name (abbreviation)	Full	Pro-rata	Deduction method	Risk-weighted equity investment	Full	Pro-rata
Banks	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main (DZ BANK)	•				•	
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (BSH)	•				•	
	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg (DG HYP)	•				•	
	DVB Bank SE, Frankfurt am Main (DVB)	•				•	
	DZ BANK Ireland plc, Dublin (DZ BANK Ireland)	•				•	
	DZ BANK Polska S.A., Warsaw (DZ BANK Polska)	•					
	DZ PRIVATBANK S.A., Luxembourg-Strassen (DZ PRIVATBANK S.A.)	•				•	
	DZ PRIVATBANK (Schweiz) AG, Zurich (DZ PRIVATBANK Schweiz)	•				•	
	TeamBank AG Nürnberg, Nuremberg (TeamBank)	•				•	
Finance companies	Union Asset Management Holding AG, Frankfurt am Main (Union Asset Management Holding)	•				•	
Financial services institutions	VR-LEASING AG, Eschborn (VR LEASING)	•				•	
Insurance companies	R+V Versicherung AG, Wiesbaden (R+V)				•	•	

2. SCOPE OF APPLICATION

As part of the DZ BANK financial conglomerate, the DZ BANK banking group is subject to the requirements of section 10b KWG. In this respect it meets the relevant requirements with respect to **financial conglomerates' solvency** and the establishment of an overarching risk management structure.

All companies belonging to the financial conglomerate are integrated into the central risk management system using the principle of materiality pursuant to section 26a (2) number 1 KWG in conjunction with section 320 (1) SolvV. Materiality is determined on the basis of a concept that also applies to risk reporting under the German Commercial Code (HGB). The concept takes into account the decision-usefulness of disclosures and the economic viability of preparing reports. It is based on risk-management procedures that meet the requirement for a group-wide risk monitoring system, in accordance with section 91 (2) of the German Stock Corporation Act (AktG) and pursuant to section 25a (1) KWG.

The disclosures in this risk report relate to material companies as defined by section 26a (2) number 1 KWG. Consequently, the regulatory risk report is consistent with the risk report contained in the group management report for 2010, which covers the same companies. The materiality concept does not apply to Table 2b to 2e on the structure of equity, Table 3b to 3e on capital requirements, Table 3f on capital ratios or Table 10b on capital requirements for market risk under the standardized method. All relevant companies consolidated for regulatory purposes are included in these tables to ensure that the key regulatory figures are consistent with the figures reported.

In **Table 1b** Use cases in the 'Consolidation matrix/ differences between companies consolidated for regulatory purposes and those consolidated for the purposes of commercial law', (disclosure pursuant to section 323 (1) number 2 SolvV, see Fig. 2), the financial conglomerate's companies that are material for internal risk management purposes are classified according to the nature of their business, the nature of their treatment for regulatory purposes, and the nature of their consolidation for the purposes of commercial law. These companies are classified on the basis of the definitions contained in section 1 KWG.

The material companies are consolidated for both regulatory and commercial-law purposes. Although R+V is fully consolidated for commercial law purposes, it is not directly subject to banking regulation. Instead, it is factored into the procedure used to determine the DZ BANK banking group's capital adequacy and disclosure requirements pursuant to the KWG and the SolvV using the risk-weighted carrying amount of DZ BANK's investment in R+V. Furthermore, R+V is included in the cross-sectoral regulatory surveillance of the DZ BANK financial conglomerate at consolidated level within the legal framework applicable to financial conglomerates.

The following were fully **consolidated for regulatory purposes** pursuant to section 10a KWG on December 31, 2010, together with the companies listed in Table 1b: a total of 19 (December 31, 2009: 18) banks, 28 (2009: 13) financial services institutions, 8 (2009: 9) investment companies, 742 (2009: 799) finance companies – 672 (2009: 716) of which were project companies belonging to VR-IMMOBILIEN-LEASING GmbH, Eschborn – and 11 (2009: 12) providers of related services. In addition, five banks and three finance companies were consolidated on a pro-rata basis, as in 2009.

DZ BANK is either directly or indirectly the major shareholder in the long-term equity investments consolidated for regulatory purposes. Most companies are based either in Germany or elsewhere in the European Union. On the reporting date there were **no restrictions on the transfer of funds or capital** as defined in section 323 (1) number 3 SolvV within the DZ BANK banking group by third-party individuals, private or public-sector companies, supranational organizations, or sovereign states.

DZ BANK has not made use of the **waiver** available under section 2a KWG, which states that – provided certain conditions are met – the regulatory supervision of individual German-based institutions within a banking group may be replaced by supervision of the entire banking group.

FIG. 3 – INCLUSION OF COMPANIES IN QUANTITATIVE REGULATORY DISCLOSURE

	Use case tables											
	Table 2b to 2e	Table 3b to 3e	Table 3f	Table group 4	Table 5	Table group 6	Table group 7	Table group 8	Table group 9	Table group 13	Table group 11	Table 14b
Companies	Structure of equity	Capital requirements	Capital ratios	Lending volume & allowances for losses	Standardized Approach exposure	IRBA exposure	Credit risk mitigation	Derivative counterparty risk	Securitizations	Equity instruments	Value-at-risk and hypothetical changes in fair value	Interest-rate risk
DZ BANK	•	•	•	•	•	•	•	•	•	•	•	•
BSH	•	•	•	•	•	•	•	•	•	•		•
DG HYP	•	•	•	•	•	•	•	•	•	•		•
DVB	•	•	•	•	•	•	•	•		•		
DZ BANK Ireland	•	•	•	•	•	•	•	•	•			•
DZ BANK Polska	•	•	•	•	•		•	•				•
DZ PRIVATBANK S.A.	•	•	•	•	•	•	•	•		•		•
DZ PRIVATBANK Schweiz	•	•	•	•	•							•
TeamBank	•	•	•	•	•	•	•	•		•		•
Union Asset Management Holding	•	•	•		•					•		
VR LEASING	•	•	•	•	•		•	•	•	•		
Other companies of relevance for regulatory purposes	•	•	•	•								
R+V				•								

As was already the case at the end of 2009, there were no subsidiaries in the DZ BANK banking group that had a **capital deficiency** on December 31, 2010. Consequently, no disclosure pursuant to section 323 (2) SolvV (Table 1e of use cases) has been made.

Figure 3 shows how the material group companies are integrated into the quantitative regulatory disclosure procedures of the DZ BANK banking group. These companies are also directly incorporated as management units into the risk management of the DZ BANK Group. These companies are included in such disclosures in a way that reflects any intra-group effects of consolidation. The definition of the management units in the case of subsidiaries and investees is based on economic risk management criteria in Table group 4 and Table 14b, while definition in the other tables is based on regulatory consolidation. DZ BANK Ireland is the only company that does not have subsidiaries or investees.

3. RISK CAPITAL MANAGEMENT

3.1. ECONOMIC RISK CAPITAL MANAGEMENT

(Disclosure pursuant to section 325 (1) SolvV)

Information on capital adequacy and the management of economic capital is disclosed from page 70 onward in Chapter 3 (entitled 'Risk capital management') of the risk report contained in the group management report.

3.2. CAPITAL

(Disclosure pursuant to section 324 SolvV)

Table 2b to 2e (see Fig. 4) present the aggregated capital defined in section 10a KWG. The disclosures relate to all the companies in the DZ BANK banking group that have been consolidated for regulatory purposes as at December 31, 2010. The capital of the DZ BANK banking group is calculated under the aggregation and deduction method pursuant to section 10a (6) KWG.

As result of the CRD II amendment package, a new capital category, 'Other Tier 1 capital', was enshrined in KWG as part of the amendments implemented on December 31, 2010. Regardless of compliance with the new enhanced recognition requirement, capital raised before December 30, 2010, can be recognized as Tier 1 capital within the specified time period and maximum value limit specified in the transition rules in section 64m KWG.

In addition to the paid-up capital and reserves classed as Tier 1 capital in accordance with section 10 (4) KWG, **Tier 1 capital** as at December 31, 2010 included eligible preferred securities totaling €2,176 million (December 31, 2009: €2,184 million).

The special features of **preferred securities** are that they are issued in perpetuity but can be redeemed by the issuer after a minimum of 5 years and before a maximum of 10 years, they do not confer put options for investors and they pay non-cumulative dividends. Preferred securities rank senior to ordinary shares, pari-passu with preference shares and junior to all other debt. They do not contain step-up clauses. With the exception of one issue of €250 million, no the other issues carry a redemption incentive. The securities' variable coupon rates are 3-month or 12-month EURIBOR plus 50 to 500 basis points. Two of the offerings pay fixed coupon rates of 6.623 percent and 8.884 percent. The issue of preferred securities with a redemption incentive pays a coupon of 12-month EURIBOR plus 325 basis points which rises to 425 basis points from 2018 onward. The DZ BANK banking group has issued a total of 14 (no change on 2009) hybrid capital instruments in the form of preferred securities through subsidiaries specifically established for this purpose. These securities, whose total par value of €2,210 million remains unchanged on 2009, were issued from

FIG. 4 – TABLE 2B TO 2E: STRUCTURE OF EQUITY

€ million	Dec. 31, 2010	Dec. 31, 2009
Equity instruments		
Paid-up capital and reserves[1]	5,586	5,661
Other Tier 1 capital instruments[1]	2,540	2,651
of which: other Tier 1 capital pursuant to section 10 (4) KWG[1]	2,260	2,371
of which: other Tier 1 capital with redemption incentives[1]	280	280
Special provision for general banking risks pursuant to section 340g HGB	2,704	2,207
Deductions from Tier 1 capital pursuant to section 10 (2a) sentence 2 KWG	-288	-245
Deductions from Tier 1 capital pursuant to section 10 (6 and 6a) KWG	-1,334	-897
Total Tier 1 capital pursuant to section 10 (2a) KWG	9,208	9,377
Total Tier 2 capital before capital deductions pursuant to section 10 (2b) KWG	3,093	3,276
Deductions from Tier 2 capital pursuant to section 10 (6 and 6a) KWG	-1,334	-897
Eligible Tier 3 capital pursuant to section 10 (2c) KWG	–	15
Total Tier 2 capital pursuant to section 10 (2b) KWG and eligible Tier 3 capital pursuant to section 10 (2c) KWG	1,759	2,394
Total modified equity available pursuant to section 10 (1d) KWG and eligible Tier 3 capital pursuant to section 10 (2c) KWG	**10,967**	**11,771**

1 Prior-year values have been restated to reflect the reclassification of equity items and the inclusion of 'of which' items.

2003 to 2010; their coupon rates reflect prevailing market rates.

As at December 31, 2010, an equity issue carried out in 1999 as part of the consolidation of DG Funding LLC, New York and DG Holding Trust, New York, still provided a €364 million contribution to Tier 1 capital. The issue has no fixed maturity date but carries an issuer call option on each quarterly coupon payment date. Its variable coupon rate is 3-month US dollar LIBOR plus 225 basis points.

With the amendment to KWG as a result of the CRD II amendment package, the term 'profit-sharing rights' is no longer used in KWG; instead, there is a list of qualitative recognition criteria which permit the use of capital instruments as **Tier 2 capital** in the previous category. Tier 2 capital as at December 31, 2010 amounted to a total of €1,759 million (December 31, 2009: €2,379 million). It included capital of €685 million (December 31, 2009: €834 million) recognized on the balance sheet as profit-sharing rights and subordinated liabilities of €2,590 million (December 31, 2009: €2,568 million) which meet the requirements of section 10 (5) KWG and section 5a KWG. Interest is only paid to holders of profit-participation certificates when distributable profit is available. In such cases, payment is dependent on the dividend amount. The various tranches in the form of registered and bearer profit-participation certificates have original maturity periods of between five and 23 years. Investors cannot redeem profit-participation certificates prior to their maturity.

Subordinated liabilities were issued as further components of Tier 2 capital in the form of registered and bearer bonds and promissory notes carrying fixed or variable interest rates which range between 3.75 percent and 8.88 percent. These instruments have original maturity periods of between five and 22 years. It is not anticipated that these tranches will be converted into equity or any other form of liability.

DZ BANK compares loan loss allowances at both single-entity and group level pursuant to section 105 SolvV by comparing the computed expected losses for the IRBA asset classes of central governments, institutions, corporates and retail business with the amounts recognized in the annual or interim financial statements for actual or potential write-downs arising from the risk of counterparty-related losses on these IRBA exposures. DZ BANK classifies the write-down surplus computed at both single-entity and group level as part of Tier 2 capital pursuant to section 10 (2b) number 9 KWG. This classification is capped at 0.6 percent of the risk-weighted IRBA exposure.

Tier 2 capital included a write-down surplus pursuant to section 10 (2b) number 9 KWG on the reporting date. Consequently, the allowances for losses on loans and advances recognized for the IRBA exposures in the corporates, institutions, central governments and retail business asset classes exceeded the expected losses for these exposures. Tier 2 capital also contained the contingency reserves pursuant to section 340f HGB net of prorated goodwill and, as a deduction, 50 percent of the pro-rata deductible carrying amounts of long-term equity investments held by non-consolidated companies and securitization exposures with a risk weighting of 1,250 percent.

The **write-down deficits** and the **expected losses** for IRBA exposures pursuant to section 10 (6a) numbers 1 and 2 KWG, half of which are deducted from Tier 1 capital and half from Tier 3 capital, amounted to €3 million on December 31, 2010 (December 31, 2009: €2 million).

The DZ BANK banking group did not hold any Tier 3 capital at the end of 2010 (December 31, 2009: €15 million).

The total **regulatory capital** held by the DZ BANK banking group amounted to €10,967 million on December 31, 2010 (December 31, 2009: €11,771 million). The DZ BANK Group's available **aggregate risk cover** for economic capital management purposes was set at €11,758 million in 2010 (2009: €11,303 million).

The objective of both capital concepts is to ensure capital adequacy; in other words, the relevant capital components act as a cushion in case any unexpected losses arise. The regulatory capital of the DZ BANK banking group is derived from the provisions of KWG. It is based on the carrying amounts recognized under

FIG. 5 – TABLE 3B TO 3E: CAPITAL REQUIREMENTS (PART 1)

€ million	Dec. 31, 2010	Dec. 31, 2009
1 Credit risk		
1.1 Standardized Approach to credit risk		
Central governments	1	13
Regional governments and local authorities	34	24
Other public-sector entities	2	2
Multilateral development banks	–	–
International organizations	–	–
Institutions	47	57
Covered bonds issued by institutions	5	4
Corporates	879	906
Retail business	244	228
Exposures collateralized by real estate	39	39
Investment fund units	29	33
Other exposure	75	91
Past-due exposure	72	80
Total credit risk under the Standardized Approach	1,427	1,477
1.2 IRB approaches		
Central governments	24	41
Institutions	1,062	918
Corporates	1,945	2,014
Retail business	889	899
of which: mortgage-backed	533	541
qualified revolving	–	–
other	356	358
Other non credit-obligation assets	117	114
Total under IRB approaches	4,037	3,986
1.3 Securitizations		
Securitizations under the Standardized Approach to credit risk	–	–
Securitizations under IRB approaches	354	355
Total securitizations	354	355
1.4 Long-term equity investments		
Long-term equity investments (IRB approaches)	63	58
of which: internal modeling approach	–	–
PD/LGD approaches	29	23
simple risk-weighting approach	34	35
of which: exchange-traded equity investments	21	21
equity investments not exchange-traded but part of a diversified portfolio	3	2
other equity investments	10	12
Long-term equity investments (Standardized Approach to credit risk)	246	279
Total long-term equity investments	309	337
Total credit risk	**6,127**	**6,155**

FIG. 6 – TABLE 3B TO 3E: CAPITAL REQUIREMENTS (PART 2)

€ million	Dec. 31, 2010	Dec. 31, 2009
2 Market risk		
Standardized Approach	65	73
of which: interest-rate risk	12	16
equity price risk	–	–
currency risk	53	57
risk from commodities positions	–	–
other risks	–	–
Internal modeling approach	255	934
Total market risk	320	1,007
3 Operational risk		
Operational risk under the standardized approach	479	448
Total capital requirements	**6,926**	**7,610**

FIG. 7 – TABLE 3F: CAPITAL RATIOS IN THE DZ BANK BANKING GROUP

Companies	Total capital ratio		Tier 1 capital ratio	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
DZ BANK banking group	**12.7%**	12.4%	**10.6%**	9.9%
DZ BANK	26.7%	24.7%	15.6%	13.9%
BSH	34.2%	36.8%	24.8%	26.4%
DG HYP	10.6%	9.2%	7.6%	7.0%
DVB (banking group)	16.8%	16.3%	16.8%	12.9%
DZ BANK Ireland	16.2%	12.9%	13.4%	10.6%
DZ BANK Polska (banking group)	13.4%	13.5%	13.4%	13.5%
DZ PRIVATBANK S.A.	19.3%	21.3%	15.0%	19.7%
DZ PRIVATBANK Schweiz	27.0%	21.1%	25.2%	20.4%
TeamBank	12.7%	12.1%	8.7%	8.3%

the HGB and essentially comprises the capital reported on the balance sheet, hybrid capital instruments, and subordinated liabilities that are modified with respect to various components that are reported on the balance sheet or are relevant for measurement purposes. By contrast, the components of economic capital used to provide aggregate risk cover for the DZ BANK Group are based on International Financial Reporting Standards (IFRS) and include equity as well as hidden reserves. The components of R+V's equity are also included in the economic capital used to provide aggregate risk cover.

3.3. CAPITAL REQUIREMENTS

(Disclosure pursuant to section 325 (2) SolvV)

Table 3b to 3e (see Figs. 5 and 6) shows the capital adequacy amounts in relation to the risk types of relevance for regulatory purposes (credit risk, market risk, and operational risk). These figures cover all the companies consolidated for regulatory purposes in the DZ BANK banking group.

The difference between the regulatory capital requirement, measured at €6,926 million as at December 31, 2010 (December 31, 2009: €7,610 million) and the economic risk capital requirement measured at €8,795 million as at December 31, 2010 (December 31, 2009: €8,986 million) is largely attributable to the fact that actuarial risk, business risk and the strategic risk arising from other types of risk are backed by capital for the purposes of economic risk capital management, although they are not backed by capital for regulatory purposes. The higher figures for economic risk capital with respect to market risk and operational risk (which are backed by capital for both economic risk capital management and regulatory purposes) are due to the inclusion of R+V, which is not included for regulatory purposes. In addition, interest-rate risk in the banking book is included in the calculation of the economic capital requirement for market risk.

The fact that the economic risk capital required for credit risks is much lower than the regulatory capital requirements is largely attributable to more conservative assumptions used in the regulatory approaches to the risk modeling of the credit portfolio. In addition, the inclusion of offsetting agreements and the treatment of collateral differ depending on whether economic risk capital requirements or regulatory requirements are being determined.

Internal risk models are used and diversification effects between the various risk types are extensively recognized for the purposes of economic risk capital management. This gives rise to a more entity-specific risk measurement than is the case with the measurement methods prescribed for regulatory purposes.

3.4. CAPITAL RATIOS

(Disclosure pursuant to section 325 (2) SolvV)

The regulatory capital ratios are shown in **Table 3f** (see Fig. 7) and are calculated on the basis of home-country legal norms applicable to capital requirements pursuant to Basel II. These ratios illustrate the relationship between risk-weighted exposures and the regulatory capital components in the DZ BANK banking group. The figures disclosed for the group companies are in accordance with the applicable country-specific legislation and do not include intra-group effects of consolidation.

The capital ratios for the DZ BANK banking group and the individual group companies as at December 31, 2010 were all well above the minimum ratios of 8.0 percent (total capital ratio) and 4.0 percent (Tier 1 capital ratio) prescribed for regulatory purposes, as they were as at December 31, 2009.

4. CREDIT RISK

4.1. PRINCIPLES AND OBJECTIVES OF CREDIT RISK MANAGEMENT

The objectives and principles of credit risk management (disclosure pursuant to section 322 SolvV) are presented from page 73 onward in Chapter 4 (entitled 'Credit risk') of the risk report contained in the group management report.

4.2. RATING SYSTEMS

4.2.1. Rating systems for IRBA asset classes

OVERVIEW OF INTERNAL RATING SYSTEMS

(Disclosure pursuant to section 335 (1) number 1 SolvV)

In 2007 the DZ BANK banking group received official approval from the German Financial Supervisory Authority (BaFin) to calculate its capital requirements using the foundation IRB approach and the IRB approach for retail business. Figures 8 to 10 show the internal rating systems covered by this approval that the DZ BANK banking group uses to calculate its regulatory capital requirements based on the IRB approaches. The overviews cover the rating systems developed and applied by DZ BANK and also made available to BSH, DG HYP and DVB, as well as those specially customized to the respective business models of BSH and DG HYP.

In addition to the rating systems developed by DZ BANK, DVB uses separate rating systems for

FIG. 8 – RATING SYSTEMS DEVELOPED AND APPLIED BY DZ BANK AND USED BY OTHER COMPANIES IN THE BANKING GROUP

					Asset class									
							Retail business				Corporates			
Rating system	DZ BANK	BSH	DG HYP	DVB	Central governments	Institutions	Mortgage-backed	Qualified revolving	Other	Long-term equity investments	Corporates (in the narrow sense)	Small and medium-sized enterprises	Specialized financial services	Receivables purchased
VR rating (banks)	•	•	•	•		•								
VR rating (major corporates)	•										•			
VR rating (countries)	•	•	•	•	•									
VR rating (large and medium-sized companies)	•		•								•			

FIG. 9 – PROPRIETARY RATING SYSTEMS DEVELOPED BY BSH

	Asset class									
			Retail business				Corporates			
Rating system	Central governments	Institutions	Mortgage-backed	Qualified revolving	Other	Long-term equity investments	Corporates (in the narrow sense)	Small and medium-sized enterprises	Specialized financial services	Receivables purchased
Mortgage-backed										
Application score			•							
Conduct score			•							
LGD score			•							
EAD			•							
Not mortgage-backed										
Application score					•					
Conduct score					•					
LGD score					•					
EAD					•					

FIG. 10 – PROPRIETARY RATING SYSTEMS DEVELOPED BY DG HYP

	Asset class									
			Retail business				Corporates			
Rating system	Central governments	Institutions	Mortgage-backed	Qualified revolving	Other	Long-term equity investments	Corporates (in the narrow sense)	Small and medium-sized enterprises	Specialized financial services	Receivables purchased
VR rating system										
VR rating (developers)									•	
VR rating (inv. funds)									•	
VR rating (investors)							•			
VR rating (property companies)									•	
VR rating (project developers)									•	
VR rating (housing companies)							•			
Rating systems for retail business with customers in employment										
Application score (retail)/ Conduct score (retail)			•							
LGD estimate (IRB retail)			•							
Rating systems for retail business with self-employed customers										
Application score (retail)/ Conduct score (retail)			•							
LGD estimate (IRB retail)			•							
Specialized real-estate lending (outside Germany)									•	

aviation (aircraft), aviation (aircraft engines), land transport, shipping (containers) and shipping (vessels) to classify the risks for the asset class of corporates (in the narrow sense of the term). In using DZ BANK's VR rating system for banks DVB applies its own LGD estimates.

TeamBank uses its consumer-finance rating system to determine the credit ratings for loan exposures in its other retail business asset class. Credit card limits and consumer loans marketed in Austria, which are also included in this asset class, are recognized under the Standardized Approach to credit risk.

DESCRIPTION OF INTERNAL RATING SYSTEMS

(Disclosure pursuant to section 335 (1) number 2a SolvV)

Application of the IRB approaches requires the use of internal rating systems to classify the risks of the exposures measured using the IRB approaches and to classify guarantors. Internal rating systems are considered suitable if they meet the minimum requirements for use of the IRB approaches pursuant to section 56 SolvV. Apart from meeting the requirements relating to methodology and process organization, the rating systems must have demonstrated their suitability for classifying existing and new business. Rating systems within the meaning of section 60 (1) SolvV are defined as the sum total of all methods, procedures, control and monitoring processes as well as the data collection and processing systems that support the measurement of credit risk, the allocation of IRBA exposures to rating categories or risk pools and the quantification of default and loss estimates for IRBA exposures.

Most of the internal rating systems that meet the regulatory requirements for the foundation IRB approach have been developed as the standard for the entire cooperative financial network by DZ BANK as part of VR Control, a project carried out by the Federal Association of German Cooperative Banks, Berlin (BVR), that also incorporates WGZ Bank AG Westdeutsche Genossenschafts-Zentralbank (based in Düsseldorf), the network's regional banking associations, computing centers and local cooperative banks. This uniform approach for the entire cooperative network reaps substantial efficiency gains for both the cooperative central institutions and for the local cooperative banks. If DZ BANK requires rating systems for specialist segments that go beyond the scope of the rating systems developed for the cooperative network, DZ BANK will develop any such rating systems itself.

The internal rating systems used by the companies in the DZ BANK banking group feature a modular construction; they generally consist of a quantitative module and a qualitative module. When rating systems are developed, various factors affecting credit ratings are identified and initially developed in isolation. The next stage is to take account of interdependencies between individual modules at the level of the overall model. The advantage of this approach is that individual modules of a particular rating system can be revised, for example in the light of new methodical-conceptual or empirical findings, without any other module being affected by this and having to be revised. This reduces the cost of developing and refining rating systems.

The **VR rating system** standardizes rating methods and ensures comparability of rating results within the Volksbanken Raiffeisenbanken cooperative financial network. The VR rating system is differentiated by customer segment and is gradually being extended to cover all relevant customer groups.

The section below presents the main rating systems used by the DZ BANK banking group. These rating systems have been approved by BaFin for the purposes of calculating regulatory capital using the foundation IRB approach. Each of these rating systems differentiates between a total of 25 rating categories; 20 of these categories are for non-defaulting counterparties and five are for defaulting counterparties.

The **VR rating system for large and medium-sized companies** is applied to the regulatory asset class of corporates (in the narrow sense of the term). This rating system covers the central institution's typical corporate customers that generate revenue of up to €1 billion. It is applied, among other things, to loans jointly extended by companies in the DZ BANK banking group to local cooperative banks or their customers and, in addition, is used by all local cooperative banks in Germany throughout the cooperative network. A characteristic of the VR rating system devised for large and medium-sized companies is the large number of historical data records of defaulting and non-defaulting customers that were collected throughout the cooperative financial network. Given this ideal data scenario, a good/bad analysis was selected as the development method.

The **VR rating system for major corporate customers** is used for large domestic and international customers that generate revenue in excess of €1 billion and belong to the asset class of corporates (in the narrow sense of the term). A characteristic of the VR rating system devised for large customers is the small number of defaulting customers. Given this data scenario, the external rating method was selected as the development method. Under this approach, data was collected from many financial years for a large number of externally rated international companies from various sectors.

The **VR rating system for banks** is used for the asset class of institutions. This rating system is applied to German and international banks of all legal forms, irrespective of their size. The external rating method was again chosen as the development method. Under this approach, data was collected from externally rated banks worldwide.

The **VR rating system for countries** is used for the central governments asset class. Given the international orientation of the DZ BANK banking group, the country rating is very important for risk-based management of the group companies' business. The country

rating segment is concerned exclusively with credit ratings for central governments. The country segment is not concerned with credit ratings for central banks, other foreign public-sector entities or international institutions. Under this rating system design, which is also based on the external rating method, countries are broken down into industrialized and developing nations. The reasons for this breakdown are the different risk factors and the need for a different interpretation of the factors relevant to credit quality when analyzing industrialized and developing nations' ability and willingness to pay.

The internal rating systems specified below are used exclusively by DZ BANK to calculate capital requirements:

– The **project finance rating system** is used to assess complex transport and infrastructure projects. As there are only a small number of external ratings available for project finance and an insufficient number of internal data sets, a combination of ratings by experts, cash flow simulations and an external rating method were selected to develop the rating model.

– The **acquisition finance rating system** is used to finance acquisitions of companies or parts of companies and majority and minority stakes, regardless of the statutory framework governing the respective transaction. As there is also an insufficient number of external ratings available for acquisition financing and, similarly, an insufficient quantity of data on defaults, a rating method based on the assessments of internal experts was chosen to develop the rating system.

– The **internal assessment approach** is used to measure the liquidity lines and credit enhancements that are made available to programs for the purpose of issuing asset-backed commercial paper (ABCP).

APPROVED TRANSITIONAL RULES FOR IRB APPROACHES (PARTIAL USE)

(Disclosure pursuant to section 335 (1) SolvV)

Capital requirements for credit risk within the DZ BANK banking group continue to be calculated using both the IRB approaches and the Standardized Approach to credit risk. DZ BANK, BSH, DG HYP, DZ PRIVATBANK S.A. and DZ BANK Ireland mostly use the foundation IRB approach. BSH, DG HYP and TeamBank use the IRB approach for their retail business. In addition, TeamBank uses the Standardized Approach to credit risk for credit card limits and consumer finance business in Austria. Although DVB has been using the advanced IRB approach to report its capital requirements for credit risk since January 1, 2008, it is exempted under section 67 (4) number 6 SolvV from the calculation of the DZ BANK banking group's cover ratio. The individual IRBA institutions use appropriate internal rating systems to cover their main business lines. Only segments that are immaterial in terms of their level of credit risk will continue to use the Standardized Approach to credit risk indefinitely. The other companies use the Standardized Approach to credit risk.

In the foundation IRB approach, the probability of default (PD) is estimated by the institutions themselves, while the loss given default (LGD) is specified by the Basel Committee on Banking Supervision Loss given default values in the IRB approach for the retail business and the advanced IRB approach are also based on the institutions' own estimates. In contrast, the Standardized Approach to credit risk is based exclusively on regulatory risk weightings that are set on the basis of external ratings.

For each IRBA institution there is an implementation plan that ensures compliance with the thresholds prescribed by the Solvency Regulation. Compliance with these thresholds is one of the preconditions for using the IRB approaches.

USE OF INTERNAL ESTIMATES FOR PURPOSES OTHER THAN CALCULATING RISK-WEIGHTED EXPOSURES UNDER THE IRB APPROACH

(Disclosure pursuant to section 335 (1) number 2b SolvV)

Internal rating systems are at the heart of credit risk management for companies in the DZ BANK banking group. The credit ratings used for internal management purposes and regulatory reporting purposes are identical. Internal rating systems are used in the following areas:

– The **credit lines** within which counterparties are allowed to engage in lending or trading transactions at risk of default with group companies are partly determined by internal ratings.

– The profit-contribution-based **pre-analysis of loans** carried out by relationship managers in the course of acquiring new business is based on key cost determinants, i.e. the standard risk costs and economic capital costs involved in covering expected and unexpected losses. Both cost components are based on internal ratings.

– The **level of authority** for decision-makers in trading and back-office units to approve loan applications is determined by internal ratings.

– When **loans are analyzed ex-post** after a transaction has been closed, the profit contributed by individual transactions, customers and profit centers is primarily determined (similarly to the pre-analysis of loans) by the standard risk costs and economic capital costs based on internal ratings.

– During the term of a loan, internal rating classes determine the extent to which a **counterparty's financial status is monitored**.

– Specific loan loss allowances and portfolio loan loss allowances are planned on the basis of standard risk costs that are determined by internal ratings.

– The risk of unexpected losses is measured using **credit value-at-risk systems** that are based on internal credit ratings and the corresponding default probabilities as well as further risk parameters.

– And finally, internal ratings play a key role in internal **credit risk reporting**.

CONTROL MECHANISMS FOR THE RATING SYSTEMS

(Disclosure pursuant to section 335 (1) number 2d SolvV)

The internal rating systems used are extensively validated once a year on the basis of internal and external data. Validation consists partly of quantitative analysis aimed at measuring the rating systems' selectivity and stability and at calibrating them. Validation also includes qualitative analysis that tests the use of these rating systems for internal management purposes with respect to their model design and data quality. In addition, pool validation is carried out on the standard rating systems used throughout the cooperative financial network. When pool validation is conducted, the rating-related data of all banks that use the rating system concerned is collected and analyzed in the same way as the internal bank validation process. If validations reveal any room for improvement, such improvements are made when the rating systems are developed and refined.

The monitoring function also includes checking that the rating systems are being properly used, regularly estimating the risk parameters derived from them, and reviewing these estimates. The findings of these monitoring activities are integrated into the internal reporting system.

The rating systems used by DZ BANK are approved by its Board of Managing Directors. The Board of Managing Directors is regularly informed about the rating systems' integrity and the rating results in the DZ BANK Group's quarterly credit risk report.

At DZ BANK, a dedicated organizational unit in the Group Controlling division is responsible for regularly reviewing the adequacy and integrity of the rating systems used to manage credit risk. In addition, this unit is responsible for ensuring compliance with regulatory requirements for rating systems and also for developing and implementing new rating models and for adapting existing models.

The Internal Audit function is independent of this process and regularly reviews the adequacy of internal rating systems, including compliance with the minimum requirements for using these systems.

Similar arrangements are in place at all relevant companies in the DZ BANK banking group.

PROCESS OF ASSIGNING EXPOSURES AND BORROWERS TO RATING CATEGORIES AND RISK POOLS

(Disclosure pursuant to section 335 (1) number 3 SolvV)

Every borrower clearly falls into a defined area of a rating system based on industrial sector codes, revenue characteristics and business specifics. As a rule, it is not possible to conduct business that bears a default risk with borrowers who do not have an internal rating. All rating systems are assigned – without any overlaps – to a regulatory asset class. The relevant rating models are used as part of the credit application and approval process to classify the applicant or the guarantor. Every borrower or guarantor must be reclassified at least once a year. All relevant input factors and ratings conducted are saved in the data processing systems so that there is a complete rating history for every customer and every transaction.

4.2.2. Rating systems for asset classes under the Standardized Approach to credit risk

NOMINATED RATING AGENCIES

(Disclosure pursuant to section 328 (1) numbers 1 and 2 SolvV)

The rating agencies Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings Ltd. are used to help determine the capital requirements for all asset classes under the Standardized Approach to credit risk. The ratings of OECD export insurance agencies are also used. Competing external ratings are included in the calculation of risk-weighted exposures in accordance with sections 44 and 45 SolvV.

TRANSFER OF CREDIT RATINGS FROM BOND ISSUES TO ASSETS

(Disclosure pursuant to section 328 SolvV)

External credit ratings awarded by recognized rating agencies or export insurance agencies are transferred to assets of the DZ BANK banking group in accordance with the requirements of sections 42 to 47 SolvV. No issuer credit ratings were transferred to similar assets or to assets of equal or higher ranking. This applies to all asset classes under the Standardized Approach to credit risk.

4.3. COLLATERAL MANAGEMENT

(Disclosure pursuant to section 326 (1) number 4, section 335 (1) number 2c and section 336 number 1 SolvV)

The credit risk mitigation techniques used in the DZ BANK banking group are presented from page 79 onward in Chapter 4 (entitled 'Minimizing credit risk') in the 'Credit risk' section of the risk report contained in the group management report. This section provides information on the following:

- Hedging objectives and hedging strategies
- Main types of collateral
- Main types of guarantors and counterparties in credit derivatives
- Procedure for obtaining collateral for conventional lending business and for derivative counterparty risk exposure
- Concentrations of risk arising from credit risk mitigation techniques.

4.4. MANAGING DERIVATIVE COUNTERPARTY RISK EXPOSURE IN THE BANKING BOOK AND TRADING BOOK

The following information provided pursuant to section 326 (1) SolvV on the management of **derivative counterparty risk exposure** in the banking book and trading book of the DZ BANK banking group can be found in Chapter 4 (entitled 'Credit risk') of the risk report contained in the group management report (the relevant sections and pages of the report are listed in parentheses):

- A description of the internal capital allocation procedure used to cover counterparty risk arising from derivative positions (from page 77 onward in the section entitled 'Economic credit-portfolio management')
- A description of the procedures used to obtain collateral (from page 79 onward in the section entitled 'Minimizing credit risk')

– A description of how correlations of market risk and counterparty risk are managed (from page 79 onward in the section entitled 'Management of risk concentration and correlation risks')
– A description of the consequences of the amount of collateral that DZ BANK would have to provide in the event of a credit rating downgrade (from page 80 onward in the section entitled 'Collateral management')

4.5. MANAGEMENT OF SECURITIZATIONS

4.5.1. Objectives and scope of securitization

(Disclosure pursuant to section 334 (1) SolvV and FSB recommendations)

The DZ BANK banking group uses securitization as a credit portfolio management tool and to optimize its risk/return profile. DZ BANK's aim in its role as an originator of long-term funded securitizations is to transfer risk, thereby releasing economic and regulatory capital. As a sponsor, DZ BANK also uses special-purpose entities (conduits) which are funded by issuing money market-linked ABCP. These conduits are predominantly made available to DZ BANK customers who then securitize their own assets by using these companies. The CORAL securitizations are mainly financed via liquidity lines. There is no intention to expand financing via ABCP.

Figure 11 shows the main exposures held by the companies in the DZ BANK banking group as **originator** and **sponsor**. The information disclosed here covers all securitizations in the DZ BANK banking group, including those that are not included as securitizations in the group's capital requirements.

In addition to these activities, DZ BANK **arranges** and **distributes** securitizations issued by the DZ BANK banking group and the Volksbanken Raiffeisenbanken cooperative financial network. The local cooperative banks are involved in the form of multi-seller transactions for the DZ BANK banking group. DZ BANK also arranges the VR Circle transactions that are used to share credit risk between the local cooperative banks involved.

4.5.2. Management of default risk arising from securitization exposure

(Disclosure pursuant to FSB recommendations)

Investments in asset-backed securities (ABSs), which for the DZ BANK banking group constitute investor-related exposures within the meaning of the Solvency Regulation, are managed by the relevant group companies and are subject to the groupwide risk-management standards. These standards require that ABS investments should be individually analyzed and individual limits set for them 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. Portfolio risk exposures are reported once a month at group level to the group's credit management function and to DZ BANK's Board of Managing Directors; this reporting process covers the group's aggregate risk exposure. This enables the DZ BANK banking group to manage the risks it incurs from structured products by applying a groupwide global limit.

By conducting economic **stress tests** that meet the minimum requirements for risk management, the DZ BANK banking group analyzes all its securitization exposures to determine the impact of any widening of ABS spreads. The spread movements assumed for this purpose are based on the extreme values of multi-year historical time series that include the changes in spreads during 2007 and 2008.

4.5.3. Accounting policies applicable to securitizations

(Disclosure pursuant to section 334 (1) number 5 SolvV)

As required by IAS 39, the DZ BANK banking group's holdings of securities arising from securitizations as an **investor** are either measured in income as held-for-trading securities or recognized at fair value as available-for-sale financial assets in the revaluation reserve or recognized at amortized cost as loans and receivables. Utilized liquidity facilities are measured at amortized cost as loans and advances to customers. Undrawn liquidity facilities and loan guarantees are not recognized on the face of the balance sheet; if this gives rise to any imminent risks, provisions are recognized in the

FIG. 11 – SECURITIZATION EXPOSURE OF THE COMPANIES IN THE DZ BANK BANKING GROUP IN THEIR CAPACITY AS ORIGINATORS AND SPONSORS

Company & transaction	Type of transaction	Role	Purpose of transaction	Type of assets	Volume[1]	Retained exposures	Notes
DZ BANK							
DYNASO	Synthetic CDO[2]	Originator	Issuing activity	AAA/AA CLN[2] on portfolio of corporate loans	€0.2 billion	Exposure of €0.1 billion in own portfolio	n/a
CORAL	ABCP conduit	Sponsor	Generation of commission income	Loans and advances to European corporates and one ABS position	€0.8 billion	Commitments of €0.8 billion, €0.78 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	€1.5 billion	Commitments of €2.4 billion, €0.04 billion of which has been utilized	Provision of liquidity lines
DG HYP							
PROVIDE VR	Synthetic RMBS[2]	Originator	Optimization of capital investment, reduction in credit risk	Mortgage-backed real-estate loans in German retail business	€0.5 billion	Position amounting to €26.7 million	First-loss piece fully hedged by third parties; protection seller no longer sound
PROSCORE VR	Synthetic CMBS[2]	Originator	Optimization of capital investment, reduction in credit risk	Mortgage-backed real-estate loans to corporates in Germany	€0.2 billion	Position amounting to €11.6 million	First-loss piece not hedged; impairment loss of €9.6 million recognized
VR LEASING							
LEAGUE	Synthetic securitization	Originator	Capital and liquidity management; transfer of risk	Lease receivables from corporates in Germany	€0.1 billion	Credit enhancements amounting to €16.9 million	Non-recourse sale to DZ BANK for securitization purposes
CORAL[3]	Lease securitization	Originator	Capital and liquidity management; transfer of risk	Lease receivables from corporates in Germany	€0.3 billion	Credit enhancements amounting to €15 million	not hedged

1 Disclosures before consolidation
2 CDO = collateralized debt obligations, CLN = credit-linked notes, CMBS = commercial mortgage-backed securities, RMBS = residential mortgage-backed securities
3 Included in DZ BANK's CORAL transaction

amount of the estimated loss in accordance with IAS 37 if they are likely to be utilized and their amount can be reliably estimated. Instruments such as swaps that are used to hedge interest-rate or currency risks are classified as held-for-trading derivatives in accordance with IAS 39 and measured at fair value. Outstanding external funding provided for the consolidated conduits, in the form of asset-backed commercial paper for example, is recognized at amortized cost in other liabilities. Intra-group funding is consolidated in accordance with IAS 27.

DZ BANK is involved as **sponsor** in the CORAL and AUTOBAHN securitizations that are required to be consolidated. Because of the turmoil in the financial markets that has been ongoing since the middle of 2007, the CORAL ABCP conduit resorts to liquidity facilities provided by DZ BANK. The AUTOBAHN ABCP conduit managed largely to avoid utilization of DZ BANK's liquidity facilities. This is because it took part in a commercial-paper purchasing program set up by the US Federal Reserve Board. The final tranche to be refinanced in this way expired at the start of May 2009. Since then, market acceptance of ABCP conduits has risen so significantly that since the start of October 2009 the ABCP volume of AUTOBAHN has again been fully placed with investors. As at December 31, 2010, DZ BANK had fully consolidated the special-purpose entities integrated into these conduits (provided they met the requirements of IAS 27 in conjunction with SIC-12) together with their assets and liabilities. The ABCP conduits' material assets, liabilities, income and expense and the resultant opportunities and risks were consolidated by DZ BANK.

Securitized loans relating to **synthetic securitizations** remain on the DZ BANK banking group's books because they do not meet the disposal criteria specified in IAS 39 as no legal rights have been transferred.

By contrast, genuine asset sales – which are known as **true-sale securitizations** – are derecognized from the balance sheet to the extent that the opportunities and risks arising from the asset portfolio have been transferred to the buyer. There are currently no true-sale securitizations that have been originated by a company in the DZ BANK banking group.

In 2010, the continuing financial crisis resulted in a persistent lack of transparency regarding tradable prices for asset-backed securities. Consequently, the fair value of asset-backed securities has been determined using a measurement model that is consistent with Level 3 of the fair value hierarchy. The model is designed around the illiquidity of the ABS market and the limited availability of external market measurement data. Under a **discounted cash flow** method recommended by the International Accounting Standards Board Expert Advisory Panel, accurate and appropriate credit and liquidity spreads were used as the input values for the measurement of securitization structures. These values are essentially based on estimates; the initial figures used, especially for liquidity spreads, are the values most recently observed in an active market that are deemed to be reliable given the increase in illiquidity since 2007.

Market liquidity in the ABS segments was continuously monitored over the year under review using the data from external market sources that remained available. Provided the asset-backed securities to be measured originated in a subsegment of the market for which analysis of indicative bid-ask spreads had revealed that market liquidity would gradually normalize given no change in the fundamental lack of activity, the price indicators from external market data providers were used to calculate the fair value of the respective asset-backed securities using a graduated process.

4.5.4. Procedure for determining the risk-weighted exposure of securitizations

(Disclosure pursuant to section 334 (1) number 4 SolvV)

Securitization exposures retained by companies in the DZ BANK banking group in their capacity as **originators** of synthetic securitizations are backed by capital under the Standardized Approach to credit risk pursuant to sections 238 to 242 SolvV. Exposures relating to residential mortgage-backed securities (RMBS) that have been retained by orignators are also reported under the IRB approach because most of the underlying exposures are assigned to IRB asset classes. The IRB procedures used have been approved by BaFin.

When acting as **sponsor,** the DZ BANK banking group uses the internal classification procedure speci-

fied in section 259 SolvV that has been both tested and approved by BaFin so that it can calculate the risk-weighted exposure of securitizations of asset-backed commercial paper (ABCP) programs that do not have an external credit rating.

The capital requirements for **exposure as an investor** assigned to the trading book are determined using the internal model that has been approved by BaFin for calculating the capital requirements for general and specific market risk. These positions are factored into the capital requirements for market risk and are therefore not disclosed as credit risk exposures as defined in the Solvency Regulation. The remaining positions are assigned to the banking book and are described in Chapter 4.7.9 of this risk report. These positions are rated for regulatory purposes mainly on the basis of the ratings-based approach and the rating categories that it specifies. Securitization exposure with an external rating below the specified minimum thresholds are not weighted but deducted from equity. The minimum thresholds are: Standard & Poor's Ratings Services (S&P) rating BB-, Moody's Investors Service (Moody's) rating Ba3 and Fitch Ratings Ltd. (Fitch) rating BB-.

4.5.5. Rating agencies used for securitizations

(Disclosure pursuant to section 334 (1) number 6 SolvV)

When transacting securitizations, the DZ BANK banking group uses the classifications prescribed by the rating agencies S&P, Moody's and Fitch for rating the following regulatory asset classes:

- Receivables from housing construction loans
- Receivables from loans on wholly or partially commercial real-estate
- Lease receivables originated or purchased by the DZ BANK banking group
- Receivables from vehicle finance (excluding leases)

Competing external ratings are included in the calculation of risk-weighted exposure in accordance with sections 44 and 45 SolvV. External credit ratings awarded by these recognized rating agencies are transferred to the securitization exposure of the DZ BANK banking group in accordance with the requirements of sections 242 et seq. SolvV (under the Standardized Approach to credit risk) and section 255 et seq. SolvV (under the internal ratings-based approach).

4.6. RECOGNITION OF ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES

The **policies and procedures governing the recognition of allowances for losses on loans and advances** for the companies in the DZ BANK banking group (disclosure pursuant to section 327 (1) number 2 SolvV) and **other accounting-related information on credit risk** (disclosure pursuant to section 327 (1) number 1 SolvV) are presented from page 81 onward of the risk report contained in the group management report (in the section entitled 'Management of non-performing exposures' in Chapter 4 ('Credit risk')). The term 'in arrears' mentioned in section 327 (1) SolvV has the same meaning as the term 'past due' as used by the DZ BANK banking group. The expressions 'non-performing' and 'in default' are also used synonymously.

4.7. QUANTITATIVE INFORMATION ON CREDIT RISK

4.7.1. Notes on the quantitative disclosure of credit risk

Chapter 4 of this risk report deals with disclosure of credit risk in the DZ BANK banking group. Chapter 4.7.2 examines disclosure of the total lending volume. This is disclosed in the DZ BANK Group's internal risk reports, which are submitted to DZ BANK's Board of Managing Directors, although reference is also made to pertinent disclosures made in the risk report contained in the group management report. Chapters 4.7.3 to 4.7.10 disclose portions of the total lending volume based on criteria prescribed for regulatory purposes, such as asset classes and risk-weighting bands.

The disclosures on lending volume in the regulatory risk report and the commercial-law risk report differ in terms of the methodology they use in the sense that the internal reports – the basis for risk reporting within the management report and the disclosures in Chapter 4.7.1. of this regulatory risk report – are based on asset values in the form of the basis of measurement before collateral and after deduction of the recognized allowances for losses on loans and advances, whereas in chapters 4.7.3. to 4.7.10. of this risk report the relevant regulatory exposures are reported as the expected exposure at the time of potential default. In addition, the quantitative disclosures in the two risk reports differ from each other owing to their different recognition of conversion factors for undrawn credit lines granted.

The aggregate lending portfolio presented in Chapter 4.7.2. is similar to the aggregated regulatory subportfolios shown in Tables 5b (I), 6d (I), 6d (II), 6d (IV) and 9f. However, the sum totals cannot be fully reconciled to one another owing to the different definitions of key figures and the methods used to recognize collateral. Further discrepancies arise from the different consolidated entities and the different methods used to recognize long-term strategic equity investments and the volume of R+V's credit insurance.

With the exception of non-derivative positions in the trading book, the securitization and leveraged finance exposures presented in Chapters 4.7.8 and 4.7.10 in order to implement the FSB's disclosure recommendations are contained in the aggregate portfolios presented in Table group 4 and in the subportfolios presented in Table groups 5, 6 and 9.

4.7.2. Gross lending volumes and allowances for losses on loans and advances

Table group 4, which contains multi-approach information on gross lending volumes and allowances for losses on loans and advances, is fully disclosed in the risk report contained in the group management report for 2010. The regulatory requirements and the corresponding requirements under IFRS 7 are presented together. To ensure compliance with the IFRS 7 requirements on the use of the management approach, disclosure of gross lending volumes and allowances for losses on loans and advances in the risk report contained in the group management report is based on the figures used for internal management purposes, which form the basis for reports submitted to the Board of Managing Directors. Basing disclosure on the management approach is consistent with section 327 (2) SolvV in conjunction with the reasons given in the SolvV, under which the lending volume and the companies included may be defined according to the criteria applied internally. Because R+V is of material importance to the DZ BANK financial conglomerate, it is included in the presentation of both the gross lending volume and the allowances for losses on loans and advances.

The use cases in Table group 4 are presented as follows in the risk report contained in the group management report (in the 'Analysis of credit risk' section in Chapter 4, entitled 'Credit risk'):

– The information from **Table 4b and** 4c 'Gross lending volumes broken down by main geographical area and asset type' (disclosure pursuant to section 327(2) number 2 SolvV) is disclosed in Fig. 17 ('Lending volume by country group', page 87).

– The information from **Table 4d** 'Gross lending volumes broken down by main industry and asset type' (disclosure pursuant to section 327 (2) number 3 SolvV) is published in Fig. 18 ('Lending volume by industry', page 86).

– The information from **Table 4e** 'Contractual residual maturities' (disclosure pursuant to section 327 (2) number 4 SolvV) is disclosed in Fig. 19 ('Lending volume by residual maturity', page 87).

– The information from **Table 4f** 'Non-performing loans and loans in arrears broken down by main industry' (disclosure pursuant to section 327 (2) number 5 SolvV) is provided in Fig. 23 ('Lending volume past due but not impaired and collateral by industry', pages 90 and 91), Fig. 25 ('Impaired lending volume and collateral, by industry', page 90), Fig. 29 ('Allowances for losses on loans and advances broken down by industry for the financial year 2010', page 96) and Fig. 31 ('Provisions for loan commitments and liabilities under financial guarantee contracts and loan commitments, by industry – 2010', page 97).

– The information from **Table 4g** 'Non-performing loans and loans in arrears broken down by main geographic region' (disclosure pursuant to section 327 (2) number 5 SolvV) is provided in Fig. 24 ('Past-due but not impaired lending volumes and collateral broken down by country group', pages 90 and 91), Fig. 26 ('Lending volumes and collateral in individually impaired portfolios broken down by country group', page 91), Fig. 33 ('Allowances for losses on loans and advances, direct impairment losses, by industry – 2010', page 98) and Fig. 35 ('Provisions for loan commitments and liabilities under financial guarantee contracts and loan commitments by industry', page 99).

Because the contents of **Table 4h** 'Allowances for losses on loans and advances over time' (disclosure pursuant to section 327 (2) number 6 SolvV) are covered by Tables 4f and 4g, no separate disclosure is provided.

Significant discrepancies between the amounts as at December 31, 2010, and the average values for the year under review (disclosure pursuant to section 327 (2) numbers 1 SolvV) are presented in the risk report contained in the group management report on page 83 (in the section entitled 'Average lending volume).

FIG. 12 – TABLE 5B: EXPOSURES UNDER THE STANDARDIZED APPROACH TO CREDIT RISK AND SUBJECT TO THE SIMPLE RISK-WEIGHTING METHOD

€ million			Exposures after credit risk mitigation			
Risk weightings	**Exposures before credit risk mitigation under the Standardized Approach to credit risk**		**under the Standardized Approach to credit risk**		**under the simple risk-weighting method of the IRB approach (long-term equity investments, mortgage-backed securities and specialized financial services)**	
	Dec. 31, 2010	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
0 %	100,719	91,027	102,039	93,452	211[1]	192[1]
10 %	197	240	197	240		
20 %	5,182	5,333	4,847	4,598		
35 %	287	343	291	343		
50 %	1,466	1,458	1,631	1,683	1,090[2]	939[2]
70 %	–	–	4	–	1,549[1]	1,129[1]
of which: specialized financing with a residual maturity of less than 2.5 years					211	305
75 %	4,193	3,978	4,063	3,805		
90 % (specialized financial services only)					886	690
100 %	15,446	15,679	13,127	14,154		
115% (specialized financial services only)					776	810
150%	541	641	492	579		
190% (long-term equity investments only)					18	15
200%	–	–	–	–		
250% (specialized financial services only)					–	–
290% (long-term equity investments only)					93	89
350%	–	–	–	–		
370% (long-term equity investments only)					33	41
1,250%	–	–	–	–		
Capital deduction	–	–	–	–		
Other risk weightings	570	751	570	751		
Total	**128,601**	119,450	**127,261**	119,605	**4,655**	3,904

1 Specialized financial services only
2 Of which €792 million (December 31, 2009: €785 million) relates to long-term equity investments and mortgage-backed securities and €297 million (December 31, 2009: €154 million) relates to specialized financial services.

4.7.3. Exposure under the Standardized Approach to credit risk

(Disclosure pursuant to section 328 (2) and section 329 (2) SolvV)

Table 5b (see Fig. 12) shows the exposures assigned to the asset classes under the Standardized Approach to credit risk both including and excluding credit risk mitigation. The table also shows exposures to IRBA investments and to mortgage-backed securities, which are calculated under the simple risk-weighting method after credit risks have been mitigated. The classification of transactions in the regulatory risk-weighting categories depends on how the transactions are classified in the regulatory asset classes, on the credit ratings of borrowers and transactions, and on the collateral provided. The sum total of exposures after credit risks have been mitigated under the Standardized Approach to credit risk arises from the provision of personal collateral for IRBA transactions by counterparties that are rated according to the Standardized Approach to credit risk.

In some cases, the exposures reported after credit risks have been mitigated are larger than exposures before credit risks have been mitigated. This is because exposures where credit risks have been mitigated include exposures reported under the IRB approach that are backed by counterparties, in particular guarantors, that are rated according to the Standardized Approach to credit risk.

4.7.4. Exposure under the IRB approach

Tables 6d (I), 6d (II), and 6 (IV) below show the IRBA lending volumes for borrowers and transactions that are classified on the basis of internal credit ratings. The internally used rating systems have been unambiguously assigned to one regulatory asset class. The borrowers/

FIG. 13 – TABLE 6D (I): LENDING VOLUME BROKEN DOWN BY PD CATEGORY (EXCLUDING RETAIL) UNDER THE FOUNDATION IRB APPROACH

€ million	Investment grade			Non-investment grade			Default			Total		
	Exposure			Exposure			Exposure			Exposure		
Asset class	Total	of which: open loan commitments	Average risk weighting	Total	of which: open loan commitments	Average risk weighting	Total	of which: open loan commitments	Average risk weighting	Total	of which: open loan commitments	Average risk weighting
Central governments	1,265	28	191	198	2	106	13	–	–	1,475	30	296
Institutions	53,292	630	12,102	1,155	27	955	589	–	–	55,036	657	13,057
Corporates	20,416	5,525	9,302	7,566	1,324	8,379	1,799	28	–	29,780	6,877	17,680
of which: SMEs	–	–	–	–	–	–	–	–	–	–	–	–
of which: specialized financial services	5,578	1,089	2,046	1,034	3	965	110	5	–	6,722	1,097	3,011
of which: receivables purchased	73	–	41	89	–	101	2	–	–	165	–	142
Investments exposure	380		352	3	–	9	2	–	–	385	–	362
Total, Dec. 31, 2010	**75,353**	**6,183**		**8,922**	**1,353**		**2,403**	**28**		**86,676**	**7,564**	
Total, Dec. 31, 2009	61,97	6,184		10,304	1,376		2,989	88		74,690	7,648	

transactions are assigned to a credit rating category based on their individual rating in the form of their specific default probability or expected loss. Classification as 'investment grade', 'non-investment grade', or 'default' is based on the corresponding default probabilities for each rating category on the standardized group-wide VR master scale. This rating scale is shown in Fig. 15 on page 76 of the risk report contained in the group management report under the heading 'Co-operative financial network'.

LENDING VOLUMES BROKEN DOWN BY PROBABILITY OF DEFAULT (PD) CATEGORY (EXCLUDING RETAIL) UNDER THE FOUNDATION IRB APPROACH

(Disclosure pursuant to section 335 (2) numbers 1, 2a and 2c SolvV)

Table 6d (I) (see Fig. 13) discloses the following key figures:

- the total exposures and, in particular, exposures relating to undrawn loan commitments
- the average risk weighting of each exposure.

The disclosures are based on the IRBA asset classes (central governments, institutions, corporates and long-term equity investments) and are broken down by risk category. The exposure for undrawn credit lines is calculated by applying the credit conversion factors to the carrying amount. The average risk weightings reveal borrowers' credit ratings and the extent to which transactions are collateralized.

LENDING VOLUMES BROKEN DOWN BY PROBABILITY OF DEFAULT (PD) CATEGORY (EXCLUDING RETAIL) UNDER THE ADVANCED IRB APPROACH

(Disclosure pursuant to section 335 (2) numbers 1 and 2 SolvV)

Table 6d (II) (see Fig. 14) comprises the following disclosures:

- the sum total of undrawn loan commitments, which is presented as the carrying amount of undrawn loan commitments shown on the balance sheet
- the total exposures and, in particular, exposures relating to undrawn loan commitments
- the average exposure for undrawn loan commitments
- the average risk weighting of each exposure.
- the average loss given default.

The disclosures are again broken down according to the IRBA asset classes and risk categories listed above.

The Basel capital requirements for Table 6d (III) 'Undrawn loan commitments and risk-weighted exposures for each portfolio under the advanced IRB approach' are covered by Table 6d (II) pursuant to section 335 (2) number 2d SolvV. Table 6d (III) is therefore not disclosed separately.

LOAN UTILIZATIONS AND LOAN COMMITMENTS FOR RETAIL PORTFOLIOS – EL-BASED RETAIL IRB APPROACH

(Disclosure pursuant to section 335 (2) numbers 2 and 3 SolvV)

Table 6d (IV) (see Fig. 15) shows the total exposures of the IRBA asset class of retail business and are broken down in each case by risk category. The expected loss (EL) categories reflect the range of the expected loss in basis points (bp).

ACTUAL LOSSES INCURRED IN LENDING BUSINESS

(Disclosure pursuant to section 335 (2) numbers 4 and 5 SolvV)

The information given in Table 6e (see Fig. 16) relates to the following asset classes: central governments, institutions, corporates (including small and medium-sized enterprises (SMEs), specialized financial services and purchased receivables that are treated as corporate loans), investments that are backed by capital using individual probabilities of default (PD/LGD approaches) and retail business (broken down into mortgage-backed IRBA exposures, qualified revolving IRBA exposures and other IRBA exposures).

Calculations of losses presented in Table 6e are based on the carrying amounts recognized under IFRS. Market-price-related write-downs on securities portfolios and long-term equity investments not managed according to their default probabilities are not shown. The information disclosed in the regulatory risk report includes the allowances for losses on loans and advances, the provisions for loan commitments, and liabilities from financial guarantee contracts reported on pages 96 to 99 of the risk report contained in the group management report, as described below:

- Additions of €958 million in 2010 (2009: €979 million) to specific loan loss allowances (including specific loan loss allowances evaluated on a group basis) are offset against reversals of such losses (2010: €583 million, 2009: €463 million) and interest income (2010: €36 million, 2009: €37 million) for the financial year.

FIG. 14 – TABLE 6D (II): LENDING VOLUME BROKEN DOWN BY PD CATEGORY (EXCLUDING RETAIL) UNDER THE ADVANCED IRB APPROACH

€ million	Investment grade						Non-investment grade					
		Exposure						Exposure				
Asset class	Total value of open loan commitments	Total	of which: undrawn loan commitments	Average exposure	Average LGD	Average risk weighting	Total value of open loan commitments	Total	of which: undrawn loan commitments	Average exposure	Average LGD	Average risk weighting
Central governments	–	–	–	–	–	–	–	–	–	–	–	–
Institutions	–	538	–	–	100%	40.3%	–	–	–	–	100 %	166.8 %
Corporates	65	2,124	65	100%	14.8%	17.3%	1,947	16,301	1,947	100%	4.4%	18.1 %
of which: SMEs	–	–	–	–	–	–	–	–	–	–	–	–
of which: specialized financial services	–	–	–	–	–	–	–	–	–	–	–	–
of which: receivables purchased	–	–	–	–	–	–	–	–	–	–	–	–
Investments exposure	–	–	–	–	–	–	–	–	–	–	–	–
Total, Dec. 31, 2010	**65**	**2,662**	**65**				**1,947**	**16,301**	**1,947**			
Total, Dec. 31, 2009	217	2,209	217				1,218	13,153	1,218			

FIG. 15 – TABLE 6D (IV): LOAN UTILIZATIONS AND LOAN COMMITMENTS FOR RETAIL PORTFOLIOS – EL1-BASED RETAIL IRB APPROACH

€ million	Exposure for EL category 1 (EL = 0 to 30bp[2])		Exposure for EL category 2 (EL = 31 to 70bp)		Exposure for EL category 3 (EL > 70bp)		Total	
Asset class	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
IRBA mortgage loans in retail business	23,954	22,032	2,449	2,310	4,527	3,977	30,930	28,319
Qualified revolving IRBA receivables from retail business	–	–	–	–	–	–	–	–
Other IRBA receivables from retail business	8,554	6,978	1,783	1,569	3,378	3,346	13,716	11,893
Total	**32,508**	**29,010**	**4,232**	**3,879**	**7,905**	**7,323**	**44,645**	**40,212**

1 Expected loss
2 Basis points

	Default						Total					
		Exposure						Exposure				
	Total value of open loan commitments	Total	of which: undrawn loan commitments	Average exposure	Average LGD	Average risk weighting	Total value of open loan commitments	Total	of which: undrawn loan commitments	Average exposure	Average LGD	Average risk weighting
	–	–	–	–	–	–	–	–	–	–	–	–
	–	11	–	–	100%	–	–	549	–	–	100%	39.5%
	36	575	36		12.8%	–	2,047	19,000	2,047	100%	5.9%	17.5%
	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–
	36	**586**	**36**				**2,047**	**19,549**	**2,047**			
	1	410	1				1,436	15,772	1,436			

FIG. 16 – TABLE 6E: ACTUAL LOSSES IN THE TOTAL CREDIT PORTFOLIO UNDER THE IRB APPROACH

€ million	Losses during the period		
Asset class	**Jan. 1 to Dec. 31, 2010**	**Jan. 1 to Dec. 31, 2009**	**Jan. 1 to Dec. 31, 2008**
Central governments	2	–	–
Institutions	–	26	221
Corporates	117	247	81
Equity instruments	–	–	–
Mortgage-backed IRBA receivables from retail business	59	69	64
Qualified revolving IRBA receivables from retail business	–	–	–
Other IRBA receivables from retail business	99	87	58
Total	**277**	**429**	**424**

- In addition, a provision is recognized for the difference between directly recognized write-downs (2010: €109 million, 2009: €134 million) and receipts from loans and advances previously impaired (2010: €121 million, 2009: €40 million) during the reporting period.

- Finally, additions of €75 million in 2010 (2009: €125 million) to provisions for loan commitments, liabilities under financial guarantee contracts and loan commitments are offset against reversals of €99 million (2009: €72 million).

The sum total of these components constitutes the actual loss incurred by the aggregate portfolio, which was found to amount to €303 million for the financial year (2009: €626 million). An actual loss of €277 million (2009: €429 million) for the reporting period was calculated for the IRBA subportfolios shown in Table 6e. The loss on the IRBA subportfolios was therefore €26 million lower than the corresponding value for the aggregate portfolio (2009: €197 million). This due to the relatively high level of reversals of specific loan loss allowances in the Standardized Approach subportfolio compared to the IRBA subportfolio. Analysis of the individual asset classes shows that the losses incurred on loans to institutions and corporates were considerably lower than they had been in 2009. The losses incurred on IRBA mortgage loans in the retail business were also lower in the first six months of 2010 than they were in 2009. This emphasizes how resistant the DZ BANK banking group's small-ticket real-estate business has been to the financial crisis. The rise in losses on other IRBA retail loans reflected the expansion in consumer finance business. This overall positive development reflects the strongly diversified customer structure of the companies in the DZ BANK banking group. It is also the result of the sustained application of the group's risk policy and of proactive risk management.

FIG. 17 – TABLE 7B: COLLATERALIZED EXPOSURE UNDER THE STANDARDIZED APPROACH TO CREDIT RISK (EXCLUDING SECURITIZATIONS)

€ million	Financial collateral		Life insurance		Guarantees		Total	
Asset class	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Central governments	1,117	1,759	–	–	–	–	1,117	1,759
Regional governments and local authorities	–	75	–	–	8	–	8	75
Other public-sector entities	1	–	–	–	377	100	378	100
Multilateral development banks	–	–	–	–	–	–	–	–
International organizations	–	–	–	–	–	–	–	–
Institutions	1,938	930	–	–	29	46	1,967	976
Covered bonds issued by banks	–	–	–	–	–	–	–	–
Corporates	813	808	7	2	1,981	1,776	2,793	2,585
Retail business	–	–	–	–	198	246	198	246
Exposures collateralized by real estate	–	–	–	–	–	–	–	–
Investment fund units	–	–	–	–	–	–	–	–
Investments	–	–	–	–	–	–	–	–
Other exposure	–	–	–	–	–	–	–	–
Past-due exposures	1	–	2	–	23	20	24	20
Total	**3,870**	**3,571**	**9**	**2**	**2,616**	**2,190**	**6,485**	**5,761**

FIG. 18 – TABLE 6F: LOSS ESTIMATES AND ACTUAL LOSSES IN THE NON-DEFAULTING CREDIT PORTFOLIO UNDER THE IRB APPROACH

€ million	Losses during the period Jan. 1 to Dec. 31, 2010		Losses during the period Jan. 1 to Dec. 31, 2009	
Asset class	Expected	Actual	Expected	Actual
Central governments	3	2	5	–
Institutions	11	1	40	10
Corporates	272	145	196	307
Equity instruments	5	–	–	–
Mortgage-backed IRBA receivables from retail business	71	34	86	41
Qualified revolving IRBA receivables from retail business	–	–	–	–
Other IRBA receivables from retail business	120	36	104	42
Total	**482**	**218**	**431**	**400**

LOSS ESTIMATES AND ACTUAL LOSSES IN THE NON-DEFAULTING CREDIT PORTFOLIO UNDER THE IRB APPROACH

(Disclosure pursuant to section 335 (2) number 6 SolvV)

Table 6f (see Fig. 17) compares the expected losses with the losses actually incurred during the period January 1 to December 31, for the following IRBA asset classes: central governments, institutions, corporates (including large companies, small and medium-sized enterprises (SMEs), specialized financial services and purchased receivables that are treated as corporate loans), long-term equity investments recognized under the PD/LGD approach, and retail business. The estimate of the expected losses for 2010 relates to the non-defaulting risk-weighted assets in the bank's conventional lending business. Consequently, it does not factor in the expected losses on securities in the banking book or on counterparty risks arising from derivatives. The losses shown that have actually occurred also relate to the exposures that had not yet defaulted at the beginning of the reporting period. The definition of 'loss' corresponds to the definition used for Table 6e.

Table 6f shows that the actual losses in 2010 (€218 million, 2009: €400 million) across all asset classes were considerably lower than the expected values (2010: €482 million, 2009: €431 million). This development reflects the recovery in the market and the continued rigorous risk management policy implemented by the companies in the DZ BANK banking group.

4.7.5. Collateralized exposure

NOTES ON COLLATERALIZED EXPOSURE

Tables 7b and 7c cover the volume of assets secured by collateral that is risk-weighted for regulatory purposes, broken down into the IRB approaches and the Standardized Approach to credit risk. The volume of these collateralized transactions is shown in Table 5b (see Fig. 12) and in Table group 6 (see Figs. 13 to 17) of this risk report. The collateralization effect of the guarantees provided by counterparties under the Standardized Approach to credit risk is illustrated in Table 5b, which shows a partial shift in the lending volume from higher to lower risk weightings between the table columns that present the total exposure both be-fore and after the credit risk had been mitigated under the Standardized Approach. Under the IRB approaches, most of the collateral shown in the table – especially mortgages – is included in the calculation of capital requirements as loss given default (LGD).

COLLATERALIZED EXPOSURES UNDER THE STANDARDIZED APPROACH TO CREDIT RISK (EXCLUDING SECURITIZATIONS)

(Disclosure pursuant to section 336 (2 SolvV)

Table 7b (see Fig. 18) shows the exposure broken down by asset class under the Standardized Approach to credit risk, that is secured by financial collateral or guarantees. The figures for credit risk mitigation in each case are the regulatory risk-weighted values.

COLLATERALIZED EXPOSURES UNDER THE IRB APPROACHES (EXCLUDING SECURITIZATIONS)

(Disclosure pursuant to section 336 (2) SolvV)

Table 7c (see Fig. 19) shows the exposures, broken down by IRBA asset class that are secured by financial collateral, other IRBA collateral (e.g. physical collateral) or guarantees. The figures shown for credit risk mitigation in each case are the regulatory risk-weighted values. For certain IRBA assets held by BSH, DG HYP and DVB, the mortgage-related or real-estate collateral recognized for credit risk mitigation purposes is included in the calculation of capital requirements as loss given default. The table shows the collateralized exposure for these transactions.

4.7.6. EXPOSURE TO DERIVATIVE COUNTERPARTY RISK IN THE BANKING BOOK AND TRADING BOOK

(Disclosure pursuant to section 326 SolvV)

Table 8b (I) (see Fig. 20) shows the derivative counterparty risk exposure in the banking book and trading book in the form of positive fair values before and after the risk-weighting of offsetting derivatives exposures and collateral. The counterparty risk arising from derivatives is also broken down into the various types of contract.

The table contains the aggregated derivative counterparty risk exposure in the banking book and trading book, which are already disclosed for each regulatory subportfolio level in Tables 5b, 6d (I), 6d (II), and 6d (IV). Positions that are settled directly via a risk-free central counterparty (clearing house) are not included in Table 8b (I). This table therefore only shows over-the-counter (OTC) derivatives as well as listed derivatives that are traded via an intermediary – such as a broker. All derivatives exposures arising from securitizations are disclosed in Table 9f.

The DZ BANK banking group only uses the regulatory mark-to-market method to calculate the counterparty risk disclosed in **Table 8b (II).** As at December 31, 2010, counterparty risk was calculated at €12,437 million (December 31, 2009: €12,116 million). This figure relates to the derivative counterparty risk shown in table 8b (I) and serves as a basis for measurement under the Standardized Approach or internal ratings-based approaches to credit risk.

FIG. 19 – TABLE 7C: COLLATERALIZED EXPOSURE UNDER THE IRB APPROACH (EXCLUDING SECURITIZATIONS)

€ million	Financial collateral		Other collateral		Guarantees		Total	
Asset class	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Corporates	229	184	23,170	18,772	2,587	2,347	25,986	21,303
Institutions	8,702	3,041	103	105	662	460	9,467	3,606
Central governments	422	181	–	–	267	322	689	503
Retail business	–	–	29,866	26,758	441	683	30,307	27,441
of which: mortgage-backed	–	–	29,866	26,758	441	683	30,307	27,441
qualified revolving	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–
Investments	–	–	–	–	–	–	–	–
of which: simple risk-weighting approach	–	–	–	–	–	–	–	–
internal modeling approach	–	–	–	–	–	–	–	–
PD/LGD approach	–	–	–	–	–	–	–	–
Other non credit-obligation assets	–	–	–	–	–	–	–	–
Total	**9,353**	3,406	**53,139**	45,635	**3,957**	3,812	**66,449**	52,853

FIG. 20 – TABLE 8B (II): DERIVATIVE COUNTERPARTY RISK EXPOSURE, INCLUDING AND EXCLUDING OFFSETTING AGREEMENTS AND COLLATERAL

€ million	Positive replacement values excluding offsetting and collateral		Offsetting opportunities	Eligible collateral	Positive replacement values including offsetting and collateral
Types of contract	**Dec. 31, 2010**	Dec. 31, 2009			
Interest-rate related contracts	21,180	21,012			
Currency related contracts	1,688	1,691			
Equity and index related contracts	2,510	2,237			
Credit derivatives	1,521	1,477			
Commodity-related contracts	111	49			
Other contracts	2	1			
Total, Dec. 31, 2010	**27,012**		**22,636**	**2,050**	**2,327**
Total, Dec. 31, 2009		26,467	21,648	1,488	3,329

FIG. 21 – TABLE 8C: NOTIONAL AMOUNTS OF CREDIT DERIVATIVES BROKEN DOWN BY TYPE OF USE

	Notional amount arising from use for own portfolio			
€ million	Bought		Sold	
Credit derivatives	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Credit default swaps	40,200	46,433	43,109	49,618
Total return swaps	2,078	4,673	375	348
Credit-linked notes	2,931	1,159	59	3,374
Other	–	–	–	–
Total	**45,209**	**52,265**	**43,543**	**53,340**

Table 8b (III) shows the notional amount of credit derivatives, risk-weighted for regulatory purposes and used to hedge derivative counterparty risk exposures. This notional amount was €658 million as at December 31, 2010 (December 31, 2009: €968 million).

Table 8c (see Fig. 21) shows the notional amounts of credit derivatives bought and sold, which are categorized by type of credit derivative. As had been the case at the end of the previous year, no credit derivatives from the DZ BANK banking group companies' intermediary operations were held on December 31, 2010.

4.7.7. Securitization of the DZ BANK banking group's own assets

TOTAL AMOUNT OF SECURITIZED ASSETS

(Disclosure pursuant to section 334 (2) number 1 SolvV)

Table 9d (see Fig. 22) shows the total amount of originated securitizations whose underlying transactions are held on the books of the DZ BANK banking group. The securitizations shown here are all synthetic, as there were no true-sale securitizations.

IMPAIRED SECURITIZATIONS, SECURITIZATIONS IN ARREARS, AND LOSSES REALIZED DURING THE REPORTING PERIOD

(Disclosure pursuant to section 334 (2) number 2 SolvV)

Referring to the receivables and assets presented in Table 9d in the context of non-performing securitization exposures, **Table 9e** (see Fig. 23) shows the portions of the DZ BANK banking group's own asset securitizations that are past due or at risk of default. These have been differentiated according to the type of securitization. The table also shows the losses incurred in 2010 as a result of these exposures. The definition of 'loss' here corresponds to the definition used for Table 6e.

FIG. 22 – TABLE 9D: TOTAL AMOUNT OF ASSET SECURITIZATIONS

€ million	Synthetic securitizations	
Asset class	Dec. 31, 2010	Dec. 31, 2009
Receivables from home loans	448	690
Receivables from loans on real estate (wholly or partly commercial)	206	268
Loans and advances to corporates (including SMEs)	–	–
Lease receivables originated or purchased by the DZ BANK banking group	636	678
Receivables from vehicle finance (excluding leases)	–	–
Receivables from other retail business (e.g. credit cards and student loans)	–	–
Receivables from CDOs and ABSs	–	–
Total	1,290	1,636

SECURITIZATIONS DURING THE REPORTING PERIOD

(Disclosure pursuant to section 334 (2) number 6 SolvV)

In 2010, the DZ BANK banking group incorporated its own leased assets and purchased leased assets worth €88 million (December 31, 2009: €261 million) into securitizations, as shown in **Table 9j** showing use cases. As in 2009, no gains or losses were realized on these transactions.

FIG. 23 – TABLE 9E: IMPAIRED SECURITIZATIONS, SECURITIZATIONS IN ARREARS, AND LOSSES REALIZED DURING THE REPORTING PERIOD

€ million	Past-due and non-performing assets		Losses during the reporting period		
Asset class	Dec. 31, 2010	Dec. 31, 2009	2010	2009	2008
Receivables from home loans	7	6	1	–	13
Receivables from loans on real estate (wholly or partly commercial)	4	81	1	7	3
Loans and advances to corporates (including SMEs)	–	–	–	–	–
Lease receivables originated or purchased by the DZ BANK banking group	15	–	3	–	–
Receivables from vehicle finance (excluding leases)	–	–	–	–	–
Receivables from other retail business (e.g. credit cards and student loans)	–	–	–	–	–
Receivables from CDOs and ABSs	–	–	–	–	–
Total	26	87	5	7	16

4.7.8. Securitization exposure in the banking group portfolio

(Disclosure pursuant to FSB recommendations)

The remaining **volume of high-risk securitizations** on the books of the DZ BANK banking group amounted to €12.7 billion on December 31, 2010. (December 31, 2009: €16.1 billion). This volume has fallen by €2.6 billion since December 31, 2009, partly as a result of repayments. On the reporting date, the DZ BANK banking group also held receivables of €894 billion (December 31, 2009: €1.2 billion) from special-purpose entities, most of which were affiliated ABCP conduits. Given that the DZ BANK banking group's total lending volume amounted to €306.0 billion as at December 31, 2010 (December 31, 2009: €311.7 billion), its securitization exposure of €16.4 billion as at December 31, 2010 (December 31, 2009: €20.2 billion) constitutes a significant subportfolio that is actively managed.

Residential mortgage-backed securities (RMBSs) accounted for 63 percent of exposure held as an investor on December 31, 2010. This was unchanged from the value determined as at December 31, 2009. Figure 24 shows the changes in the value of this portfolio as a result of value adjustments and changes to the composition of the portfolio over the course of 2010. Between December 1 and December 31, 2010, the portfolio lost €748 million in value (December 1 to December 31, 2009: €860 million) as a result of the ongoing market turmoil. As things stand, these value adjustments largely constitute fluctuations in market value that may recover by the time the securitization exposure matures. In addition to the value adjustments, the changes in the value of the securitization portfolio were heavily influenced by the appreciation of the US dollar, which rose by 7 percent during the course of the financial year.

FIG. 24 – CHANGES IN THE COMPOSITION AND VALUE OF THE SECURITIZATION PORTFOLIO OVER THE REPORTING PERIOD

€ million Asset class	**Fair value on Jan. 1, 2010 before changes in composition and value**	Changes in composition due to purchases, sales, redemptions and exchange-rate fluctuations	Changes in fair value	**Fair value on Dec. 31, 2010 after changes in composition and value**
Receivables from retail loans	10,704	-1,814	-647	8,242
of which: RMBSs	10,204	-1,521	-642	8,041
of which: assets classified as subprime	1,269	61	-36	1,295
of which: assets classified as Alt-A	368	-36	18	351
Receivables from corporate loans[1]	751	-222	-16	513
Receivables from CMBSs	2,914	-394	-5	2,515
Receivables from CDOs	1,739	-212	-72	1,455
Total exposure reported on the balance sheet	16,108	-2,642	-741	12,725
Exposures to conduits[2]	4,121	-454	-7	3,660
Total, Dec. 31, 2010	**20,229**	**-3,096**	**-748**	**16,385**
Total, Dec. 31, 2009	24,816	-3,727	-860	20,229

1 Includes receivables arising from leased assets purchased amounting to €142 million (December 31, 2009: €263 million)
2 Includes reported receivables from conduits, especially ABCP conduits, and liquidity facilities provided for ABCP conduits

The reductions in repayments and sales were therefore partially offset by the exchange rate effect.

Figures 25 and 26 show the DZ BANK banking group's securitization exposures broken down by external **credit ratings** awarded by recognized rating agencies, and by **region of origin.** In accordance with section 41 SolvV, the most conservative rating awarded by the nominatd credit rating agencies is used as the external credit rating. Despite the downgrades seen over the past months, the credit quality of the DZ BANK banking group's portfolio was still rated either 'good' or 'very good' as at December 31, 2010. The vast majority of its securitization exposure continued to be classified 1A to 1E, its top internal rating categories, as they were at the end of 2009. On the balance sheet date, the DZ BANK banking group held €1.3 billion (December 31, 2009: €1.3 billion) in mortgage-backed real-estate loans that are classified in the US subprime segment. Value adjustments of €36 million were recognized on subprime exposures in 2010 (December 31, 2009: €429 million). In 2010, the appreciation of the US dollar more than offset the repayments of subprime exposure. There have been no further purchases in this segment since 2007.

The 'not rated' category comprises synthetic portfolio purchases that do not have an external credit rating and which consist of receivables due from borrowers in the UK and Ireland. Synthetic portfolio purchases amounted to €33 million as at December 31, 2010 (December 31, 2009: €74 million).

51 percent (December 31, 2009: 57 percent) of the underlying borrowers in the aggregate portfolio were from European countries, especially the United Kingdom, Ireland, Spain, the Netherlands and Germany. 40 percent (December 31, 2009: 33 percent) were domiciled in the US. As was the case at the end of 2009, virtually all the underlying transactions domiciled in Australia were covered by credit default insurance.

FIG. 25 – CREDIT RATING STRUCTURE OF THE SECURITIZATION PORTFOLIO

€ million	AAA		AA+ to AA-		A+ to A-	
Asset class	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Receivables from retail loans	4,802	7,236	1,286	1,500	479	481
of which: RMBSs	4,652	6,880	1,246	1,404	476	455
of which: assets classified as subprime	51	85	209	284	58	43
of which: assets classified as Alt-A	6	6	13	39	11	13
Receivables from corporate loans[1]	307	503	89	75	32	76
Receivables from CMBSs	1,210	1,622	379	394	424	399
Receivables from CDOs	605	716	450	574	101	146
Total exposure reported on the balance sheet	6,924	10,077	2,204	2,543	1,035	1,102
Exposures to conduits[2]	204	486	809	1,179	1,454	1,842
Total	**7,128**	**10,563**	**3,014**	**3,722**	**2,489**	**2,944**

1 Includes lease receivables purchased amounting to €142 million (December 31, 2009: €263 million)
2 Including reported receivables from conduits, especially ABCP conduits, and liquidity facilities provided for ABCP conduits

FIG. 26 – GEOGRAPHICAL COMPOSITION OF THE SECURITIZATION PORTFOLIO BROKEN DOWN BY COUNTRY OF UNDERLYING ASSET

€ million	Germany		United Kingdom and Ireland		Spain		Netherlands	
Asset class	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Receivables from retail loans	61	109	1,469	1,912	1,511	2,192	1,114	1,465
of which: RMBSs	61	72	1,463	1,906	1,481	2,089	1,094	1,436
of which: assets classified as subprime	–	–	28	35	–	–	2	3
of which: assets classified as Alt-A	–	–	–	–	–	–	–	–
Receivables from corporate loans[1]	114	139	18	27	63	70	7	14
Receivables from CMBSs	249	266	635	686	51	78	94	128
Receivables from CDOs	2	6	18	25	10	16	30	40
Total exposure reported on the balance sheet	426	520	2,140	2,650	1,635	2,356	1,246	1,647
Exposures to conduits[2]	900	1,499	–	–	–	–	–	–
Total	**1,326**	**2,019**	**2,140**	**2,650**	**1,635**	**2,356**	**1,246**	**1,647**

1 Includes lease receivables purchased amounting to €142 million (December 31, 2009: €263 million)
2 Includes reported receivables from conduits, especially ABCP conduits, and liquidity facilities provided for ABCP conduits

BBB+ to B-		CCC+ to C-		Not rated		Total	
Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
622	535	901	843	153	109	8,242	10,704
613	513	901	843	153	109	8,041	10,204
301	292	626	557	50	8	1,295	1,269
58	56	239	243	23	11	351	368
85	84	–	–	0	13	513	751
462	490	27	–	14	9	2,515	2,914
158	197	78	50	62	56	1,455	1,739
1,327	1,306	1,006	893	229	187	12,725	16,108
1,043	475	–	65	150	74	3,660	4,121
2,370	1,781	1,006	958	379	261	16,385	20,229

Italy		Rest of EU		United States		Australia		Other countries		Total	
Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
537	790	563	896	1,831	1,893	1,076	1,314	80	133	8,242	10,704
481	684	563	852	1,742	1,761	1,076	1,286	80	118	8,041	10,204
–	–	3	3	1,262	1,228	–	–	–	–	1,295	1,269
–	–	–	–	351	368	–	–	–	–	351	368
157	273	83	107	13	3	8	29	51	89	513	751
99	114	226	273	995	1,079	74	137	93	153	2,515	2,914
29	69	287	386	1,068	1,179	11	10	–	8	1,455	1,739
821	1,246	1,158	1,662	3,907	4,154	1,168	1,490	223	383	12,725	16,108
–	–	–	35	2,696	2,446	–	–	64	141	3,660	4,121
821	1,246	1,158	1,697	6,604	6,600	1,168	1,490	287	524	16,385	20,229

Figure 27 shows the securitization exposures in the CDO product category, most of which were also rated as 'good' or 'very good credit'.

Figure 28 shows the receivables in the DZ BANK banking group's subprime portfolio, broken down by the year in which the transactions were originated. The increase in volume is due to the appreciation of the US dollar. There have been no further investments in this market segment since 2007.

Figure 29 shows the credit default insurance for securitizations, especially RMBS securities, obtained from monoliners; the ratings shown are those awarded by Standard & Poor's.

4.7.9. Securitization exposure in the banking book

RETAINED AND PURCHASED SECURITIZATION EXPOSURES

(Disclosure pursuant to section 334 (2) number 3 SolvV)

Table 9f (see Fig. 30) shows the securitization exposure retained or purchased by the companies of the DZ BANK banking group in their capacity as originator, sponsor, or investor, broken down by the type of underlying receivable in each case. Securitization exposure is recognized at its risk-weighted carrying amount. The underlying receivables are classified according to the categories used for internal management purposes.

The IRB approach rather than the Standardized Approach was used for most of the securitization exposure recognized as at December 31, 2010. This is a result of the so-called 'inheritance doctrine' used by DZ BANK and according to which entities of the DZ BANK banking group must always recognize their investor securitization exposures in line with the IRBA if an IRBA rating system is available for these exposures within the banking group and has been approved by the regulator. Germany's financial services regulator (BaFin) has approved the use of the inheritance doctrine.

FIG 27 – BREAKDOWN OF CDO PRODUCT CATEGORY BY PORTFOLIO INSTRUMENT

€ million	Dec. 31, 2010	Dec. 31, 2009
Instrument		
ABS of ABS	35	70
Commercial real estate	236	271
Corporates (including bank bonds and loans)	1,183	1,398
Total	**1,455**	**1,739**

FIG. 28 – BREAKDOWN OF SUBPRIME PORTFOLIO BY ORIGINAL YEAR OF ISSUE

€ million	Dec. 31, 2010	Dec. 31, 2009
Year of issue		
Prior to 2005	214	199
2005	389	383
2006	501	481
2007	191	206
2008	–	–
2009	–	–
2010	–	–
Total	**1,295**	**1,269**

FIG. 29 – VOLUME OF ASSETS INSURED BY MONOLINERS

€ million	Dec. 31, 2010	Dec. 31, 2009
Monoliners' rating		
AA or higher	55	69
A	–	–
Lower than A	263	392
Total	**318**	**461**

TOTAL AMOUNT AND CAPITAL REQUIREMENTS FOR RETAINED OR PURCHASED SECURITIZATION EXPOSURES BROKEN DOWN BY RISK-WEIGHTING BAND

(Disclosure pursuant to section 334 (2) no. 4 SolvV)

In **Table 9g and 9i (I)** (see Fig. 31) shows the securitization exposures in the banking book and the relevant capital requirements, which are broken down by regulatory risk-weighting bands.

FIG. 30 – TABLE 9F: RETAINED AND PURCHASED SECURITIZATION EXPOSURE

€ million	Standardized Approach exposure		IRBA exposure		Total	
Securitization exposure	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Exposure reported on the balance sheet						
Receivables from home loans	–	–	8,934	7,766	8,934	7,766
Receivables from loans on real estate (wholly or partly commercial)	–	–	2,454	1,640	2,454	1,640
Receivables from corporate loans	1	3	1,214	1,120	1,215	1,123
Lease receivables originated or purchased by the DZ BANK banking group	–	–	108	192	108	192
Receivables from vehicle finance (excluding leases)	–	–	66	123	66	123
Receivables from other retail business (e.g. credit cards and student loans)	–	–	160	581	160	581
Receivables from CDOs and ABSs	–	–	538	694	538	694
Credit enhancements	34	62	1,151	865	1,185	927
Other exposure reported on the balance sheet	–	–	–	–	–	–
Total exposure reported on the balance sheet	35	65	14,625	12,981	14,660	13,046
Exposure not reported on the balance sheet						
Liquidity facilities	–	–	2,469	2,679	2,469	2,679
Derivatives (e.g. cross-currency interest-rate swaps to hedge transactions)	3	14	75	86	78	100
Exposures specific to synthetic transactions	–	–	–	–	–	–
Other exposure not reported on the balance sheet	–	–	5	1	5	1
Total exposure not reported on the balance sheet	3	14	2,549	2,766	2,552	2,780
Sum total	38	79	17,174	15,747	17,212	15,826

FIG. 31 – TABLE 9G AND 9I (I): TOTAL AMOUNT AND CAPITAL REQUIREMENTS OF RETAINED AND PURCHASED SECURITIZATION EXPOSURE BROKEN DOWN BY RISK-WEIGHTING BAND

€ million	Exposures		Capital requirements under Standardized Approach to credit risk		Capital requirements under IRB approach	
Risk-weighting bands	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
≤ 10%	7,083	7,305	–	–	44	45
> 10% ≤ 20%	4,757	4,309	–	–	59	55
> 20% ≤ 50%	1,565	1,417	–	–	43	40
> 50% ≤ 100%	1,441	1,265	–	–	93	86
> 100% ≤ 650%	344	376	–	–	113	124
> 650% ≤ 1,250% / capital deduction	2,022	1,154	34	62	1,988	1,092
Total	17,212	15,826	34	62	2,340	1,442

FIG. 32 – SECTORAL COMPOSITION OF THE LEVERAGED FINANCE PORTFOLIO BROKEN DOWN BY INDUSTRY OF UNDERLYING ASSET

€ million	Chemical industry		Engineering industry		Automotive industry		Services	
Asset class	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Exposure reported on the balance sheet	136	286	101	113	114	115	140	102
Exposure not reported on the balance sheet	66	25	51	52	20	19	32	29
Total	**202**	**311**	**152**	**165**	**134**	**134**	**172**	**131**

FIG. 33 – GEOGRAPHICAL COMPOSITION OF THE LEVERAGED FINANCE PORTFOLIO BROKEN DOWN BY COUNTRY OF UNDERLYING ASSET

€ million	Germany		Netherlands		Rest of EU		United States		Other		Total	
Asset class	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Exposure reported on the balance sheet	432	377	62	87	244	448	152	93	119	108	1,009	1,113
Exposure not reported on the balance sheet	128	86	19	25	35	61	88	32	15	2	285	206
Total	**560**	**463**	**81**	**112**	**279**	**509**	**240**	**125**	**134**	**110**	**1,294**	**1,319**

4.7.10. Leveraged finance

Of all the companies in the DZ BANK banking group, only DZ BANK engages in leveraged finance on a significant scale. DZ BANK classifies mergers & acquisitions and related types of financing that involve an above-average level of gearing ('leverage') as leveraged finance transactions. These primarily include the following types of acquisition finance, especially for private equity companies whose credit ratings essentially depend on the cash flows expected to be generated by the acquired companies:

– leveraged buyouts by financial sponsors
– recapitalization and funding of acquisitions
– management buyouts and management buyins.

DZ BANK also arranges and underwrites this type of acquisition finance.

The portfolio presented in Figures 32 and 33 reflects the gross lending volume of leverage finance transactions, which is based on carrying amounts and does not include credit risk mitigation techniques, loan loss allowances, or write-downs.

The loan commitments granted by DZ BANK in this business segment totaled €1.29 billion as at December 31, 2010 (December 31, 2009: €1.32 billion). Of this total, loans amounting to €1.01 billion (December 31, 2009: €1.11 billion) had already been drawn down and undrawn loan commitments came to €285 million (December 31, 2009: €206 million). The leveraged finance portfolio was hedged by credit derivatives and guarantees in the amount of €27 million at the balance sheet date (December 31, 2009: €109 million). As at December 31, 2010, the exposures in the portfolio reveal a broad sectoral diversification, and 70 percent (December 31, 2009: over 80 percent) of them related to companies based in the European Union.

Write-downs of €55 million were recognized in this portfolio in 2010 (December 31, 2009: €127 million).

	Transportation		Electronics		Other sectors		Total	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
	60	95	50	62	408	340	1,009	1,113
	2	6	20	18	94	57	285	206
	62	101	70	80	502	397	1,294	1,319

5. RISKS ATTACHING TO LONG-TERM EQUITY INVESTMENTS HELD IN THE BANKING BOOK

(Disclosure pursuant to section 332 SolvV)

The equity risk of exposures disclosed in Table 13b and 13c distinguishes the carrying amounts under the German Commercial Code from the current market value of these exposures. The recognition of unrealized gains and losses from long-term equity investments in the DZ BANK banking group's equity is shown in Table 13d and 13e.

The regulatory report on long-term equity investments held in the banking book covers conventional equity investments as well as securities, derivatives relating to equity investments and investment funds that are not recognized under the transparency method. The DZ BANK banking group recognizes the investment funds held in its banking book under the transparency method and breaks them down into the primary asset classes of the individual investment fund components. These positions are not included in the Standardized Approach to credit risk and IRBA tables rather than the equity risk tables. Long-term investments in investment funds are classified with a risk weighting of 100 percent under the Standardized Approach (Table 5b (I)) and fall into the 'investment exposure' asset class under the IRBA (Table 6d (I)).

Table 13b and 13c (see Fig. 31) shows the long-term equity investments in the banking book that are risk-weighted and, consequently, are not fully consolidated, are consolidated proportionately, or are subject to a capital deduction. These are broken down by groups of equity instrument and various carrying amounts. The classification of investments is based on the financial nature of the equity instrument concerned. The carrying amount corresponds to the book value determined under IFRS. Traded equity investments are defined as equity instruments that are listed on a stock exchange. The market value is defined as the cash settlement price of the investment at the reporting date.

Table 13d and 13e (see Fig. 35) shows the realized and unrealized gains and losses arising from the long-term equity investments held in the banking book in accordance with IFRS accounting standards. The table only includes equity investments that are risk-weighted and, consequently, are not fully or proportionately consolidated or are subject to a capital deduction. The table also discloses those unrealized gains and losses that were included in the DZ BANK banking group's regulatory capital.

The contents of **Table 13f**: 'Equity instruments with their capital requirements' are shown in Table 2b to 2e. Consequently, no separate disclosure is provided.

6. MARKET RISK

6.1. MANAGEMENT OF MARKET RISK

(Disclosure pursuant to section 322, section 330 (2) and section 333 (1) SolvV)

The following disclosures can be found from page 98 onward in Chapter 6, 'Market risk' in the risk report contained in the group management report:

– objectives and principles of market price risk management, including the management of interest-rate exposure in the banking book

FIG. 34 – TABLE 13B AND 13C: MEASUREMENT OF EQUITY INSTRUMENTS

€ million	Carrying amount		Fair value		Market value	
Categories of equity instruments	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Investments in banks	**409**	378	**449**	388		
of which: exchange-traded	111	85	136	85	136	85
not exchange-traded but part of a diversified investment portfolio	297	282	313	292		
Other	1	11	1	11		
Investments in finance companies	**24**	28	**24**	25		
of which: exchange-traded	–	–	–	–	–	–
not exchange-traded but part of a diversified investment portfolio	4	–	4	–		
Other	20	28	20	25		
Investments in insurance companies	**1,782**	1,777	**1,782**	1,777		
of which: exchange-traded	–	–	–	–	–	–
not exchange-traded but part of a diversified investment portfolio	3	3	3	3		
Other	1,779	1,774	1,779	1,774		
Investment funds held as long-term equity investments in the banking book	**109**	121	**111**	133		
of which: exchange-traded	6	–	6	6	6	–
not exchange-traded but part of a diversified investment portfolio	103	103	105	109		
Other	18	18	18	18		
Investments in corporates	**484**	860	**498**	861		
of which: exchange-traded	4	1	4	1	4	1
not exchange-traded but part of a diversified investment portfolio	150	17	150	16		
Other	330	842	344	844		
Total	**2,808**	3,164	**2,864**	3,184		

FIG. 35 – TABLE 13D AND 13E: REALIZED AND UNREALIZED GAINS AND LOSSES ON EQUITY INSTRUMENTS ACCORDING TO IFRS ACCOUNTING STANDARDS

€ million		Unrealized gains/losses on equity instruments		
	Realized gains and losses on disposals	**Total amount**	**of which: amounts recognized in Tier 1 capital**	**of which: amounts recognized in Tier 2 capital**
Dec. 31, 2010	**6**	**56**	**–**	**–**
Dec. 31, 2009	10	20	–	–

– specific information on the DZ BANK banking group's internal market risk model

Specific information on the calculation of interest-rate exposure in the banking book, including the type of interest-rate exposure, key assumptions made and frequency of risk measurement is provided below.

Interest-rate risk arises in the trading portfolios and the non-trading portfolios of the banks in the DZ BANK banking group. The non-trading portfolios cover the items in the banking book. Interest-rate risk means sensitivity to fluctuating earnings as a result of movements in interest rates. At each bank the value-at-risk for interest-rate risk is determined separately for the trading portfolio and the non-trading portfolio. The values-at-risk are added to together to give a total value-at-risk figure for the DZ BANK banking group's combined trading portfolio and a figure for its combined non-trading portfolio. The value-at-risk in the trading portfolio and the non-trading portfolio is included in the interest-rate exposure in the banking book.

At the DZ BANK banking group level, interest-rate risk is measured on a quarterly basis and reported to the Group Risk Committee as part of the quarterly group risk report. At **DZ BANK**, a fixed interest period of one day is assumed for balances on nostro and loro accounts. Loan transactions with fixed interest terms are included in the interest-rate risk management system at their maturity date. Loans with variable interest rates are included up to the next rollover date. At BSH , the value-at-risk due to interest-rate risk is calculated daily. BSH is particularly exposed to this risk because it guarantees its customers fixed interest rates on both their credit balances and on loans to 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.

6.2 QUANTITATIVE INFORMATION ON MARKET RISK

(Disclosure pursuant to section 330 (1 and 3) and section 333 (2) SolvV, Table 10, Table 11f (I+II), Table 11f (IV) and Table 14b of use cases)

The information disclosed pursuant to section 330 (1) SolvV (**Table 10b** on capital requirements for market risk under the standardized method) is covered by Table 3b to 3e and, consequently, no separate individual disclosures are provided.

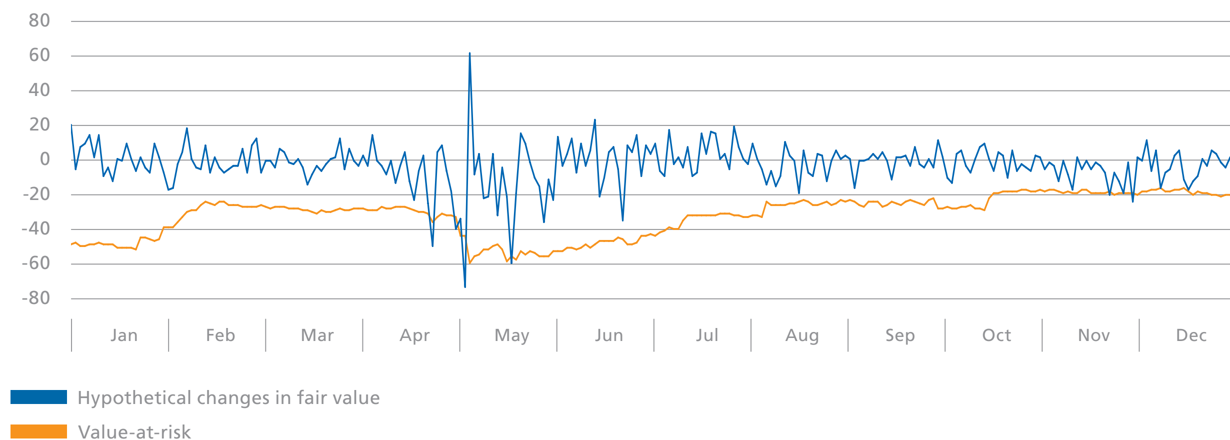
The average value-at-risk in 2010 was €31 million (2009: €66 million), with a minimum value of €15 million (2009: €45 million) and a maximum value of €59 million (2009: €114 million). As at December 31, 2010, the value-at-risk was calculated at €18 million (December 31, 2009: €47 million.) (Disclosure in accordance with section 330 (2) number 1 SolvV, as shown in **Table 11f (I+II)** 'Value-at-risk in the trading book according to the internal modeling approach').

The information provided in accordance with section 330 (3) number 2 SolvV (**Table 11f (IV)**) is disclosed in Fig. 36. The disclosure covers all market risk exposure in DZ BANK's trading book and foreign currency risk, commodity risk and other market risk exposures in the banking book of DZ BANK that are measured according to the internal modeling approach.

Backtesting revealed that on seven trading days the fair value of the portfolio exceeded the forecast value-at-risk in a hypothetical buy-and-hold scenario due to changes in market parameters (the forecasted value-at-risk was never exceeded in 2009). The occasions on which the portfolio exceeded the forecasted value-at-risk recorded in April, May and November were a result of capital market volatilities caused by the growing sovereign debt crisis in some European countries in the spring of 2010. The large hypothetical change in fair value on the occasion in April is largely attributable to the downgrading of bond ratings, which caused the portfolio to exceed the forecasted value-at-risk. This is therefore not an indication that the model has limited value as a forecasting tool. Value-at-risk fell significantly over the course of the year after severe market volatility in spring and was almost at its lowest value for the reporting period at the end of the 2010.

FIG. 36 – CHART 11F (IV): VALUE-AT-RISK AND HYPOTHETICAL CHANGES IN THE FAIR VALUE OF DZ BANK'S TRADING BOOK ACCORDING TO THE INTERNAL MODELING APPROACH

€ million, 99.00% confidence level, 1-day holding period



The comparable disclosures on value-at-risk and hypothetical changes in fair value in Tables 11f (I+II) and 11f (IV) and in the risk report contained in the group management report (see Fig. 39 on page 104 in Chapter 6.6 'Risk analysis') relate to DZ BANK's trading portfolios and therefore reflect the portfolio demarcation used for internal management purposes. Differences in the scope of application have resulted in discrepancies between the values disclosed in the two risk reports.

DZ BANK calculates the interest-rate exposure in the banking book for the banking group as the value-at-risk for the purposes of internal market price risk management. For this reason, the disclosure does not follow the format of **Table 14b** (use cases), but is given as a single risk figure. This procedure meets the requirements of section 333 (2) SolvV, which states that interest-rate exposure must be disclosed under the method used by the company's management to measure risk. The general interest-rate exposure in the banking book of the DZ BANK banking group amounted to €3 million on December 31, 2010 (December 31, 2009: €6 million). This figure was reported to the Board of Managing Directors.

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