

# Learning from each other. Growing together.

Financial Year 2006



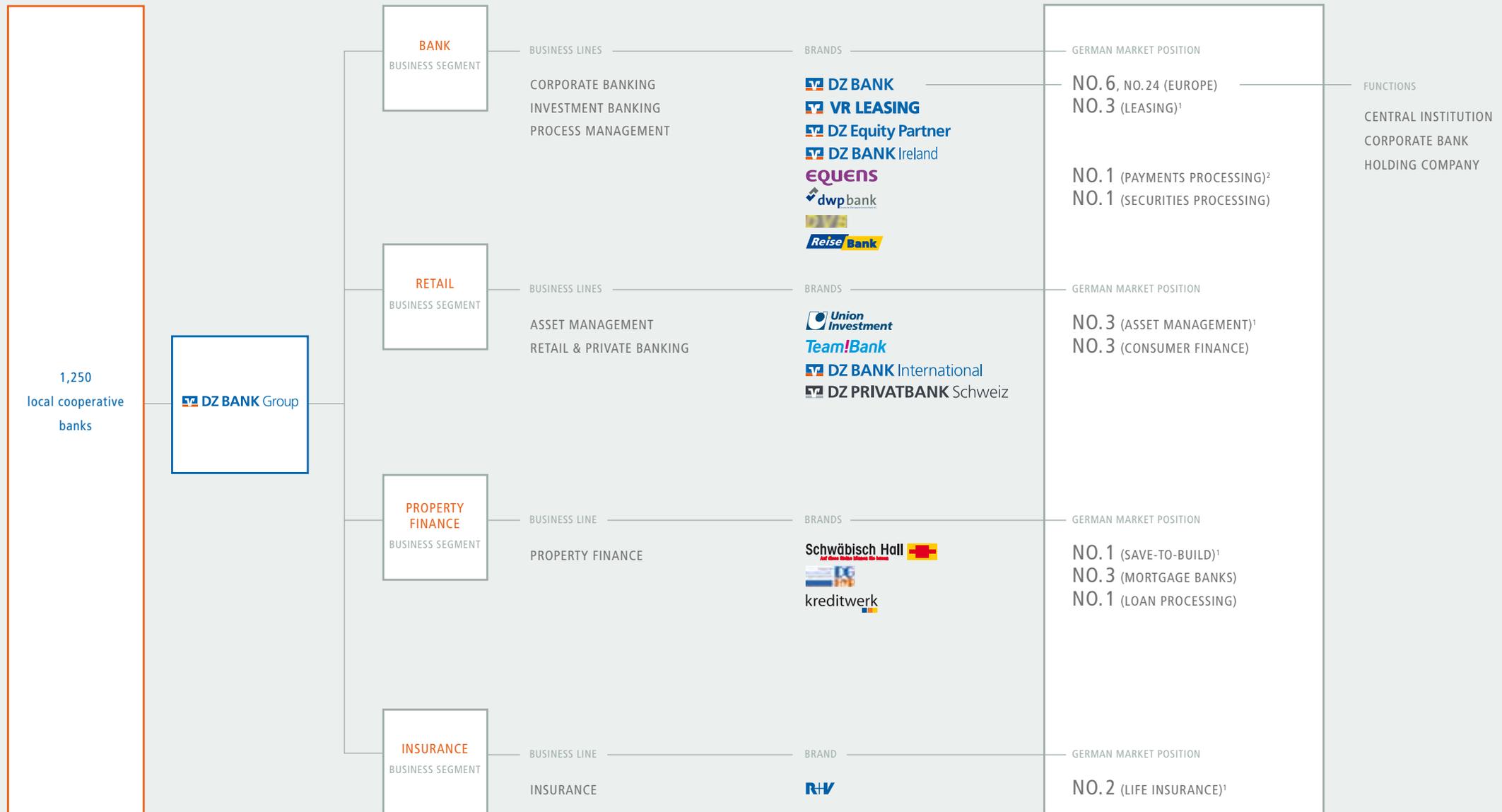
# The DZ BANK Group: Partner to the cooperative banking group

The DZ BANK Group is part of the German cooperative financial services network, which comprises around 1,250 local cooperative banks and is one of Germany's biggest private-sector financial services organisations measured by consolidated assets. Within the cooperative financial services network, DZ BANK AG functions as a central institution for more than 1,000 local cooperative banks with 12,000 branches and also as a corporate bank with an increasingly international but primarily European focus.

The DZ BANK Group includes Bausparkasse Schwäbisch Hall, DG HYP (Deutsche Genossenschafts-Hypothekenbank), DZ BANK International, DZ PRIVATBANK Schweiz, R+V Versicherung, TeamBank, Union Investment Group, VR LEASING and a range of other specialised service providers. With their strong brands, the companies of the DZ BANK Group are central pillars of the cooperative banking group's Allfinanz offering. Cooperation between the DZ BANK Group companies makes it possible to optimise the network's market offerings for the benefit of the local cooperative banks and their approximately 30 million customers.

This combination of banking, insurance and asset management services has a long and successful tradition in the cooperative financial services network. All the DZ BANK Group's specialised service providers offer first-class and highly competitive products in their respective fields of expertise at reasonable prices. They help equip Germany's local cooperative banks to offer their customers the complete spectrum of first-rate financial services.

# The DZ BANK Group – the cooperative financial services network's Allfinanz partner



<sup>1</sup> New business  
<sup>2</sup> In Europe; market leader in Germany based on number of transactions processed on a single platform

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Being part of something bigger that provides a clearer overview – maybe that is the whole secret of our success. And that is something we share with the people in the photo gallery we have included in this Annual Report. None of them have any particular connection with the banking sector, nor do they need to have one. We have selected them because of their incredible achievements: they pursue their goals with determination, courage and team spirit – just as we do.

# Letter to Shareholders

Dear Shareholders,



Chief Executive Officer  
Wolfgang Kirsch

Fiscal 2006 has seen the DZ BANK Group continue the previous years' encouraging earnings performance. Group pre-tax profit has again recorded double-digit growth, increasing by 13.7 per cent to EUR 1.358 billion. This is further proof of the strength of our business model. Our results show that we still have a firm grip on the key income and cost components. Our risk provisioning requirement has fallen substantially again, thanks primarily to the successes at DZ BANK AG. The DZ BANK Group's crucial competitive advantage has been and remains the unparalleled closeness of our partnership with the local cooperative banks.

Once again, our staff have largely been responsible for the positive performance last year. As always, their contribution has been excellent. I combine my thanks with an appeal to stay as wholeheartedly committed to the success of the DZ BANK Group – your inputs make it happen.

Last year was also a year of change in the top leadership of our bank. Dr. Ulrich Brixner has retired from the Board of Managing Directors as per contract after five years at the helm of DZ BANK

and has passed the field marshal's baton to me. Ulrich Brixner has been the Chairman of DZ BANK ever since the merger of GZ-Bank and DG BANK in 2001. His name will be forever associated with not only the successful restructuring of our bank, but also with the total strategic realignment of the entire DZ BANK Group. Without his deep roots in the cooperative financial services network which he has served for almost four decades, and without his own exceptional abilities as a banker, there is no way that the last five years of transformation effort could ever have delivered the impressive results that we present in this Annual Report in such a short space of time. I am looking forward to continuing the work that Ulrich Brixner has done so far, and I thank him – as do my colleagues on the Board of Managing Directors – for both the work he has done and the way he has done it.

These first fruits of our strategic refocusing show that something more has changed than just our trading numbers: there is a new and closer feeling of togetherness right across our Allfinanz group. This is primarily the result of the continuing refinement of our coordination model within the DZ BANK Group. Cooperation has proved to be the correct approach in practice and has promoted linkages between the various business lines. The main beneficiaries, of course, have been our most important shareholders and customers: the local cooperative banks. Strengthening their competitiveness in an ever-tougher market environment – in every line of products and services – has been and remains the top-priority focus of all our work in the DZ BANK Group.

Let me illustrate this through an example: in 2003 we acquired norisbank, one of Germany's leading consumer credit providers. Together with norisbank and the primary banks we have reconquered a part of the fiercely-contested German personal banking market that many had believed was lost forever to the cooperative financial services network. Within this same short period, the consumer credit business has grown into an important source of commission income for the primary banks. Norisbank has been renamed in 2006 and now operates as TeamBank. We have transferred product and marketing responsibility for easyCredit, the easyCredit brand and the loan processing "factory" to TeamBank. This means that they remain part of the cooperative financial services network. The same is



Board of Managing Directors  
(from left to right)  
Frank Westhoff  
Dietrich Voigtländer  
Heinz Hilgert  
(Deputy Chief Executive Officer)  
Wolfgang Kirsch  
(Chief Executive Officer)  
Albrecht Merz  
Dr. Thomas Duhnkrack

true of the local cooperative banks' entire easyCredit portfolios. The 98 norisbank branches have been sold together with their immediate customer relationships and the business name norisbank.

Some of the proceeds are being committed to local and regional market development strategies. In this way we are supporting the cooperative financial services network's declared objective of using the easyCredit product to expand the local cooperative banks' direct market. We have promoted the further development of our group – and by extension also the cooperative financial services network – in other areas too during 2006, for instance by merging the former Transaktionsinstitut für Zahlungsverkehrsdienstleistungen with the Dutch company Equens Nederland B.V. to form a new specialist payments processing joint venture Equens N.V. This enables us – as we

profile ourselves as the “bank for banks” – to right now offer our primary bank partners a powerful integrated payments-handling platform that will leave them best-placed to exploit the coming “Single Euro Payments Area”.

The last year has seen our owners once again support us in our ongoing campaigns to strengthen the cooperative financial services network's ability to compete. Our capital increase raised EUR 455 million and met with an eager response, so that the demand easily exceeded the quantity of shares on offer. The share placing was therefore a major success. With this issue, DZ BANK has taken an important step that will further improve our capital adequacy and capital quality. It also demonstrates that, not least thanks to the improvement of the whole group's risk and profitability situation, the DZ BANK share has now become an attractive investment. Last year's positive operating

performance will also allow us to further strengthen our capital base.

Alongside the rights issue to our existing shareholders, last year we also set up our first-ever group-wide employee share ownership program. Around 1,400 staff of the DZ BANK Group took advantage of the opportunity to subscribe for DZ BANK shares. It is especially encouraging that employees of the DZ BANK Group companies applied for more than 40 percent of the total shares subscribed for, with the rest applied for by staff of DZ BANK AG. I see this support from our colleagues as an expression of trust that pleases me.

The rating agencies also saw a compelling case in the improvement of our efficiency and profitability measures, the strengthening of our capital base and the ever-closer meshing of our working partnership with the cooperative financial services network during 2006. For the second time in just eighteen months, Standard & Poor's announced upgrades of its DZ BANK ratings in December 2006. Our long-term rating of "A+" is now at a respectable level even compared with our leading European competitors. S&P said the upgrade was in recognition of the "continuous improvement in the risk situation of the cooperative financial services network and in the profitability of DZ BANK".

The success of the DZ BANK Group has created immense benefits for the local cooperative banks again in 2006 in the form of commission and bonus payments, dividends and price cuts. On their own, the commissions and bonuses paid by the companies of the DZ BANK Group during 2006 amounted to nearly EUR 1.64 billion. This represents an increase of EUR 87 million on 2005. By way of comparison, four years ago this figure stood at only around EUR 1 billion. The Board of Managing Directors has proposed that the dividend payable per share in respect of the 2006 year be increased by 30 percent. This will make the distribution worth EUR 151 million.

We have also made another buyback offer to the local cooperative banks in 2006 to tender their shares in Turm KG (the company that owns DZ BANK's head office). This follows on

from a limited offer in 2005 to redeem shares in Turm KG. More than 500 banks tendered shares under this offer, and the total consideration paid was well over EUR 60 million. The local cooperative banks then used approximately one-third of this amount to acquire shares in DZ BANK. This second share buyback will not only allow the local cooperative banks to take an additional share of DZ BANK's positive business performance. It is also our thanks for the trust you have shown in our past difficult times.

I have outlined some of the successes that have flowed from the refocusing of the DZ BANK Group, and it is important to understand that this progress has been achieved in the face of increasingly intense competition in our domestic German market. This was one of the factors that motivated me when I assumed office to immediately address an issue of central importance for the future development of the cooperative financial services network: the merger of DZ BANK and WGZ BANK that will complete the decades-old process of consolidation at the level of the cooperative central banks. The breaking-off of negotiations that had been going so well by WGZ BANK is a matter for regret. The arguments in favour of a merger are as correct as they always have been: as well as the synergies that a combination would unlock for the benefit of the primary banks, the other main advantage would be to position the cooperative sector even more clearly as an Allfinanz provider and differentiate us from our competitors in the industry. This is why we, the Board of Managing Directors of DZ BANK, are convinced that the cooperative organisation must and will tackle this waste of potential at the central bank level if we are to increase our market effectiveness.

The DZ BANK Group will continue to focus first and foremost on helping the local cooperative banks – our owners and most important customers – to expand their competitive position in their immediate personal and business banking market. Our conviction boils down to a simple proposition: good products at reasonable prices. Our positioning could hardly be better, thanks to the DZ BANK Group's stable of powerful brands – think for example of Schwäbisch Hall, easyCredit or our new Akzent Invest brand for DZ BANK's certificates range. In order to tap

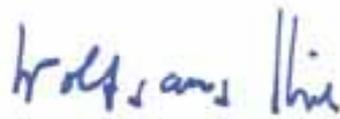
into additional growth opportunities for the cooperative financial services network and thereby generate future commission and dividend streams as well as cost advantages, the DZ BANK Group plans to strengthen its efforts to realise suitable growth potential outside our network business – both in Germany and abroad. All will benefit from deeper cooperation under the umbrella of our coordination model. Where a cooperative network company is already successfully established abroad, we will systematically investigate the suitability of its operations as a medium for distributing other network products. A good example of this strategy in action is the 25 percent equity stake we have taken in the Italian cooperative central bank Cassa Centrale Casse Rurali Trentine – BCC Nord Est. This transaction is another milestone in our strategy of partnering with cooperative central banks elsewhere in Europe. The Italian banks have already been cooperating successfully with Union Investment since 2000 as distributors of its funds; other products will soon follow this trail.

Other examples also confirm the growing international demand for the DZ BANK Group's advisory expertise as a "bank for banks" in the area of retail products: Bausparkasse Schwäbisch Hall has built big market shares in Slovakia and Czechia for instance, but also in Hungary and Romania. VR LEASING already generates more than one-third of its total new business outside Germany, mainly in Eastern Europe. This concept of transferring core competencies to the international sphere is also applicable to other business lines, especially when dealing with institutional customers where we can again profile ourselves internationally as a "bank for banks" and market our improved rating and exceptional German placing power as competitive advantages. We have also opened a merchant bank in 2006, namely DZ BANK International Singapore Ltd.. This new unit now ideally complements our established offering of services for the cooperative banking sector's wealthy and internationally-minded personal customers.

Last year has again shown beyond dispute that the pressure of competition is still increasing. We are well equipped to handle it, however. I have no doubt of that. After my first few months as Chief Executive Officer, I can tell you one thing: my respect

for the effectiveness of the cooperative organisation has only grown. It will help that our achievements are being increasingly recognised nationally and internationally. This was brought home to me in one case as we were celebrating the 30<sup>th</sup> anniversary of DZ BANK's New York branch. Marrying the international dimension and the local dimension is the cooperative network's great strength. If we all concentrate on our own strong points, we will master the challenges the market presents. The DZ BANK Group will make its contribution again in 2007 as the local cooperative banks' ever-reliable partner. You have my personal word on that.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Wolfgang Kirsch".

Wolfgang Kirsch  
Chief Executive Officer

# DZ BANK as “a bank for banks”: Financial services to meet every need

**The most important task of DZ BANK and its subsidiaries is to help the local cooperative banks to succeed in the marketplace. To facilitate this, the companies of the DZ BANK Group offer Germany’s local cooperative banks a comprehensive spectrum of products and services. The combination of the central services provided by the cooperative-sector-owned specialist companies with the local expertise of the cooperative banks is one of the network’s key success factors. The number one principle and priority – as ever – is to observe subsidiarity: the cooperative financial services network only provides those services centrally that cannot be provided locally or which it would be inefficient to provide locally.**

During 2006 the DZ BANK Group has once again continued to extend, tailor and refine its product and service offering in close consultation with the primary banks – focusing on the three fields of activity Allfinanz products, institutional and corporate products and processing services. Our motto “Achieving More Together” is now engraved on the heart of the DZ BANK Group and runs in the blood of the entire cooperative financial services network, since all now know that close cooperation and collaborative task-sharing are the key to success for all the partners in the process. The starting pistol has also been fired for a systematic process to continuously develop strategic priorities for the DZ BANK Group and its individual business lines. The aim is to develop the DZ BANK Group’s existing strengths in a focused manner for the benefit of its customers and shareholders. This means further expanding and securing the group’s strong position in Germany, but also systematically tapping into further international growth potential based on the strengths of its intra-network business.

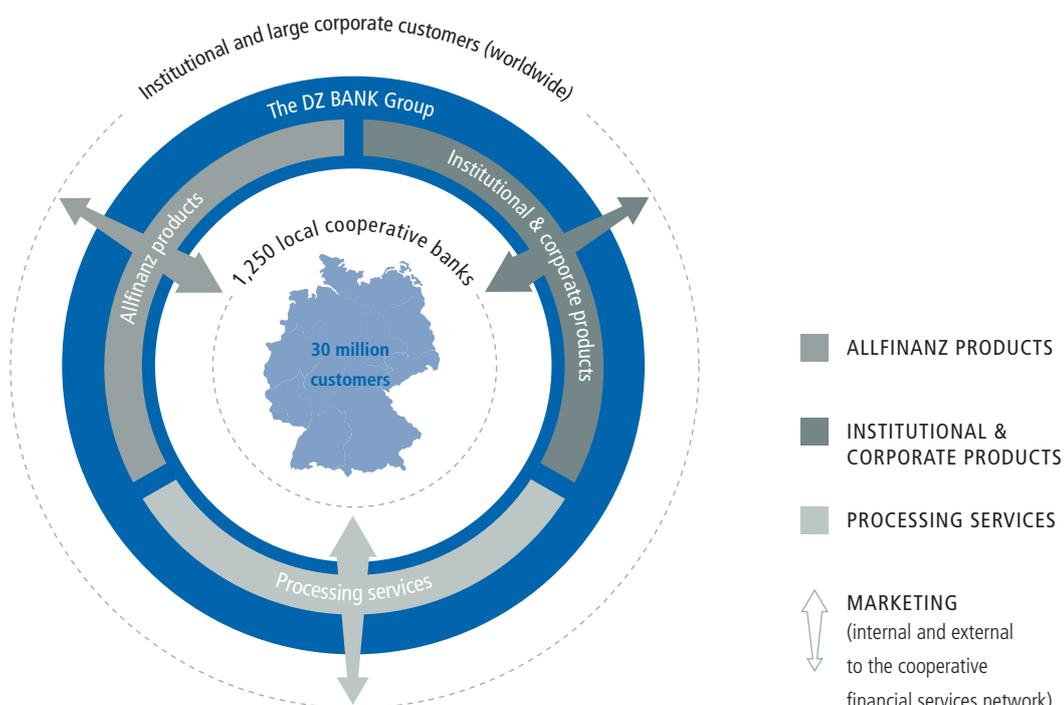
## **At the centre: Germany’s local cooperative banks**

The main focus of the DZ BANK Group’s various activities is to assist the local cooperative banks and the cooperative financial services network as a whole to be successful in the marketplace. This means firstly the local cooperative banks’ interface with their own personal customers and small and medium-size enterprise (SME) customers. The DZ BANK Group supports their presence in this market with a comprehensive assortment of attractive Allfinanz products with high recognition profiles and strong brand names, together with appropriate distribution strategies. The second priority area is assisting the local cooperative banks to manage their assets and liabilities balancing by using their central bank’s capital markets expertise: DZ BANK AG Deutsche

Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK), acts as its local bank partners’ “gateway to the national and international capital market”. The third key activity area is processing services – which can mean payments handling or securities, loans or cards administration. These services are subject to economies of scale. The strength of the DZ BANK Group and the benefits it brings to the local cooperative banks build on these three pillars: Allfinanz products, institutional and corporate products and processing services.

The DZ BANK Group’s offering is closely tailored to the needs of the local cooperative banks and their customers: both products and their marketing strategies are developed in the closest consultation with the primary banks. Their services spectrum also makes the companies of the DZ BANK Group attractive business partners for banks and institutional and corporate clients beyond the cooperative financial services network. The DZ BANK Group already generates a substantial proportion of its income from business partners outside the German cooperative financial services network. However, the DZ BANK Group only markets its Allfinanz offering beyond the cooperative network in Germany where this does not compete with the local cooperative banks’ own market positioning. This risk does not arise outside Germany, and one of the key roles the DZ BANK Group performs for the network as a whole is to identify and develop growth and earnings potentials outside of the cooperative financial services network – and specifically beyond Germany – for the benefit of all in the sector. This essentially means business with institutional customers, an area that has expanded substantially in 2006 – especially abroad. Substantial progress was also made last year in the area of direct business with large corporate customers – for instance, in structured finance.

## The DZ BANK Group: Spectrum of performances in "bank for banks" role



DZ BANK's international operations are backed up by numerous principal investments in other countries of Europe. Most importantly, during 2006 DZ BANK increased its equity interests in NATIXIS S.A., Paris, the investment bank jointly owned by the French cooperative and savings banks sectors, as well as Österreichische Volksbanken-AG, Vienna, (ÖVAG), and its East European network, in order to increase its exposure to these regions' growth potential. One long-standing relationship has been strengthened by taking a stake in the North Italian cooperative central bank Cassa Centrale Casse Rurali Trentine – BCC Nord Est, Trento/Italy.

The DZ BANK Group's extra-network activities benefit the local cooperative banks in many ways: firstly, centrally-provided services and products can be offered more cheaply to a wider customer base. Secondly, non-network customers suggest numerous product and process innovations whose advantages the local cooperative banks also enjoy. Additionally, the group's non-network business generates extra earnings that permit

bigger distributions to the DZ BANK Group's shareholders and help to further diversify the group's revenue streams. The DZ BANK Group's internationalisation strategy is both sensitive and flexible; it builds on the spectrum of services developed for the local cooperative banks and is therefore a logical extension of DZ BANK's successful domestic market positioning.

### The first pillar of DZ BANK's business model: Allfinanz products for personal and SME business customers

The cooperative financial services network is one of Germany's market-leading providers of many Allfinanz services such as retirement pensions, asset management, home savings and mortgage credit, insurance and consumer credit. This success is based on the network's structure of role-sharing, which is decades-old in some cases: their closeness to the market means the local cooperative banks know everything there is to know about their customers' needs and the local competition situation. They inject this knowledge into the network companies' product development process at a very early stage. The network's

specialist service providers meanwhile have built powerful brands in their respective business lines. These brands constitute a key success factor in the financial services market and – when combined with top product quality and good service – they promote customer loyalty and facilitate cross selling.

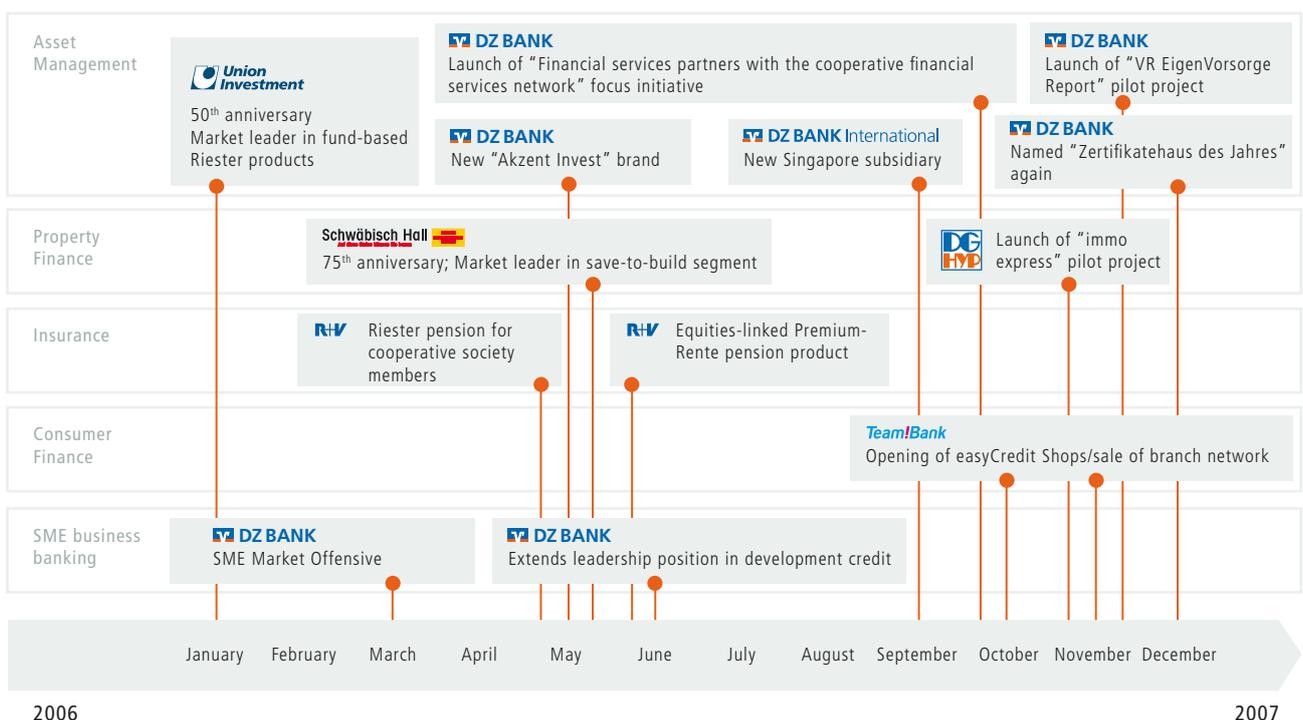
We can cite numerous examples: in the 75<sup>th</sup> year of its existence, Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, (BSH), has just expanded its share of the German market to over 28 per cent and seized the number one spot in the buildings societies ranking. This is due not least to the impressively high profile of its brand and the quality of its products. BSH has also achieved a strong market position in several Eastern European states. Union Asset Management Holding AG, Frankfurt am Main, (Union Asset Management Holding), which celebrated its 50<sup>th</sup> anniversary last year, is the cooperative financial services network’s centre of expertise in asset management and has played a decisive role in building the network’s strong competitive position in this business line. UMH is the market-leading distributor of funds-based Riester pension products. R+V Versicherung AG, Wiesbaden, (R+V), successfully markets tailor-made insurance solutions of every conceivable variety to

private individuals and businesses; important additions to its range during 2006 were a new Riester pension designed for members of local cooperative banks and an innovative equities-based annuity insurance product.

In the “certificates” business line, the launch of a dedicated white-label “AKZENT Invest” brand in May 2006 fired the starting pistol for an even more aggressive approach to this market. Every local cooperative bank now has the opportunity to exploit the high profile of the central AKZENT Invest brand and simultaneously increase direct customer loyalty: the title of the resulting investment product, now marketed by more than 1,100 local cooperative banks, includes both the bank name and the AKZENT Invest brand name.

The exceptional recognition factor of the cooperative “easy-Credit” brand is an important value driver in the consumer credit business. This was why the brand name was deliberately excluded from the transaction when the group sold the norisbank branch network in November 2006, and retained by the DZ BANK Group for subsequent assignment to TeamBank AG Nürnberg, Nuremberg, (TeamBank), the new name since January 2007.

**Allfinanz products: Selected milestone events during 2006**



More than € 60 million of the proceeds from this sale has been reserved to fund the local cooperative banks' own marketing initiatives in the consumer credit arena – an example of the especially close meshing of the cooperative financial services network's distribution activity. The roll-out of the new "easyCredit Shops" that began in October will also attract new customers to the cooperative financial services network as a whole; many more openings are planned during the current year.

A host of product innovations have allowed the winning combination of the DZ BANK Group and the local cooperative banks to acquire new customers and increase the loyalty of existing customers. Under the umbrella of the "Financial Services Partners with the Cooperative Financial Services Network" project for instance, attractive investment solutions have been developed for the deposit-taking business line that are successfully countering the competition from direct banks. Other significant examples include "VR-EigenVorsorgeReport" which helps advisers guide customers to the right pension products, and a card services product campaign that will be outlined in more detail later. A new retail offering is being trialled in the property finance business line with selected local cooperative banks under the working title "immo express".

During 2006 DZ BANK has also intensified its efforts to increase the local cooperative banks' market shares and profitability in business banking. The "Corporate Customers Marketing Campaign" has generated several successful initiatives to help new customer acquisition and improve the local cooperative banks' servicing of their existing small and mid-sized corporate customers base. These are systematically strengthening the network's market position in the syndicated, agribusiness and development credit fields as well as interest rate and exchange-rate management, and successfully realising cross-selling potential.

Within all this effort however, the customer relationship remains the sole responsibility of the local cooperative banks. DZ BANK's role is to support local cooperative banks' business banking operations – where necessary, acting jointly with other corporate customers specialists such as VR-LEASING AG, Eschborn, (VR-LEASING), DZ Equity Partner GmbH, Frankfurt am Main, (DZ Equity Partner), or R+V in the occupational pensions space. As a result of the network-wide "Corporate Customers Sales Campaign", sales personnel from the local cooperative banks'

business banking units have been systematically trained and equipped to prioritise their marketing of capital-market-related products and services. In the area of lending operations, radical initiatives were put in train back in 2005 to standardise rating procedures and administration processes and thereby create the necessary foundation for the speedy, but still thorough evaluation of credit risks. Through this effort, DZ BANK has also continued in 2006 to play a major role in raising the profile of the local cooperative banks as the natural partner of business.

In its role as a "bank for banks" DZ BANK also sees significant growth and cross-selling potential in retail personal and business banking at the European level. In October 2006 DZ BANK acquired an equity stake of 25 percent (plus one share) in the Italian cooperative central bank Cassa Centrale Casse Rurali Trentine – BCC Nord Est. The aim of this commitment is to extend the long-standing successful partnership with this wholesale bank's more than 100 affiliated local cooperative banks in North-East Italy (which has focused primarily on the distribution of fund products) initially to consumer finance and business banking. This strategic cooperation will further expand the sales of the DZ BANK Group companies' retail products in an economically attractive region of Europe and simultaneously strengthen the market position of Cassa Centrale Casse Rurali Trentine – BCC Nord Est and its affiliated local cooperative banks. The provision of support services to the cooperative banking group's internationally active wealthy private customers has also been improved by the establishment of a merchant banking unit in Singapore in Autumn 2006 as a joint venture between DZ BANK International S.A., Luxembourg-Strassen, (DZI), and DZ PRIVAT-BANK (Schweiz) AG, Zurich, (DZ Privatbank Schweiz).

### **The second pillar of DZ BANK's business model: Institutional and corporate products**

DZ BANK is the local cooperative banks' gateway to the capital markets and the network's centre of expertise for a wide range of capital market services such as (intra-network) asset securitisations and derivatives operations. The exceptional quality of DZ BANK's performance was again confirmed by the award of numerous prizes and distinctions during 2006, in particular the second place the bank won in the derivatives ranking compiled by "Deutsches Risk" magazine, when DZ BANK prevailed over numerous German and international rivals.

DZ BANK assists the local cooperative banks to issue their own individually featured structured bearer bonds, and the aggregate volume of these issues increased significantly in 2006. It was again appointed to co-lead-manage major bond issues that it was able to place successfully, including on occasions through syndicates of other European cooperative central banks. In an environment of low interest rates and a flat yield curve, DZ BANK concentrated its efforts on the one hand on developing innovative investment products (such as rate-spread or rate-corridor bonds) aimed at retail and own-account investors, and on the other hand on offering securitised and structured investment instruments aimed at the corporate clientele. DZ BANK has further expanded its "VR Cross-Selling" branded business model that gives corporate customers easier access to interest-rate and exchange-rate risk management products most importantly.

DZ BANK also assists the local cooperative banks in diversifying their credit risk. VR-Circle is a platform that makes it possible for them – however large or small the bank – to transfer credit risks without affecting their immediate relationship with their borrower customers. After the success of the third deal issued in November 2006, there is every prospect that the volume securitised via VR-Circle will rise again in 2007.

One of the foundations on which DZ BANK's success in capital investment products is built, is exceptional securities research, and independent institutions have recognised this excellence through repeated distinctions again in 2006. The research and capital markets expertise and the structuring know-how that DZ BANK makes available to the local cooperative banks is also eagerly sought after by non-network customers. They are also attracted by the (unique in Germany) placing power of DZ BANK and the German local cooperative banks as well as DZ BANK's specific issuing rights. This constellation offers the DZ BANK Group interesting growth opportunities in servicing institutional and corporate customers. As a result, DZ BANK was able to maintain its leadership position in the placing of pfandbriefe and "European covered bonds" again in 2006. In Singapore, DZ BANK was awarded the "Deal Award 2006" prize.

To ensure its ability to provide the range of services required by the local cooperative banks and its institutional clients, DZ BANK maintains bases in all the major capital markets. To build on its many years of close business relations with partners in Turkey, and especially in the areas of structured finance and capital markets operations, DZ BANK opened a new representative office in Istanbul in May 2006. DZ BANK's annual Emerging

**Institutional and corporate products: Selected milestone events during 2006**



Markets Conference, held in Moscow in April 2006, is an important stimulus for DZ BANK's bond-related business in these markets.

**The third pillar of DZ BANK's business model: Processing services**

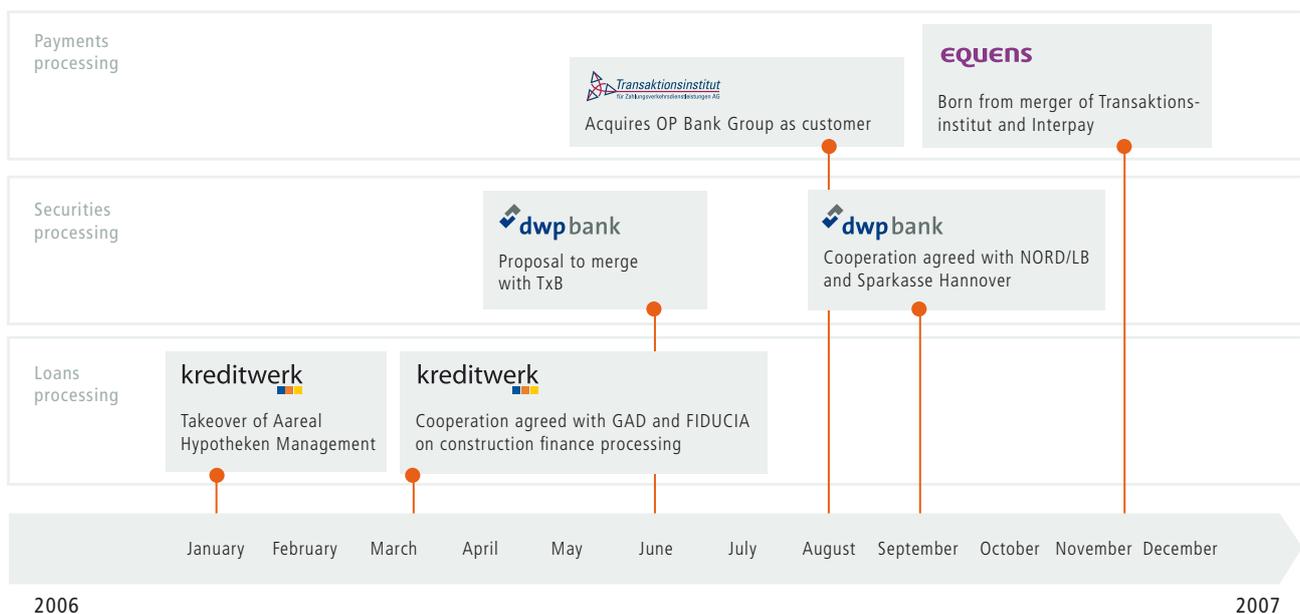
The DZ BANK Group's objective in transaction banking is also to offer the local cooperative banks high-quality services at advantageous conditions. As bulk processing permits substantial unit cost degression through the application of technology, the DZ BANK Group was an early mover in opening up its processing platforms to customers from outside the cooperative financial services network, and has thereby been able to generate further economies of scale for the local cooperative banks.

The cooperative financial services network's high share of the domestic market provides DZ BANK with a good starting position that it has systematically and successfully expanded in recent years. The DZ BANK Group is the German market leader in financial services processing, and has now assumed the role of active consolidator at the European level as well as in some areas of the transaction banking market. This course has been resolutely maintained during 2006.

Transaktionsinstitut für Zahlungsverkehrsleistungen AG, Frankfurt am Main, (Transaktionsinstitut), which was born in 2003 from a division of DZ BANK, was merged in September 2006 with the Dutch payment services provider Equens Nederland B.V. (formerly Interpay Nederland B.V.), Utrecht, under the umbrella of a joint holding company Equens N.V., Utrecht, to create the first pan-European payments processor. The new entity provides payment handling services in Germany, the Netherlands and Belgium. It is also provisionally scheduled to take over the international payments traffic of Finland's OP Bank Group, Helsinki, from the second quarter of 2007. Equens is one of the European market leaders. Its offer to handle bulk payments processing in Germany and within the Single Euro Payments Area (SEPA) is open to other banks.

Deutsche WertpapierService Bank AG, Frankfurt am Main, (dwpbank), a joint venture with Germany's savings banks sector, also expanded its client base in October 2006, firstly by taking on mandates from savings banks in North Germany, secondly by signing an agreement in principle to cooperate with TxB transactionsbank GmbH, München. VR Kreditwerk Hamburg - Schwäbisch Hall AG, Hamburg and Schwäbisch Hall, (VR Kreditwerk), which as Germany's biggest loans processing "factory"

**Processing services: Selected milestone events during 2006**



has already realised cost benefits for the group's building society and mortgage banking operations, has also increased its appeal to customers from beyond the cooperative sector by taking over the former Aareal Hypotheken Management GmbH, Mannheim, in January 2006. Further efficiency gains on the home loans processing front are also promised by the signing of a cooperation agreement with the cooperative computing centres in March 2006. With effect from the start of 2007, Kreditwerk has also taken over the processing of the cooperative financial services network's development credit business from DZ BANK.

#### **Local dialogue and inter-line coordination**

The foundation of all DZ BANK's business and strategic thinking is its commitment to strict subsidiarity, in other words it is determined to operate in its central-institution role in a way that respects and supports the primary banks' market presence and to cultivate an intensive and permanent exchange of views with the local cooperative banks. Banking Advisory Councils covering the Baden-Württemberg, Bavaria, Central and North-East Germany regions provide an opportunity for 40 board members from the local cooperative banks in each area to provide advice and act as communications multipliers. Our 2006 Autumn conferences, along with other events and most importantly the numerous bilateral meetings with boards of managing directors, have again provided important opportunities to generate ideas for improving the DZ BANK Group's products and services offering and for increasing the market effectiveness of the cooperative financial services network.

The operational direction of the DZ BANK Group across business lines is the task of the Group Coordination Circle (see graphic on next page). Its membership comprises the entire Board of Managing Directors of DZ BANK, plus the Chairmen of the Board of Managing Directors of R+V, Union Asset Management Holding, Bausparkasse Schwäbisch Hall, Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, (DG HYP), TeamBank and VR-LEASING. Their collaboration promotes integrated management and efficient processes across the DZ BANK Group.

A member of the Board of Managing Directors from the DZ BANK Group heads up each of the group's seven business lines in the

capacity of business line coordinator. Each coordinator is supported in turn by a local bank advisory council consisting of five or six local cooperative bank board members. Focus initiatives are defined and implemented in close consultation with these specialist advisory councils that are intended to strengthen the cooperative network's market position. In addition to the previously mentioned initiatives aimed at the local cooperative banks' retail customers – "Financial services partners with the cooperative financial services network" and "Growing the retail property finance volumes" – 2006 has also brought good progress on the other initiatives launched during 2005, such as the "Building on corporate customers business in the cooperative financial services network" initiative. The portfolio of group-wide focus initiatives was extended in 2006 with the addition of a new theme – "Capital Management/Securitisation".

In addition to the business-line-specific committees, five cross-segment working groups are also in place that focus on

- International Coordination,
- Product and Sales Coordination,
- IT, Operations and Resources,
- Risk Management, and
- Corporate and Group Management.

They have continued to provide effective help to the Group Coordination Circle in implementing operating and strategic improvements across the DZ BANK Group in 2006.

#### **"The better our network, the better our rating"**

During 2006 DZ BANK successfully placed a rights issue that raised € 455 million of fresh capital. This capital increase is a significant demonstration of the solidarity and cohesion of the cooperative financial services network. It has significantly strengthened DZ BANK's capitalisation, whose structural quality previously left something to be desired compared with sector peers. As at the end of 2006, the DZ BANK Group's core capital ratio stood at 8.6 percent on the Bank for International Settlements, Basel, (BIS), definition.

The progress made during the 2006 year under report was recognised by another rating upgrade from the Standard & Poor's

**Internal coordination in the DZ BANK Group**

BUSINESS SEGMENTS

Bank	Retail	Property Finance	Insurance
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BUSINESS LINES

Corporate Banking	Investment Banking	Process Management	Asset Management	Retail & Private Banking	Property Finance	Insurance	WORKING GROUPS
●	●	●	●	●	●	●	● 1. International Coordination
●	●	●	●	●	●	●	● 2. Product and Sales Coordination
●	●	●	●	●	●	●	● 3. IT, Operations and Resources
●	●	●	●	●	●	●	● 4. Risk Management
●	●	●	●	●	●	●	● 5. Corporate and Group Management

GROUP COORDINATION CIRCLE

Business line coordinators: board members of



LOCAL BANK ADVISORY COUNCILS



(S&P) agency: having raised the outlook for its long-term rating of DZ BANK from "stable" to "positive" in August 2006, S&P followed up in December 2006 by announcing a one-notch upgrade of the long-term ratings to the present "A+" – the second uplift in just 18 months. This rating level leaves DZ BANK and the cooperative financial services network in a leadership position in Germany, and at the high end of the middle range compared with other European financial institutions.

This relatively positive rating is a reflection of the exceptional cohesion of the German cooperative financial services network. It rests essentially on the financial strength of the cooperative financial services network and the DZ BANK Group, the network's broad Allfinanz offering and its powerful market position in the domestic retail segment. S&P's analysts also acknowledged that both the DZ BANK Group and the cooperative financial services network have continuously reduced the risk component of their

credit operations over recent years and are now satisfactorily capitalised (not least thanks to the capital increase).

In the wake of the latest upgrade of DZ BANK by Standard & Poor's, other group companies have also seen their ratings improve to "A+", most significantly DZI, DZ BANK Ireland plc., Dublin, (DZ BANK Ireland), BSH and DG HYP. The long-term ratings of DVB Bank AG, Frankfurt am Main, (DVB), and VR-LEASING have also gone up by one notch to "A".



**Growth** is our goal, growth that is clearly focused on systematically expanding our strong market position – nationally and internationally. We know our core competencies and we have faith in the three pillars of our business model.

Our efforts are directed primarily at strengthening the co-operative financial services network; **partnership** is our fundamental ideal and an integral part of our identity, the way we deliver on the principle of **subsidiarity**. Our **success** is based on **performance, energy** and **innovation** – values that are also associated with the exceptional people featured in our picture gallery on the following pages.

# Subsidiarity as the guiding principle

As a central institution we are not in the front line. Our principal task is to support the local cooperative banks as they interface with the market.

Our innovative products and needs-responsive solutions are intended to unlock new growth and earnings potential for our shareholders, the self-same local cooperative banks. That is what we understand by subsidiarity.

## More than just hot air

After two previous failed attempts, in 1999 Bertrand Piccard and his partner Brian Jones became the first people to fly around the world non-stop in a hot air balloon. At the first glance a mad-cap gamble by two fearless adventurers, but on the second look an extraordinary team achievement. As Piccard emphasises, without the "fantastic performance" of the ground crew in Geneva that manoeuvred the balloon safely around prohibited areas and found the right jet-streams, the project would certainly have failed.

Bertrand Piccard is happy to share his experiences with audiences around the world – including incidentally at DZ BANK.



# Innovative paths

Innovative people are always looking for improvements. We get most of our inspiration to develop and progress from inside our own strong cooperative financial services network. Our great network of specialists has its finger very much on the pulse of the times. With access to approximately 30 million customers in Germany, the DZ BANK Group can rapidly get its innovative financial services products to "where they count".



## Always following the sun

Behind the name Nuon Solar Team are eleven students from different faculties of the Technical University of Delft in Holland. They bring their different skills and know-how together to design and build solar-powered race cars and they do it very successfully. The budding engineers have just won the World Solar Challenge for the third time in a row. This project aims not only to regularly remind the wider public of the practical potential of sustainable energy sources, but also to let people experience how injecting their strengths into a team can actually develop them.



## Performance points

The DZ BANK Group draws its effectiveness from the wide range of specialists under its umbrella. These specialist service providers ensure that our products in their particular area of expertise are both competitive and of the highest quality. The combination of a wide range of powerful high-recognition brands with expertise and strong market shares is our products' passport to market leadership. This ability to deliver is also going to be more evident on the international stage in the future.



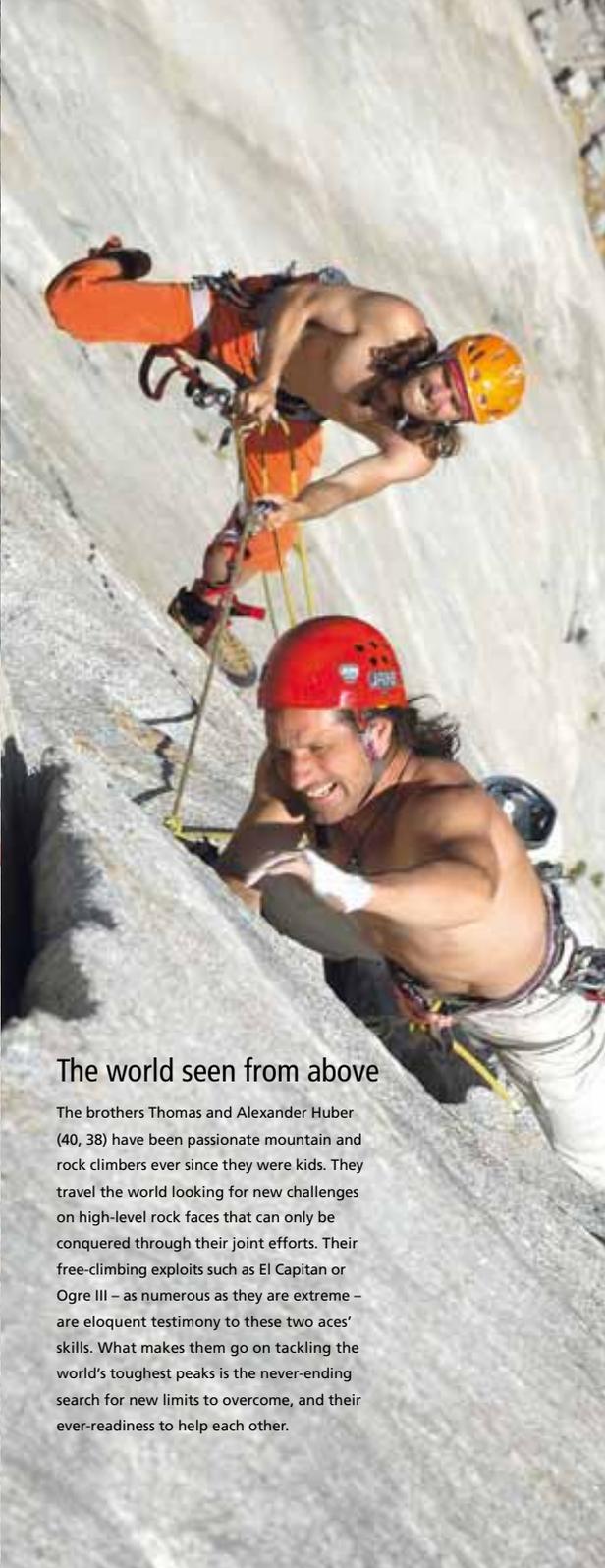
### To the ends of the Earth

The Norwegian Cecilie Skog (32) is the first woman to have conquered the "seven summits" – the highest mountains on all the continents – as well as reach both Poles on foot. Her tremendous willpower and stamina have enabled her to win not only the inevitable battles with the forces of Nature, but also with herself. "You just have to know with absolute certainty that you are going to get there" – is the surprisingly simple formula for success of this former nurse, who now lives solely for her vocation.



## Achieving more together

Partnership is part of our identity and the driving force behind the entire cooperative financial services network. Through our wide spectrum of products and services, DZ BANK contributes its share to the success of all. We intend to take this partnership approach cross-border in future and together with the local cooperative banks, move up to the European market level.



### The world seen from above

The brothers Thomas and Alexander Huber (40, 38) have been passionate mountain and rock climbers ever since they were kids. They travel the world looking for new challenges on high-level rock faces that can only be conquered through their joint efforts. Their free-climbing exploits such as El Capitan or Ogre III – as numerous as they are extreme – are eloquent testimony to these two aces' skills. What makes them go on tackling the world's toughest peaks is the never-ending search for new limits to overcome, and their ever-readiness to help each other.



## Beyond limits

Hubert Schwarz is the pioneer of extreme sports and acknowledged as the world's toughest cyclist. 80 days around the world by bike – Hubert Schwarz has already experienced this adventure twice. His incredible stamina and inner strength have brought him unparalleled success – at an age when top sportsmen are normally hanging up their boots. Every achievement has its own story to tell, and the 52-year-old is happy to share them with audiences.

## Successful in the past – and in the future

We are already a leading Allfinanz group. The companies of the DZ BANK Group are the cornerstones of our Allfinanz offering. The combination of banking, insurance and asset management services has a long and successful tradition in the cooperative financial services network. Our more than 1,000 local cooperative bank partners and their 12,000 branches derive sustained benefit from cooperating with the DZ BANK Group, while the DZ BANK Group in its turn enjoys solid revenue growth.





## Washed by all seven seas

66-year-old Wilfried Erdmann is the only German to have sailed around the world non-stop and single-handed from East to West – in other words, against the prevailing winds. All his life he has displayed enormous determination and energy that have brought him safely through endless adventures. “The wind gives you a clear head”, says this extreme sports fan, who cycled on his own from Germany to India at the age of 18 and who has circumnavigated the globe several times with his wife by the Southern Ocean route.



## Energy is a motive force

The cooperative financial services network is our decisive competitive advantage. Our decentralised organisation means we are close to our customer base and able to respond immediately to changes in the market. Together with our partners, we promote enterprise and self-reliance. And we combine our traditional values with flexibility and responsiveness at the national and international market level.

Learning from each other.  
Growing together.

# Bank business segment: Cooperation as a competitive factor

Through high-quality and innovative products – at reasonable prices – extending from retirement pensions to certificates, the DZ BANK Group plays to the strength of the local cooperative banks' distribution power. Another critical success factor in this Allfinanz business model is the intensive coordination between DZ BANK and the companies of the DZ BANK Group.

## DZ BANK

### DZ BANK



- Providing Allfinanz products and services to the cooperative financial services network
- Strengthening the local cooperative banks' distribution power
- High-quality innovative products

#### Securities-related products and services for retail customers

DZ BANK's offering of needs-driven products and services for the local cooperative banks extends from direct investment to structured products. This breadth enables the portfolio to respond to differing customer preferences and market situations in the retail securities segment. Pursuing its integrated platforms strategy, DZ BANK also makes systems and tools to support securities-related operations and even advisor workstations available to the primary banks. DZ BANK works to cultivate the proven partnership approach in this area of the retail banking market by investing long-term in joint marketing in order to expand the cooperative financial services network's market position despite increasing competitive pressure.

#### Structured products

Business volumes have been impacted both by changes in investor behaviour and by the change in the focus of the local cooperative banks' sales effort this year. As a result, placements of structured retail securities products have not matched the

recent years' records, with total sales falling just short of € 5 billion. Certificates sales were especially affected.

Products falling into risk classes III and IV were particularly good sellers, with MaxiRend and Bonus TRACKER setting the pace with sales adding up to more than € 600 million. The products of the MaxiRend family rewarded investors with average returns of over 10 percent. The returns on most capital-protected certificates were also extremely attractive. The PlusZins family of products for instance paid out an average coupon of 4.4 percent, while the products of the VarioZins family paid an average coupon of no less than 6.1 percent.

The rise in interest rates over the course of the year caused customers to tend to prefer single and multi-callable bonds and simple structured products that generated lower commissions. The imminent introduction of withholding tax on investment income also caused investors to focus more on tax-oriented products. Sales of DZ BANK's low-interest bonds almost tripled year-on-year to € 1 billion. Investors put well over € 20 million into the newly-launched "DZ BANK COBOLD Plus" bonds in order to make use of the advantages of a product that combines a high-return credit structure with tax-optimised features.

Last year saw the local cooperative banks concentrating their sales efforts more on deposit products and own-label bearer bonds. This combined with the positive trend of the capital markets had a major influence on asset allocation. The result was a pronounced shift in investment volumes away from commission-generating products to on-balance-sheet products. The net change in the outstanding stock of own bearer bonds during 2006 amounted to over € 3 billion compared with € 0.4 billion in 2005. A considerable proportion of the own bearer bonds issued by the local cooperative banks with the assistance of DZ BANK are now individually designed and

structured. Their aggregate sales of € 1.7 billion shows they were able to effectively counter the aggressive advertising of national competitors promising equal or better yields.

#### **“Financial services partners with the cooperative financial services network” quality campaign**

DZ BANK is one of the biggest players in the growing market for derivative securities and certificates and demands of itself the highest standards of quality and transparency. The quality strategy that DZ BANK has assiduously pursued in the last several years has also been validated by awards of numerous national and international prizes and distinctions. The business magazine “Focus Money” awarded DZ BANK – representing the cooperative financial services network as a whole – its 2006 Certificates Prize for the “Garantiezerifikate” category. DZ BANK also won first place again in 2006 – for the fourth year in a row – in the public poll for the title of “Certificates House of the Year” organised by “Zertifikate-Journal” and “Welt am Sonntag”. DZ BANK was also ranked third in the category “Best Issuer of Capital-Protected Certificates in 2006”. The expert jury said its decision reflected both the high quality and the easy-to-understand nature of DZ BANK’s extensive product range. It said that DZ BANK – and by extension the cooperative financial services network – deserves great credit for helping to bring certificates so successfully to the retail market.

After a follow-up audit in Autumn 2006, TÜV SÜD confirmed its ISO 9001 certification of DZ BANK’s quality management system for the certificates and structured investment products develop-

ment process. The report again certifies that DZ BANK operates a smoothly functioning, effective and high-grade management system. During 2006 DZ BANK also conducted a customer satisfaction survey as part of its ongoing quality assurance strategy. This confirmed the success of its integrated product development model: the local cooperative banks gave DZ BANK good to excellent scores across the board for its product spectrum, quality and sales support.

#### **Certified product development process**



- ISO 9001 quality management system
- DZ BANK the first German bank to be TÜV-certified

However, quality also has to be a tangible experience for the private investor. In a market where it is becoming increasingly impossible to maintain an overview (there are more than 60,000 investment certificates to choose from), private investors need both transparency and a guiding hand. This is why DZ BANK has become the first issuer in Germany to create a dedicated brand for certificate and structured bond products – AKZENT Invest. AKZENT Invest stands for quality-assured, high-return and high-quality structured investment products. The new brand fits

#### **Prizes and distinctions awarded to DZ BANK**



- Certificates Prize 2006: 1<sup>st</sup> place for guaranteed certificates
- Readers poll: “Certificates House of the Year 2006”

perfectly into the cooperative financial services network's brands strategy. Since its launch, no less than 96 percent of all the local cooperative banks that have made private-label issues have chosen to go with the AKZENT Invest brand.

During 2006 DZ BANK's development process brought more than 35 products and product variants to the stage of market readiness. Not only have the bank's staff conceived completely original complex payout profiles, in many cases they have also extended established product families by adding modules that are an even better response to the current market situation. During the soccer World Cup for instance, DZ BANK issued its first certificates whose yield is not linked exclusively to the bond market.

#### **Market servicing strategies boost distribution power**

2006 has again seen DZ BANK develop numerous activities designed to help the local cooperative banks to serve and develop their markets. A good example is the bank's comprehensive concepts for modular sales campaign management. To summarise its offering in a nutshell, DZ BANK offers support services that extend from customer identification to customer contact – typical areas at interest could be likely defection candidates or customers that display a strong affinity for certificates.

#### **VR-VorsorgeStatus**

The launch of VR-VorsorgeStatus in 2007 will enable the cooperative financial services network to offer every individual customer an automated consolidated report identifying their total wealth and pension position; this will extend the network's leadership of the Allfinanz market at a stroke. At the press of a button, customer advisors will be able to call up all the customer's network-related data in the areas of property finance, asset management and insurance to permit a fully-integrated advisory process. By filling in non-network exposures and investments during face-to-face interviews, it will be possible to identify any gaps in the customer's provision and any needs for further services. This network-wide project, which has been conceived and realised under the leadership of the DZ BANK Group in consultation with the network's regional associations and computing centres, was initiated and supported by the Product and Sales Coordination working group.

#### **Creating value for local cooperative banks**

The products and services of DZ BANK have added € 228 million in income to the local cooperative banks' retail securities business. This means that their income has doubled since 2003 after allowing for the costs of research, processing and information services. The bank's new pricing model has also helped through price cuts. Transaction volumes (up in 2006) figure prominently in the progressive price tariff. As a result, the price per transaction for commission-generating stock exchange operations has fallen again significantly (by an average of 5 percent) during the 2005/2006 billing period.

#### **Complementary market servicing by Union Investment and DZ BANK**

One of the critical success factors in the local cooperative banks' personal banking business is the holistic view they can take of the customer's needs. Union Investment and DZ BANK support the primary banks' high-profile marketing of funds and certificates in the area of structured investment advice. This support takes the form of coordinating the issuance calendar, holding joint planning workshops and jointly paying BestPlan bonuses. The two product groups are also carefully differentiated in terms of active and passive management styles. This complementary approach to marketing support in the area of funds and certificates is unique in the German financial services market. DZ BANK and Union Investment have also conducted a joint initiative entitled "Growth Prospects in Securities-Related Business". As a result, the number of joint planning workshops held has had to be increased again to over 400. This concept has also been extended to take in the Growth Benchmark developed by the Bavarian regional association.

#### **Sales platforms**

DZ BANK's GENO-Broker IT application was in use at around 86 percent of the local cooperative banks at the end of 2006. Its exceptionally user-friendly interface has enabled GENO-Broker to establish itself as the number one order entry platform for securities business.

The launch of GENO-X by DZ BANK in 2006 brought into being the new cooperative marketplace for over-the-counter securities-related transactions. Local cooperative banks and their customers now have the benefit of binding tradable quotations together with rapid and low-cost order execution. This coopera-

tive marketplace can be used to trade more than just all of DZ BANK's products. GENO-X also offers opportunities to deal in fixed-income products, certificates and warrants (funds will be added in future) by way of a high-quality, demand-driven and diverse selection of network and external securities products.

### MiFID Project

The EU's "Markets in Financial Instruments Directive" (MiFID) is intended to ensure greater transparency in the investment advisory process. The Federal Association of German Cooperative Banks (BVR) and DZ BANK, together with the cooperative sector's computing centres and regional associations, stand ready to provide the local cooperative banks with comprehensive support on this issue. The first set of information on the new rules and recommended implementation procedures will go out to local cooperative banks in a Newsletter.

### Customer diversity

In order to also make DZ BANK's comprehensive and extremely competitive range of securities-related products and services transparent to other financial institutions in Germany and abroad, the bank has defined needs-centric services packages during 2006. These packages add up to an all-round support strategy for retail and institutional securities-related operations. They have already enabled DZ BANK to establish itself as a central securities services provider with ten new customers during 2006 and to sign up two private banks for its advisory platform. DZ BANK has also placed Hungary's first-ever certificate aimed at the retail customers market.

DZ BANK has also continued to extend its joint initiatives with stock exchanges aimed at developing new investor circles for its issues. The Frankfurt and Berlin stock exchanges have commenced trading in DZ BANK's foreign currency bonds for the first time, and the Munich stock exchange has started dealing in DZ BANK structured products and low-interest DZ BANK bonds. The turnover in DZ BANK products at the Stuttgart and Düsseldorf exchanges confirms there is significant demand for DZ BANK issues that extends beyond the cooperative financial services network.

### Equity products for institutionals and corporates

DZ BANK is well established in the fiercely competitive market of servicing institutional clients' equities, commodities and

derivatives operations. The bank's fifth place in the "Greenwich Associates Competitive Report 2005" in the "German Share Penetration" category is confirmation of DZ BANK's excellent competitive position. The high quality of DZ BANK's product development was confirmed – including specifically in relation to the institutional side – by the follow-up audit for Lloyd's certification of the product development quality management system in November 2006.

Profiling itself as a "local broker" with a research focus on German stocks has again allowed the bank to increase the number of company and analysts roadshows organised to just under 100. The companies, which are spread almost equally over the DAX, MDAX, SDAX and TecDAX indices, presented themselves to DZ BANK's customers in Germany and abroad. During 2006 DZ BANK lead-managed the IPOs of Digital Identification Solutions, GAGFAH and Crop Energies and helped to successfully place the Evotec and Morphosys rights issues. DZ BANK also successfully expanded its equities and derivatives-related activities in Austria.

### Product development process also LRQA-certified



- A first for the German banking market
- Eight quality-control loops in overall process

## Capital Markets Activity

Market conditions were tough in the fixed-income capital market services business in 2006. Despite this, DZ BANK was able to further strengthen its good market positions in traditional bond products, derivatives and innovative bond structures. Revenue growth was positive in nearly all the bank's product and customer groups. One of the main emphases of last year's activity was the provision of high-quality customer advice. This was reflected not least in the very good scores DZ BANK achieved in the customer surveys conducted by market research organisations.

DZ BANK again demonstrated the outstanding position it has established in the derivatives segment. The bank maintained its second-place ranking in the "Risk Magazine" customer poll against both the domestic competition and the big international investment banks.

### Network business

The rise in interest rates and the virtually complete flattening of the yield curve presented the local cooperative banks with major management challenges during the year under report. As a result the main focus of DZ BANK's network business was its unique advisory concept that combines sales and consulting on the primary banks' proprietary trading.

A total of 1,445 on-site consultancy exercises took place during 2006, of which 755 were bank-wide and 54 related to just the credit portfolio. As a consequence, turnover in derivative hedging instruments has expanded substantially while the local cooperative banks' demand for funding loans has remained at a high level.

Alternative revenue sources have remained a focus for the primary banks as they sought to maintain their income streams. This has led DZ BANK to develop a new consultancy offering to assist strategic asset allocation at the whole-bank level. This takes account of all open strategic interest positions and all fund investments. This provides the basis for the local cooperative banks to analyse their assets structure and optimise their expected performance at the same aggregate level of risk by exploiting diversification effects between different classes of investment. These analyses have already been performed for 153 banks.

The launch of "VR Circle 2006-1", the third deal which on this occasion securitised corporate credit risks, was also a success. A total of 33 local cooperative banks contributed unsecured loans with a combined volume of € 65.7 million to the transaction.

This equates to the hedging of € 225 million of loans. 45 percent of these banks had already participated in one of the two previous transactions and now utilise this risk transfer route on a regular basis to actively manage their lending portfolios. This gives them more room within their limits to take on new business from attractive credit customers. The immediate

customer relationship between the individual cooperative bank and its corporate customer is completely unaffected as the risk transfer is synthetic.

### Capital market products for institutional and corporate customers

The systematic and focused expansion of the DZ BANK Group's business with institutional clients, including selectively outside Germany, has further broadened the customer base. Amongst other advances, the successful "bank for banks" support concept has been extended to the insurance operations during 2006. The group's "liability driven investment" (LDI) advisory approach now enables them for the first time to implement a liabilities-driven and performance-oriented investment strategy. This is a way for the insurers to use tailor-made financial investments to both improve their sales performance in an increasingly tough competitive situation and their capital management in the light of Solvency II.

Standard business with large customers has migrated to electronic trading platforms at an even faster pace. This has not prevented the operating units from achieving their ambitious revenue targets, however. Successes on the new customer acquisitions front and the prioritisation of sales of tailor-made interest-rate and exchange-rate management products have delivered new volume records. Sales of securitised and structured investment instruments in the corporate customers segment have increased encouragingly and also contributed significantly to this overall success.

The local cooperative banks' corporate customers have enjoyed access to sophisticated fixed-income products to support their interest-rate and exchange-rate management processes (via DZ BANK) since back in 2003. The "VR Cross-Selling" business model developed by the bank specifically to promote this activity was enhanced in March 2006 with the addition of a further variant. This new service involves DZ BANK taking over the entire market and default risk of the customers introduced by the local cooperative banks within the range of ratings defined by the bank's credit risk strategy. The number of banks participating in this scheme has risen to over 200 during 2006 compared with 153 in 2005. Increased placements of interest-rate structures have boosted the commissions paid to the participating banks by 175 percent year-on-year.

The dominant feature of the structured interest and credit products segment last year was the tough framework conditions governing the market. The flat yield curve combined with tight credit spreads to make institutional and private customers distinctly more reticent to invest. Even so, the placed volume of more than € 12 billion was another substantial contribution to this business line's overall performance.

### **Bond operations**

In the new bonds issuance services market, DZ BANK was able to further raise its profile as an internationally-capable bonds house supporting financial issuers. What most interests issuers is the Germany-wide broad access to all the relevant investor groups that DZ BANK is able to offer through its partnership with the local cooperative banks. The bank was able to win "first-time" benchmark mandates from issuers based in a wide range of different countries in 2006, such as the USA, England, Norway and France.

Although the markets were less volatile than in recent years, the foreign exchange dealing operations were able to maintain their positive trend. This was attributable to the systematic expansion of their product range, most importantly in the area of structured hedging instruments, together with competitive pricing.

### **Foreign exchange business**

2006 saw the majority of Germany's local cooperative banks gain new access to an electronic forex trading platform. Its outstanding transparency and user-friendliness coupled with attractive pricing resulted in a strong uptake of this new business model.

### **Short-term funding**

The group's short-term funding procedures have been refined. The improvement of different markets in terms of their regional and product diversity has assisted the continuous improvement of this funding activity.

### **Tier 1 issues**

The group's Tier 1 issuance is a rational complement to core capital. The issues are distributed primarily through the local cooperative banks, who see these issues as a welcome addition to their retail securities product offering.

## **Research and Economics**

DZ BANK's research offering to the local cooperative banks takes the form of a three-tiered system of subscription packages ("Hausmeinung") that support target-group-specific advice provision. Customer satisfaction studies were undertaken last year that provided the basis for optimising this structure and making the offering even more attractive by adding new research content and new user options. The division is currently introducing a new research production system that will cover both production and distribution, make these processes more efficient and provide a future-proof solution as standards become more demanding. The areas affected will include, for instance, documentation, archiving and process security.

### **Customer loyalty promotion events**

Supporting the local cooperative banks as they do their business was once again the objective of the customer events organised by the Research division in 2006 to take its expertise out into the world. Another aim is to strengthen customer ties. During 2006 these activities ranged from the many presentations to customers or members by individual Research staff through to the major national event – the "Investment Dialogue" held for the tenth time in Frankfurt in 2006.

### **Expanded Research & Economics offering**

The Research & Economics division has extended its expertise in the areas of commodities, ABS and structured credits; the new products it has developed stimulated a high level of market interest. Adding this to the division's substantially expanded credits analysis, broad-ranging equities research and macroeconomic and bond market studies, DZ BANK now has one of the most comprehensive research offerings in the peer group.

### **Equities research won a host of prizes in 2006**

The equities research team's stock recommendations and earnings estimates won DZ BANK the title of "Best Investment House for German Shares" in the sector study by the US research firm Starmine. DZ BANK figured amongst the top 10 brokerages in 7 out of 8 categories.

In the study compiled by the British publisher AQ, DZ BANK took the number one spot (for the third year in succession) for

“Best recommendations on German Shares” and also topped the rankings for European small and mid-caps. The study by the Swiss analysts association ISfA shows DZ BANK top of the table in all categories in earnings estimates for German stocks.

These quality awards and distinctions once again confirm the leadership position of DZ BANK’s equity researchers in the face of both national and international competition. For several years now, DZ BANK has consistently ranked very highly in multiple categories in the studies conducted by these three agencies Starmine, AQ and ISfA.

### Strategic alliance

As part of its strategic alliance with DZ BANK, Natexis-Bleichroeder, the brokerage arm of Natexis Banques Populaires, has relied exclusively on DZ BANK’s research on German stocks in servicing its institutional clients in the USA, England and France since January 2004. This partnership has also made encouraging progress during 2006. This relationship further underscores the high quality of DZ BANK’s research outputs. This cooperation will gain even more momentum through the merger of Natexis-Bleichroeder with IXIS, the broker for Groupe Caisse d’Epargne, to create NATIXIS.

## SME Finance

The big challenge facing the cooperative financial services network in the area of SME finance is to exploit the ongoing process of structural change in the financial markets as an opportunity to systematically and sustainably strengthen its market position. In the light of the much greater intensity of competition, the only obviously feasible way to do this is through even more systematic and rational sharing of roles within the network at the levels of marketing, products and processes.

### Strengthening business with SME customers

This thinking has led DZ BANK to join with the BVR, the regional associations and the local cooperative banks to launch the “SME Market Offensive”. The aim of this initiative is to optimise risk management, cost structures, product offerings and distribution. This is intended to equip the cooperative financial services

network to expand its market share while simultaneously imposing the necessary risk premiums on the market and earning a commensurate return on capital. The SME Market Offensive is intended to strengthen and entrench the local cooperative banks’ business banking activity as their second core pillar alongside personal banking.

DZ BANK is still being guided strictly by the subsidiarity principle in devising and driving the SME Market Offensive. It is supporting new product development and performing its role as the DZ BANK Group’s hub for corporate customer product and sales-support services. Servicing the regional business banking market remains the exclusive preserve of the local cooperative banks, however.

### Improved framework for joint lending operations

Credit remains the anchor product in business banking and provides the natural basis for cross selling. As in the preceding years, DZ BANK’s joint lending business with the local cooperative banks has evolved positively in the year under report. Both the conventional syndicated loan product and the Standard Meta product have contributed to growth, with unit sales and volumes both higher.

The framework conditions for joint lending have been improved:

- The maximum term for Agrar Meta loans has been raised from 5 to 7 years,
- The workflow software has been optimised to enhance transparency.

Additionally, from 2007 onwards all joint lending business will be subject to a threshold rating of 2C and a minimum size of € 2 million will apply for Standard Meta loans.

### Combining development credit with optimal advisory support

Development funding is an essential component of the local cooperative banks’ lending business. DZ BANK has improved the framework conditions for expanding in this segment by training and deploying regional development funding advisors and by developing a Development Credit Analysis tool. The SME Market Offensive is also intended to support the distribution of development credit. It will optimise existing and develop new advisory products and services to enable the local cooperative

banks to continue to raise their profile in this area at the expense of the competition.

#### **Service tools promoting efficient market development**

As well as the Development Credit Analysis tool, DZ BANK has also refined two other service tools during 2006 – the Market Potential Analysis (MPA) and Existing Customer Optimisation (BKO) tools. These now offer the local cooperative banks efficiency-boosting computer-based systems to support and strengthen their ongoing market development.

#### **Benefits of Market Potential Analysis:**

- Provides a basis for comparing the local cooperative banks' customer portfolio structure data against the equivalent data for the regional and national market, including: company population, companies by sales, sector, competitors, banking connections
- Provides a "full inventory" of all firms listed in the Companies Register for the relevant local cooperative bank's market territory including registered office, legal form, sector, sales, company profile and banking connections
- Identifies jumping-off points for more intensive and systematic market development and even more profitable business banking
- Provides a starting point for jointly-defining a target groups strategy as part of pro-active market development

#### **Benefits of Existing Customer Optimisation:**

- Provides a systematic review of the level of exploitation of existing customer potentials
- Permits targeted and regularly-repeatable sales initiatives
- Increases customer loyalty and improves qualification of contacts
- Identifies specific contact and sales leads

#### **Active interest-rate management a successful proposition**

The "active interest-rate management" segment (VR Cross-Selling) continues to perform very well. More and more local cooperative banks are using the two standardised business models offered by DZ BANK in their dealings with corporate customers. They are a substantial source of additional commission income, and are expected to continue to offer potential for attractive commission growth in years to come.

DZ BANK has been able to improve its market penetration in both the cross-selling segment and the credit segment and strengthen its role as the local cooperative banks' partner in business banking. The local cooperative banks are making increasing use of DZ BANK's comprehensive offering of training courses, workshops, advisor days and internships centred on a very wide range of specialist subjects.

## **Credit**

Three key developments influenced the evolution of the credit portfolio in 2006: the rehabilitation and work-outs portfolio shrank at an even faster rate, traditional lending to corporate customers expanded, and securities-related business also expanded markedly. In addition, the risk provisioning trend remained extremely encouraging, and individual valuation allowances ended the year well below the projections.

The rescues and work-outs portfolio has contracted again significantly. As a result, the volume of defaulted loans has more than halved year-on-year. Compared with the peaks recorded in 2003, the reduction is no less than two-thirds. The restrained lending policies of the last few years have also been vindicated: the rate of new defaults in the sound portfolio is stable at a low level. The important point is that the ratio of the defaulted portfolio to the performing portfolio is gradually normalising after several years of hard work.

The last few years have seen shrinkage or at best stagnation in the portfolio of traditional loans to corporate customers. The reasons for this lie in the stagnation of credit demand in the wider economy in recent years, plus the bank's (correct) cautious new-business and risk strategies combined with the clean-up of the at-risk portfolio. However, the year 2006 has seen a reversal of this trend in every area of the market. The "structured finance" segment has enjoyed comparatively strong growth that matches its aggressive market stance. Joint lending to SME customers has recorded net growth despite a high level of prepayments.

As in previous years, 2006 has brought strong growth in securities-related business. Volumes and credit standards were both very high. There was an emphasis on securitisations of "asset backed securities" (ABS).

## Corporate Finance

### Corporate Finance coverage

Consolidation remains the outstanding feature of the fiercely competitive Corporate Finance segment. DZ BANK has continued during 2006 to position itself as an innovative and stable financing partner for large and mid-size companies. Numerous new customer relationships confirm the validity of this approach, with an advance of 11 percent. DZ BANK's concept of combining sector know-how with excellent business customer relationship management "under one roof" is much appreciated by its corporate customers. The cooperative financial services network's services spectrum extends from traditional lending and structured corporate finance through to innovative equity-based solutions and M&A services.

The improved climate for business in Germany caused an upturn of corporate investment activity during 2006. The demand for credit products was also stronger. As a result, the profitability of financing products has generally improved across the board even though margins were still pressurised in the traditional lending business. DZ BANK has continued to intensify its cooperation with the group subsidiaries and foreign branches, and this has contributed to the positive trend of business. There was extremely encouraging growth in the demand for acquisition-finance-related products. DZ BANK was able to win mandates from household names in this segment.

### Equities and M&A

The equity capital markets were in fine fettle in 2006, and this was manifested not least through a flurry of IPOs. DZ BANK was entrusted with various lead-management mandates in the period and participated in a range of issuing syndicates. DZ BANK also played a leadership role in numerous secondary market transactions.

DZ BANK's M&A experts were frequently sought out to provide advisory services. New mandates in takeover deals gave the bank opportunities to demonstrate its effectiveness in the advisory role on both the buying and selling sides. Its participation in several cross-border transactions also raised the bank's profile even higher in the international arena.

## Structured Finance

Acquisition, project and international trade finance are all important and reliable profit generators and growth drivers for DZ BANK. With financing departments installed in the London, New York, Hong Kong and Singapore branches as well as in the bank's nine foreign representative offices, the Structured Finance division is a global presence with bases "on the ground" in all the key growth markets.

### Increased demand for customised structured finance

New business acceptance in this segment is subject to strict risk criteria. In this way, the division has built a good foundation to continue to grow a lending portfolio that is well diversified across different sectors and regions. Its comprehensive product range coincided with increased customer demand for individualised structured finance solutions last year. In revenue terms, this fed through as constant interest income coupled with rising fees and commissions income.

### Global footprint extended

Important expansion measures during 2006 included the opening of a representative office in Istanbul and the setting up of a dedicated structured export finance unit in Singapore. An acquisition finance team was also installed in the London branch and the existing project finance team expanded: both initiatives will strengthen DZ BANK's origination, structuring and syndication capacity in these cash-flow-based financing forms.

The division has also strengthened its market position again in "acquisition and leveraged finance". DZ BANK assisted around 50 deals last year through its teams in Frankfurt, New York and London. In several of these transactions, DZ BANK acted in a leadership role as mandated lead arranger or underwriter.

### **International portfolio expanded**

DZ BANK has continued to diversify and expand its portfolio of international non-specific financing credit arrangements. Although the market environment is characterised by margin erosion, both credit quality and profitability have been maintained at a high level. Nor has the portfolio expansion been restricted solely to Northern and Western Europe or the EU accession countries to the east; DZ BANK's broad offering has left it especially well placed in the states of the Gulf region and in the most important industrialised and developing countries of Asia. Reinforcing its global credit syndication units has strengthened the bank's position and reputation as a successful and reliable market player. This status is impressively confirmed by the bank's nominations for a string of prestigious awards, such as the title of "Best Arranger Bank" for the German market.

### **Export finance growth and risk potential**

The key feature in 2006 for our export finance operations was the continuing strengthening of Germany's export activity. The most important objective for DZ BANK in financing its customers' numerous deals was not to take on more risk, but rather to structure the transactions intelligently. The stand-out destination countries last year were Russia and India.

Corporate risks have increased relative to bank and government risks. One of the consequences of this is residual risk that is more and more frequently being absorbed by complex financing structures. One possible help in this situation is to collateralise deals through counter-supplies of easily-marketable commodities. DZ BANK remains one of Germany's leading banks in this back-to-back product area.

South-East Asia is an important growth market for German industry. It follows that the establishment of an export finance team in Singapore has given a noticeable boost to DZ BANK's business activity.

### **Extra demand for trade finance balances out margin erosion**

The demand for structured trade finance and financing for international commodities traders remained extremely strong in

2006. Although margin erosion has accelerated again, this unit has matched last year's strong revenues.

The short-term commercial business experienced growth in export documentary credit in particular, that was focused on Africa, Asia and Eastern Europe. DZ BANK was able to increase its volumes in both bilateral and syndicated credit. This business also helped to support the bank's activities in traditional ECA-backed export finance. Falling margins are making cross selling a more and more important issue. There is demand for structures that offer a more favourable risk/return ratio. As in the past, DZ BANK has placed risks in the market; this has further increased its market profile.

### **Prominent positions in project finance**

Most of last year's new project finance business was acquired in North America and Asia. The relatively large number of high-profile funding mandates won by DZ BANK was again a noteworthy feature of the year. The main sector focuses were energy supply/exploration (oil, gas, electricity), mining and infrastructure. Following the establishment of a team in London, the focus for 2007 will switch to expanding DZ BANK's footprint in the markets of Europe, the Middle and Near East and Africa (EMEA): these regions (together with the USA) currently represent by far the world's biggest market for project finance.

## **Foreign Branches**

DZ BANK's foreign branches in London, New York, Hong Kong and Singapore have again made important contributions to the bank's performance in 2006.

### **London**

The London branch continued to expand its operations in the "structured finance" business line. Two expert teams have been put together: one for acquisitions finance, the other for project finance. The credit syndication unit once again acquired a large number of German and international mandates, and in the role of either mandated lead arranger or sub-underwriter was able

to place the issues with banks and institutional investors. Access to the London banking market is an important element in DZ BANK's liquidity management.

### **New York**

The New York branch, which has regional responsibility for the NAFTA countries, has further expanded its market position and product base. The highly-profitable securitisation operation performed very well again in 2006. Mandates were again won as project finance arranger. Infrastructure projects are now also financed.

### **Hong Kong**

The Hong Kong branch has seen big improvements in all its core business lines compared with recent years; these are treasury operations, project finance, and trade and international finance. Placements of commercial papers and bearer bonds have enabled the branch to open up additional funding sources for the bank. In the project finance space, Hong Kong has established and maintained its positioning in the Public Private Partnership (PPP) market. For example, DZ BANK has completed its first PPP transaction as mandated lead arranger in Singapore. The main focuses of the branch's trade finance activities were providing liquidity and assuming risk for the local cooperative banks as they supported their customers' trading operations in North Asia.

### **Singapore**

The Singapore branch has reported growth in all its business activities. The branch has acted as one of the syndicate leaders in numerous transactions. The structured trade finance unit has performed excellently, with lending more than doubling in less than a year. One outstanding transaction for the Singapore branch, which the Mumbai representative office also played a big part in bringing to fruition, was its participation in the financing of a refinery in India. DZ BANK was "joint mandated lead manager" and book runner for this USD 2 billion deal, the biggest foreign currency loan ever made to an Indian borrower. The structuring of the transaction earned DZ BANK several important awards from leading trade journals (including "Best Deal in 2006" from "Finance Asia").

## **Process Management**

DZ BANK attaches particular weight to providing optimal IT processes to support the local cooperative banks. "A single product offering cast from a single mould with seamless support from IT" – this formulation defined the common goal shared by the BVR, the DZ BANK Group and the computing centres operated by FIDUCIA IT AG, Karlsruhe, and GAD eG, Münster, back in 2003 when they launched the project to create a harmonised nationwide Sales Workstation. Today the first modules are in daily use.

### **IT in the insurance segment**

Local bank advisors can now call up information and process sales of R+V insurance policies to personal customers in the two familiar IT environments – "agree" (FIDUCIA) and "bank21" (GAD) – which effectively means at any point in the entire cooperative financial services network. The eventual order data are forwarded electronically to R+V.

### **Property finance at the click of a mouse**

Bausparkasse Schwäbisch Hall's save-to-build services are also integrated into the new workstation. With the existing stock of contracts also ported to the system during 2006, the whole standard save-to-build process and database are now fully mapped in the IT system. The group has also taken another major step towards harmonising the computer support of the whole property finance offering; the now-completed first stage in this process also concerned the building society's financing modules. Any local cooperative bank's advisors can now combine these with the bank's own financing components and assemble a complete package solution for their customers.

### **Harmonised securities and funds processing**

In creating the successor products to GENO-Broker, BB3-Order-Depot and Union Depot Online (UDO), the joint objective of the central institutions and Union Investment was to provide a single national system of computerised support for the processes of selling and administering securities and funds. The first installations have been realised in 2006. The first product whose sale can now be processed (in the FIDUCIA agree

environment) is Union Investment's UniProfiRente. The next stage will see UniProfiRente also go live in the first half of 2007 in GAD's bank21 environment.

#### **VR-BankenPortal now complete**

Since mid-2006, the information available via the local cooperative banks' VR-BankenPortal now includes all the cooperative network's central institutions' and specialist service providers' entire range of information. The system is accessed daily by around 50,000 users throughout the cooperative financial services network.

With WGZ-Bank AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, (WGZ BANK), also now deploying the new VR-BankenPortal, all the German local cooperative banks nationwide can now use a single medium to get information about all the network's central products, conditions and much more. Further integration initiatives are planned to optimise the support delivered direct to the local bank desktop.

#### **Amalgamation completed**

Combining the DZ BANK Group subsidiary GENOTel with the corresponding GAD units has given birth to VR Netze GmbH, Münster. 2006 has seen their internal organisational integration into a single effective enterprise.

#### **External know-how for standard IT**

During 2006 the DZ BANK Group has outsourced "desktop services" support to a specialist external provider; this role covers the maintenance of PCs and printers and the installation of the necessary Microsoft Office software applications. This firm is now looking after the desktop computers of all R+V's and Union Investment's office-based and field staff. DZ BANK is scheduled to make the same changeover during 2007. Awarding this contract to a single provider not only reduces the DZ BANK Group's costs, it will enable all the internal IT departments to concentrate more fully on their own function-specific tasks. This will help to keep the DZ BANK Group's IT budget constant at the level of the 2006 spend through to 2010.

#### **General administration budget reduced**

2006 has seen the end of DZ BANK's property usage optimisation program. The proportion of leased accommodation has

been increased very substantially, and in some cases buildings have even been sold altogether. This has been a key factor in stabilising the general administration budget.

#### **Training & development and cooperation both at high level in IT function**

A total of 130 new staff have been appointed since 2001, 40 of them from within the cooperative financial services network. DZ BANK has long promoted the training and development of its IT/Organisation personnel at a much more intensive level than the industry average.

Close cooperation between IT departments has proved to be a vital element of seamless support for the DZ BANK Group's Allfinanz offering. The DZ BANK Group attaches the greatest importance to staff networking. This begins with working together at the Board of Managing Directors and division heads level in the various group coordination committees, and continues through information exchange meetings, joint projects, and staff events.

### **Payments and Credit Card Processing**

#### **Payments processing: Cost benefits passed on**

A new pricing model was introduced back in 2005, on the basis of which volume growth in the network's domestic and international payments traffic together with process rationalisation have allowed further price reductions totalling approximately € 8.9 million to be passed on to the primary banks in 2006. The introduction of GENOClearing has proved to be particularly advantageous for the banks. The tight meshing of the platforms enables payments processed within the same computing centre territory to be handled at significantly lower transaction costs. In addition, the new lower price introduced on July 1, 2006 for processing international payments and the increase of the limit for EU standard transmissions have allowed further cost benefits to be passed through to the local cooperative banks.

A large number of local cooperative banks have gone further on the basis of DZ BANK's redesigned value-added services offering under the "Standard and Premium Package" label. This involves

intensive analysis of the relevant bank's own positioning in the payments market followed by benchmarking against comparable groups of local cooperative banks. This provides the basis for the primary banks – in cooperation with DZ BANK – to expand their market position, improve their exploitation of the available market potential, and boost profitability.

### **SEPA – Single Euro Payments Area**

A single euro payments area (SEPA) featuring around € 64 billion worth of payments annually is a key step in realising the EU's internal market. The cooperative financial services network and DZ BANK have jointly set up a SEPA project structure designed to ensure the local cooperative banks will be in a position to offer their customers the new SEPA payment instruments when the time arrives.

### **Credit card processing: eurozone's biggest migration successfully completed**

The transfer of more than 330,000 Visa cards from First Data to CardProcess GmbH in June 2006 was the biggest credit card migration exercise ever handled in Europe. CardProcess GmbH had previously switched 1.4 million MasterCard to its platform during the course of 2005. Replacing its entire stock of cards with chip-enabled cards has provided the local cooperative banks with a portfolio of credit cards that is unmatched anywhere else in the world, that already satisfies tomorrow's security standards and that decisively reduces the risk of abuse. Their customers also benefit in other ways as the "banking by card" strategy is systematically implemented. This allows customers for instance to look up the current balance on their credit card live online. The completion of this migration has substantially reduced the local cooperative banks' costs and created the foundations for further product development, as in the network's "Credit Card Product Offensive".

### **Credit Card Product Offensive: innovative add-on services**

The cooperative financial services network is responding to the increasing competition in this market by making its offering of credit-card-based services wider and more flexible. Based on the credit cards strategy approved by the Payments Processing Advisory Council, the previous product range has been overhauled and reassembled to permit a modular "building

blocks" approach. Innovative themed and lifestyle cards in a wide choice of designs are now the focus of a whole new, individually-combinable card offering that complements the established range of MasterCard and Visa classic and gold cards.

### **Final Fever: a big event hit**

The marketing and sales program developed jointly by DG VERLAG and the cooperative central institutions for the FIFA World Cup in Germany in 2006 was a big success. The soccer theme will be joined by other sports and other experience opportunities in our future customer loyalty program, and 2007 will bring the introduction of a new motto card and the relaunch of the portal under its new name – "Active Fever".

### **Debit cards: twin-product strategy reinforced**

The creation of the single euro payments area (SEPA) will inevitably reduce the transaction fees chargeable on cross-border payments. The cooperative financial services network has adapted its debit cards strategy to reflect these changes and has essentially confirmed its existing two-product strategy for the debit cards market: in future the VR ServiceCard will be offered for customer groups that do not use their cards for payment transactions beyond their own bank, while the VR BankCard will continue to be offered as a premium debit card product featuring a range of additional services.

## **DZ Equity Partner**

### **DZ Equity Partner**

## **DZ Equity Partner**

- Equity solutions "under one roof"
- German market leader in broad SME segment
- 18 new business partnerships in 2006

The private equity business of DZ Equity Partner GmbH, Frankfurt am Main has continued to expand rapidly in 2006. The total of 18 transactions and the new business volume of roughly € 150 million easily topped the previous years' already gratifying results. DZ Equity Partners further strengthened its position during 2006 by organising its distribution activities into two new channels – "Verbund" and "Advisor" – to promote its business with the cooperative financial services network's corporate customers.

#### **Verbund channel strengthens SMEs business**

DZ Equity Partners has modelled its Verbund distribution channel on DZ BANK's regional structures for business banking, with the aim of building up indirect sales mediated through DZ BANK's business advisors. The objective is to identify the local cooperative banks' customers' need for equity capital and equity-like funding at an early stage. This will allow the cooperative financial services network to secure the long-term loyalty and custom of SME customers of good credit standing, through cooperation between the local cooperative banks, DZ BANK's Verbund division and DZ Equity Partners. This was the route through which DZ Equity Partners acquired almost 50 percent of its 2006 transactions.

#### **Advisor distribution channel**

The Advisor channel supports local bank advisors, who are playing an increasingly important role in the area of business succession solutions in particular. This permits the cooperative financial services network to maintain its existing and established relationships with these mostly high-credit-quality customers even after a changeover at the top of the company. Whenever it completes a transaction mediated through this channel, DZ Equity Partner will always place any funding orders with cooperative financial services network specialists through the primary bank concerned.

## **DZ BANK Ireland**

### **DZ BANK Ireland**



- Low-risk-profile credit portfolio
- Dynamic growth in ABS investments and services
- French CD program doubled to € 2 billion

Dublin-based DZ BANK Ireland plc has reported another year of dynamic growth in 2006 with total assets increased by more than 20 percent year-on-year to around € 6.4 billion. The bank has also reported more than satisfactory earnings growth in 2006 despite the difficult capital markets environment and tightening interest margins.

The focus of the bank's business model is on capital-markets-related lending. It is also the DZ BANK Group's centre of expertise for services relating to asset backed securities (ABS). DZ BANK Ireland lends principally to banks, multinational corporations and governments of immaculate credit standing.

DZ BANK Ireland substantially increased its investments in ABS during the year under report. Its trading book has expanded by over 200 percent and stood at the year-end at over € 1.5 billion. In the ABS services business line, its even closer cooperation with DZ BANK AG and DZ PRIVATBANK Schweiz has had a very positive effect on the efficiency of the group's task sharing.

To fund its lending operations, DZ BANK Ireland relies on the international money and capital markets and participates actively in repo transactions. The bank also has a USD 2 billion euro commercial paper (ECP) program. The success of the French certificates of deposit program ("certificats de dépôt" – CD) launched by DZ BANK Ireland in 2005 has continued through 2006. Investor interest in the bank and its credit-

worthiness has continued to grow, and has enabled the bank to double the size of its CD program from € 1 billion to € 2 billion.

## Transaktionsinstitut/Equens

### Equens

## EQUENS

- SEPA-ready
- First pan-European full-service payment services provider
- 10 percent market share in the eurozone

DZ BANK took further major steps to rationalise its banking back-office functions in Autumn 2006. The merger of the former group subsidiary Transaktionsinstitut für Zahlungsverkehrsdienstleistungen AG with the Dutch payments processor Interpay Nederland B.V. announced in February 2006 brought into being the first-ever pan-European full-service provider of payment processing services. Equens N.V., Utrecht, offers all the advantages that make a specialist company in the fast-growing eurozone bulk payments handling market into an attractive partner: size, rapid growth, top quality and most importantly innovation power. Attributes that are also benefiting the cooperative financial services network first and foremost.

DZ BANK and Belgium's KBC Bank NV hold a joint stake of approximately 35 percent of Equens' share capital, with the remainder (just under 65 percent) owned by various Dutch banks. Equens' combined volume of approximately 7 billion transactions a year gives it a eurozone market share of over 10 percent. Its 2006 revenues rose to around € 260 million. Thanks to its powerful integrated ZVS processing platform, Equens is already SEPA-ready and ideally positioned to take advantage of Europe's common market in payments.

## VR LEASING

### VR LEASING

## VR LEASING

- Growth through partnership
- Bank-mediated movables leasing business increased by around 31 percent
- Market-beating growth rates

The VR LEASING Group is the leading market provider of intelligent financing and leasing concepts for SMEs. Once again in its highly successful 2006 year, the group has concentrated primarily on exploiting the available market and cost-savings potential. It made good progress on both fronts, expanding its new business volumes again and optimising processes to reduce costs. The leasing industry as a whole is experiencing severe pressure on margins – however, the VR LEASING Group was able to buck the trend and operate more profitably than the sector average.

### **New business significantly higher**

Overall, the VR LEASING Group's story was one of growth in 2006. The € 4.0 billion of new business booked in the sales and investment finance segment represents a significant increase of +13.3 percent; € 1.85 billion of this total was generated outside Germany (+17.7 percent). However, the domestic market can also boast some highly positive numbers: movables leasing expanded by 14.7 percent, machinery leasing by no less than 20.1 percent. The market has obviously overcome its marked reluctance to invest in plant and machinery after many years. Bank-mediated business has also increased perceptibly. The factoring sales generated by the group's VR FACTOREM GmbH, Eschborn, subsidiary increased by 43.6 percent in 2006 to € 1,302 million, primarily through partnership with the local cooperative banks.

### Rapid processing at lower cost

VR LEASING has also continued during 2006 to invest effort into optimising its credit approval and administrative processes. Its ambition is to make its processes more transparent, faster, even more secure and significantly cheaper – not to mention customer-centric. VR LEASING sees even closer cooperation with the local cooperative banks as the most promising route to further cost savings.

Possibly the central initiative in this area is VR-LeasyOnline, an online tool provided by VR LEASING to support the primary banks' sales advisors that makes it child's play to calculate formal leasing offers and even generate contracts up to a value of € 125,000. By the year-end, VR-LeasyOnline had been used to process lease contracts with a combined value of € 28.8 million, more than twice the 2005 total.

Bank-mediated movables leasing also expanded substantially in 2006, and the around 31 percent growth rate validated the strategy adopted. The total contracts value in the vehicles segment was € 440.4 million (+22.1 percent), while the investment goods total was € 502.8 million (+32.9 percent). The information and communications technology segment beat its prior-year outcome by more than 77 percent and lifted the aggregate value of its new business to € 95.4 million.

### Strengthening marketing and sales

VR LEASING is determined to continue increasing its market share in the future. It plans to do this by working with the local cooperative banks to jointly and systematically mine the available market and sales potentials. It relies on the extensive market analyses it commissions of particularly investment-oriented industries, combining these with sector ratings to identify promising acquisition targets. VR LEASING's leasing and factoring services ideally complement the local cooperative banks' Allfinanz portfolio and also promise attractive earnings potential.

## DVB Bank

### DVB Bank



- Global transport finance specialist
- New asset finance business prospering – lead role in 82.7 percent of deals
- Investment funds still flourishing

DVB Bank AG, Frankfurt am Main, (DVB), is a specialist bank that is focused on transport finance and is one of the world's leading providers of both advisory services and funding to its chosen market. It offers its customers in the shipping, aviation and land transport segments integrated financial and consultancy services.

DVB allows the cooperative financial services network to share in the long-term growth of the international transportation markets. DVB's strategic focus makes it unique in the world and helped to generate record growth again in 2006. In addition to the host of new credit transactions the bank assisted (performing lead mandates in no less than 82.7 percent of them), the corporate finance segments were the main source of the group's top-line growth with both interest and commission income higher. The fastest-growing individual unit was Group Investment Management. DVB's consolidated total assets as at the end of 2006 were € 10.59 billion (2005: € 10.86 billion).

Viewed long-term, the world transport market has always been and still is a growth market, but one that is subject to cycles caused by changes in the global economy. DVB's lending policies are cycle-neutral in principle. They are also backed up by a sophisticated risk management system. The bank is already using its own internal rating model (based on the Basel II advanced approach and developed specifically for the global transport finance business) with great success to control its shipping and aviation risks. These two segments between them account for 69.3 percent of DVB's entire lending portfolio.

DVB only advances credit that is collateralised by the funded transportation assets such as ships, aircraft or rolling stock. Its internal research unit therefore plays a crucial role in valuing these assets. The high quality of DVB Bank's Research unit was recognised when the Lloyd's Shipping Economist voted it "The Best Shipping Finance Research" for the third year in a row in 2006. The Land Transport division was also awarded the distinction "European Rail Deal of the Year 2006". These prestigious awards underscore DVB's powerful position in the international transport finance market.

DVB also launched a range of projects again in 2006. The objectives of these initiatives included building its research expertise in land transport, raising the Singapore office's M&A advisory profile, establishing DVB Capital Markets LLC to provide an investment banking base in the USA, and switching its financial reporting to international accounting standards (IFRS/IAS). These are just examples of how DVB works ceaselessly to strengthen itself for its role as the leading specialist bank in global transport finance. It also took the decision in Autumn 2006 to withdraw from the transport infrastructure business line. The reason is that although the portfolio was growing and this business has always contributed positive top-line growth, the size of the projects in this segment means that DVB has been unable to position itself as a leading player on the global stage.

## ReiseBank

### ReiseBank



- 2 million cash transfers handled
- Provider of SER-segment services to over 900 cooperative banks
- 400 banks now using Mailorder facility

ReiseBank AG, Frankfurt am Main, is the cooperative financial services network's specialist service provider in the areas of foreign currency, precious metals and travellers cheques (SER segment), worldwide over-the-counter cash transfer in partnership with Western Union and cash management. It is one of Germany's leading players in the tourist and travel payment media business.

### SER products and euro under one roof

ReiseBank sold its foreign branches in 2006 to concentrate all its resources on the cooperative financial services network. Now that ReiseBank has taken over the foreign currency, precious metals and travellers cheques operations from DZ BANK, dealing and distribution are now under one roof. As a result, the local cooperative banks are now supplied with SER products and euros directly by ReiseBank. Many more than 900 local cooperative banks now take advantage of ReiseBank's high-quality and low-cost processing services. As well as this bank-to-bank business, ReiseBank also supplies its bank partners' end-customers with SER products directly. More than 400 local cooperative banks participated in ReiseBank's Mailorder service during 2006.

### International cash transfer still an attractive proposition

ReiseBank handled just under 2 million cash transfers during 2006. It was even able to expand its cash transfer network coverage in selected regions in cooperation with local banks.

### Cash management a very promising business

ReiseBank operated 216 own-label automatic telling machines and other terminals last year that performed 5.5 million transactions. Various banking partners and other businesses have long been working with ReiseBank on cash management. Its entire services spectrum – from ATM placing to charging and even development – has been successfully proven in the market over many years.

# Retail business segment: Success across the board

2006 was already a good year with Union Investment celebrating its 50<sup>th</sup> anniversary by moving up to first place in the table of German fund providers. But the new TeamBank also continued its success story in the consumer credit market, and then went on to launch its easyCredit Shops. DZ BANK International continued to go from strength to strength in private banking. And DZ PRIVATBANK Schweiz took full advantage of the growing demand for its range of sophisticated services for demanding private clients.

## Union Investment Group

### Union Investment Gruppe



- Market-leading provider of fund-based Riester pension products
- Leader in value-assured products
- Above-average performance

With almost 50 years experience in the collective funds business and with fund assets of around € 153 billion under management and nearly 4.3 million individual custody accounts as at December 31, 2006, the Union Investment Group is one of Germany's leading asset managers. At the same time, the group acts as the centre of asset management expertise for the entire cooperative financial services network. The great success of the first 50 years was continued in the 2006 anniversary year: no other German asset manager in recent years has been able to boast a comparable track record of earnings and growth performance. Despite the difficult market environment, the group's superior performance and continuous broadening of the customer base have again enabled it to expand its assets under management in the year under report, this time by 8.1 percent. Not least as a result of this growth, Union Asset Management Holding AG, Frankfurt am Main, (Union Investment) has again proved to be a strong earnings driver for the wider cooperative financial services network and has yet again increased the benefit it generates for the local cooperative banks.

"Investing together in the future" was the motto chosen for Union Investment's jubilee year, and it acted as the banner for a wide range of special initiatives within the group. One extremely central component was a study of Germany's investment culture that investigated investor attitudes and behaviours. One of the study's main findings is that the Germans are still highly risk-averse. 42 percent of investors will shun any investments that involve even the possibility of a loss. A high proportion of respondents would be happy to just get their capital back. This strong penchant for security was also reflected in the persistently strong sales growth of value-assured (guaranteed and indexed) investments.

#### Market leader in value-assured investments

Union Investment has established itself in recent years as an acknowledged expert in value-assurance strategies and now offers a wide range of solutions for both private and institutional investors. Its recorded net sales of value-assured funds reached € 1.9 billion last year, making Union Investment the industry leader in 2006 with a 30 percent market share in the value-assured funds category. The customers' favourite investments in the value-assured funds space were UniGarant-Top: Europe III and UniGarant: Deutschland (2012). Union Investment's best-selling fund on the other hand was the money-market-linked UniOpti4, which attracted € 2.8 billion in the second half of the year when the saver's tax-free allowance was cut in half.

This made UniOpti4 the most successful of the total thirteen new products launched by Union Investment last year, and Germany's most successful retail fund in 2006. The new products garnered combined net sales of € 5.2 billion, and made Union Investment a leading industry player on this basis too – further proof of the cooperative financial services network's understanding of the market and awareness of customer needs, and of Union Investment's innovation power.

### Market leader in investment-funds-based Riester savings products

In addition to confirming investors' continuing risk aversion, Union Investment's investment culture study also identified the attractive and clear presentation of pension savings solutions as a critical success factor for investors. The group applied this key learning in an emotive advertising campaign using the slogan "Bring your boat safe to harbour" that helped to raise its share of the market for fund-based Riester products to nearly 90 percent, with 1.06 million UniProfiRente pension contracts signed to date. More than 589,000 new customers, around 73 percent of whom had not previously invested in collective funds, opted for a government-subsidised pension plan from Union Investment during 2006 alone. This rapid customer growth is a further demonstration of how successfully Union Investment has implemented its solution provider strategy. In total, the fund manager's solution packages – pension products like UniProfiRente and UniRenteAktiv and asset management products like Point and SwissRubinum – accounted for no less than around 45 percent of total gross sales in 2006.

### Above-average performance outside Germany too

The Union Investment Group was also successful on the international stage. Its Polish funds subsidiary Union Investment TFI S.A. was awarded the title of "Best Funds Provider" by the national media for the fourth year in succession. Once again, the decisive factors were stability, exceptional performance and high product and service quality.

### Institutional business growing

The assets managed by the Union Investment Group on behalf of institutional investors expanded at a market-beating rate of 13.4 percent in the year under report and broke through the € 60 billion barrier. New investors accounted for no less than 40 percent of all new business. This substantial broadening of the customer base was achieved through focused acquisition and increased cooperation with consultants. There was also increased demand during the year for asset management expertise outside the legal wrapper of the fund vehicle. As a result, Union Investment acquired around 50 percent more advisory mandates during 2006 that are on the books of other investment companies but actually managed by Union Investment. The total value of these mandates increased to € 6.8 bil-

lion, which underscores the market's trust in Union Investment's exceptional asset management expertise. Independent institutions also recognised this know-how, one example being the authoritative Greenwich study in the middle of the year.

Union PanAgora Asset Management GmbH, Frankfurt am Main – the joint venture with PanAgora, Boston – has now successfully established itself in the field of structured asset management and was able to add numerous household-name institutional investors to its client list last year. Union PanAgora, the Union Investment Group's specialist in quantitative investment strategies, has more than doubled its assets under management in the last three years and now looks after approximately € 10 billion in total.

### High quality portfolio management

The high quality of Union Investment's portfolio management is also confirmed by independent rating agencies such as Standard & Poor's (S&P). As at the end of 2006, a total of 25 of its funds carried a rating from S&P – no less than 11 of them being "AA". Union Investment is placed highly in the Feri ranking of investment companies.

## TeamBank

### TeamBank

## Team!Bank

- "Simply one step ahead"
- The German cooperative bank's consumer credit specialist
- easyCredit brand: perceived as fair, safe and innovative

The former norisbank AG has been trading under the name "TeamBank AG" since the start of the year. Norisbank's nationwide network of just under 100 branches, their existing

customer relationships and the brand name were sold with effect from November 2006. This did not affect the workforce, who are now employed by the new TeamBank AG Nürnberg, Nürnberg, (TeamBank).

### **Even more competitive**

This will free the Nürnberg head office to focus exclusively on the easyCredit business. The new TeamBank will be providing even more intensive support for the local cooperative banks' consumer credit business in future in order to strengthen easyCredit in the face of fierce competition. The industry has already seen the launch of many attempts to imitate the easyCredit success story through copycat products or price campaigns.

easyCredit is the cooperative financial services network's consumer credit brand. Continuous processing and product innovations have secured the industry's first and best-known brand product many years of double-digit new business growth. No less than 910 local cooperative banks had signed up to distribute easyCredit by the end of the year under report. It is now an established brand label that has deservedly maintained its market leadership position. TeamBank is determined to continue to build this lead through innovative product design, process enhancements and effective risk management. As the pioneer in the German market, easyCredit's recognition factor rose to an all-time record of nearly 80 percent at the end of last year. The trust this generates in the brand leader can be mobilised to unlock further market potential.

TeamBank's strategy is not to get caught up in a price war that would damage its returns in the medium term. Instead, it intends to continuously increase the attractiveness of the easyCredit product and brand, and further optimise the progressive pricing structure it has designed to reward both customers and partner banks. As the primary banks already have the necessary advisory expertise, the cooperative financial services network's consumer credit business is ideally equipped to compete.

The local cooperative banks' easyCredit sales increased at double-digit rates again in 2006. The provisional figures show the partner banks' new business growing from € 1.3 billion to

€ 1.45 billion last year. While the German consumer credit market as a whole was flat, the local cooperative banks were generally able to stabilise and expand their market share.

### **New local distribution format for easyCredit**

A new sales format was brought to the launch pad in Autumn 2006 following an extensive pilot phase. The new easyCredit Shops will work with the local cooperative banks to tap into completely new market segments. They will target customers that do not feel any affinity with traditional banks. It was already clear from the pilot phase that most of the customers who took advantage of the easyCredit Shops' offering came from the savings banks and big commercial banks. The first easyCredit Shops opened last year were located in the main conurbations, and the concept will be systematically rolled out and extended in the time to come.

This means that the big advantage of the easyCredit Shops for the local cooperative banks is not just that they tap into new customer segments for consumer credit. The staff of the easyCredit Shops also refer callers that express additional or different financial needs to the relevant local partner institutions for advice and assistance with current accounts, savings accounts, investment, insurance, pensions or home finance. easyCredit's medium-term objective is to achieve market leadership as an excellent cooperative network product that stands shoulder-to-shoulder with the local cooperative banks. This principle will guide all its future activity. After writing another German success story inside the cooperative financial services network, the easyCredit concept is now set to go international.

### **Substantial revenue growth**

The services that TeamBank provides to its partner banks include straight product supply, processing support and portfolio management. It is also ready to assist with local marketing and brand management. Where applicable, the easyCredit experts will provide training for their colleagues in the local cooperative banks on every aspect of routine operation.

TeamBank's revenue-based marketing premiums will continue to promote this successful cooperation during 2007. The provisional

figures show that the commissions paid to the local cooperative banks in respect of the year under report increased by around € 93 million to € 116 million. The total income created for the cooperative financial services network through commissions and profit-sharing rose from € 173 million in 2005 to € 260 million in 2006.

## DZ BANK International

### DZ BANK International



- Innovative investment concepts
- PPS asset management scheme giving local cooperative banks a competitive edge
- Modern foreign currency financing options

#### Successful partnership with local cooperative banks

Luxembourg-based DZ BANK International S.A., (DZI), concentrates on international private banking, investment funds business, credit and treasury operations. Last year was another successful one, and the bank attributes this to its intensive cooperation with the local cooperative banks. This subsidiarity-based cooperation now extends to more than 1,100 local cooperative banks who partner with DZI across business lines and products.

#### Private banking operations expanded again, including internationally

For more than 25 years now, DZI's internationally-oriented high-net-worth clients have been taking advantage of its private banking advice and services offering that extends from innovative investment strategies through to inheritance planning. Its services are tailored to clients' changing life stages and are provided in a professional manner by highly qualified

and experienced investment advisors, financial planners, portfolio managers and inheritance planners.

DZI can now also offer its customers from inside and outside the cooperative financial services network an attractive spectrum of services in Singapore, which is currently the world's fastest-growing private banking market. This is a logical extension of the cooperative network's "combined energies" principle to the private banking business line in order to provide proper support to extremely wealthy internationally-active customers within the cooperative financial services network. The vehicle for this is the 75-percent-owned subsidiary DZ BANK International Singapore, the other partner in this joint venture being DZ PRIVATBANK Schweiz. DZI has also raised its private banking profile with the cooperative financial services network's wealthy clients who are served directly by the local cooperative banks: in this case by its role as the centre of expertise for the decentralised asset management product "Private Portfolio Strategy" (PPS). PPS is now established as a brand and is recognised as synonymous with superior private banking services within the cooperative financial services network. This product secures local cooperative banks an important competitive edge: PPS helps them to identify, acquire and service business potential in their regional markets even more accurately and effectively.

#### Strong demand for foreign exchange services

As a European bank, DZI acts as the DZ BANK Group's centre of expertise for all foreign-currency-related operations. In the deposit-taking business line, customers have taken increased advantage of the potential for higher returns from the STARPLAN Top Callgeld product. This attractive alternative investment consists of a basket of five high-yield currencies. Its popularity with customers has ensured strong demand for STARPLAN Top Callgeld since this new foreign currency investment option was launched in January 2006.

#### Intensified cooperation in foreign currency lending

In the foreign currency lending business line, the volume of guaranteed credit advanced to customers of the local cooperative banks (LuxCredit) has risen to € 4.5 billion. DZI is now working more and more intensively with around 800 local cooperative banks, and the number of joint transactions is now just short of 30,000.

### Leading specialist in creative fund solutions

In the funds management segment, the volume of fund assets for which DZI provides custody services has now passed the € 30 billion mark for the first time. The bank actively markets itself to institutional clients as a professional all-round funds service provider with a service spectrum that extends from designing to forming and fully managing funds. Building on its close cooperation with other cooperative network partners, in particular the Union Investment Group, DZI has transformed itself into one of the most sought-after specialists in creative fund solutions in Luxembourg, Europe's biggest fund management centre. The bank is committed to maintaining the high level of the services it provides as a professional full-service partner to private and institutional clients as well as to the local cooperative banks. The growth of its intensive partnership activity with the local cooperative banks has again boosted the commissions and bonuses paid out by DZI during 2006, to a total of € 64 million.

## DZ PRIVATBANK Schweiz

### DZ PRIVATBANK Schweiz

#### DZ PRIVATBANK Schweiz

- The cooperative financial services network's own private bank
- Leadership position amongst Switzerland's foreign banks
- Customer and asset bases continue to expand

DZ PRIVATBANK (Schweiz) AG is the DZ BANK Group's centre of expertise in that epitome of financial centres, Zürich. The cooperative financial services network's own private bank is the local cooperative banks' and their customers' relevant partner for all international wealth management issues – from Union Investment's SwissRubinum and UnionSchweizDepot offerings, through full discretionary management mandates, to high-value

add-on services. As a private bank DZ PRIVATBANK Schweiz is already playing a strategic central role in the group's increasingly significant business with wealthy clients.

### 2006 sees strong asset and customer growth

The focused positioning of DZ PRIVATBANK Schweiz was a key contributory factor to the success of its trading in 2006. The growth of its customer base is documentary proof of the increasing importance of the provision of services to sophisticated internationally-active private clients: almost 39,000 clients with combined assets of around CHF 8 billion now place their trust in the service quality of DZ PRIVATBANK Schweiz. Its partner banks in the cooperative financial services network also participate on a sustained basis in this and similar successes.

### Local cooperative banks benefit from Swiss bank effect

The bank's marketing communications use specific services and offers to emphasise the value-added as well as the fringe benefits of Swiss wealth management, and this strategy has fuelled the bank's growth in the last year. DZ PRIVATBANK Schweiz offers the local cooperative banks' customers all the advantages associated with Swiss banking, but first and foremost individual investment management and advisory mandates plus asset management to the highest Swiss quality standards. This offering is complemented by services in the areas of inheritance and succession planning, naturalisation advice and Lombard loans and mortgage finance on Swiss real property. Alongside these banking-specific benefits, DZ PRIVATBANK Schweiz also offers the local cooperative banks' customers all the typical private-banking services to meet the customer's every need. One innovative and value-added offer that was introduced very successfully last year was an insurance wrapper product that wraps around existing or new wealth management mandates to create very significant benefits, including in the areas of after-tax returns and pension cover.

### Image and expertise gains for banks of every size

DZ PRIVATBANK Schweiz's cooperation model is designed to fit banks of any size. The resulting image enhancement and know-how gains make them more attractive to potential new customers and energise their secondary banking relationships. Most importantly, last year's experience has proved that demand and interest are there to be serviced outside of the major

conurbations and beyond the areas where wealthy private clients typically tend to concentrate, and that local banks can harvest this potential in cooperation with their Swiss partner. Working with DZ PRIVATBANK Schweiz not only transfers expertise but also delivers specific added-value for the local banks by building long-term customer loyalty, by extending their needs-responsive service offering, and through long-running follow-on commissions.

### **Network benefit substantially increased**

The network's Swiss bank now partners around 80 percent of all the German local cooperative banks, and this subsidiarity-guided cooperation generated not only a further dividend for the share owners but also direct benefit of around CHF 32 million for the cooperative financial services network in 2006. This is another disproportionately large increase. To extend its established servicing reach, DZ PRIVATBANK Schweiz has joined with its Luxembourg sister bank to found a merchant bank in Singapore. A dedicated sales unit, DZ Private Banking Vertriebsgesellschaft mbH, Frankfurt am Main, coordinates the dealings of DZ PRIVATBANK Schweiz with its partner banks; a representative office in Düsseldorf performs the same role in WGZ BANK's territory.

# Property Finance business segment: Innovation and distribution power

Its intelligent combination of funds-based saving products, save-to-build and the new 4P pension product, have enabled Bausparkasse Schwäbisch Hall to defend its market share against the attack of the direct and online banks. Meanwhile, its mobile sales force is busy opening up additional new customer segments. DG HYP has also reorganised its distribution structure and staffed it with property finance experts. And VR Kreditwerk – Germany’s biggest loans-processing factory – took over DZ BANK’s role as central processor of business development loans at the start of 2007.

## Bausparkasse Schwäbisch Hall

### Bausparkasse Schwäbisch Hall

#### Schwäbisch Hall

Auf diese Steine können Sie bauen



- Market leadership extended
- Partnership benefits local cooperative banks
- Private pensions driving growth

The market situation in the building society’s three business lines – Save-to-Build, Construction Finance and Related Provision (pensions/insurance) – was influenced by a wide range of external factors again in 2006: structural changes in the government’s housing subsidy schemes, reform of the retirement pension systems, and demographic change are just a few of the big issues that will continue to occupy and shape the sector in the years to come. Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, sees its most import challenge at present as precisely coordinating and fine-tuning the marketing and sales models of all the parties involved in these processes while preserving the partnership principles that govern the cooperative financial services network. At the focus of this effort is the building society’s new PRIMUS strategic program.

The aim of the program is to realise growth potential for Bausparkasse Schwäbisch Hall itself, the local cooperative banks and the cooperative financial services network. The defined

priority objectives through to 2010 are to increase the society’s share of the save-to-build market, expand and further rationalise the distribution network, and move to value-centred management. The goal is to secure long-term business success.

#### Save-to-build: innovation power confirmed

Save-to-build is established as a vital element in the growth of home ownership, in family wealth formation and in private old-age provision. Bausparkasse Schwäbisch Hall has repeatedly demonstrated its capacity to innovate over the years, most recently through its 4P package product and Tarif Fuchs initiative. For all this however, the save-to-build contract remains the anchor product that is crucial to customer loyalty. Systematically targeting those who save with other institutions or for other purposes than acquiring their own home, is a source of huge customer potential: one in every two cooperative bank save-to-build customers still has a contract with a competing organisation – and approximately half of the cooperative bank’s customers still do not have a save-to-build contract at all.

The 4P pension product developed jointly by Bausparkasse Schwäbisch Hall and Union Investment combines the advantages of a save-to-build contract with the ability to choose from a range of selected funds.

#### Construction finance: attractive subsidiary product offering

The German private home finance market is characterised by fierce competition over terms and conditions and benefits. The penetration of direct and online banks into the traditional branch-based banks’ core business lines is increasing year by year, and financial intermediaries with large mobile sales forces are also becoming a significant force in the market, as are foreign financial services providers. However, Bausparkasse Schwäbisch Hall is responding to these new challenges by

making the most of its attractive range of ancillary products such as preliminary financing and bridging loans as well as its powerful mobile sales force to create benefits for customers and the cooperative financial services network.

#### **Related Provision: well established in a growing market**

In the "Related Provision" business line, Bausparkasse Schwäbisch Hall's mobile sales team represents an attractive opportunity for the local cooperative banks and network specialist service providers; joint marketing can extend their reach beyond their own distribution channels and allow them to seize a share of this promising market while tapping into new customer segments.

All three business lines continue to offer attractive growth potential for Bausparkasse Schwäbisch Hall, the local cooperative banks and the network specialist service providers.

#### **Mobile sales: still a winning proposition**

BSH's around 4,000-strong field sales force works closely with the local cooperative banks. The primary banks are able to add the field sales channel to their branch-based distribution and use it to market bank and network products.

#### **Modular sales to permit high degree of specialisation**

Bausparkasse Schwäbisch Hall's field sales force is going to be meshed with the bank's distribution channel even more closely in future. The aim is specialisation within the field sales team – one side to serve the bank-based operation, the other to focus on customer acquisition in the Save-to-Build, Construction Finance and Related Provision business lines. The sales advisors will have the sole function of supporting bank staff. The financial advisors' sole function will be to acquire business in save-to-build, bank and network products.

#### **2006 a successful year at the enterprise level**

Bausparkasse Schwäbisch Hall has substantially increased its leadership of the save-to-build market during 2006. The aggregate value of the 890,000 new save-to-build contracts signed increased by 1.7 percent to € 28.3 billion. As a result, the building society's market share improved from 26.8 to

28 percent. As at December 31, 2006, 6.6 million customers had a total of 7.1 million save-to-build contracts in force with a combined value of € 191 billion. In the construction finance segment, the total volume of mediated credit advanced decreased by € 10.6 billion (-2.8 percent). Three-quarters of this volume went onto the local cooperative banks' books – in the form of bank loans (€ 3.3 billion) referred through the Schwäbisch Hall field sales force's cross selling effort, and advance loans (€ 4.7 billion) secured on a save-to-build contract. In the Related Provision business line, the building society's sales force mediated € 5.9 billion worth of pension and insurance contracts for the local cooperative banks, Union Investment and R+V, 31.3 percent more than in the previous year. There was keen demand for the UniProfi-Rente pension product in 2006, which is also distributed through Bausparkasse Schwäbisch Hall. The field sales force alone signed up around 100,000 new contracts for its network partner Union Investment. In total, the distribution performance expanded by around 4 percent in 2006 to around € 45 billion. The unit quantity of local cooperative bank and network company products sold through Bausparkasse Schwäbisch Hall's field sales force climbed by almost 10.5 percent to almost 400,000 contracts. The local cooperative banks' commission income from mediated save-to-build business improved by 7.8 percent to over € 252 million. This figure includes the new trailing commission of € 20 million; the aggregate commissions paid to the local cooperative banks on this business line have increased by 37 percent since 2002. This is before the product consideration of almost € 90 million from cross selling (2005: € 78 million).

Bausparkasse Schwäbisch Hall's five foreign affiliates also saw substantial business expansion in 2006. The number of new save-to-build contracts signed by the building society's affiliates in Czechia, Slovakia, Hungary, Romania and China rose to 650,000 (+22.3 percent) with an equivalent euro value of € 5.9 billion. In addition to the save-to-build line, the foreign affiliates are also increasing their sales of home finance and pension products. The aggregate value of mediated construction finance agreements rose by 31.3 percent in the year under report to € 1.3 billion. The unit quantity of cross-selling transactions rose to more than 180,000.

## DG HYP

### DG HYP



- Comprehensive product offering
- The cooperative financial services network's centre of expertise in property finance
- Funding partner to local authorities sector

The property finance business has become more complex and demanding; at the same time, competition has increased considerably in this business line compared with a few years ago. Deutsche Genossenschaftsbank AG, Hamburg, (DG HYP) has built a strong position in the market as the cooperative sector's biggest mortgage and pfandbrief bank and its innovation power has given the bank hard-earned competitive edges in private and commercial property finance and in the active management of property loan portfolios.

#### Formulating responses to competitive pressure together with the cooperative financial services network

DG HYP reorganised its entire distribution structure in 2006. As the cooperative financial services network's centre of expertise for property finance, DG HYP has a comprehensive range of services to offer the local cooperative banks. Highly qualified and dedicated staff stand ready to advise partner-bank colleagues on every aspect of modern property finance. DG HYP can provide holistic advice and support on every business line "under one roof". Starting from the strategic options available to distribution partners in the property finance segment, its guidance covers the entire performance spectrum from private and commercial property finance, through local authority lending and public-private partnership (PPP) projects to property loans portfolio management.

#### Structural strengthening of private property finance

DG HYP has launched several strategic initiatives that will

crucially help to build customer loyalty to the cooperative financial services network and increase the local cooperative banks' market share in the core business line of private property finance. The first results of the development initiatives are a standardised "beacon" product and several specialty products aimed at selected target groups.

A good example of a beacon product is "immo express", which went into the initial pilot phase with several primary banks in the fourth quarter of 2006. Featuring regional advertising campaigns, attractive terms and conditions and service-focused, easy-to-handle processing (via the participating local banks' web page), with immo express DG HYP is able to offer the primary banks a highly-competitive easy-to-sell product that is specifically designed to appeal to customers of good credit standing (maximum LTV of 60 percent).

Other innovative specialty products are scheduled to enter the introduction phase in early 2007. These are aimed at target customer groups with specific risk profiles, featuring for example higher borrowing limits for customers with good credit and savings. In accordance with the group's credit risk strategy, DG HYP will assume risk management responsibility for the specialty products portfolio.

New and extension private property finance business amounted to € 1,750 million in 2006, which is below the strong prior-year lending performance of € 1,973 million.

#### Commercial property finance: continuing expansion

DG HYP has maintained the previous years' expansion course during 2006. It puts its market and product know-how to work both in its direct lending to property-sector investors in the core German market, and in its partnership activity with the local cooperative banks where it arranges syndicated credit for the primary banks' business customers.

New and extension business increased during 2006 to € 2,378 million, which is 7.9 percent higher than the 2005 total (€ 2,204 million). This tells us that DG HYP's decision to take a decentralised position in the market by setting up six specialist "property centres" in the main German business capitals, was the correct choice. However, the bank's international operations also recorded positive progress. The share of non-German financing

arrangements in total new business has increased sharply from 6.3 percent a year ago to 19.1 percent.

#### **Local authority lending still at strong level**

DG HYP's new and extension local authority loan origination stood at the accounting date at € 3,296 million, which was up again from the previous year's € 3,189 million. This performance confirms DG HYP's continuing market leadership within the cooperative financial services network in 2006.

#### **Active portfolio management: dynamic growth predicted**

In the active property loans portfolio management business line, DG HYP has again increased the volume of its credit and capital market transactions during 2006. March 2006 saw the sale of a portfolio of non-strategic commercial property loans with a combined volume of € 422 million. DG HYP also executed its first true buy deal in October 2006 when it acquired a portfolio of private mortgage loans totalling € 162 million.

In partnership with its 100-percent-owned subsidiary IMMOFORI Gesellschaft für Immobilien Forderungsinkasso mbH, Hamburg, DG HYP assisted no less than 30 local cooperative banks in 2006 through its standardised model for selling terminated loans. DG HYP also offers individualised solutions where the size and structure of the portfolios permits this. In view of the strong interest within the cooperative financial services network in advisory services of this kind, growth is expected to remain strong.

## **VR Kreditwerk**

### **VR Kreditwerk**



kreditwerk

- Comprehensive product offering
- The cooperative financial services network's centre of expertise in property finance
- Funding partner to local authorities sector

#### **Germany's biggest loans-processing "factory"**

Their combined portfolio of around 8 million loan and save-to-build contracts under administration make VR Kreditwerk Hamburg - Schwäbisch Hall AG, Hamburg and Schwäbisch Hall (Kreditwerk), together with its subsidiary Kreditwerk-Hypotheken-Management GmbH, Mannheim, Germany's leading industrial-scale loans processor. Kreditwerk provides processing and consultancy services for financial services providers such as banks, building societies and mortgage lenders that are seeking to rationalise their loan processing and permanently reduce their processing costs.

#### **Acquisition of Hypotheken-Management a strategic step in expanding services offering**

Kreditwerk acquired Aareal Hypotheken-Management GmbH, Mannheim, with effect from January 1, 2006 and has since changed its name to Kreditwerk Hypotheken-Management GmbH. The acquisition has proved to be an efficient way to both strategically broaden Kreditwerk's services spectrum and extend its customer base by bringing in clients from outside the cooperative financial services network.

#### **Kreditwerk taking over business development credit processing from DZ BANK**

Effective January 1, 2007, Kreditwerk has also taken over development credit processing from DZ BANK. This change will make a further major contribution to Kreditwerk's progressive expansion of its successful operations beyond private property loans. As well as strengthening its market position, the new work will open up substantial new business potential for Kreditwerk.

#### **Partnership with cooperative-sector computing centres to simplify outsourcing process**

By signing cooperation agreements with the network's two computing centre operators GAD and FIDUCIA, Kreditwerk has laid the technical foundations for marketing its processing services more widely within the cooperative financial services network. The integration of Kreditwerk's processes line into the new bank21 (GAD) and agree (FIDUCIA) banking systems will make it even more efficient for the primary banks to outsource their loan processing to Kreditwerk in future. Its package of "Advice for Banks" services even allows the local cooperative banks to take advantage of Kreditwerk's specialist know-how quite separately from any outsourcing decision.

# Insurance business segment: Market-beating growth at R+V

Premium income growth that easily beats the industry average and attractive levels of new business in fund-linked pension products mean R+V can look back on 2006 as a year of expansion. Sales of R+V's RiesterRente product were also outstanding. R+V has established a powerful competitive position in occupational pension insurance. Premium growth in health, property and casualty insurance was also well ahead of the market.

## R+V Versicherung

### R+V Versicherung



- Sector-beating growth
- Number two player in life insurance and property/casualty business
- Straightforward claims servicing appreciated

New market regulations, increasing internationalisation and different patterns of customer needs arising from demographic change are all having massive impact on insurers' business models and practices. R+V Versicherung AG, Wiesbaden, (R+V), is meeting these challenges from a position of strength. The cooperative insurer has retained its faith in the strategic combination of continuous growth driven by product innovation, coupled with financial solidity. Close partnership with the local cooperative banks will remain the key to growth for R+V. Standard & Poor's rates R+V at "A+" ("very good"). The agency says this reflects R+V's great financial strength, excellent competitive situation in the insurance market, risk-centric investment strategy and reliance on the local cooperative banks as its principal distribution channel.

R+V's premium growth has probably outpaced that of the insurance industry as a whole by a factor of four during 2006. While the sector predicts 2.3 percent premium growth in 2006, R+V has achieved growth of 9.9 percent to € 8.9 billion. The R+V Group as a whole took in € 9.2 billion more in premiums in

2006 (+8.5 percent). The steady positive trend of the capital market allowed investments to rise by 6.0 percent to € 47.4 billion.

#### Trend Number 1: Strong demand for flexible private pension provision solutions

R+V's life and pensions insurance companies' premium growth rate of 13.5 percent to € 4.7 billion is eloquent proof that two years after the introduction of Germany's Old Age Incomes Law, they have successfully completed their adaptation to a world of new products offering flexible and capital-markets-oriented retirement provision. The big winners from this paradigm shift in the life insurance world are funds-linked plans and occupational schemes.

A good example of this new product generation is R+V Premium Rente: an innovative equities-based annuity insurance that allows customers to continue to participate in the potential of the stock market during the benefits phase. In the first eight months since the product was launched in April 2006, it has already attracted 1,600 applications and taken in around € 75 million in lump-sum contributions.

New business in the fund-linked annuity insurance segment has increased by 118.6 percent. A fast-growing component of this business success is the white-label product "R+V creative plus" – a fund-linked pension policy that R+V markets in cooperation with Union Investment. Both the investment and the marketing strategy can be tailored to the individual needs of the respective local cooperative bank under whose name the product is then sold.

R+V will bring another important flexible product to the market in 2007 in R+V GarantieRente PflegePlus, which will both pay a retirement pension and respond to the growing demand for care insurance.

**Trend Number 2: R+V RiesterRente roaring away**

State-subsidised retirement provision is the second powerful trend in the life insurance sector. More and more Germans are recognising the need to “top up” their private provision and turning in increasing numbers to the government-assisted pension offerings such as R+V RiesterRente and R+V BasisRente. 2006 saw R+V sell around four times more Riester pension policies than in the previous year. The new plan aimed specifically at cooperative society members – VR Mitglieder-RiesterRente – has played a big part in this strong growth.

**Trend Number 3: Occupational pension provision strengthening R+V's position in SME market**

The heightened public awareness of and changing attitudes to pensions are making occupational pension provision an increasingly important issue. Continuous new business growth (+130 percent) has allowed R+V to establish a strong position in this market compared with the competition. The provision of welfare funds and direct insurance solutions by small and medium-sized enterprises has been a focus of the group's advisory and acquisition effort. R+V has also increased its stakes in large industry-based group pension schemes such as MetallRente.

**Health insurance on uptrend thanks to special society member rates**

Despite all the disruptive debate over healthcare reforms, premium income has increased by 17.1 percent at R+V Krankenversicherung. The new tariffs developed specifically for members of cooperative societies have also been a big sales success: around 35,000 individuals have taken out health insurance at these special rates since the tariffs were introduced on July 1, 2005.

**Property and casualty insurers defy negative market trend**

R+V has continued to win out in property and casualty insurance in 2006 thanks to its innovative product range, depth of customer service and even more effective mining of the local cooperative banks' customer potential. R+V recorded a convincing performance in the personal customers segment with its flexible modular multiline products. In the business customers segment, the cooperative insurer has become the German SME sector's insurance provider of choice on the strength of its immense specialist know-how and tailor-made

product assortment. R+V has reinforced its market leadership as Germany's biggest bank insurer through the GENO Bankpolice product.

Unlike the industry as a whole, which is predicting a 1.1 percent premium income decline in the composite sector, R+V has achieved 2.7 percent premium growth. In its biggest individual business, vehicle insurance, R+V was able to overcome fierce price competition and keep its premium volume virtually stable (industry prediction: -4.1 percent). All the other P&C businesses' premium growth was well above the market average. R+V has moved up the rankings to become Germany's third-biggest credit insurer.

The encouraging trend on the premiums side of the balance has carried over to the claims side. Although R+V did suffer some weather-related losses, the incidence of large-scale natural disasters and large commercial claims was very low. As a result, the aggregate claims expense for 2006 was below the last five years' average.

# Almost everything we do is directed at helping the local cooperative banks

**The DZ BANK Group's relationship with the local cooperative banks goes way beyond the normal customer relationship: the local cooperative banks are not only our biggest and most important customer group, they are also the DZ BANK Group's partners and shareholders. That is why the activities of DZ BANK and the network specialist service providers are primarily designed to assist and promote Germany's local cooperative banks. The cooperative subsidiarity principle is central to all DZ BANK's and the network companies' thinking and actions. The sale of norisbank's branch network and the decision to concentrate on the local cooperative banks' consumer credit business is a good demonstration of this principle at work. In this sense, large parts of this Annual Report can be seen as a "network balance" designed to explicitly describe the services – and the benefit – we provide for the local cooperative banks.**

Most of the benefits the DZ BANK Group generates for the local cooperative banks are in forms that cannot be expressed as a quantifiable payments stream, however; the DZ BANK Group has been continuously improving its performances spectrum in recent years. The following tabular overview lists a selection of

these outputs that have benefited the local cooperative banks. Other examples are included throughout this Annual Report – most importantly, in the sections devoted to the business segments (pages 29 to 57).

## Selected DZ BANK Group outputs that have benefited local cooperative banks

### A) Retail products and services

Private pension provision	<p>With R+V's product offering in the life and pensions insurance segment generating total new business of € 1.8 billion for the local cooperative banks, the latter are also benefiting from the persistent social trend towards private retirement provision. R+V offers products aimed at all three layers of the private pension provision market (R+V BasisRente, R+V RiesterRente and private pension products). More than 100,000 sales of Riester pension plans were booked during 2006, representing new premium income of € 45 million.</p> <p>During 2006 the cooperative financial services network has again been the top seller out of all the distributors active in the Riester market. With a total of 589,000 mediated UniProfiRente/4P contracts, the local cooperative banks lifted their sales by 142 percent year-on-year thanks to their intensive advertising campaign based on the slogan: "Bring your boat safe to harbour". Bausparkasse Schwäbisch Hall's mobile sales force made a major contribution to the total with sales of 100,000 policies. This performance has helped to expand the cooperative financial services network's market share to around 90 percent of the Riester-subsidised funds-based pension plans segment. Adding these sales to the existing stock takes Union Investment above the one million open contracts threshold.</p>
Occupational pension provision	<p>R+V supports all five channels of occupational pension provision. Custom solutions such as R+V's guaranteed working lifetime account (Lebensarbeitszeitkonto, LAZ) and pension fund management services round out its comprehensive offering. New premium income in the occupational pensions segment was 130 percent higher in 2006 compared with 2005.</p> <p>Union Investment is active in the funds-linked occupational pension direct sales segment with its DynaCom solution. Its UniLebensWert solution is also still helping to meet the flood of demand for fund-based products in the working lifetime accounts market.</p>

### Selected DZ BANK Group outputs that have benefited local cooperative banks

Asset management and securities-related business	<p>DZ BANK is the first German issuer to create a dedicated brand for certificates and structured bond products – AKZENT Invest. Although the brand was only launched a short time ago, 96 percent of all the local cooperative banks that had previously made private-label issues, have switched to the AKZENT Invest brand.</p> <p>The cooperative financial services network is a market leader in certificates and structured products. Our total structured product sales amounted in 2006 to just under € 5 billion. A total of € 13.9 billion was invested into the network's fixed income offering during 2006. Looking at the period since 2003, the local cooperative banks' aggregate income from retail securities-related business has de facto doubled in this time. As well as the competitive range of products, the local cooperative banks can also call on our effective sales support capability and "Marketing against Direct Banks" concept to counter the competition from direct banks. Our platform strategy for retail securities-related business provides the local cooperative banks with a unique and tailor-made offering of consultancy and services covering every aspect of information, advice and transaction processing. 852 local banks (85.7 percent) now use the GENO-Broker advisor workstation marketed jointly with Union Investment. DZ BANK continues to invest heavily in platform infrastructure (nearly € 4 million in 2006).</p>
Research	<p>DZ BANK makes all Research outputs available to the local cooperative banks via VR BankenPortal and local banks can also acquire research content to use on their own websites. More than 900 banks take advantage of this facility at a range of subscription levels depending on the needs of their customer-account and own-account operations.</p>
Funds	<p>Our new tax-optimised money-market-linked UniOpti4 fund was launched on 15.09.2006 in response to the cut in the tax-exempt saver's allowance in Germany. Its net sales of € 2.8 billion through the local cooperative banks during 2006 have beaten all expectations. On their own, the new funds launched in 2006 have attracted combined total sales of € 5.2 billion.</p> <p>As at 31.12.2006, Union Investment administered 4.3 million securities custody accounts for cooperative bank customers.</p>
Private Banking	<p>Through its subsidiaries in Switzerland, Luxembourg and Singapore, the DZ BANK Group services the needs of more than 53,000 of the local cooperative banks' wealthy private customers with invested assets totalling over € 6.8 billion. In addition, more than 300 local cooperative banks are partners with DZ BANK International (DZI) in its PPS asset management scheme.</p> <p>This facility has attracted € 1.4 billion from more than 8,000 locally-serviced private customers. More than 5,900 local cooperative bank customers have invested approximately € 715 million into DZI's STARPLAN foreign currency savings account range.</p> <p>The DZ BANK Group's private banking units have paid aggregate bonuses and commissions of more than € 33.9 million to the local cooperative banks on private banking, PPS and foreign currency account business, with DZ PRIVATBANK Schweiz alone paying out € 19.6 million.</p>
Private mortgage credit	<p>DG HYP has cooperated with several local cooperative banks during 2006 to run an extension campaign (i.e. remortgaging into one of DG HYP's attractive private construction finance products). This extension campaign has increased DG HYP's renewals business by no less than 35.1 percent compared with 2005. DG HYP has also worked with eleven local cooperative banks on a pilot project to expand construction finance volumes; the resulting "beacon product" went live at the end of 2006 under the brand name "immo express".</p>

### Selected DZ BANK Group outputs that have benefited local cooperative banks

Building society operations	<p>During 2006 the local cooperative banks signed up 890,000 new save-to-build contracts on behalf of Bausparkasse Schwäbisch Hall with a combined volume of € 28.3 billion (+1.7 percent). This has significantly extended the building society's market leadership to over 28 percent and earned the cooperative banks total commission income of € 252 million (+ 8 percent). Save-to-build is a core product that anchors loyalty but is also a key driver of home ownership, wealth formation and self-funded retirement provision.</p> <p>During 2006 the local cooperative banks were able to take easily three-quarters of Bausparkasse Schwäbisch Hall's total construction finance extended of € 10.6 billion onto their own books. Around 400,000 products were also cross-sold.</p>
Consumer credit	<p>As at the end of 2006, 910 local cooperative banks had opted to become distributors of TeamBank's easyCredit consumer credit product. These partner banks were able – in a subdued but still fiercely-competitive market – to expand their new business by more than 12 percent to € 1.45 billion. This means the cooperative sector has again increased its share of the consumer credit market. In order to permanently entrench and extend the cooperative financial services network's competitive position, TeamBank has become even more specialised and is now devoting all its efforts to building the core easyCredit business. TeamBank gives its local cooperative bank partners access to a marketing premium to strengthen the joint easyCredit operation. This assists focused marketing and new customer acquisition.</p>
Foreign currency lending	<p>In the foreign currency lending segment, DZI has built a portfolio of around 30,000 joint transactions with local cooperative banks with a combined value of € 6.1 billion. This business has brought the local cooperative banks bonus and commission income that adds up to over € 49.5 million.</p>
Providential/insurance business	<p>R+V is the cooperative financial services network's specialist provider of pension and insurance products and offers a broad spectrum of products to cover the widest possible range of risks. In protecting their customers' assets, R+V also protects the local cooperative banks' prosperity.</p> <p>R+V's intelligent insurance solutions are an integral component of the business banking interface and feature in both the VR FinanzPlan Mittelstand product and the company exposé product that forms part of the rating dialogue.</p> <p>R+V also offers specific insurance solutions for the local cooperative banks' individual members in its "VR Mitglieder" product range.</p>
Syndicated lending/ Service tools	<p>DZ BANK's fast-increasing involvement in the local cooperative banks' business financing operation is underscored by the volume of syndicated credit extended, which regularly exceeds € 1 billion. Including Agrar Meta, DZ BANK has processed more than 1,300 Standard Meta applications with a (net) volume of around € 500 million since April 2004.</p> <p>DZ BANK has refined two sales support tools during 2006 – "Market Potential Analysis" (MPA) and "Existing Customer Optimisation" (BKO). These offer the local cooperative banks two computer-supported systems that will make marketing sustainably more effective.</p>
Commercial property finance	<p>In cooperation with the local cooperative banks, DG HYP extended total commercial property credit of € 260.6 million in 2006. Including direct business with large property investors, DG HYP was able to increase its new and extension commercial property finance business by 7.9 percent year-on-year to € 2.4 billion. On the property leasing side, the local cooperative banks were able to fund new business totalling € 72.2 million for VR LEASING.</p>

### Selected DZ BANK Group outputs that have benefited local cooperative banks

Local authority lending	DG HYP's local authority lending set another new record in 2006 at € 3.3 billion. Most of this business is mediated by the local primary banks and represents a key anchor product for them that cultivates relations with public bodies.
Development credit	More than 79,000 business development loans with a combined volume of around € 4.9 billion were processed by DZ BANK. Almost all of our affiliated local banks use our automated development credit processing system.
VR Cross-Selling	More than 200 local cooperative banks work closely with DZ BANK to proactively offer their business customers access to interest rate and exchange rate management tools. The resulting commission income of around € 2.9 million confirms the success of this business model.
Stakes in surety banks	DZ BANK assists the development of the local banks' small and medium-sized business customer base through its (non-interest-earning) principal investments totalling € 32 million in 41 surety banks, SME venture capital firms and credit guarantee associations.
Leasing and factoring	<p>The movables leasing business mediated by the local cooperative banks for the VR LEASING Group has increased very substantially (by around 31 percent) in 2006, which confirms the strength of demand from the SME sector for alternative financing strategies. New business worth € 440.4 million (+ 22.1 percent) was agreed in the vehicle leasing business segment, while the total for the investment goods segment was € 502.8 million (+ 32.9 percent). The new business improvement in the information and communications technology segment was no less than 77 percent, and the final total was € 95.4 million.</p> <p>The factoring revenues generated by the group's VR FACTOREM affiliate in 2006, mainly through partnership with the local cooperative banks, increased by 43.6 percent to € 1,302 million. The average 2006 volume of the VR LEASING Group's refinancing business with the local cooperative banks was € 547 million, and this generated interest income of around € 17.3 million for the local cooperative banks.</p>
Private Equity	DZ Equity Partner agreed 18 new business partnerships with a combined investment volume of € 156.3 million during 2006. Around 50 percent of the deals and of the transaction volume was initiated within the cooperative financial services network.
International business	The international activity of approximately 13,000 local bank customers is supported by DZ BANK's foreign-based staff. Bank credit lines in more than 115 countries provide them with opportunities to finance their exports and if necessary hedge risks.

### B) Capital market operations

Supporting local banks' own-account investing	DZ BANK experts conducted more than 1,400 individual consultancy exercises in the area of interest-rate risk/liabilities management for local cooperative banks during 2006 and performed 55 credit portfolio analyses (with follow-up recommendations). 938 local banks use the GENO-SAVE system to administer their own-account trading portfolios (98 percent market share by total assets).
Strategic Asset Allocation	Strategic Asset Allocation is a consultancy offering that analyses and optimises a local bank's asset structure by asset classes on a bank-wide view. No less than 109 of these advisory exercises were carried out in 2006.

### Selected DZ BANK Group outputs that have benefited local cooperative banks

Market compatibility control	DZ BANK has developed a BAFin-recognised control system – “Market Compatibility Control Online” – that more than 520 local cooperative banks have deployed to demonstrate to their auditors that they have properly outsourced the checking of the market-compliance of their prices.
Collective proprietary investment funds	633 different local banks have invested a total of € 4.8 billion in collective proprietary investment funds to help manage and diversify their own-account investments.
Foreign exchange trading	The online forex trading system FXclick, accessible via VR BankenPortal, is already used by approximately 25 percent of all the local cooperative banks that engage in this activity. This means up-to-date tradable prices are available at all times.
Securities lending	More and more banks are exploiting the potential to generate risk-free income by lending out securities. The volume of securities loaned by local cooperative banks in 2006 amounted to approximately € 8 billion.

### C) Processing services

Securities processing	DZ BANK processes transactions for the local cooperative banks through dwpbank. As a cross-sectoral services provider for banks beyond the cooperative financial services network that administered 7.6 million custody accounts in 2005, dwpbank can and does generate economies of scale for the cooperative financial services network. Securities-related business brought the local cooperative banks € 43.6 million (net) in income.
Payments processing	The prices charged to local banks for processing international and giro payments were reduced by a total of € 6.6 million in 2006. DZ BANK also passed on a further € 1.8 million to the local cooperative banks in price reductions affecting the whole foreign payments sphere in the second half of 2006.
Card processing	DZ BANK assists the local cooperative banks’ credit and debit card operations through its affiliated company, CardProcess GmbH, Karlsruhe. For the first time, CardProcess has enhanced its product offering to the local cooperative banks by adding sales-support options. The cooperative financial services network’s central institutions are making it possible for the primary banks to issue electronic cash and Visa payment cards (“V-Pay”) and therefore preparing them for the Single Euro Payments Area (SEPA).

# Personnel Report:

## Utilising resources – developing people

**“Learning from each other. Growing together.”** Employees put flesh on this guiding principle and make it reality through their skills and experience; they prove their motivation through their entrepreneurial thinking and exceptional commitment. The Human Resources division has faith in this combination of learning and competitiveness and seeks to build on existing strong points: target orientation, loyalty plus market-responsive and performance-related pay.

The Human Resources division contributes indirectly to DZ BANK’s value-added: it does so by expanding the scope of management support and development, through systematic staff development and through the consistent internationalism of all HR functions coupled with the reorganisation of standardised HR operations.

### **Systematic staff development by building on existing skills**

Knowledge, skills and experience are the foundation stones for the future. The bank’s Skills Portfolio Management project, now in the pilot phase, will make it possible to identify potentials and strengths, extend and appropriately deploy existing capabilities, and effectively remedy weaknesses. Further training and development can then be derived systematically from role- and task-specific requirements and the associated performance standards.

### **Potential development programmes to secure strategic succession planning**

DZ BANK’s Potential Development Programme has been available to all divisions since 2006. The aim of the programme is to prepare highly-promising employees to take on more demanding roles and greater responsibility through an individualised development process. The goal is to fill vacant key positions as a dimension of strategic succession planning and increase talented individuals’ commitment to DZ BANK.

### **Specific-requirements-driven management development**

The Human Resources division’s objective for 2007 is to make management development needs-centric and practically-focused in order to better support the bank’s managers in achieving their business-policy targets.

This new concept is constructed on three separate pillars:

1. A range of provision to address specific management situations
2. Programmes for managers
3. Modular management development

The specific management-situations-focused provision will consist of two training courses: the “New Manager” training course is designed to assist colleagues taking on a management role for the first time. The “Management Change” training course is designed to help managers changing from one management position to another. Their common objective is to get the new managers “up and running” quickly. Nevertheless, the two target groups have different emphases: the central requirements for colleagues assuming their first management role is to decide a personal approach and address fundamental management issues or themes. Experienced managers on the other hand need to focus on developing an appropriate strategy and initiating change.

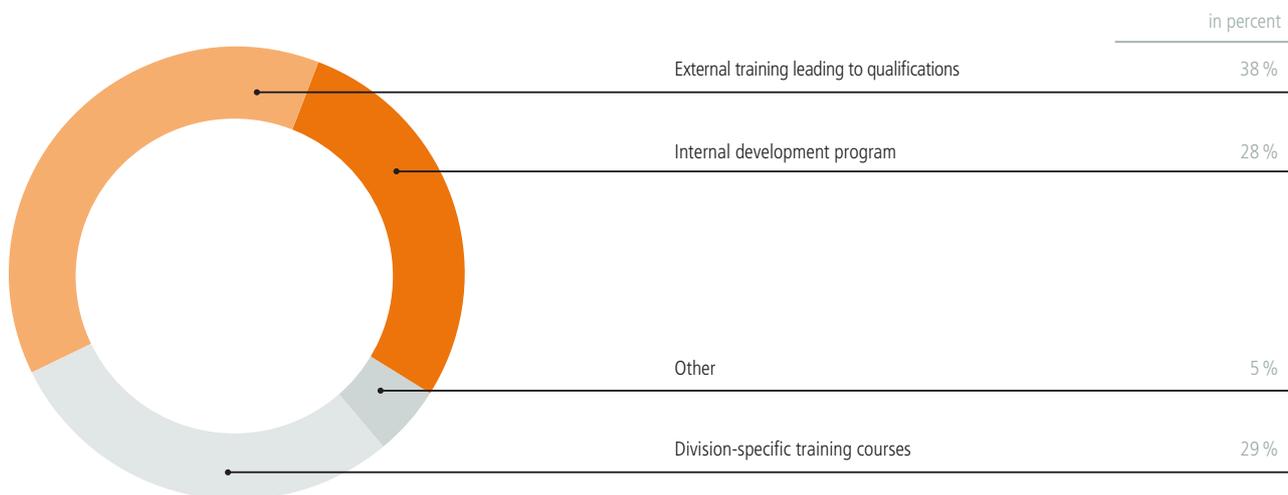
The regular programmes for managers will communicate a consistent management approach or philosophy – but will also be tailored to the specific requirements of the relevant hierarchy level.

Modular management development will cover the same content modules as the regular programmes for managers and will be aimed at managers interested in tackling individual management themes.

### **Three building blocks for developing all employees**

During 2006 DZ BANK employees took advantage of a very wide range of personal development offerings that added up to a total of 13,115 attendance days. Qualifications were gained through the bank’s internal staff development programme,

**Distribution of development modules**



division-specific training events and external providers. The per capita participation rate was unchanged from 2005 at 3.5.

Three themes still provide the core of the bank’s development effort and account for 72 percent of total activity; they are “Banking and Management”, followed by “Methods, Communication and Personality” and “Information Technology.”

The 570 development days devoted to IFRS-related events confirm the scale of DZ BANK’s preparations for the changeover.

Theme	Attendance days
in %	
Banking and Management	33
Methods, Communication and Personality	21
Information Technology	18
Languages	11
Potential Development Programme	2
Projects	2
Project Management	3
Management	6
Other	4

**Trainees are tomorrow’s skills bank**

DZ BANK AG’s Career Prize, the most valuable prize for final theses on the subject of “Banking and Finance”, was awarded

for no less than the fifth time in 2006. 115 masters theses were submitted, another big entry. No wonder then, that DZ BANK’s traineeship programmes were once again the source of a large proportion of the bank’s new permanent employees in 2006. As the training statistics show, DZ BANK takes its responsibility to provide training opportunities particularly seriously.

**Trainee programmes**

<b>Initial training (apprenticeship) programmes</b>	<b>116</b>
Bank officer	2
Office automation technician	18
Banking studies at Berufsakademie	50
Commercial informatics studies at Berufsakademie	33
Information engineer	4
Apprenticeship studies at Hochschule für Bankwirtschaft	9
<b>Staff development programmes</b>	<b>41</b>
Professional studies at Hochschule für Bankwirtschaft	10
Trainees	28
Doctoral students	3
<b>Student programmes</b>	<b>194</b>
Internships	75
Masters students	17
Student trainees	46
Student development circle	56
<b>Total</b>	<b>351</b>

### **“Welcome to the DZ BANK team”**

This was the slogan that summed up the cross-divisional induction courses for all new staff. All the business lines present their services, products and strategies and help their new colleagues to quickly find their feet as well as introduce them to the DZ BANK culture.

### **Family-aware HR policies: reconciling work and home life**

Many people's dearest wish is to balance the demands of their work and family life. Family-aware personnel policies are therefore an integral component of DZ BANK's modern philosophy; they make both business and social sense.

One of our priorities this year was to source nursery places for employees' children. As well as reserving places in the Villa Kunterbunt Kindergarten close to the bank's Frankfurt head office, we were also able to organise extra emergency capacity from January 2007. Another key feature of 2006 was the division's intensive cooperation with the Frankfurt unit of Familienservice and the charity Hertie-Stiftung GmbH. Familienservice operates throughout Germany, providing services to working people, families, singles and the elderly dependent. The various early-stage support services they offer help employees and employers equally to minimise care shortages and missed working time. They are currently focusing on providing more places for babies and toddlers up to three years of age. At the initiative of the charity Hertie-Stiftung, they have designed the “Work and Family” audit that DZ BANK and others will be using in future to develop other effective models for a family-friendly workplace.

### **Good health is an issue for everybody!**

If we are to perform well and put our heart into our work, we also need something to balance this out. This is why DZ BANK has established an extensive range of workplace sports opportunities. Team sports are on offer such as football and basketball, and so are individual sports such as tai chi and squash. A major promotion during 2006 was a series of courses on avoiding back problems. The bank's doctors also provided flu vaccinations to staff for the first time. All these initiatives proved very popular.

### **New reduced-working-time model eases transition to retirement for older staff**

Since January 1, 2006, DZ BANK employees who have reached the age of 55 can apply to work part-time on the block-release model. This means that the employees work as normal during the first half of the agreed reduced-time period (work phase) and are then released from duties during the second phase while retaining all their employment rights (leisure phase). This reduced-working period is based on the employee's statutory retirement age and can be a maximum of six years where the individual has been employed up to 15 years, up to seven years where the employment has lasted over 15 years, and up to eight years where the employee has more than 20 years of service. Employees who take up this option are paid a reduced salary throughout the reduced-working period plus limited graduated top-ups depending on their grouping (collectively-negotiated/non-collectively-negotiated).

### **DZ BANK Pension Trust e.V. now looking after pension obligations**

DZ BANK has transferred the necessary funds to service its pension obligations to DZ BANK Pension Trust e.V., which is now acting as trustee to employees with pension entitlements (future beneficiaries) and current pensioners. The assets are professionally managed by outside specialist companies according to defined policies. All pension entitlements are still against DZ BANK.

### **Working towards harmonised group HR policies: DZ BANK Group personnel initiatives**

The Group HR Committee, made up of the personnel directors and Board of Managing Directors members with responsibility for HR issues, and the Personnel Managers Working Group have both established themselves as effective and valuable forums. Both committees have called for and supported deeper cooperation within the DZ BANK Group and a consistent approach to the group's HR activities.

The first results are now evident at the operational level in the implementation of the Human Resources Controlling Working Group, whose members cover Union Investment, VR LEASING,

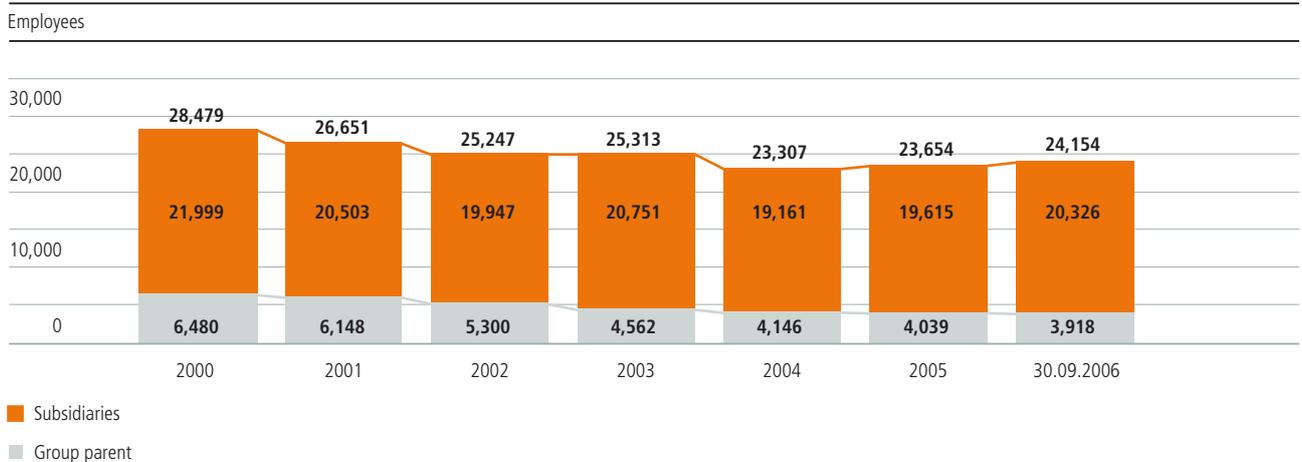
R+V, TeamBank, DG HYP, Bausparkasse Schwäbisch Hall, VR Kreditwerk and DZ BANK. Their efforts are firstly creating more transparency in the various companies' personnel structures, and secondly are helping to identify leading indicators of universal challenges and to suggest appropriate HR policy instruments and products to counter these challenges.

One particularly successful outcome of this joint effort is the group-wide online jobs exchange run on the DZ BANK Group's intranet ("DeZettGruppe.net"), where user-friendly search functions provide a comprehensive overview of all the vacant positions on the group-wide jobs market. This exchange is not only injecting life into the group's internal labour market but also opening up career opportunities for movers between group companies.

Having updated the group stand, the DZ BANK Group was an exhibitor at the Graduates Fair in Cologne where it presented itself to around 13,000 young jobseekers. The "Cooperation Street" theme neatly enabled DZ BANK, R+V, Union Investment, DG HYP, DZ BANK International, VR LEASING, Bausparkasse Schwäbisch Hall and VR Kreditwerk all to share the stand in a meaningful way.

In Spring 2006 qualifying employees of DZ BANK and 63 consolidated companies of the DZ BANK Group were invited to subscribe to buy DZ BANK shares. To qualify, employees needed to have been employed at a group location in Germany or a facility in the United Kingdom, Ireland, Luxembourg or Switzerland for at least one year and to be still actively employed. Almost one million shares were subscribed for. This extremely positive response shows that staff are genuinely interested in participating in DZ BANK's growth potential and rising earnings through direct equity involvement.

**Facts and figures: Employee structure**



# Imprint

DZ BANK AG  
Deutsche Zentral-Genossenschaftsbank,  
Frankfurt am Main  
Platz der Republik  
60265 Frankfurt am Main  
[www.dzbank.de](http://www.dzbank.de)

Telephone: +49 69/7447-01  
Fax: +49 69/7447-1685  
E-Mail: [mail@dzbank.de](mailto:mail@dzbank.de)

Board of Managing Directors:  
Wolfgang Kirsch (Chief Executive Officer)  
Heinz Hilgert (Deputy Chief Executive Officer)  
Dr. Thomas Duhnkrack  
Albrecht Merz  
Dietrich Voigtländer  
Frank Westhoff

This Annual Report is also available in German.  
The German version of this Annual Report is the  
original and authoritative version.

