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Regulatory Semi-Annual Risk Report of the DZ BANK banking group

June 30, 2008

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Contents

1 Basis for regulatory risk reporting

1.1 Legal basis and implementation in the DZ BANK banking group

The Basel Committee on Banking Supervision has defined internationally applicable standards for the risk-adjusted capital adequacy of banks by issuing recommended equity capital requirements (Basel II). The European minimum capital standards prescribed in the banking directive (2006/48/EC), the capital adequacy directive (2006/49/EC), and the equivalent requirements of Basel II have been adopted in German law in the form of the Solvency Regulation (SolvV). The SolvV specifies the required capital adequacy of banks in accordance with § 10 of the German Banking Act (KWG).

Since financial year 2007 the DZ BANK banking group has used the internal ratings-based approach for credit risk and the standardized approach for operational risk to calculate regulatory capital adequacy requirements.

The regulatory risk reporting of the DZ BANK banking group is carried out in accordance with section 26a. KWG in conjunction with section 319. to 337. SolvV. In addition, the DZ BANK banking group implements the disclosure recommendations for securitizations and leveraged finance from the Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience dated April 7, 2008 (FSF disclosure recommendations) in accordance with the specific situation of the DZ BANK banking group. The disclosure is made according to section 319. (2) SolvV by DZ BANK as the group parent of the regulatory banking group and is generally provided in aggregated form at the group level.

The subject of this report deals primarily with quantitative regulatory risk reporting. The figures provided generally refer to the reporting date of June 30, 2008, and for the information required by SolvV they appear in the table formats (known as use cases) recommended by the specialist sub-commitee on disclosure requirements of the Deutsche Bundesbank.

The table numbers and names are based on these recommendations and on Pillar 3 of Basel II. This ensures that the regulatory risk reporting of the DZ BANK banking group meets international, European, and German standards.

The representations of the risk management system of the DZ BANK banking group found in the regulatory risk report and in the risk report of the Group Management Report of December 31, 2007, also apply to the first half of 2008. Significant changes to the risk management system made in the first half of the financial year are shown in the Interim Management Report.

Additional information on the risk management system for securitizations resulting from the implementation of the FSF disclosure requirements is presented in this risk report.

1.2 Concept of regulatory risk reporting

The capital requirements according to SolvV apply to credit risk (including equity risk), market price risk, and operational risk. As part of the internal economic capital adequacy process pursuant to Pillar 2 of Basel II, strategic risk and insurance risk are backed by economic risk capital in addition to the risk types already mentioned. Liquidity risks are backed by neither regulatory capital nor economic capital.

The regulatory risk report covers the subsidiaries which must be included in the DZ BANK banking group's basis of consolidation in accordance with the KWG. Other risks which arise from subsidiaries not consolidated on a regulatory basis are disclosed as part of the commercial risk report. This applies in particular to risks from R+V Versicherung AG, Wiesbaden.

In addition, there is a difference between the economic and regulatory perspectives in how to account for certain risk types. In particular, insurance risk and strategic risk are covered in economic capital requirements but not backed by capital on the regulatory side. Another example is that market price risks are covered in the investment book when calculating the economic capital.

The credit risk exposures represented in this risk report in Table Groups 5, 6, 7, 8, and 9 and the allowances for losses on loans and advances are based on valuation methods and values found in the German Commercial Code (HGB). In contrast, the credit volume as represented in the commercial risk report is based on the figures of internal management.

In determining the regulatory capital adequacy and the disclosure made as a result, risk-bearing exposures assigned to the trading book or investment book are handled differently in regard to quantifying risk. Both the on- and off-balance sheet exposures in the investment book and the counterparty risks from derivative exposures in the investment book and the trading book fall under the category of credit risks.

The balance sheet exposures in the trading book are considered market price risk exposures and are backed with capital, while internal management views them as issuer risks and assigns them accordingly to credit risks. The differences between the trading book and investment book also apply to the disclosure of securitizations as part of the entire lending portfolio.

Figure 1 presents a comparison between the disclosure contents in relation to the risk types and how they are presented in the regulatory and commercial risk reports.

Contents of risk reports by risk type

Risk types		Regulatory risk report	Commercial risk report
Credit risk (including default risks from trading activities and securitizations)		Credit volume, regulatory capital requirements, collateral, allowances for losses on loans and advances, and loss data	Credit volume, economic risk capital requirements and allowances for losses on loans and advances
Equity risk		Volume of securities in investment book and traditional participations, regulatory capital requirements	Not included in interim report
Market price risk	Trading book (including securitizations)	Regulatory capital requirements for each market price risk type	Economic risk capital requirements, upper loss limit and value-at-risk for the total book
	Investment book	Value-at-risk of the interest rate risk	
Insurance risk		Not included	Economic risk capital requirements and upper loss limit
Operational risk		Regulatory capital requirements	Economic risk capital requirements and upper loss limit
Strategic risk		Not included	Economic risk capital requirements and upper loss limit

Figure 1

Table 1b: Consolidation matrix/differences between supervisory and commercial code-based consolidation groups

		Supervisory treatment				Consolidation acc. to IFRS	
		Consolidation			Risk-weighted investments (if consolidated in acc. with Commercial Code)		
Classification	Name (abbreviation)	Full	Pro-rata	Deduction treatment		Full	Pro-rata
Banks	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main (DZ BANK)	●				●	
	Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (BSH)	●				●	
	Deutsche Genossenschafts-Hypothekenbank AG, Hamburg (DG HYP)	●				●	
	DVB Bank AG, Frankfurt am Main (DVB)	●				●	
	DZ BANK International S.A., Luxembourg-Strassen (DZI)	●				●	
	DZ BANK Ireland plc, Dublin (DZ BANK Ireland)	●				●	
	DZ BANK Polska S.A., Warszawa (DZ BANK Polska)	●					
	TeamBank AG Nürnberg, Nuremberg (TeamBank)	●				●	
Finance companies	Union Asset Management Holding AG, Frankfurt am Main (Union Asset Management Holding)	●				●	
	VR-LEASING-AG, Eschborn (VR-LEASING)	●				●	
Insurance Companies	R+V Versicherung AG, Wiesbaden (R+V)				●	●	

Figure 2

2 Scope of application

As part of the DZ BANK financial services conglomerate the DZ BANK banking group is subject to the provisions of section 10b. KWG. In this context it meets the capital adequacy requirements for the **solvency of the financial services conglomerate** and for the establishment of a comprehensive risk management system.

All companies of the financial services conglomerate are integrated in central risk management according to the materiality of the risks involved. The information provided in this risk report generally applies to these companies in accordance with section 26a. (2) (1) KWG. In this regard the regulatory semi-annual risk report is congruent with the risk report of the interim report, which refers to the same companies. Exceptions to the materiality concept are Table 2b to 2e, "Capital structure"; Table 3b to 3e, "Capital adequacy"; Table 3f, "Capital ratios"; and Table 10b, "Capital adequacy for market price risks according to the standardized method."

These tables list all relevant companies included in the regulatory basis of consolidation to confirm the identity of these central regulatory values in the context of reporting.

Table 1b "Consolidation matrix/differences between supervisory commercial code-based consolidation groups" (disclosure pursuant to section 323. (1) SolvV) classifies the companies of the financial conglomerate which are essential for internal risk management according to the purpose of the company, the type of regulatory treatment, and commercial consolidation. The companies are classified based on the definitions of section 1. KWG.

Figure 3 shows the integration of the group companies in the quantitative disclosure of the DZ BANK banking group pursuant to SolvV. The companies are generally included in the disclosure while taking the banking group's internal consolidation effects into account. Subgroups are included on a partially consolidated basis in the reporting.

Integration of the companies in the quantitative regulatory disclosure

	Table 2b to 2e	Table 3b to 3e	Table 3f	Table Group 4	Table Group 5	Table Group 6	Table Group 7	Table Group 8	Table Group 9	Table Group 13	Table 14b
Companies	Capital structure	Capital requirements	Capital ratios	Credit volume and risk provisions	Standardized approach exposure	IRBA exposures	Credit risk mitigation	Derivative counterparty risk positions	Securitizations	Equities	Interest rate exposure
DZ BANK	●	●	●	●	●	●	●	●	●	●	●
BSH	●	●	●	●	●	●	●	●	●	●	●
DG HYP	●	●	●	●	●	●	●	●	●	●	●
DVB	●	●	●	●	●	●	●	●		●	●
DZI	●	●	●	●	●	●	●	●		●	●
DZ BANK Ireland	●	●	●	●	●	●	●	●	●	●	●
DZ BANK Polska	●	●	●	●							●
TeamBank	●	●	●	●	●	●	●	●		●	●
Union Asset Management Holding	●	●	●								
VR-LEASING	●	●	●	●	●		●	●	●	●	
Other companies relevant to banking supervision	●	●	●	●							
R+V				●							

Figure 3

The following quantitative disclosure requirements are currently not being implemented:

– **Table 5b (II)** "Total exposure values for special financing subject to the simple risk weighting method" (disclosure pursuant to section 329. (1) SolvV), as there is currently no special financing in the DZ BANK banking group according to the regulatory definition.

– **Table 6f** "Loss estimates and actual losses in lending business" (disclosure pursuant to section 335. (2) (6) SolvV), as the DZ BANK banking group is making use of the exception which states that no initial disclosure is required before 2009.

– **Table 8d** "Alpha factor in accordance with section 223. (6) SolvV" (disclosure pursuant to section 326. (2) (5) SolvV), since no internal models recognized by the regulatory authorities are currently being used to determine the regulatory capital adequacy for derivative counterparty default risk exposures.

– **Table 9h and 9i** "Securitizations in the early amortization approach" (disclosure pursuant to section 334. (2) (5) SolvV) , since the companies of the DZ BANK banking group are not currently conducting these types of securitization transactions.

3 Risk capital management

3.1 Equity capital

(Disclosure pursuant to section 324. SolvV)

Table 2b to 2e provides a summary of equity capital as defined in accordance with section 10a. KWG. The information refers to all the companies included in the regulatory basis of consolidation of the DZ BANK banking group as of June 30, 2008. The static equity capital components are based on the financial statements as of December 31, 2007. The capital of the DZ BANK banking group was calculated using the aggregation and deduction method pursuant to section 10a. (6) KWG.

The **expected losses** for IRBA positions pursuant to section 10. (6a) (2) KWG, which are deducted 50/50 from the Tier 1 capital and Tier 2 (supplementary) capital, amounted to € 6 million as of June 30, 2008.

The regulatory capital of the DZ BANK banking came to nearly € 12.0 billion on June 30, 2008, while the available risk capital of the DZ BANK Group as used for the economic capital management and disclosed in the risk report of the interim report was € 12.2 billion.for the fiscal year.

Both capital concepts aim to secure capital adequacy, meaning that the corresponding capital components function as buffers in case unexpected losses should arise. The regulatory capital of the DZ BANK banking group derives from both the requirements of the KWG and those of the Basel Committee on Banking Supervision. It is based on values found in the HGB and essentially includes the equity capital on the balance sheet, hybrid capital instruments, and subordinated liabilities which are being modified in terms of various balance sheet or valuation-related components. However, the components of the economic available risk capital for the DZ BANK Group are based on IFRS provisions, and in addition to the balance sheet equity capital components also include reserves which can be realized in the event of loss, liabilities available for the long term which participate up to the complete amount in the loss, and selected earnings components. The economic presentation includes the equity capital components of R+V as well.

Table 2b to 2e: Equity capital structure

in € million

Capital instruments	Amount
Paid-up capital	4,694
Capital reserves and other eligble reserves	458
Special provisions for general banking risks pursuant to section 340g. HGB	2,092
Other Tier 1 capital instruments	2,392
Deductions items from Tier 1 capital pursuant to section 10. (2a) (2) KWG	-170
Deductions items from Tier 1 capital pursuant to section 10. (6) (6a) KWG	-370
Total amount of Tier 1 capital pursuant to section 10. (2a) KWG	**9,096**
Total of Tier 2 (supplementary) capital before capital deduction exposures pursuant to section 10. (2b) KWG	3,261
Deductions from Tier 2 (supplementary) capital pursuant to section 10. (6) and (6a) KWG	-370
Total Tier 2 (supplementary) capital pursuant to section 10. (2b) KWG and qualifying Tier 3 capital pursuant to section 10. (2c) KWG	**2,891**
Total amount of modified available equity capital pursuant to section 10. (1d) KWG and qualifying Tier 3 capital pursuant to section 10. (2c) KWG	**11,987**

Figure 4

Table 3b to 3e: Capital requirements (Part 1)

in € million	Capital adequacy requirements
1 Credit risks	
1.1 Credit risk-standardized approach	
Central governments	0
Regional governments and local authorities	20
Other public-sector entities	1
Multilateral development banks	0
International organizations	0
Institutions	119
Covered bonds issued by banks	2
Corporates	1,829
Retail business	200
Positions secured by real property	103
Investment units	25
Other exposures	96
Past due positions	68
Total credit risk-standardized approach	**2,463**
1.2 IRB approaches	
Central governments	117
Institutions	1,121
Corporates	1,259
Retail business	1,127
of which: mortgage-backed	522
qualified revolving	0
other	604
Other credit-independent assets	59
Total IRB approaches	**3,683**
1.3 Securitizations	
Securitizations pursuant to standardized approach to credit risk	31
Securitizations pursuant to IRB approaches	190
Total securitizations	**221**
1.4 Equities	
investments pursuant to IRB approaches	109
of which: internal model approach	0
PD/LGD approach	3
simple risk-weighting approach	106
of which: exchange-traded equity investments	60
non-exchange-traded equity investments, but part of a diversified equity investment portfolio	0
other investments	46
Equities exempted from the IRB approaches	301
Total equity investments	**410**
Total credit risks	**6,777**

Figure 5

Table 3b to 3e: Capital requirements (Part 2)

in € million	Capital adequacy
2 Market price risks	
Standardized method	153
of which: interest rate risks	90
share price risks	1
currency risks	62
risks due to commodity exposures	0
other risks	0
Internal model approach	867
Total market price risks	**1,020**
3 Operational risks	
Operational risks pursuant to standardized approach	520
Total capital adequacy requirements	**8,317**

Figure 6

3.2 Capital requirements

(Disclosure pursuant to section 325. (2) SolvV)

In **Table 3b to 3e** the amounts for capital requirements are shown. The aggregated capital adequacy for the sub-portfolio of securitizations is also disclosed in Table 9g and 9i, listed according to risk weighting bands.

The difference between the regulatory capital adequacy (€ 8,317 million) and the economic risk capital requirements (€ 8,577 million) measured on June 30, 2008, and disclosed in the risk report of the interim report is essentially a result of the fact that the economic risk capital management uses its own risk models and comprehensively takes diversification effects between the risk types into account. In turn, the risk valuation specific to the bank is stronger than the measurement procedure prescribed by the supervisory authorities. In addition, the two measurement procedures have different methods of accounting for collateral and open credit lines.

Insurance risks and strategic risks are backed only in the economic method with equity capital. In regard to credit risks, the market price risks, and the operational risks the higher economic values are due to the inclusion of R+V, which does not factor into the regulatory perspective.

The economic risk capital requirements for credit risk, which are significantly lower in comparison to the regulatory capital adequacy, derive primarily from conservative assumptions in the regulatory approach.

3.3 Capital ratios

(Disclosure pursuant to section 325.(2) SolvV)

The regulatory capital ratios are presented in **Table 3f** and are based on the legal standards for capital requirements in the country in which the headquarters are located. These ratios show the relationship between the risk-weighted exposure values and the regulatory capital components in the DZ BANK banking group. The information for the group companies is provided without taking consolidation effects internal to the banking group into account.

As of the reporting date of June 30, 2008, the capital ratios of the DZ BANK banking group and the group companies were significantly below the prescribed regulatory minimum values of 8.0 percent (total capital ratio) and 4.0 percent (Tier 1 capital ratio).

Table 3f: Capital ratios in the DZ BANK banking group

in %

Companies	Overall ratio	Tier 1 capital ratio
DZ BANK banking group	**11.5**	**8.8**
DZ BANK	18.8	11.6
BSH	35.3	25.9
DG HYP	9.5	6.6
DVB (banking group)	17.8	12.3
DZI	17.7	16.3
DZ BANK Ireland	11.5	8.4
DZ BANK Polska (banking group)	11.2	11.2
TeamBank	12.8	8.8

Figure 7

4 Credit risk

4.1 Commentary of regulatory disclosure of credit risks

The disclosure of credit risks of the DZ BANK banking group is the subject of Section 4 of this risk report. Section 4.2 discusses the disclosure of the total credit volume. This is based on the internal risk reporting of the DZ BANK Group to the DZ BANK's Board of Managing Directors and refers to the corresponding information provided in the risk report of the interim report. Sections 4.3 to 4.7 contain only excerpts from the total credit volume based on data from reporting and according to criteria prescribed by the supervisory authorities – for example asset classes and risk weighting bands.

The information on credit volume differs in the regulatory and commercial risk reports from a methodological standpoint in that the internal reporting is geared toward receivables values in the form of a measurement basis before collateral and after deducting allowances made for losses on loans and advances, while in Sections 4.3 to 4.7 the exposure values are listed as expected exposures on the date of the possible credit default. In addition, the quantitative details differ due to the different ways of accounting for conversion factors for credit lines which have been granted or are open.

The total credit portfolio presented in Section 4.2 can be compared with the summarized regulatory sub-portfolios in Tables 5b (I), 6d (I), 6d (II), 6d (IV), and 9f. However, the totals ultimately cannot be transferred across due to the differing definitions of ratios and offsetting procedures for collateral. Further, there are deviations resulting from the different ways of accounting for the strategic participations and credit insurance volume of R+V.

The exposures for securitizations and leveraged finance presented in Sections 4.7 and 4.8 for implementation of the FSF recommendations are included in the representations of the total portfolio in Table Group 4 and in the sub-portfolio shown in Table Groups 5, 6, and 9.

4.2 Gross credit volume and allowances for losses on loans and advances

Table Group 4, which contains all the information from the different approaches regarding gross credit volume and allowances for losses on loans and advances in the lending business, is fully disclosed in the risk report of the interim report. The following allocations are used:

– The information in **Table 4d**, "Key industry by credit risk-bearing instruments" (disclosure pursuant to section 327. (2) (1) and (2) SolvV) is published as part of the "Credit risk concentration by industry" table.

– The information in **Table 4b and 4c,** "Gross credit volume by geographic key areas and by receivables category" (disclosure pursuant to section 327. (2) (3) SolvV) is published as part of the "Credit risk concentration by country group" table.

– The information in **Table 4e**, "Contractual residual terms to maturity" (disclosure pursuant to section 327. (2) (4) SolvV) is published as part of the "Credit volume by residual maturity" table.

– The information in **Table 4f** "Non-performing loans and loans in arrears by key industry" (disclosure pursuant to section 327. (2) (5) SolvV) is published in the tables "Past due but not impaired credit volume by industry," "Credit volume in the portfolio with specific loan loss allowance by industry," and "Loan loss allowances by industry – January 1 to June 30, 2008."

– The information in **Table 4g** "Non-performing loans and loans in arrears by geographic key area" (disclosure pursuant to section 327. (2) no. (5) SolvV) is published in the tables "Pust due but not impaired credit volume by country group," "Credit volume in the portfolio with specific loan loss allowance by country group," "Loan loss allowances by country group – January 1 to June 30, 2008."

The contents of **Table 4h,** "Development of allowances for losses on loans and advances" (pursuant to section 327. (2) (6) SolvV) are covered in Tables 4f and 4g; accordingly, no separate disclosure is being made.

4.3 Exposure values in the standardized approach to credit risk

Total exposure values of the standardized approach to credit risk and the exposure values for equities and mortgage-backed exposures subject to the simple risk-weighting method

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

Table 5b (I) shows the exposure values allocated to the asset classes in the standardized approach before and after taking credit risk mitigation into account. The table also shows the exposure values of the IRBA equity investments and the mortgage-backed exposures calculated in accordance with the simple risk-weighting method after application of credit risk mitigation. The allocation of the transactions to the regulatory risk weightings depends on the classification of the transactions to the regulatory asset classes, on the credit rating of the borrower or the transactions, and on the collateral. The higher total of the exposure values after credit risk mitigation in the standardized approach is a result of the assignor's provision of personal collateral for IRBA transactions, which are handled in accordance with the standardized approach.

Table 5b (I): Total amount of the exposure values of asset classes in the standardized approach to credit risk and the exposure values for equities and mortgage-backed exposure subject to the simple risk-weighting method

in € million		Total amount of exposure values after credit risk mitigation	
Risk weight	Total amount of exposure values before credit risk mitigation in standardized approach to credit risk	in standardized approach to credit risk	in IRB approach for equity investments and mortgage-backed positions acc. to simple risk-weighting method
0 %	89,884	94,455	
10 %	261	261	
20 %	4,569	4,577	
35 %	1	919	
50 %	628	2,575	287
75 %	3,816	3,291	
100 %	29,021	24,521	
150 %	761	603	
190 %			1
200 %	0	0	
290 %			256
350 %	0	0	
370 %			155
1,250 %	0	0	
Capital deduction	0	0	
Total	**128,941**	**131,202**	**699**

Figure 8

4.4 Exposure values in the IRB approach

The following Tables 6d (I), 6d (II), and 6d (IV) show the IRBA credit volume of the borrower or the transactions, which are classified using an internal credit rating system. The internal rating systems are clearly assigned to a regulatory asset class. As part of the credit application or credit granting process, each of the rating systems is used to classify the loan applicant. The borrower or transaction is assigned to a credit rating based on individual creditworthiness in the form of a specific probability of default (PD) or expected loss. For the categorization in each of the tables, the credit ratings of the different risk classifications have been mapped to group-wide uniform GRC rating grouping. The transactions have been divided into the risk categories of "Investment Grade," "Non-Investment Grade," and "Default" using the corresponding probabilities of default by credit rating.

This division is shown on page 102 of the risk report in the 2007 annual report.

Total credit volume by PD class (without retail) in IRB approach

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

Table 6d (I) shows central governments, industries, corporates, and equity investments in relation to the IRBA asset classes, plus the following key figures as distinguished by risk class:

– All exposure values and in particular the exposure values of unutilized loan commitments
– The average risk weightings weighted with the exposure values

The exposure values of the open credit lines are determined by applying the credit conversion factors to the

Table 6d (I): Entire credit volumes according to PD classes (excluding retail) in the IRB approach

	Investment Grade			Non-Investment Grade			Default			Total		
in € million	Exposure value			Exposure value			Exposure value			Exposure value		
Asset classes	Total	of which: unused loan commitments	Ø Risk weight	Total	of which: unused loan commitments	Ø Risk weight	Total	of which: unused loan commitments	Ø Risk weight	Total	of which: unused loan commitments	Ø Risk weight
Central governments	6,222	89	17.9 %	251	18	141.0 %	13	0	0.0 %	6,486	108	22.6 %
Institutions	62,639	1,630	20.2 %	1,192	85	116.0 %	4	0	0.0 %	63,835	1,715	22.0 %
Corporates	15,438	4,937	47.8 %	4,131	673	105.9 %	484	11	0.0 %	20,053	5,621	58.6 %
of which: SMEs	0	0	–	0	0	–	0	0	–	0	0	–
of which: specialized lending	1,230	471	47.6 %	572	159	123.6	29	0	0.0 %	1,831	631	70.6 %
of which: receivables purchased	0	0	–	0	0	–	0	0	–	0	0	–
Equity exposures	37		110.7 %			360.2	0		0.0 %	37		110.8 %
Total	**84,336**	**6,656**		**5,574**	**776**		**501**	**11**		**90,411**	**7,444**	

Figure 9

carrying amount. The average risk weightings illustrate the borrower's credit rating and the transactions' degree of collateralization.

Credit volume by PD class (without retail) in advanced IRB approach

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

Table 6d (II) shows central governments, Institutions, corporates, and equity investments in relation to the IRBA asset classes, plus the following key figures as distinguished by risk category:

– The total amount of unutilized loan commitments, presented as the balance sheet carrying amount of the open loan commitments
– All exposure values and in particular the exposure values of unutilized loan commitments
– The average exposure values of open loan commitments
– The average risk weightings weighted with the exposure values

The average exposure values indicate to what extent carrying amounts are accounted for on average in the exposure values and as such are a measure of the amount of the own estimate of the IRBA conversion factor.

The Basel requirements for Table 6d (III) "Unutilized loan commitments and weighted exposure values per portfolio in the advanced IRB approach" are covered by Table 6d (II) pursuant to section 335. (2) (2d) SolvV, which is why there is no separate disclosure of Table 6d (III).

Utilization and loan commitments for retail portfolios – EL-related retail IRB approach

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

Table 6d (IV) shows all the exposure values in relation to the IRBA asset class of retail business, differentiated by risk class.

Actual losses in lending business

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

The information in **Table 6e** refers to the asset class of central governments, banks, companies (including SMEs, specialized lending, and receivables purchased which are treated as corporate receivables), retail business (differentiated according to mortgage-backed IRBA exposures, qualified revolving IRBA exposures, and other IRBA exposures), and equity investments which are backed with equity capital using individual probabilities of default (PD/LGD approach).

The losses shown in Table 6e were determined based on values from the HGB and in reference to the entire business in the named asset classes. The amortization of securities resulting from the market value and equity investments not managed in accordance with probabilities of default are not shown. The information in the regulatory risk report includes the developments in allowances for losses on loans and advances, and provisions shown in the risk report of the interim report, as follows:

– In regard to the specific loan loss allowances (including the lump-sum allowances), the additions (€ 287 million) and reversals (€ 152 million) were calculated in the first half of 2008
– In addition, the difference originates from direct write-downs (€ 31 million) and additions to receivables written-off (€ 9 million) for the period under review
– Finally, the additions to the provisions (€ 6 million) are calculated with the reversals (€ 12 million)

The total of these components equals the actual loss in the total portfolio, which amounted to € 151 million in the first half of 2008. The actual loss for the IRBA sub-portfolios shown in Table 6e came to € 112 million for the period under review. The difference of € 39 million between the two losses can be attributed to the DZ BANK banking group's portfolio for the standardized approach to credit risk.

Table 6d (II): Entire credit volumes according to PD classes (excluding retail) in the advanced IRB approach

in € million	Investment Grade						Non-Investment Grade					
		Exposure value						Exposure value				
Asset classes	Total amount of unused loan commitments	Total	of which: unused loan commitments	Ø exposure value	Ø LGD	Ø Risk weight	Total unused loan commitments	Total	of which: unused loan commitments	Ø exposure value	Ø LGD	Ø Risk weight
Central governments	0	0	0	–	–	–	0	0	0	–	–	–
Institutions	0	0	0	–	–	–	0	0	0	–	–	–
Corporates	547	2,802	547	100.0 %	12.0 %	9.7 %	2,017	10,332	2,017	100.0 %	8.4 %	34.5 %
of which: SMEs	0	0	0	–	–	–	0	0	0	–	–	–
of which: specialized lending	0	0	0	–	–	–	0	0	0	–	–	–
of which: receivables purchased	0	0	0	–	–	–	0	0	0	–	–	–
Equity exposures		0		–	–	–		0		–	–	–
Total	**547**	**2,802**	**547**				**2,017**	**1,332**	**2,017**			

Figure 10

Table 6d (IV): Utilization and loan commitments for retail portfolios – EL-based retail IRB approach

in € million

Asset classes	Exposure value EL class 1 (EL = 0 to 30 BP)	Exposure value EL class 2 (EL = 31 to 70 BP)	Exposure value EL class 3 (EL > 70 BP)	Total
Mortgage-backed IRBA receivables from retail business	20,646	3,665	5,256	29,567
Qualified revolving IRBA receivables from retail business	0	0	0	0
Other IRBA receivables from retail business	5,515	1,482	2,944	9,941
Total	**26,160**	**5,147**	**8,200**	**39,508**

Figure 11

	Default						Total					
		Exposure value						Exposure value				
	Total amount of open loan commitments	Total	of which: open loan commitments	Ø exposure value	Ø LGD	Ø Risk weight	Total amount of open loan commitments	Total	of which: open loan commitments	Ø exposure value	Ø LGD	Ø Risk weight
	0	0	0	–	–	–	0	0	0	–	–	–
	0	0	0	–	–	–	0	0	0	–	–	–
	0	89	0	–	8.8 %	0.00 %	2,564	13,223	2,564	100.0 %	9.1 %	29.0 %
	0	0	0	–	–	–	0	0	0	–	–	–
	0	0	0	–	–	–	0	0	0	–	–	–
	0	0	0	–	–	–	0	0	0	–	–	–
		0		–	–	–	0	0		–	–	–
	0	89	0				2,564	13,223	2,564			

Table 6e: Actual losses in lending operations

in € million

Asset class	Losses in time period from 01.01.2008 to 30.06.2008
Central governments	0
Institutions	0
Corporates	37
Equity instruments	0
Mortgage-backed IRBA receivables from retail business	39
Qualified revolving IRBA receivables from retail business	0
Other IRBA receivables from retail business	37
Total	**112**

Figure 12

4.5 Secured exposure

Tables 7b and 7c include the receivables volume, divided between the standardized approach to credit risk and IRBA, which is backed by collateral applicable under banking regulations. The business volume of the collateralized transactions is shown in Table 5b (I) and in Table Group 6 of this risk report. The collateralization effect of the guarantees provided by assignor according to the standardized approach to credit risk can be seen in Table 5b (I) by means of the partial shifting of the credit volume from higher to lower risk weightings between the table columns "Total exposure values before credit risk mitigation in the standardized approach to credit risk" and "Total exposure values after credit risk mitigation in the standardized approach to credit risk." In the IRBA the majority of the collateral shown in the table, particularly mortgages, is included as a loss ratio (loss-given default) when calculating capital requirements.

Total secured exposures in the standardized approach to credit risk (without securitizations)

(Disclosure pursuant to section 336. no. 2 SolvV)

Table 7b shows the exposure values according to the asset classes of the standardized approach to credit risk which are collateralized by financial collateral or guarantees. In each case the credit risk mitigation is shown with the values applicable in accordance with banking requirements.

Table 7b: Total amount of collateralized exposure in the standardized approach to credit risk (without securitizations)

in € million

Asset classes	Financial collateral	Guarantees
Central governments	0	0
Regional governments and local government offices	0	0
Other public-sector entities	0	3
Multilateral development banks	0	0
International organizations	0	0
Institutions	41	38
Covered bonds issued by credit institutions	0	0
Corporates	206	2,301
Retail business	0	183
Positions secured by real property	0	0
Investment units	0	0
Equities	0	0
Other exposures	0	0
Past-due exposures	1	53
Total	**248**	**2,578**

Figure 13

Total secured exposures in the IRB approach (without securitizations)

(Disclosure pursuant to section 336. no. 2 SolvV)

Table 7c shows the exposure values by IRBA asset class which are covered by financial collateral, other IRBA collateral (for example property as collateral), or guarantees. In each case the credit risk mitigation is shown with the values applicable in accordance with banking requirements. For certain IRBA receivables of BSH, DG HYP, and DVB, mortgages or property serving as collateral are included in determining the capital requirements by way of the loss-given default. The table lists the collateralized exposure value of these transactions.

4.6 Derivative counterparty default risk exposures in the investment book and trading book

(Disclosure pursuant to section 326. SolvV)

Table 8b (I) displays the summarized derivate counterparty default risk exposures in the investment book and trading book which are already disclosed in Tables 5b (I), 6d (I), 6d (II), and 6d (IV) according to the regulatory subportfolio level. The exposures, which are directly processed through a risk-free central counterparty (clearing house), are not included in Table 8b (I). Instead, Table 8b (I) specifically shows traded, exchange-listed derivatives which are executed off exchange or through an intermediary – for example through a broker. The derivative exposures from the

Table 7c: Total amount of collateralized exposures in the IRB approach (without securitizations)

in € million

Asset classes	Financial collateral	Other collateral	Guarantees
Corporates	105	12,263	1,465
Institutions	1,423	0	367
Central governments	73	14	172
Retail business	0	27,575	0
of which: mortgage-backed	0	27,575	0
qualified revolving	0	0	0
other	0	0	0
Equities	6	0	0
of which: simple risk-weighting approach	6	0	0
internal model approach	0	0	0
PD/LGD approach	0	0	0
Other credit independent assets	0	0	0
Total	**1,607**	**39,852**	**2,004**

Figure 14

securitization exposures are disclosed exclusively in Table 9f. Table 8b (III) shows the nominal values of the credit derivatives which are used for regulatory hedging purposes.

Table 8b (I) represents the derivative counterparty default risk exposure in the investment book and trading book in the form of positive market values before and after accounting for derivative offsetting exposures and collateral. In addition, the derivative counterparty default risk is differentiated by the various contract types.

Table 8b (II) shows the applicable counterparty default risk in the form of a measurement basis for the standardized approach to credit risk or the IRBA in relation to the counterparty default risk exposures presented in Table 8b (I). They are differentiated by the regulatory market valuation method used by the trading book banks and some of the non-trading book banks and the fixed term method used by the remaining non-trading book banks.

In **Table 8b (III)**, the nominal value of the credit derivatives applicable in accordance with banking regulations and used

Table 8b (I): Valuation of the derivative default risk before and after calculation for offsetting agreements and collateral

in € million

Contract types	Positive replacement values before offsetting and collateral	Offsetting possibilities	Eligible collateral	Positive replacement values after offsetting and collateral
Interest-based contracts	8,760			
Currency-based contracts	994			
Share/index-based contracts	911			
Credit derivatives	783			
Goods-based contracts	41			
Other contracts	1			
Total	**11,490**	**5,891**	**1,272**	**4,325**

Figure 15

Table 8b (II): Counterparty default risk to be calculated based on the derivative counterparty risk positions and differantiated by the approach used

in € million

	Exposure acc. to maturity method	Exposure acc. to market valuation method	Exposure acc. to standard method	Exposure acc. to internal model
Counterparty default risk exposure	0	14.171	0	0

Figure 16

Table 8c: Nominal value of the credit derivatives by type of utilization

in € million	Nominal value from use for own lending portfolio	
Credit derivatives	**Purchased**	**Sold**
Credit default swaps	43,533	54,289
Total return swaps	5,765	0
Credit-linked notes	2,349	20
Other	0	0
Total	**51,647**	**54,309**

Figure 17

to collateralize derivative counterparty default risk exposures was zero as of June 20, 2008.

Table 8c lists the nominal values for the credit derivates purchased and sold as categorized by type of credit derivative.Credit derivatives from the intermediary activities of the group companies were not held as of June 30, 2008.

4.7 Securitizations

4.7.1 Objectives of securitization activities

In the DZ BANK banking group securitizations of receivables are used as instruments for managing the lending portfolio and for optimizing the risk/return profile of the lending portfolio. In its role as originator in long-term refinanced securitization transactions DZ BANK pursues the goal of relieving the strain on economic and regulatory equity capital through risk transfer. In addition, as originator and sponsor it uses special-purpose entities (conduits) which are refinanced by issuing quasi-money-market asset-backed commercial paper (ABCP). These conduits are mostly provided for customers of the bank who are securitizing their own receivables through these companies.

Risk management of securitization activities

The exposure management of ABS investments is performed by the relevant group companies and is subject to group-wide standards for risk management. These standards provide for the individual analysis and limitation of ABS investments. In a fixed process the transaction structure is presented, comparisons of the transactions to each ABS market are made, and the external credit ratings from the rating agencies are checked for plausibility. In addition, all key ABS asset classes are subject to an annual portfolio analysis in which the macroeconomic risks and risks specific to the asset class are evaluated. At the group level, a monthly report on the portfolio which covers the total risk exposure is submitted to group credit management and DZ BANK's Board of Managing Directors. These measures provide the basis for managing the risks of the DZ BANK Group from structured products using a global limit which applies to the entire group.

As part of economic stress testing which corresponds to the regulatory minimum requirements for risk management, the entire securitization exposures of the DZ BANK banking group which are subject to a market price risk undergo an analysis of the potential widening of ABS spreads. The positive or negative amount of the basis point shift is based on a historical time period of several years with conservative add-on factors.

In addition to the stress tests described above, the key figures "Backlog of primary borrowers" and "Flow-back at realization" are also stressed as part of the scenario calculations. Based on the results, a forecast of the impact on the value of the ABS exposures is generated.

4.7.2 Accounting and valuation methods for securitization exposures

(Disclosure pursuant to section 334. no. 5 SolvV)

The **investor exposures** of the DZ BANK Group in securities from securitization exposures are either accounted for and valued in accordance with IAS 39 in the income statement as held for trading, available for sale through the revaluation reserve at fair value, or as loans and receivables with the amortized costs. Utilized liquidity facilities are valued as loans and advances to customers at amortized cost. Open liquidity facilities and credit guarantees do not appear on the balance sheet; provisions in the amount of the estimated loss according to IAS 37 are made for risks deriving from these items to the extent that they are likely to be utilized and the corresponding amount can be reliably estimated. Instruments for hedging interest rate and currency risks, such as swaps, are derivatives assigned to the trading portfolio at fair value pursuant to IAS 39. Outstanding refinancing external to the group of the consolidated conduits – for example in the form of ABCP – are recognized as other liabilities at amortized cost. Refinancing internal to the group is consolidated in accordance with IAS 27.

DZ BANK is involved in the Autobahn and CORAL securitization transactions, which are subject to consolidation, as an **originator** and **sponsor**, respectively. As a result of the turmoil affecting financial markets since mid-2007, most of the ABCP conduits have had to make use of liquidity facilities from DZ BANK. Currently the special-purpose entities integrated in these conduits have been fully consolidated with their asset and liabilities by DZ BANK to the extent that they meet the regulations of IAS 27 in conjunction with SIC 12. The key assets, liabilities, and income and expense items and the resulting opportunities and risks of the ABCP conduits are accounted for in the consolidated financial statements of the DZ BANK Group.

For the **synthetic securitizations**, the securitized loans remain in the books of the companies of the DZ BANK banking group, since the disposal criteria of IAS 39 do not apply due to the fact that the debt claims were not transferred.

In contrast, real receivables sales – known as **true sale securitizations** – are booked out of the balance sheet since the opportunities and risks are transferred from the receivables portfolio to the purchaser. Currently none of the group companies is functioning as an originator for any true sale securitizations.

Valuation process for securitization exposures

The valuations of the securitization portfolio are based on market-oriented parameters and sources of information. In light of the current capital market situation, various credit spread curves allowing for different valuations of the exposures depending on sector, credit rating, and currency are being used based on the research reports of key market participants. The weighted expected residual term to maturity is determined by using standard market information systems.

4.7.3 Scope of activities as originator and sponsor

The following presents the key commitments of the companies of the DZ BANK banking group as originators and sponsors. The current investor reports available for the transactions will serve as a reference. The information disclosed here includes all the securitization transactions in the DZ BANK banking group, in other words even those transactions which according to SolvV do not need to be included as securitizations in the capital requirements.

Scope of activities of DZ BANK

DZ BANK is currently serving as an originator for six synthetic transactions and is a sponsor of two transactions. It has been issuing collateralized debt obligations (CDOs) since 2002 and using the CeDeOs securitization platform to sell these products since 2007. In the four DYNASO transactions with synthetic credit risks from companies listed on the capital market a total volume of € 508 million is securitized. In the CDOs only AAA-rated credit risks are placed on the market. Through the KONSUS transaction, securitizations and CDOs in the amount of € 1.4 billion have been passed on to market participants. Approximately 60 percent of the portfolio is made up of securitizations, especially residential mortgage-backed securities (RMBS). DZ BANK retained exposures totaling € 82 million from these transactions in its own books as of June 30, 2008.

The corporate objective of the Autobahn conduit is to provide a platform for DZ BANK's North American business clients to securitize claims against third-party debtors. Its assets of € 1.3 billion derive primarily from equipment leasing, student loans, and trade receivables and generally apply to North American borrowerAs of June 30, 2008, DZ BANK had provided a total of € 2.5 billion in liquidity facilities as a sponsor to the purchase companies, of which € 1.1 billion was utilized. nal refinancing requirements of the conduit are being covered by ABCP placed on the market.

In addition, DZ BANK served as originator for the CORAL transaction, which acquires leasing and trade receivables from German borrowers and structured products on ABS bonds through true sale securitizations. The total volume of the assets was € 1.8 billion as of the reporting date. The structured products of € 1.4 billion contained in these assets are hedged against default risks by credit default swaps with third parties with excellent credit and are not represented in the portfolio. On June 30, 2008, the liquidity facilities of € 1.9 billion pledged by DZ BANK had been utilized in the amount of € 1.8 billion. In addition, DZ BANK had provided credit enhancement facilities totaling € 55 million as of the reporting date.

DZ BANK also provided non-group conduits liquidity lines totaling € 188 million, of which € 100 million had been utilized as of June 30, 2008.

Besides taking on originator activities DZ BANK also acts as an arranger and placement agent for securitization transactions of the DZ BANK banking group and the cooperative financial services network. The local cooperative banks participate by way of multi-seller transactions of the DZ BANK banking group. DZ BANK also took on the role of arranger for the VR Circle transactions which diversified the credit risks between the two participating primary banks.

As part of the long-term collateralized provision of liquidity to inter-bank institutions with excellent credit, DZ BANK purchases RMBSs or CDOs and passes the entire market price risk and credit risk of these exposures on to the counterparty banks through total return swaps. The resulting nominal volume was € 4.5 billion as of June 30, 2008. Since a bank-related counterparty default risk is involved, the item is not recognized in the securitization portfolio but instead in conjunction with the tables for derivative counterparty default risk exposures.

Scope of subsidiaries' activities

As the originator of the Bauhaus transaction and three PROVIDE-VR structures for the synthetic securitization totaling € 1.2 billion, **DG HYP** primarily uses mortgage-backed real estate loans to private households. In addition, mortgage-backed commercial real estate financing transactions in the amount of € 450 million were securitized through the PROSCORE-VR transaction. The original receivables are distributed throughout Germany.

As of the reporting date the volume of the financial assets in the PROVIDE-VR structures totaled € 950 million, of which the DZ BANK banking group contributed € 870 million. The receivables have an average duration of 5 to 8 years. The Bauhaus transaction has a volume of € 260 million with an average duration of 10 years. The PROSCORE-VR transaction consists of cross-sector receivables totaling € 420 million which were contributed by DG HYP. These receivables have an average duration of 10 years. The DZ BANK banking group holds € 45 million in initial loss exposures from the transactions in its portfolio, of which € 30 million is hedged with third parties.

VR-LEASING currently acts as a servicer and originator for three LEAGUE transactions and the CORAL program. These transactions securitize loans and leases for motor vehicles, office equipment, and production machines of business partners based in Germany. As part of the LEAGUE transactions, VR-LEASING is selling its own leasing receivables without recourse to DZ BANK. On June 30, 2008, the volume of the assets contributed totaled € 540 million. The DZ BANK banking group has provided credit enhancements of € 46 million for this purpose.

As part of the CORAL program, VR-LEASING purchased leasing receivables of € 290 million and placed them on the market as a synthetic securitization. The DZ BANK banking group is providing credit enhancements of € 10 million for the transaction.

4.7.4 Quantitative details on the securitization exposures in the total book

The remaining volume of securitizations entailing risk in the books of the DZ BANK banking group was € 21.5 billion on June 30, 2008; it had already been reduced since December 31, 2007 through repayments of € 2.5 billion. In addition, there were claims of € 4.9 billion against special-purpose entities, the majority of which were entered into with group-related ABCP conduits. A further reduction of the volume to € 20.3 billion, to be achieved largely through repayments, is planned by the end of 2008. With the DZ BANK banking group's total lending volume at € 364.4 billion, the securitization exposures of € 26.4 billion represent a significant sub-portfolio which is actively managed. The following quantitative portfolio representation is based on the market values of the securities as of the reporting date.

The majority of the investor positions are assigned to the trading book; 66 percent of them are from RMBS exposures. Figure 18 shows the changes in holdings which occurred in this portfolio during the first half of 2008 due to repayments, sales, and loan loss allowances. As a result of the current upheaval on the markets, loan loss allowances in the amount of € 773 million were made from January 1 to June 30, 2008. From the current point of view, these allowances

Changes in holdings and values in the ABS-portfolio in the period under review

in € million

types of receivables	Market value before changes in holdings and valuation allowances 01.01.2008	Changes in holdings due to purchase, sales, repayments, and fluctuations from exchange rates	Valuation allowances	Market value after changes in holdings and valuation allowances 30.06.2008
receivables from residential construction loans	18,109	-2,177	-671	15,261
of which: RMBS	16,863	-1,981	-656	14,226
of which: receivables classified Subprime	2,571	0	-443	2,128
receivables classified as old-A	688	0	-72	616
receivables from corporate loans[1]	1,912	-296	-28	1.588
receivables from CMBS	3,531	-339	-32	3,160
receivables from CDO	1,831	-232	-41	1,558
positions for the counterpart of special-purpose entities[2]	4,974	-99	-1	4,874
Total	**30,357**	**-3,143**	**-773**	**26,441**

[1] Including receivables from purchased leasing receivables
[2] Including balance sheet receivables against special-purpose entities, in particular ABCP conduits, and liquidity facilities provided to ABCP conduits

Figure 18

derive mostly from fluctuations in market value which will be recouped by the time the securitization exposures mature. The subportfolio classifications prime, subprime, and Alt-A, based on credit ratings and hedging, were established for receivables with the US as their country of domicile and which are hedged by residential real estate. In the DZ BANK banking group the designation of subprime is given to borrowers with a rating of under 640 points based on the FICO standardized US scoring system for mortgage loans. Exposures with a FICO score of 640 to 700 points are classified as Alt-A. Underlying transactions with a FICO score of more than 700 points are considered prime exposures. In addition to FICO ratings, other key figures such as loan-to-value ratios are factored into the classification process, in particular for positions which are on the borders of the risk bands.

Figures 19 and 20 show the securitization exposures according to external credit ratings from official rating agencies or by regional origin of the securitized receivables. For the external credit rating, the most conservative rating on the market is used, although the portfolio of the DZ BANK banking group still has a good to very good credit rating despite the downgrades which have occurred in the last several months.To create a conservative portfolio representation the rating downgrades of the investor exposures until mid-July 2008 were included. The overwhelming majority

Credit exposure quality of ABS-portfolios

in € million

types of receivables	AAA	AA+ to AA-	A+ to A-	BBB+ to B-	CCC+ to C-	not rated
receivables from residential construction loans	12,805	1,346	627	344	0	138
of which: RMBS	11,819	1,323	602	344	0	138
of which: receivables classified Subprime	981	699	176	272	0	0
receivables classified as old-A	572	39	0	5	0	0
receivables from corporate loans[1]	1,444	52	59	33	0	0
receivables from CMBS	2,409	369	361	22	0	0
receivables from CDO	1,037	151	137	210	19	4
positions for the counterpart of special purpose entities[2]	956	1,532	1,470	855	6	55
Total	**18,651**	**3,450**	**2,654**	**1,464**	**25**	**197**

[1] Including receivables from purchased leasing receivables
[2] Including balance sheet receivables against special-purpose entities, in particular ABCP conduits, and liquidity facilities provided to ABCP conduits
Figure 19

Geographic structure of the ABS-portfolio by country of the original receivable

in € million

types of receivables	Germany	UK	Spain	Nether-lands	Italy	Other EU countries	USA	Australia	Other countries
receivables from residential construction loans	192	2,999	2,606	1,823	1,273	743	3,048	2,267	311
of which: RMBS	110	2,987	2,341	1,788	996	693	2,874	2,194	242
of which: receivables classified Subprime	0	0	0	0	0	0	2,128	0	0
receivables classified as old-A	0	0	0	0	0	0	616	0	0
receivables from corporate loans[1]	351	29	208	19	626	183	7	44	120
receivables from CMBS	255	1,020	51	115	129	276	958	170	186
receivables from CDO	0	37	89	41	60	267	972	85	8
positions for the counterpart of special-purpose entities[2]	779	0	0	0	0	83	4,012	0	0
Total	**1,577**	**4,085**	**2,954**	**1,998**	**2,088**	**1,552**	**8,997**	**2,566**	**625**

[1] Including receivables from purchased leasing receivables
[2] Including balance sheet receivables against special-purpose entities, in particular ABCP conduits, and liquidity facilities provided to ABCP conduits

Figure 20

of the securitization exposures belong to the best internal rating class (GRC rating group I). As of June 30, 2008, mortgage-backed real estate loans in the US subprime segment made up € 2.1 billion of these transactions. Of these exposures, 79 percent had a rating of AA or above. Loan loss allowances in the amount of € 442 million were made for the subprime exposures in the first half of 2008. As of June 30, 2008, the "Retail credit" item held € 75 million in CDOs with receivables based on US consumer loans. The "Not rated" rating class contains a purchased portfolio of € 138 million from the UK which is being treated as an investor exposure and does not carry an external rating.

In addition, this category includes the retained initial loss exposures in the amount of € 55 million from the originator transactions of the DZ BANK banking group. Of the mortgagers in the total portfolio, 62 percent are from countries in the European Union, with the UK, Spain, Italy and the Netherlands being particularly well represented. Nearly all of the RMBS receivables with Australia as their country of domicile have credit default insurance for the underlying transactions.

Figure 21 shows the securitization exposures in the CDO product class, most of which also have good to very good ratings. Of the CDOs on corporates, € 295 million are in high-interest receivables and € 155 million are in mezzanine tranches and similar receivables. Only a negligible portion of the securitized underlying transactions in the CDOs are in subprime receivables. The downward valuation adjustments which have been made reflect the market situation on the reporting date in the relevant market segment of this product class.

Breakdown of CDO product class by instruments in the portfolio

in € million

Product class	Market value
ABS of ABS	262
Commercial Real Estate	438
Corporates	783
Bank Bonds and Loans	75
Total	**1,558**

Figure 21

Figure 22 shows the receivables from the subprime portfolio as broken down by the transactions' year of issue. The chart provides clear evidence that nearly half of the receivables were concluded before the quality standards of lending practices in the US had reached their low point.

Figure 23 shows the credit default insurance for securitizations concluded with monoliners, especially RMBS bonds. The corresponding receivables volume was € 853 million on June 30, 2008. The information reveals that 66 percent of the credit ratings of the relevant exposures are higher than that of the monoliners which were used for hedging. The hedging volume was distributed among 8 companies, with 90 percent of it concentrated on the monoliners FGIC, MBIA, FSA, and AMBAC. In addition, the claims against these companies totaled € 38 million as of the reporting date.

Breakdown of subprime portfolio by original year of issue

in € million

Original year	Market value
before 2005	208
2005	709
2006	861
2007	350
Total	**2,128**

Figure 22

Receivables volume hedged by monoliners

in € million

Monoliner ratings	Receivables volume
AA and higher	361
A	259
Lower than A	233
Total	**853**

Figure 23

4.7.5 Quantitative and qualitative details on the securitization exposures in the investment book pursuant to SolvV

This section discusses the qualitative and quantitative requirements of SolvV in regard to securitization exposures. The following information applies to securitizations of receivables in the investment book of the DZ BANK banking group. It does not include the securitization exposures assigned to the trading book.

Procedure for determining risk-weighted exposure values for securitizations

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

As part of synthetic securitization transactions as **originator** of the companies in the Bank business segment of the DZ BANK banking group, retained securitization exposures are backed with equity capital in accordance withequity capital in accordance with the standardized approach to credit risk pursuant to section 238. to 241. SolvV. In the Real Estate Finance business segment, retained originator exposures from RMBS are also reported in the IRB approach, since most of the underlying positions are assigned to IRB asset classes. The IRB approaches are authorized by the BaFin.

In connection with **sponsor activities**, the internal rating procedure which has been examined and authorized by BaFin pursuant to section 259. SolvV for determining the risk-weighting exposure values of securitization exposures is used for ABCP programs for which no external rating is available.

The **investor exposures** assigned to the investment book have a credit assessment which corresponds to the criteria for calculating capital adequacy in accordance with the IRBA or the standardized approach to credit risk. For the majority of the IRBA exposures, the DZ BANK banking group uses its internal rating procedure along with the ratings-based approach pursuant to SolvV. The rest of the exposures undergo a calculation in the standardized approach to credit risk using the risk weightings specified by the supervisory authorities.

For the securitization exposures assigned to the trading book DZ BANK uses an internal market price risk model authorized by banking supervisory authorities to calculate the general and particular market price risk.

Rating agencies used for securitizations

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

For securitization activities, the rating agencies of Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings Ltd. are usually requested to issue ratings for securitization exposures, regardless of the asset class. Competing external ratings are taken into account in determining the risk-weighted exposure values pursuant to the regulations of section 44. and 45. SolvV. External credit ratings by authorized rating agencies are transferred to the securitization exposures of DZ BANK banking group in agreement with the requirements of section 242. to 244. SolvV.

Total amount of securitized receivables

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

As of June 30, 2008, the DZ BANK banking group had securitized residential construction loans of € 1.2 billion, fully or partially commercial real estate loans of € 450 million, and its own or purchased leasing receivables of € 830 million; as seen in **Table 9d** of the use cases, their underlying transactions are reported in the books of DZ BANK banking group.

Securitized receivables adjusted for value or in arrears, losses realized in the current period

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

For underperforming securitization exposures, **Table 9e** shows the portions of the effectively securitized receivables which are in danger of default or past due, broken down by the types of securitized receivables. The realized losses in the current period are also shown, likewise broken down by types of securitized receivables.

Total retained or purchased securitization exposures

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

Table 9f shows the securitization exposures retained or purchased by the companies of the DZ BANK banking group in their function as originator, sponsor, or investor, broken down by the applicable types of underlying receivables. The securitization exposures are listed with their exposure values. The classification of the underlying receivables is based on the categories used for internal management.

Table 9e: Securitized receivables adjusted for value or in arrears and losses realized in the current period

in € million

Receivables category	Past due or non-performing receivables	Loss in period under review
Receivables from residential construction loans	36	5
Receivables from fully or partially commercial real estate loans	15	0
Receivables from companies (including SMEs)	0	0
Receivables from own and purchased leasing receivables	0	0
Receivables from auto financing (without leasing)	0	0
Receivables from other retail business (e. g. credit cards, student loans)	0	0
Receivables from CDOs and ABSs	0	0
Total	**51**	**5**

Figure 24

Total amount and capital adequacy for retained or purchased securitization exposures by risk weighting bands

(Disclosure pursuant to section 334. (2) (4) SolvV)

Table 9g and 9i (I) shows the securitization exposures in the investment book, broken down by regulatory risk weighting bands, together with their capital requirements.

Securitization activities in the current financial year

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

In the first half of 2008, € 160 million in own or purchased leasing receivables as defined in **Table 9j** of the use cases were added to the securitization transactions. A discount of close to € 2 million on the purchase price was granted for these receivables. The realized gain or loss from the sale results from the difference between the carrying amount of the receivables and the sales proceeds or the carrying amount of the credit derivatives for synthetic securitizations while taking the first-loss tranche into account.

Table 9f: Total amount of retained or purchased securitization exposures

in € million

Securitization exposures	Exposure values in the standardized approach to credit risk	Exposure values in the IRB approach
Balance sheet items		
Receivables from residential construction loans	29	2,587
Receivables from full or partiall commercial property loans	0	1,246
Receivables from corporate loans	3	37
Receivables from own and purchased leasing receivables	0	0
Receivables from auto financing (excluding leasing)	0	0
Receivables from other retail business (e. g. credit cards, student loans)	0	0
Receivables from CDOs and ABSs	0	573
Credit enhancement facilities	51	2,928
Other balance sheet items	1	0
Total balance sheet items	**84**	**7,371**
Off-balance sheet items		
Liquidity facilities	0	1,753
Derivatives (e. g. interest-rate currency swaps for hedging transaction)	26	20
Specific positions for synthetic transactions	0	13
Other off-balance sheet items	0	1
Total off-balance sheet items	**26**	**1,787**
Total	**110**	**9,158**

Figure 25

Table 9g and 9i (I): Securitization exposure in relation to revolving counterparty risk positions

Risk weighting band	Exposure value	Capital adequacy requirements in standardized approach to credit risk	Capital adequacy requirements in IRB approach
in %	in € million	in € million	in € million
≤ 10	2,592	0	16
> 10 ≤ 20	2,726	1	37
> 20 ≤ 50	2,975	0	70
> 50 ≤ 100	770	0	49
> 100 ≤ 650	51	1	19
> 650 ≤ 1250/capital deduction	154	48	106
Total	**9,268**	**50**	**296**

Figure 26

4.8 Leveraged finance

DZ BANK categorizes corporate takeovers and related financing activities which require a higher-than-average amount of leverage in borrowed funds as leveraged finance transactions. Chief among these are acquisition finance mandates, particularly by investment companies whose ratings essentially depend on the expected cash flows of the acquired companies:

- Leveraged buy-out by financial sponsors
- Recapitalization and refinancing transactions from acquisitions
- Management buy-out und management buy-in

In addition, DZ BANK acts as an arranger and consortium bank for this type of acquisition financing.

The portfolio represented in Figures 27 and 28 had a total volume of almost € 1.6 billion in loan commitments granted as of June 30, 2008. Of this amount, loans totaling € 1.3 billion had already been utilized; the open loan commitments stood at € 300 million. For this portfolio hedging exposures in the form of credit derivatives and loan guarantees totaled € 271 million on the reporting date. The acquired exposures are more highly diversified in terms of sectors; over 85 percent are concentrated on companies with headquarters in the European Union. No significant loan loss allowances were made in the portfolio in the first half of 2008.

Geographic structure of the leveraged finance portfolio by country of the original receivable

in € million

Receivables category	Germany	Netherlands	Other EU countries	USA	Other
Balance sheet items	446	404	299	78	96
Off-balance-sheet items	100	64	65	33	6
Total	**546**	**468**	**364**	**111**	**102**

Figure 27

Sector structure of the leveraged finance portfolio by sector of the original receivable

in € million

Receivables category	Chemicals	Automotive	Engineering	Services	Other sectors
Balance sheet items	444	176	95	287	322
Off-balance-sheet items	61	39	43	47	78
Total	**505**	**215**	**138**	**334**	**400**

Figure 28

5 Risks from participations in the investment book

(Disclosure pursuant to section 332. SolvV)

Notes on regulatory disclosure of equity risk

The presentation of equity risk in Table 13b and 13c differs in terms of the commercial values and the current market value of the exposures. Accounting for the unrealized gains and losses from the equity exposures in the equity capital of the banking group is shown in Table 13d and 13e. The total of these gains or losses is identical in both tables.

A volume of € 3,746 million from the equity investment portfolio is included in Table 5b (I) and assigned to the appropriate risk weighting band (100 percent, 190 percent, 270 percent, and 390 percent). In addition, € 37 million of the equity investment portfolio is managed in the IRBA through probabilities of default for individual borrowers; these exposures are shown in Table 6d (I).

In the regulatory approach, securities, derivatives on equity investment exposures, and investment funds of the investment book which are not handled according to what is known as the transparency method are shown in addition to traditional participations. In the DZ BANK banking group the investment funds in the investment book are handled in accordance with the transparency method and divided according to the original asset classes of the individual fund components.

Table 13b and 13c lists the amounts of the participations in the investment book which are risk-weighted and in turn not fully or proportionately consolidated or subject to a capital deduction, grouped by equity investment and by various values. The classification of the participations is based on the economic character of each participation instrument. The carrying amount corresponds to the amounts from the balance sheet according to HGB standards.

Table 13b and 13c: Valuation approaches for equities

in € million

Groups of equitiess	Carrying amount	Fair value	Market value
Equity investments in financial insitutionss	**582**	**582**	
of which: exchange-traded	165	165	165
not-traded but part of a diversified equity investment portfolio	398	398	
other	19	19	
Equities in finance companies	**763**	**763**	
of which: exchange-traded	49	49	49
not-traded but part of a diversified equity investment portfolio	702	702	
other	12	12	
Equities in insurance companies	**1,598**	**1,598**	
of which: exchange-traded	1	1	1
not-traded but part of a diversified equity investment portfolio	1,597	1,597	
other	0	0	
Investment funds as equity investments in investment book	**125**	**125**	
of which: exchange-traded	6	6	6
not-traded but part of a diversified equity investment portfolio	118	118	
other	1	1	
Equity investments in companies	**715**	**715**	
of which: exchange-traded	27	27	27
not-traded but part of a diversified equity investment portfolio	604	604	
other	84	84	
Total	**3,783**	**3,783**	

Figure 29

Table 13d and 13e: Realized and unrealized profits/losses from equities pursuant to HGB accounting requirements

in € million

Profit and loss realized from sales and liquidations	Unrealized profit and loss from equity		
	Total amount	of which: amounts included in Tier 1 capital	of which: amounts included Tier 2 (supplementary) capital
5	0	0	0

Figure 30

Traded participations refer to those exposures which are listed on an exchange. The market value is the value of the participation determined at the spot price on the reporting date.

Table 13d and 13e lists the realized and unrealized results from the private equity business of the investment book in reference to the period under review and pursuant to the accounting provisions of HGB. The table includes only participations which are risk-weighted and hence not fully or proportionately consolidated or subject to a capital deduction. The portions of unrealized results applicable to the regulatory equity capital as of June 30, 2008, are also disclosed next to this information in the table.

The contents of **Table 13f** "Participation instruments with their capital requirements" are contained in Table 2b to 2c, which is why no separate disclosure is provided.

6 Market price risk

(Disclosure pursuant to section 330. and 333. SolvV)

The information pursuant to section 330. SolvV (Table 10b, "Capital adequacy for market price risks according to the standardized method") is included in Table 3b to 3e, which is why no separate disclosure is provided.

Contrary to **Table 14b** of the use cases, the interest rate risk in the investment book is determined as value-at-risk as part of the internal market price risk management. As such, the requirement of section 333. SolvV, which stipulates that the interest rate risk must be disclosed in accordance with executive management's method for risk measurement, is being met. The interest rate risk in the investment book of the DZ BANK banking group amounted to € 25 million on June 30, 2008. This figure was reported to the Board of Managing Directors.

List of figures

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