Member of the cooperative financial services network

Regulatory Risk Report of the DZ BANK Banking Group

December 31, 2007

DZ BANK

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Contents

1 Basis of regulatory risk reporting

With the Basel Capital Adequacy Recommendations (Basel II), the Basel Committee on Banking Supervision has defined internationally applicable standards for the risk-appropriate capital bases of banks. Through the Solvency Order (SolvV) of December 14, 2006, the minimum prescribed European capital adequacy standards or equivalent guidelines under Basel II, as contained in the Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC), were incorporated into national law effective January 1, 2007. The SolvV replaces the previous Principle I and defines the adequacy of the capital of banks as required by section 10 of the German Banking Act (KWG).

Since 2007, the DZ BANK banking group has used the foundation internal ratings-based approach (IRB approach) for credit risk and the standardized approach for operational risk to calculate regulatory capital adequacy requirements. In February 2007, the German Federal Financial Supervisory Authority (BaFin) approved the use of the IRB approach.

The regulatory risk reporting of the DZ BANK banking group is carried out in accordance with section 26a KWG in conjunction with sections 319 to 337 SolvV. Pursuant to section 319(2) SolvV, DZ BANK AG is making this disclosure as the group parent of the banking group subject to supervision and generally providing the information in aggregate form at the group level.

The subject of this report deals primarily with quantitative regulatory risk reporting. Figures are presented in table format as recommended by the "Disclosure Requirements" expert panel of the Deutsche Bundesbank, in what are known as "use cases." The numbering and names of the tables are in line with these recommendations and are based on Pillar 3 of Basel II. This presentation ensures that the DZ BANK banking group's publication of regulatory risk meets international, European and German standards.

The qualitative regulatory risk reporting is largely integrated into the risk report contained in the Group Management Report. The DZ BANK is taking advantage of the option pursuant to section 320(1) SolvV, and with respect to this qualitative information, refers to the risk report contained in the Group Management Report. All information is generally provided as of the reporting date of December 31, 2007.

2 Scope of application

Being part of the DZ BANK financial services conglomerate, the DZ BANK banking group is subject to the requirements of section 10b KWG. In this regard, the requirements with respect to **financial services conglomerate solvency** and the establishment of cross-group risk management are being met.

All companies belonging to the financial services conglomerate are integrated into central Risk Management according to their **materiality**. Pursuant to section 26a(2)(1) KWG, the information contained in this risk report refers only to these companies. As such the regulatory risk report is in line with the risk report contained in the Group Management Report, which covers the same companies. Tables 2b to 2e on "Capital structure." Tables 3b to 3e on "Capital requirements," Table 3f on "Capital ratios" and Table 10b on "Equity capital requirements for market risks pursuant to the standardized method" are exempted from the materiality concept. To the extent relevant, these tables account for all the companies included in the regulatory basis of consolidation.

In **Table 1b**, "Consolidation matrix/differences between supervisory and commercial code-based consolidation groups" of the use cases (disclosure pursuant to section 323(1)(2) SolvV), the relevant companies of the financial services conglomerate in terms of internal risk management are classified according to their corporate purpose and the type of supervisory treatment and consolidation under the Commercial Code. Companies are classified based on the definitions contained in section 1 KWG.

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

		Supervisory treatment				Consolidation acc. to IAS/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)	●				●	
	TeamBank AG Nürnberg, Nürnberg (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 1

In accordance with section 10a KWG, on December 31, 2007, a total of 19 banks, 6 financial services institutions, 7 investment companies, 824 finance companies (of which 736 are project companies of VR-IMMOBILIEN-LEASING GmbH, Eschborn) and 13 providers of related services were fully included on a consolidated basis together with the companies listed in Table 1b in the **regulatory basis of consolidation**. 6 banks and 5 finance companies were accounted for by proportionate consolidation.

In the case of the equities included in the regulatory basis of consolidation, DZ BANK is the direct or indirect majority shareholder. The majority of the companies have their headquarters in Germany or the European Union. As of the reporting date there were no **restrictions on the transfer of funds or capital** as defined in section 323(1) (3) SolvV within the DZ BANK banking group by third parties, private or public-sector companies, supranational organizations or countries.

DZ BANK does not make use of the **waiver provision** under section 2a KWG, in accordance with which (upon meeting certain conditions) the supervision of individual institutions with headquarters in Germany within a banking group may be replaced by group supervision.

There were no subsidiaries within the DZ BANK banking group with **capital deficiency** as of December 31, 2007. As such no disclosure pursuant to section 323(2) of the SolvV (Table 1e of the use cases) is provided.

The key companies are included on a consolidated basis both in the commercial code-based and regulatory basis of consolidation. R+V is fully consolidated based on the Commercial Code but is not directly subject to banking supervisory controls. Instead the company is factored in through risk-weighting of the DZ BANK carrying amount of its holdings in R+V for the purpose of calculating the capital adequacy requirements and disclosure of the banking group pursuant to the KWG and the SolvV. In addition, R+V is included in the banking supervisory monitoring on a consolidated level of the DZ BANK financial services conglomerate within the rules and regulations for financial services conglomerates.

Figure 2 shows the integration of the group companies in the quantitative disclosure of the DZ BANK banking group.

All companies in the regulatory basis of consolidation are included on a consolidated level with their operating figures in the tables on equity capital structure (Figure 3), on capital requirements (Figures 4 and 5) and on capital ratios (Figure 6).

In 2007, DVB, as an institution that will use the advanced IRB approach in accordance with the **transitional provisions** under section 339(10) of the SolvV as of January 1, 2008, was not yet subject to the disclosure requirements of the DZ BANK banking group. In addition, DZ BANK Ireland and Union Asset Management Holding used the transitional provisions, and will calculate any capital adequacy for credit risk as of the reporting date of December 31, 2007, based on the provisions of Principle I. As of 2008, DZ BANK Ireland will use the foundation IRB approach and Union Asset Management Holding the standardized approach to credit risk. As a result, these companies are not included in the quantitative data on credit risk and equities.

Table group 4, with cross-approach information on gross credit volume and risk provisions in lending operations is fully disclosed in the risk report contained in the Group Management Report. Regulatory requirements and similar requirements under the IFRS 7 are presented together. In order to comply with the IFRS 7 requirements for using the management approach, disclosure of the gross credit volume and credit risk provisions in the risk report contained in the Group Management Report is based on the figures from internal management that provide the basis for reporting to the Board of Managing Directors.

Integration of the companies in the quantitative regulatory disclosure

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

Figure 2

The orientation of the disclosure based on the management approach is in line with section 327(2) SolvV in conjunction with the relevant justification under the SolvV, according to which the limit on credit volume and the companies to be included may be decided based on the criteria used internally. Since R+V is of material importance to the DZ BANK financial services conglomerate, it is included in the presentation of gross credit volume and risk provisions.

The following quantitative disclosure requirements are currently not being implemented:

– **Table 5b (II)** "Total exposure amount for special financing operations that are subject to the simple risk weighting method" (disclosure pursuant to section 329 (1) SolvV) since there are currently no special financing operations.
– **Table 6d (II)** "Credit volume by PD grades (excluding retail) in the advanced IRB approach" (disclosure pursuant to section 335(2)(1) and (2)(a-d) SolvV) since the portfolios held by the DVB using the advanced IRB approach will be included in the capital adequacy requirements according to KWG and SolvV, and hence in the disclosure, starting only in 2008.
– For **Table 6e** "Actual losses in lending operations" (disclosure pursuant to section 335(2)(4) and (5) SolvV) and Table 6f "Loss estimates and actual losses in lending operations" (disclosure pursuant to section 335(2)(6) SolvV), the DZ BANK banking group utilizes the exemption provision according to which no initial disclosure is required before 2009.
– **Table 8d** "Alpha factor under section 223(6) SolvV" (disclosure pursuant to section 326(2)(5) SolvV), since no internal models approved by the supervisory authority are currently being used for calculating regulatory capital adequacy requirements for derivative counterparty risk positions.
– **Table 9h and 9i** "Securitization in the early amortization approach" (disclosure pursuant to section 334(2)(5) SolvV), since no such securitization transactions are currently being conducted.

3 Risk capital management

3.1 Economic risk capital management

(Disclosure pursuant to section 325(1) SolvV)

Information on the adequacy of the equity base and the management of economic capital is presented in the section entitled "Management of economic capital adequacy" in the risk report contained in the Group Management Report.

3.2 Equity capital

(Disclosure pursuant to section 324 SolvV; Tables 2b to 2e in the use cases)

Tables 2b to 2e represent the summarized equity capital in accordance with the definition contained in section 10a KWG: The information is based on the entire regulatory basis of consolidation at the DZ BANK banking group as of December 31, 2007. The equity capital of the DZ BANK banking group was calculated based on the aggregation and deduction method pursuant to section 10a(6) KWG.

The **Tier 1 capital** consisted of paid-up capital and preferred securities in the total amount of € 4,695 million as of the reporting date. Through subsidiaries specifically established for this purpose, the DZ BANK banking group has issued a total of 12 public offerings of hybrid capital instruments in the form of preferred securities. These securities, with a total nominal volume of € 1,510 million, were issued from 2003 to 2007; they are each subject to interest at prevailing market rates. The preferred securities meet the requirements of the Basel Committee for Banking Supervision.

In addition, the Tier 1 capital accounts for capital reserves and other eligible reserves in the amount of € 371 million. Special reserves for general bank risks pursuant to section 340g of the German Commercial Code (HGB) amount to approx. € 1,999 million. Further Tier 1 capital constituents were equity capital components from the consolidation in the amount of € 2,158 million and silent partner contributions with a nominal value of € 226 million. The silent partner contributions met the requirements of section 10(4) KWG. Deductions under section 10(2a)(2) KWG, also included in Tier 1 capital, essentially contain any intangible assets and proportionate carrying amounts of equity investments, subject to deduction, of companies not included in the consolidation.

Tables 2b to 2e: Equity capital structure

in € million

Capital instruments	Amount
Paid-up capital	4,695
Capital reserves and other eligible reserves	371
Special provisions for general banking risks pursuant to section 340g HGB	1,999
Other Tier 1 capital instruments	2,384
Deduction items from Tier 1 capital pursuant to section 10(2a)(2) KWG	-450
Total amount of Tier I capital pursuant to section 10(2a) KWG	**8,999**
Total Tier 2 capital before capital deduction items pursuant to section 10(6) and (6a), KWG	3,111
Total capital deduction items pursuant to section 10(6) and (6a) KWG	-248
Total amount of Tier 2 capital pursuant to section 10(2b) KWG and eligible Tier 3 capital pursuant to section 10(2c) KWG	**2,863**
Total amount of modified own funds available pursuant to section 10(1d) KWG and eligible Tier 3 capital pursuant to section 10(2c) KWG	**11,862**

Figure 3

The **Tier 2 capital** of the DZ BANK banking group as of December 31, 2007, contained participatory capital in the amount of € 1,141 million as well as subordinated liabilities in the amount of € 1,596 million, which fulfill the requirements of section 10(5) KWG and section 5a KWG. Interest payments to investors in the participation certificates are only made when retained earnings are available. In one case, distribution will depend on the amount of the dividend. The various tranches in the form of bearer and registered participation certificates have initial terms to maturity of 5 to 20 years. The investors cannot redeem the participation certificates before maturity.

Subordinated liabilities are issued as further components of Tier 2 capital in the form of bearer and registered bonds and promissory notes with fixed and variable interest rates. Interest rates range between 3.07 percent and 8.10 percent. The securities have initial terms to maturity of 6 to 30 years. Any conversion of these tranches into equity capital or another form of debt is not anticipated.

The Tier 2 capital contained a value adjustment surplus as of the reporting date in accordance with section 10(2b)(9) KWG; i.e., the risk provisions accumulated for the IRBA exposures of the asset classes of corporates, institutions, central governments and retail business exceeded the expected losses for these exposures. In addition, the contingency reserves pursuant to section 340f HGB, less any asset-side goodwill, and as a deduction, 50 percent of the pro-rated carrying amounts of equity investments, subject to deduction, of companies not included in the consolidation were taken into account in the Tier 2 capital.

The **expected losses** for the IRBA exposures in accordance with section 10(6a)(2) KWG, which are deducted 50/50 from Tier 1 and Tier 2 capital, were € 7 million as of December 31, 2007.

As of the reporting date of December 31, 2007, the DZ BANK banking group did not hold any Tier 3 capital.

3.3 Capital requirements

(Disclosure pursuant to section 325(2) SolvV; Tables 3b to 3e of the use cases)

Tables 3b to 3e summarize the regulatory capital adequacy in relation to the types of risk subject to supervision (credit risk, market risk and operational risk). The information is based on the entire regulatory basis of consolidation of the DZ BANK banking group. Since the credit and investment risk exposures of DVB, DZ BANK Ireland and Union Asset Management Holding in 2007 were still backed up by equity capital in accordance with the former Principle I, the relevant capital adequacy requirements as of December 31, 2007, are shown in a separate section of Tables 3b to 3e (Part 2) below. The amounts required for capital adequacy calculated according to Basel II and Principle I have been added together.

Tables 3b to 3e: Capital requirements, Part I

in € million	Capital adequacy requirements
1. Credit risks	
1.1 Credit risk-standardized approach	
Central governments	0
Regional governments and local authorities	14
Other public-sector entities	2
Multilateral development banks	0
International organizations	0
Institutions	81
Covered bonds issued by banks	1
Corporates	1,473
Retail business	160
Positions secured by real property	97
Investment units	0
Other exposures	84
Past due positions	79
Total credit risk-standardized approach	**1,991**
1.2 IRB approaches	
Central governments	166
Institutions	1,003
Corporates	959
Retail business	1,047
of which: mortgage-backed	760
of which: qualified revolving	0
of which: other	287
Other credit-independent assets	77
Total IRB approaches	**3,252**
1.3 Securitizations	
Securitizations pursuant to standardized approach to credit risk	12
Securitizations pursuant to IRB approaches	228
Total securitizations	**240**
1.4 Equities	
Primary equity investments pursuant to standardized approach to credit risk	206
Investments pursuant to IRB approaches	106
of which: internal model approach	0
of which: PD / LGD approaches	0
of which: simple risk-weighting approach	106
of which: exchange-traded equity investments	29
of which: non-exchange traded equity investments, but part of a diversified equity investment portfolio	0
of which: other investments	77
Equities exempted from the IRB approaches	0
Total equity investments	**312**
1.5 Principle I[1]	
Credit risk and equities	1,641
Total credit risks	**7,436**

[1] Principle I governing the Equity capital of Banks of July 20, 2000m in conjunction with the KWG in the version of September 9, 1998

Figure 4

Tables 3b to 3e: Capital requirements, Part II

in € million	Capital adequacy requirements
2 Market risks	
Standardized method	145
of which: interest rate risks	96
of which: share price risks	5
of which: currency risks	41
of which: risks due to commodity exposures	0
of which: other risks	3
Internal model approach	657
Total market risks	**802**
3 Operational risks	
Operational risks pursuant to standardized approach	511
4 Miscellaneous	
Additional capital pursuant to section 339 SolvV ("floor")	560
Total capital adequacy requirements	**9,309**

Figure 5

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

in %

Companies	Overall ratio	Tier 1 capital ratio
DZ BANK banking group	**10.2**	**7.7**
DZ BANK	17.7	10.8
BSH	19.0	14.1
DG HYP	9.4	6.4
DVB	11.4	7.3
DZI	13.9	12.8
DZ BANK Ireland	10.0	10.1
TeamBank	13.7	9.4

Figure 6

3.4 Capital ratios

(Disclosure pursuant to section 325(2) SolvV; Tables 3b to 3e of the use cases)

The regulatory capital ratios can be seen in **Table 3f** below. The information for the individual institutions is provided without taking into account any internal banking group consolidation effects. For institutions where the calculation of capital adequacy is based on the provisions of the SolvV, the minimum capital adequacy (floor) in the amount of 95 percent of the capital adequacy requirement pursuant to Principle I under section 339(3) SolvV was taken into account. The key figures of the DZ BANK banking group and the individual banks on the reporting date of December 31, 2007, substantially exceeded the minimum amounts prescribed by the supervisory authority.

4 Credit risk

4.1 Credit risk management

The **objectives and principles of credit risk management** (disclosure pursuant to section 322 SolvV) are presented in the "Credit risk" section in the risk report contained in the Group Management Report.

4.2 Rating

4.2.1 Rating systems for IRBA asset classes

Overview of internal rating systems

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

In February 2007, the DZ BANK banking group received approval from the BaFin to calculate capital requirements in accordance with the foundation IRB approach as well as the IRB approach for retail business. Figures 7 to 11 show the internal rating systems covered by the approval which the DZ BANK banking group has been used since January 1, 2007, to calculate regulatory capital adequacy based on the IRB approaches:

Description of the internal rating systems

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

Implementation of the IRB approach requires the use of internal rating systems to classify the risks of the exposures measured using the IRB approach and to classify guarantors. Internal rating systems are adequate if they meet the minimum requirements for use of the IRB approach pursuant to section 56 SolvV. In addition to the requirements relating to methodology and process organization, the rating systems must have proven their suitability for classifying existing and new business. Rating systems as specified in section 60(1) SolvV are defined as the collective body of all methods, procedures, control and monitoring procedures as well as data collection and processing systems that support the measurement of credit risks, the allocation of IRBA exposures to rating levels or risk pools, and the quantification of default and loss estimates for IRBA exposures.

The majority of internal rating systems that meet the regulatory requirements of the foundation IRB approach are developed uniformly on a cooperative basis by DZ BANK within the framework of VR Control, a BVR project that also includes the

VR rating systems used in DZ BANK, BSH and DG HYP

	Companies			Asset classes									
						Retail business				Corporates			
Rating systems	DZ BANK	BSH	DG HYP	Central governments	Institutions	Mortgage-backed	Qualified revolving	Other	Equity exposures	Companies in broadest sense	Companies in broadest sense	Specialized lending	Receivables purchased
VR rating – countries	●	●	●	●									
VR rating – banks	●	●	●		●								
VR rating – medium-sized companies	●		●							●			
VR rating – major clients	●									●			
VR rating – funds			●									●	
VR rating – property contractors			●									●	
VR rating – project developers			●									●	
VR rating – residential property companies			●							●			

Figure 7

Rating systems in the BSH retail business

	Asset classes									
			Retail business				Corporates			
Rating systems	Central governments	Institutions	Mortgage-backed	Qualified revolving	Other	Equity exposures	Companies in broadest sense	Small and medium-sized companies	Specialized lending	Receivables purchased
Mortgage-backed retail business										
Application scoring pooled business – no collateral security			●							
Application scoring non-pooled business – no collateral security			●							
Behavor scoring			●							
LGD scoring (mortgage and non-mortgage)			●							
EAD (mortgage and non-mortgage)			●							
Non-mortgage-backed retail business										
Application scoring pooled business – collateral security (up to € 38,000)					●					
Application scoring non-pooled business – collateral security (over € 38,000)					●					
Behavior scoring					●					
LGD scoring (mortgage and non-mortgage)					●					
EAD (mortgage and non-mortgage)					●					

Figure 8

Rating systems in the DG HYP retail business

	Asset classes									
			Retail business				Corporates			
Rating systems	Central govern-ments	Institu-tions	Mort-gage-backed	Quali-fied re-volving	Other	Equity expo-sures	Com-panies in broadest sense	Small and medium-sized com-panies	Special-ized lending	Receiv-ables pur-chased
Retail business with employed private customers										
Application scoring retail / Behavior scoring retail			●							
LGD estimate IRB retail			●							
Retail business with self-employed private customers										
Application scoring retail / Behavior scoring retail			●							
LGD estimate IRB retail			●							

Figure 9

Rating systems in the DVB transport finance business

	Asset classes									
			Retail business				Corporates			
Rating systems	Central govern-ments	Institu-tions	Mort-gage-backed	Quali-fied re-volving	Other	Equity expo-sures	Com-panies in broadest sense	Small and medium-sized com-panies	Special-ized lending	Receiv-ables pur-chased
Shipping (vessel)[1]							●			
Land transport[1]							●			
Aviation (aircraft)[1]							●			

[1] The shipping (vessel), land transport and aviation (aircraft) rating systems will be included in the calculation of regulatory capital adequacy as of January 1, 2008.

Figure 10

Rating system in the TeamBank consumer credit business

	Asset classes									
			Retail business				Corporates			
Ratingsystem	Central govern-ments	Institu-tions	Mort-gage-backed	Quali-fied re-volving	Other	Equity expo-sures	Com-panies in broadest sense	Small and medium-sized com-panies	Special-ized lending	Receiv-ables pur-chased
Installment loans					●					

Figure 11

WGZ-Bank AG (Westdeutsche Genossenschafts-Zentralbank), Düsseldorf, regional associations, computer centers and primary banks. This uniform cooperative approach, particularly for the development of rating systems, results in substantial gains in efficiency for the two cooperative central banks, as well as for the local cooperative banks. If DZ BANK has a need for rating systems for special segments that exceeds the need for developing the uniform cooperative rating system, DZ BANK will develop any such rating systems independently.

The internal rating systems of the companies of the DZ BANK banking group have a modular construction; they usually comprise a quantitative and a qualitative module. As part of rating developments, various items affecting credit rating are identified and developed initially in isolation. In a next step, interdependencies between the individual modules are taken into account at the overall model level. The advantage of this approach is that in the future, individual modules of a particular rating system can be adapted based, for example, on new methodological-conceptual or empirical findings without any other module being affected or having to be adapted. As a result the cost of further development decreases.

Further information on the key rating systems is contained in the "Characteristics of the ratings systems" section contained in the risk report of the Group Management Report.

Approved transitional rules for the IRB approach ("partial use")
(Disclosure pursuant to section 335(1) SolvV)
Within the DZ BANK banking group, capital adequacy requirements continue to be calculated using both the IRB approach and the standardized approach to credit risk. As a rule, the banks included in group-wide risk management will use the IRB approach. The companies involved are DZ BANK, BSH, DG HYP, DZI, DZ BANK Ireland (as of January 1, 2008) and TeamBank. As of January 1, 2008, DVB will use the advanced IRB approach, but is exempted, based on the provisions of section 67(4)(6) SolvV, from the calculation of the DZ BANK banking group's coverage ratio. The other companies use the standardized approach to credit risk. The individual IRBA institutions cover their respective main business areas using suitable internal rating systems. Only immaterial segments continue to use the standardized approach to credit risk.

For each IRBA bank, there is an implementation plan that will ensure compliance with the thresholds prescribed by the SolvV. Compliance with these thresholds is one of the prerequisites for using the IRB approach.

Use of internal estimates for purposes other than calculating the risk-weighted exposure values pursuant to the IRB approach
(Disclosure pursuant to section 335(1)(2b) SolvV)
The use of the rating systems is set out in the "Use of the rating systems" section contained in the risk report of the Group Management Report.

Control mechanisms for the rating systems
(Disclosure pursuant to section 335(1)(2d) SolvV)
The internal rating systems used undergo an extensive annual validation annually on the basis of internal data. The validation consists of a quantitative analysis geared in particular toward measuring selectivity and stability and calibrating the rating systems. The validation also includes a qualitative analysis which examines the use of the rating systems for purposes of internal management (called the "use test"), model concept and data quality. In addition, a pool validation is carried out for the uniform cooperative rating systems. For the purpose of the pool validation, the rating data of all banks that use the corresponding rating system are collected and analyzed in the same way as the internal bank validation. If a validation shows optimization potential for the rating systems, the potential is implemented within the framework of any further development of the rating systems.

Rating system monitoring also includes checking that the rating systems are being applied properly, regularly estimating the risk parameters on which the rating system is based, and reviewing these estimates. The findings of monitoring activities are subject to internal reporting.

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

The rating systems used by DZ BANK are approved by its Board of Managing Directors. The Board of Managing Directors is regularly provided with information about the integrity of the rating systems and rating results in the Group Credit Risk Report.

In its capacity as a functionally independent authority, Internal Audit regularly reviews the adequacy of the internal rating systems, including compliance with the minimum requirements for use of the rating systems.

Similar regulations are implemented in all relevant companies of the DZ BANK banking group.

Process of assigning exposures or debtors to rating classes or risk pools

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

Every debtor clearly falls into a defined area of a rating system based on economic sector codes, earnings characteristics or business specifications. It is basically impossible to conclude transactions liable to the risk of default with debtors who do not have an internal rating. All rating systems are allocated to a regulatory asset class, with no overlap. The rating models are used within the framework of the credit application and approval process to classify the applicant or the guarantor. Each debtor or guarantor must be reclassified at least once annually. All relevant input factors and the results of the ratings are saved in data processing so that there is a complete rating history for each client and for each transaction.

4.2.2 Rating procedure for asset classes in the standardized approach to credit risk

Appointed rating agencies

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

In the standardized approach to credit risk, the following rating agencies are used for all asset classes to help determine the equity capital requirements: Standard & Poor’s Ratings Services, Moody’s Investors Service and Fitch Rating Ltd. The ratings of OECD export insurance agencies are also used. Pursuant to the provisions contained in sections 44 and 45 SolvV, competing external ratings are taken into account when determining risk-weighted exposure values.

Transfer of credit ratings from issues to receivables

(Disclosure pursuant to section 328 SolvV)

External credit ratings from recognized rating agencies or export insurance agencies are transferred to receivables of the DZ BANK banking group in accordance with the requirements of sections 42 to 47 SolvV. No transfers of issuer credit ratings to receivables of comparable, equal or higher priority were made. This applies to all asset classes in the standardized approach to credit risk.

4.3 Gross credit volumes and risk provisions

Gross credit volumes by sector

(Disclosure pursuant to section 327(2)(1) and (2) SolvV; Table 4d of the use cases)

The information in **Table 4d**, "Main industries by credit risk-bearing instrument," is published in the "Volume-oriented credit portfolio analysis" section of the risk report contained in the Group Management Report in the "Credit risk concentration by industry" table.

Gross credit volumes by geographic distribution

(Disclosure pursuant to section 327(2)(3) SolvV; Tables 4b and 4c of the use cases)

The information in **Tables 4b and 4c**, "Gross credit volumes by major geographical area and type of receivable," is published in the "Volume-oriented credit portfolio analysis" section of the risk report contained in the Group Management Report in the "Credit risk concentration by country group" table.

Gross credit volumes by residual maturity

(Disclosure pursuant to section 327(2)(4) SolvV; Table 4e of the use cases)

The information in **Table 4e**, "Contractual residual maturity," is disclosed in the "Volume-oriented credit portfolio analysis" section of the risk report contained in the Group Management Report in the "Credit volume by residual maturity" table.

Gross credit volumes by credit quality and risk provisioning

(Disclosure pursuant to section 327(2)(5) SolvV; Tables 4f, 4g and 4h of the use cases)

The **guidelines and procedures for the creation of risk provisions** (disclosure pursuant to section 327(1)(2) SolvV) and other **accounting-related information on credit risk** (disclosure pursuant to section 327(1)(1) SolvV) are presented in the "Management of problem commitments" section contained in the risk report of the Group Management Report. Within the DZ BANK banking group, the term "in arrears" found in section 327(1) SolvV has the same meaning as the term "past due."

The information in **Table 4f**, "Non-performing and default loans by major industry," is published in the "Analysis of the credit portfolio" section contained in the risk report of the Group Management Report in the "Overdue unimpaired credit volume and collateral by industry," "Credit volume and collateral in the portfolio with specific impairment by industry," "Impairments by industry" and "Provisions for liabilities from irrevocable credit commitments and financial guarantees by industry" tables.

The information in **Table 4g**, "Non-performing and default loans per major geographical area," is published in the "Analysis of the credit portfolio" section contained in the risk report of the Group Management Report in the "Overdue unimpaired credit volume and collateral by country group," "Credit volume and collateral in the portfolio with specific impairment by country group," "Impairments by country group" and "Provisions for liabilities from irrevocable credit commitments and financial guarantees by country group" tables.

Since the contents of **Table 4h**, "Growth of risk provisions" (disclosure pursuant to section 327(2)(6) SolvV) are covered by Table 4f and Table 4g, no separate disclosure is provided.

4.4 Quantitative information on the exposure values in the standardized approach to credit risk

Total amount of the exposure values in the standardized approach to credit risk and exposure values for equity investments and mortgage-backed positions subject to the simple risk-weighting method

(Disclosure pursuant to section 328(2) and section 329(2) SolvV; Table 5b (I) of the use cases)

Table 5b (I) shows the exposure values allocated to the asset classes in the standardized approach to credit risk before and after taking credit risk mitigation into account. In addition, the table shows exposure values of IRBA equity investments and mortgage-backed positions calculated in accordance with the simple risk-weighting method after application of credit risk mitigation.

4.5 Quantitative information on the exposure values in the IRB approach

Overall credit volumes according to probability of default (PD) classes (excluding retail) in the IRB approach

(Disclosure pursuant to section 335(2)(1), (2a) and (2c) SolvV; Table 6d (I) of the use cases)

The following key figures are shown in **Table 6d (I)** based on the IRBA asset classes of central governments, institutions, corporates and investments and are differentiated by risk class:

– the entire exposure and in particular, the exposure values of unused loan commitments
– the average risk-weightings weighted using the exposure values.

To complete the risk classes in the table, the various risk classification systems used in the group companies were first allocated to the uniform group rating classes of the GRC rating grouping, and then aggregated based on the probability of default.

Utilization and loan commitments for retail portfolios – retail IRB approach based on expected loss (EL)

(Disclosure pursuant to section 335(2)(2) and (3), SolvV; Table 6d (IV) of the use cases)

All of the exposure values, differentiated by risk class, are shown in **Table 6d (IV)** with reference to the IRBA asset class of retail business. To complete the risk classes in the table, the various risk classification systems used in the group companies were first allocated to the uniform group rating classes of the GRC rating grouping, and then aggregated based on the expected losses.

Table 5b (I): Total amount of the exposure values of asset classes in the standardized approach to credit risk as well as exposure values for equity investments 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%	81,482	85,884	
10%	70	70	
20%	2,768	6,205	
35%	0	965	
50%	288	2,044	328
75%	3,237	2,668	
100%	29,026	22,024	
150%	749	677	
190%			0
200%	0	0	
290%			126
350%	0	0	
370%			259
1.250%	0	0	
Deduction from capital	0	0	
Total	**117,620**	**120,537**	**713**

Figure 12

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

in € million	Investment grade			Non-Investment grade			Default			Total		
	Exposure value			Exposure value			Exposure value			Exposure value		
Asset classes	Total	of which: unused loan commit-ments	Ø Risk weight	Total	of which: unused loan commit-ments	Ø Risk weight	Total	of which: unused loan commit-ments	Ø Risk weight	Total	of which: unused loan commit-ments	Ø Risk weight
Central governments	8,891	158	17.1%	335	51	163.5%	14	0	0.0%	9,240	209	22.4%
Institutions	60,329	1,454	19.1%	965	27	105.8%	0	0	–	61,294	1,481	20.4%
Corporates	16,173	5,318	51.8%	3,076	492	112.3%	539	39	0.0%	19,788	5,849	59.8%
of which: SMEs	0	0	–	0	0	–	0	0	–	0	0	–
of which: specialized lending	1,111	466	48.6%	544	149	132.4%	45	1	0.0%	1,700	616	74.1%
of which: receivables purchased	0	0	–	0	0	–	0	0	–	0	0	–
Equity exposures	0		–	0		–	0		–	0		–
Total	**85,393**	**6,930**		**4,376**	**570**		**553**	**39**		**90,322**	**7,539**	

Figure 13

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	20,420	3,362	4,687	28,469
Qualified revolving IRBA receivables from retail business	0	0	0	0
Other IRBA receivables from retail business	2,035	947	3,376	6,358
Total	**22,455**	**4,309**	**8,063**	**34,827**

Figure 14

4.6 Credit risk mitigation

4.6.1 Management of collateral

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

The credit risk mitigation techniques used are set out in the "Credit risk mitigation" section contained in the risk report of the Group Management Report. This section contains a description of the objectives of collateral, the collateral strategy, the main types of collateral, the main types of guarantors and counterparties for credit derivatives, the procedure for depositing collateral in the classic lending business and in the case of derivative counterparty risk positions and risk concentrations assumed in connection with credit risk mitigation techniques.

4.6.2 Quantitative information on hedged exposure

Total amount of hedged exposure in the standardized approach to credit risk (without securitization)

(Disclosure pursuant to section 336(2) SolvV; Table 7b of the use cases)

Table 7b shows the exposure values by asset class according to the standardized approach to credit risk that are collateralized by financial collateral or guarantees. Credit risk mitigation is shown with the regulatory eligible values.

Total amount of collateralized exposure in the IRB approach (without securitizations)

(Disclosure pursuant to section 336(2) SolvV; Table 7c of the use cases)

Table 7c shows the exposure values by IRBA asset classes that are collateralized by financial collateral, other IRBA collateral (for example, property as collateral) or guarantees. Credit risk mitigation is shown with the regulatory eligible values. For BSH, credit risk mitigation is incorporated through the loss-given default in the calculation of capital adequacy, which is why BSH collateral is not shown in Table 7c.

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	6
Multilateral development banks	0	0
International organizations	0	0
Institutions	0	0
Covered bonds issued by credit institutions	0	0
Corporates	166	5,480
Retail business	0	217
Positions secured by real property	0	0
Investment units	0	0
Equities	0	0
Other exposures	0	0
Past-due exposures	1	42
Total	**167**	**5,745**

Figure 15

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

in € million

Asset classes	Financial collateral	Other collateral	Guarantees
Corporates	149	65	356
Institutions	690	0	326
Central governments	0	0	154
Retail business	0	14,203	0
of which: mortgage-backed	0	14,203	0
of which: qualified revolving	0	0	0
of which: other	0	0	0
Equities	10	0	0
of which: simple risk-weighting approach	10	0	0
of which: internal model approach	0	0	0
of which: PD / LGD approach	0	0	0
Other credit-independent assets	0	0	0
Total	**849**	**14,268**	**836**

Figure 16

4.7 Default risks from trading transactions

4.7.1 Management of default risks from trading transactions

The **internal capital allocation to hedge counterparty risks** under derivative counterparty risk positions pursuant to section 326(1)(1) SolvV is set out in the "Economic credit portfolio management" section contained in the risk report of the Group Management Report.

4.7.2 Quantitative information on default risks from trading transactions

(Disclosure pursuant to section 326 SolvV; Tables 8b (I), 8v (II), 8b(III) and Table 8c of the use cases)

The derivative counterparty risk positions are shown in **Table 8b (I)** as positive market values before and after calculation of the derivative set-off positions and collateral. In addition, there is a differentiation made for counterparty default risk according to the various types of contracts.

Based on the derivative counterparty risk positions shown in **Table 8b (I), Table 8b (II)** shows the counterparty default risk to be calculated in the form of the valuation basis for the standardized and IRB approaches to credit risk. Disclosure is then differentiated according to the regulatory market valuation method that is used by the trading book institutions and in part by the non-trading book institutions, and the maturity method that is applied by the rest of the non-trading book institutions. As of the reporting date, the non-trading book institutions did not hold any derivative counterparty risk positions.

The nominal value to be shown in **Table 8b (III)** of the regulatory eligible credit derivatives that are used to collateralize derivative counterparty risk positions was zero as of December 31, 2007.

Table 8c shows the nominal values for the credit derivatives bought and sold for own account, broken down by type of credit derivative. No credit derivatives from intermediary activities of the group companies were held as of December 31, 2007.

Table 8b (I): Valuation of the derivative default risk positions before and after calculation of 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	14,332			
Currency-based contracts	1,218			
Share / index-based contracts	559			
Credit derivatives	1,196			
Goods-based contracts	41			
Other contracts	4			
Total	**17,350**	**3,296**	**604**	**13,449**

Figure 17

Table 8b (II): Counterparty default risk to be calculated based on the derivative counterparty risk positions and differentiated 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 exposures	0	13.544	0	0

Figure 18

Table 8c: Nominal value of the credit derivatives according to type of use

in € million	Nominal value from use for own credit portfolio	
Credit derivatives	**Bought**	**Sold**
Credit default swaps	37,341	35,171
Total return swaps	5,439	340
Credit-linked notes	0	0
Other	0	0
Total	**42,780**	**35,511**

Figure 19

4.8 Asset securitizations

4.8.1 Management of asset securitizations

Objectives of securitization activities, functions in the securitization process and scope of the securitization activities

(Disclosure pursuant to section 334(1) SolvV)

The information is provided in the "Asset securitization" section contained in the risk report of the Group Management Report.

Procedure for determining the risk-weighted exposure values for securitizations

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

For the purpose of synthetic securitization transactions of the companies of the DZ BANK banking group in the Bank business segment in its capacity as **Originator**, retained securitization exposures are backed by equity capital in accordance with the standardized approach to credit risk pursuant to sections 238 to 241 SolvV. In the Property Finance business segment, retained originator exposures for residential mortgage-backed securities are also shown in the IRB approach, since the majority of the underlying exposures are to be allocated to the IRB asset classes. The IRB procedures used are approved by the BaFin.

Within the framework of **sponsor activities**, the procedure to be used in the case of asset-backed commercial paper programs that do not have an external rating is the internal classification procedure pursuant to section 259 SolvV, reviewed and approved by BaFin, for calculating any risk-weighted exposure values of securitization exposures.

The **investor positions**, which are generally allocated to the trading book, have a credit rating that allows for a valuation using the internal model approved by the BaFin for calculating the capital adequacy requirements for the general and specific market risk. These positions are subject to the capital adequacy for market risks and as such are not disclosed as credit risk positions pursuant to the SolvV. The investor positions in the investment book are of secondary importance.

Rating agencies used for securitizations

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

Regardless of the asset classes, the rating agencies of Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings Ltd. are usually commissioned for securitization activities. Competing external ratings are included, pursuant to the provisions of sections 44 and 45 SolvV, to calculate the risk-weighted exposure values. External credit ratings from recognized rating agencies and export insurance agencies are assigned to securitization exposures of the DZ BANK banking group in accordance with the requirements of sections 242 to 244 SolvV.

Accounting and valuation methods for securitizations

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

DZ BANK, as **sponsor** and **originator**, is involved in securitization transactions which have a special refinancing structure (conduit). Provided they meet the provisions of IAS 27 in conjunction with SIC-12, the special purpose entities involved in the conduits are consolidated by DZ BANK.

These conduits serve to finance factoring and investments in asset-backed securities. The asset-backed securities are almost entirely securities with the best credit rating that are also hedged by top-rated third parties in the form of credit default swaps against default risks. DZ BANK provides both conduits with liquidity facilities and swaps as instruments for hedging against interest and currency risks and credit commitments. The conduits are generally refinanced through the issue of asset-backed commercial paper. As a result of the current turbulence in the financial market, the conduits are currently fully refinanced by DZ BANK.

The **financing** is recorded as loans and receivables at amortized cost and the **asset-backed securities** either as available-for-sale holdings using the revaluation reserve or as trading positions affecting income at fair value in accordance with IAS 32 and IAS 39. Any **liquidity facilities used** are valued as loans and advances to customers, also at amortized cost. **Open liquidity facilities and credit commitments** will not be recognized on the balance sheet; for any risks arising from them, provisions are created in the amount of any estimated losses in accordance with IAS 37 to the extent that these facilities are likely to be used and the amount of the liability can be reliably estimated. Any **instruments for hedging against interest or currency risks** such as swaps are allocated to the trading portfolio in accordance with IAS 39 and measured at fair value. Any **outstanding group-external refinancing** of the conduits in the form of asset-backed commercial paper is reported as "Other liabilities" at amortized cost. Any group-internal financing will be consolidated in accordance with IAS 27.24.

In the case of **synthetic securitization transactions**, any securitized loans are not derecognized since the disposal criteria contained in IAS 39 are not met due to an absence of any transfer of legal rights.

In contrast, true asset sales – **"true-sale securitizations"** – are derecognized from the balance sheet to the extent that the opportunities and risks relating to the receivables portfolio were transferred to the buyer. If the opportunities and risks are, for example, retained through high discounts on sales prices or any other agreements (credit enhancements), the receivables will continue to remain on the balance sheet of the DZ BANK banking group.

The **investor positions** of DZ BANK in securities from securitization tranches will both be recognized and valued on the income statement as trading positions or as available-for-sale via the revaluation reserve at fair value.

4.8.2 Quantitative information on asset securitizations

Total amount of the securitized receivables

(Disclosure pursuant to section 334(2)(1) SolvV; Table 9d of the use cases)

Table 9d shows the receivables actually securitized by the companies of the DZ BANK banking group. These are positions for which the role of the originator was assumed but are not positions resulting from investor or sponsor activities. A distinction is made in the case of actual securitized receivables between securitization transactions involving a transfer of receivables (true sale or traditional securitization) and those where receivables are not transferred (synthetic securitization), and the type of the securitized receivables. In this case, asset securitizations are reported at their carrying amount. The classification of the securitization exposures is based on the allocation used by internal management.

Table 9d: Total amount of the securitized receivables

in € million	Total amount of securitized assets	
Types of receivables	**Traditional securitizations**	**Synthetic securitizations**
Receivables from residential construction loans	0	1,083
Receivables from full or partial commercial property loans	0	446
Loans and advances to companies (including SMEs)	0	0
Receivables from own and purchased leasing receivables	0	889
Receivables from automobile financing (excluding leasing)	0	0
Receivables from other retail business (e.g. credit cards, student loans)	0	0
CDO and ABS receivables	0	0
Total	**0**	**2,418**

Figure 20

Table 9e: Securitized receivables that are impaired and in arrears

in € million

Types of receivables	Past due or non-performing receivables
Receivables from residential construction loans	38
Receivables from full or partial commercial property loans	14
Loans and advances to companies (including SMEs)	0
Receivables from own and purchased leasing receivables	0
Receivables from automobile financing (excluding leasing)	0
Receivables from other retail business (e.g., credit cards, student loans)	0
CDO and ABS receivables	0
Total	**52**

Figure 21

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

in € million

Securitization exposures	Exposure values in standardized approach to credit risk	Exposure values in IRB approach
Items impacting the balance sheet		
Receivables from residential construction loans	0	2,093
Receivables from full or partial commercial property loans	0	1,391
Receivables from corporate loans	0	2
Receivables from own and purchased leasing receivables	0	0
Receivables from automobile financing (excluding leasing)	0	0
Receivables from other retail business (e.g. credit cards, student loans)	0	0
CDO and ABS receivables	0	596
Measures to improve credit quality	0	2,835
Other items impacting the balance sheet	7	8
Total items impacting the balance sheet	**7**	**6,925**
Items with no impact on the balance sheet		
Liquidity facilities	0	3,062
Derivatives (e.g. interest rate-currency swaps to hedge transactions)	37	15
Items specifically for synthetic transactions	0	14
Other items with no impact on the balance sheet	0	1
Total items with no impact on the balance sheet	**37**	**3,092**
Total amount	**44**	**10,017**

Figure 22

Tables 9g and 9i (I): Total amount and capital requirements for retained or purchased securitization exposures according to risk-weighting bands

Risk weighting bands	Exposure values	Capital adequacy requirements in standardized approach to credit risk	Capital adequacy requirements in IRB approach
in %	in € million	in € million	in € million
≤ 10	3,161	0	21
> 10 ≤ 20	3,069	1	41
> 20 ≤ 50	2,876	0	66
> 50 ≤ 100	898	0	57
> 100 ≤ 650	0	0	0
> 650 ≤ 1250 / capital deduction	57	6	50
Total	**10,061**	**7**	**235**

Figure 23

Table 9j: Securitization activities in the current year

in € million	Amount of actual securitized receivables		Profit/loss from traditional transactions
Types of receivables	**Traditional securitizations**	**Synthetic securitizations**	
Receivables from residential construction loans	0	0	0
Receivables from full or partial commercial property loans	0	0	0
Loans and advances to companies (including SMEs)	0	0	0
Receivables from own and purchased leasing receivables	0	181	0
Receivables from automobile financing (excluding leasing)	0	0	0
Receivables from other retail business (e.g. credit cards, student loans)	0	0	0
CDO and ABS receivables	0	0	0
Total	**0**	**181**	**0**

Figure 24

Securitized receivables that are impaired and in arrears

(Disclosure pursuant to section 334(2)(2) SolvV; Table 9e of the use cases)

Table 9e shows the actual securitized receivable amounts with risk of default or that are past due, broken down by the type of securitized receivables.

Total amount of any retained or purchased securitization exposures

(Disclosure pursuant to section 334(2)(3) SolvV; Table 9f of the use cases)

Table 9f shows the securitization exposures retained or purchased by the companies of the DZ BANK banking group in its capacity as originator, sponsor or investor, broken down by the type of underlying receivables in each case. The securitization exposures are reported with their exposure values. The classification of the underlying receivables is based on the allocation used by internal management.

Total amount and capital requirements for retained or purchased securitization exposures according to risk-weighting bands

(Disclosure pursuant to section 334(2)(4) SolvV; Tables 9g and 9i (I) of the use cases)

Tables 9g and 9i (I) divide the portfolio illustrated in table 9f by regulatory risk-weighting bands. In addition, minimum capital requirements, split up by standardized approach to credit risk and IRBA exposures, are also disclosed in accordance with regulatory risk-weighting bands.

Securitization activities in the current year

(Disclosure pursuant to section 334(2)(6) SolvV; Table 9j of the use cases)

Table 9j shows the scope and any realized profits and losses from the actual sale of receivables in the period from January 1, 2007, to December 31, 2007. A distinction is made here between traditional and synthetic securitizations. Securitized receivables are stated at their carrying amounts. Any realized profit or loss from a sale is generally calculated as the difference between the carrying amount of the receivables and the proceeds from the sale or the carrying amount of the credit derivative in the case of synthetic securitizations, and by taking the first-loss tranche into account. The classification of the securitization exposures is based once again on the allocation used by internal management.

5 Risks to equity investments held in the investment book

5.1 Risk management of equities held in the investment book

(Disclosure pursuant to sections 322 and 332 SolvV)

The objectives and principles of risk management of investments held in the investment book and the objectives pursued by such investments are described in the "Equity Risk" section contained in the risk report of the Group Management Report.

The measurement and accounting methods used for the equity investments in the investment book are explained as follows:

IAS 39 does not apply to instances of share ownership which are fully consolidated or which are reported on the balance sheet in accordance with the equity method. At DZ BANK, they are allocated as financial instruments in the available-for-sale category pursuant to IAS 39.9, and as such are generally reported on the balance sheet at fair value. Any fluctuations of the fair value as a result of the fair value measurement subsequent to initial recognition are generally recorded as having no effect on income in the revaluation reserve. In the event of a sustained impairment as defined in IAS 39.58 et seqq., this value adjustment will be recognized on the income statement. Recouped impairment losses for any impairments previously recorded on the income statement will be reported as not affecting income in the revaluation reserve. Any assessment as to the fair value shall occur at the end of each month.

For exchange-listed equity investments held in the investment book, their closing price on the reporting date was used to calculate their fair value. To measure unlisted equity investments, all affected companies are subject to a capitalized earnings value analysis. Alternatively, a valuation procedure based on the discounted cash flow method may be used. In this procedure, any calculated capitalized earnings values will be compared against the individual beta factor applicable to the company in question, and any market risk premium against the carrying amount. If the company in question does not have any (direct) financial objectives, but instead focuses on providing services or assisting the public (for example, guarantee banks), the net asset value of this company should be calculated instead. Alternatively, the value of any disposable proportionate equity capital may also be used. In the case of property finance companies, a property valuation of real estate may be used.

5.2 Quantitative information on equities in the investment book

(Disclosure pursuant to section 332 SolvV; Tables 13b and 13c and Tables 13d and 13e in the use cases)

Tables 13b and 13c show the amount of the equity investments in the investment book that are risk-weighted and are thus not fully or proportionally consolidated or are subject to a capital deduction, broken down by groups of equities and various valuation approaches. The classification of the equities is based on the allocation used by internal management. The carrying amount corresponds to the accounting valuation based on the standard required by the HGB. As traded equities, the positions included here are those that are listed on a stock exchange. The stock exchange value is defined as the spot price of the investment on the reporting date.

Tables 13b and 13c: Valuation approaches for equities

in € million

Groups of equities	Carrying amount	Fair value	Market value
Equity investments in financial institutions	**403**	**440**	
of which: exchange-traded	250	272	272
of which: non-traded but part of a diversified equity investment portfolio	153	168	
of which: other	0	0	
Equities in finance companies	**2,144**	**2,132**	
of which: exchange-traded	105	90	90
of which: non-traded but part of a diversified equities portfolio	1,954	1,957	
of which: other	85	85	
Equities in companies	**287**	**302**	
of which: exchange-traded	0	0	0
of which: non-traded but part of a diverdified equities portfolio	275	290	
of which: other	12	12	
Total	**2,834**	**2,874**	

Figure 25

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

in € million

	Unrealized profit and loss from equities		
Profit and loss realized from sales and liquidations	Total amount	of which: amounts included in Tier I capital	of which: amounts included in Tier 2 capital
6	38	0	0

Figure 26

Tables 13d and 13e show the realized and unrealized gains from equity transactions in the investment book based on the reporting period and in accordance with HGB accounting requirements. The tables only take into account any investments that are risk-weighted and are thus not fully or proportionately consolidated or are subject to a capital deduction. In addition, any unrealized gains as of December 31, 2007, that were part of the regulatory capital are shown here.

The contents of **Table 13f** ("Equities with their capital adequacy amounts") are contained in Tables 2b to 2c, and as such no separate disclosure is provided.

6 Market risk

6.1 Management of market risks

(Disclosure pursuant to section 322 and section 330 SolvV)

The following information is contained in the "Market Risk" section found in the risk report contained in the Group Management Report:

- objectives and principles of market risk management including management of interest rate exposure in the investment book
- specific information of the internal market risk model
- specific information of calculating interest rate exposure

6.2 Quantitative information on market risks

(Disclosure pursuant to sections 330 and 333 SolvV; Table 10 and Table 14b of the use cases)

The information pursuant to section 330 SolvV (Table 10b "Equity capital requirements for market risks pursuant to the standardized method") is contained in Tables 3b to 3e, and as such no separate disclosure is provided.

In contrast to **Table 14b** of the use cases, any interest rate exposure in the investment book is calculated as value-at-risk for the purpose of internal market risk management. This meets the requirements of section 333 SolvV, according to which any interest rate exposure is to be disclosed according to the method used by the company management for measuring risk. As of December 31, 2007, the interest rate exposure in the investment book of the DZ BANK banking group was € 22 million. This figure was reported to the Board of Managing Directors.

7 Operational risk

(Disclosure pursuant to sections 322 and 331 SolvV)

The objectives and principles of operational risk management are set out in the "Operational Risk" section contained in the risk report of the Group Management Report.

Glossary

Asset-backed commercial paper program (ABCP)	Money-market securities program covered by receivables for which a special purpose entity (conduit) issues commercial paper. Within the program, regularly revolving receivables are sold to the conduit which in turn issues new commercial papers on an ongoing basis.
Asset-backed securities (ABS)	Bonds with interest and repayment features that are usually determined by a portfolio of reference receivables that are simultaneously directly available to investors as security ("asset backed") or in the form of cash equivalents. The cash flows generated are either passed on to the investors directly (true-sale variant) or are created for the investors synthetically from collateral portfolios (synthetic variant).
Probability of default (PD)	The estimated probability, based on a one-year period, that a borrower will be completely or partially unable to meet its obligations under a loan (default event). The PD is calculated for each risk class (rating class) and assigned to any borrowers belonging to this risk class. The IRB approach to calculating regulatory capital adequacy for counterparty risk is based on the probabilities of default, which are estimated using an approved rating system.
Available for sale	Accounting term. Non-derivative financial assets for which any changes in value are reported as having no effect on income in capital in the revaluation reserves. Synonym: available-for-sale financial assets.
Beta factor	Company valuation term (discounted cash flow method). Volatility of a share as compared with an index within a certain time period.
Collateralized debt obligation (CDOs)	Securities that are collateralized through a pool of various general assets. The assets that serve as collateral are mostly receivables from loans or bonds. By definition, CDOs also include collateralized bond obligations (CBOs) and collateralized loan obligations (CLOs). CBOs are asset-backed securities that are covered by a pool of marketable bonds. CLOs are asset-backed securities that are covered by a pool of loans.
Commercial paper	Short-dated bonds not listed on the stock exchange with a maturity of between 1 and 364 days.
Conduits (refinancing structures)	Special purpose entities that buy receivables and securities of companies on a revolving basis for the purpose of short-term interim financing through capital markets and refinance themselves by issuing commercial paper.
Credit default swap (CDS)	Credit derivative that can be traded at market prices as a result of the documentation of the contents of the contract being standardized. The market price consists of a premium (spread) that the assignee pays to the assignor. If one of the events specified in the documentation occurs, the assignor must pay the assignee compensation in the nominal amount.
Credit enhancement	Contractual agreement in which the bank retains or takes over a securitization exposure, and thus offers additional protection against losses to the other parties involved in the transaction.
Credit-linked note (CLN)	Securitized bonds combining an interest rate instrument and a credit derivative. The buyer of a credit-linked note invests in a certain nominal volume of the bond and is simultaneously the assignor. The seller is the issuer of the note and assignee. The seller (recipient of the security) pays a premium on the CLN in addition to interest on the nominal volume. If the specified credit event occurs, the nominal value of the CLN will be used to cover the deficiency caused by the event.

Simple risk-weighting method	Supervisory method for simplifying the calculation of the risk-weighted exposure values for the purpose of calculating regulatory capital adequacy. The method is used in the case of IRB approach equity exposures if the exposure neither belongs to a model-managed equity investment portfolio nor to one managed by taking into account the probability of default, and in the case of IRB approach special financing exposures, if there are no regulatory recognized estimates of probabilities of default.
Expected loss (EL)	A parameter for calculating the credit value-at-risk. EL is calculated for a time horizon of one year based on the following formula: EL = LGD * PD. The bases of this calculation are the one-year probabilities of default derived from internal rating scores and additional business-specific characteristics. No expected loss is calculated for clients who have defaulted.
Fair value	Accounting term. The amount at which an asset could be exchanged, or a liability settled, in an arm's length transaction between knowledgeable and willing parties under usual market conditions.
First-loss tranche or first-loss piece	Also called equity piece or equity tranche. The component of an asset securitization with the highest risk. Any losses arising in a securitized portfolio are first carried by this subordinated tranche. These initial loss positions are frequently retained by the originator.
GRC rating grouping	Credit classes of the GRC rating with the following features: – Investment grade: GRC groups I, II and III of the VR rating scale; average probability of default of 0.01 percent p.a. to 0.50 percent p.a. – Non-investment grade: GRC groups IV, V and VI of the VR rating scale; average probability of default of 0.75 percent p.a. to 20.00 percent p.a. – Default: GRC group VII of the VR rating scale, in which defaulted exposures are classified.
Group risk committee (GRC)	Executive body within the DZ BANK Group dealing with issues relating to corporate management and risk management
IFRS / IAS **IFRIC / SIC**	International Financial Reporting Standards (IFRSs) are accounting standards published by the International Accounting Standards Board (IASB). In addition to the IFRSs adopted since 2003, they include the International Accounting Standards (IASs) published to date the interpretations of the Standing Interpretations Committee (SIC) and of the International Financial Reporting Interpretations Committee (IFRIC).
Internal model approach (IMA)	Supervisory method for calculating add-on amounts for market risk exposures, based on an internal model approved by the supervisory authorities.
Investor (in securitizations)	An investor holding at least one securitization exposure or guaranteeing or hedging securitization exposures held by others. It is neither an originator nor a sponsor of the securitization transaction. The payment claims from the underlying receivables portfolio, and if applicable, other collateral involved in the securitization transaction, serve as security for the investors. Within the framework of contractual terms and conditions, the investors are usually entitled to payments of principal and interest from the underlying assets, without having any direct access to the receivables in the pool of receivables.

IRB approach (IRBA, Internal Ratings-Based Approach)	Regulatory method for calculating the risk-weighted exposure values within the framework of calculating capital adequacy for credit risk. The method is based on the availability of risk parameters that are determined with the help of rating systems approved by the supervisory authorities. Categories include the foundation IRB approach (use of internally estimated probabilities of default), the advanced IRB approach (use of internally estimated probabilities of default, conversion factors and loss ratios) and the IRB approach for retail business (also called Retail IRBA).
Credit risk – standardized approach (standardized approach to credit risk)	Regulatory method for calculating the risk-weighted exposure values within the framework of calculating capital adequacy for counterparty risk. Based on the assignment of regulatory predefined risk-weightings, which depend in part on external ratings, to the risk exposures.
Liquidity Ordinance	The Ordinance governing the Liquidity of Banking Institutions of December 14, 2006, was published in the German Federal Law Gazette (2006, Part I, Number 61, p. 3117 ff.) on December 20, 2006, and went into effect on January 1, 2007. It specifies the liquidity requirements of banking institutions pursuant to section 11 KWG.
Loans and receivables	Accounting term. Category for non-derivative financial assets with fixed or specifiable payments that are not listed on an active market. They include loan claims and parts of the financial assets.
Loss-given default (LGD)	The estimated extent of the loss following the occurrence of a default event that is determined to a great extent by the structure of the loan exposure. The advanced IRB approach and the retail IRB approach for calculating regulatory capital adequacy for credit risk are based on internally estimated loss ratios.
Management approach	Within the context of external risk reporting, the purpose of the management approach is to provide the recipients of the report information relevant for decision-making on risk management specific to companies from the view of management. When using the management approach, any quantitative information disclosed is often based on information that is also provided to management. For the purposes of risk reporting pursuant to the SolvV or IFRS 7 and IAS I, the management approach is sometimes specifically required and sometimes approved as an alternative to the balance sheet approach (balance sheet or accounting approach) and the regulatory approach.
Market valuation method	Supervisory method for calculating the basis for determining the derivative counterparty risk positions within the framework of calculating capital adequacy for such risks. The method is based on the market-valued replacement expenses (positive market value of the derivative and an add-on to hedge any potential future fluctuations of the market value).
Revaluation reserve	Accounting term. A revaluation reserve is a separate line item in equity capital in which changes to the fair value of securities in the category of Available-for-sale financial assets and the resulting deferred taxes are not entered as income.

Originator	If a securitization transaction contains receivables of an institution or receivables of a company of the supervisory banking group that also includes the institution, or if the receivables that were transferred in an initial securitization transaction for the purpose of subsequent securitization constitute more than 50 percent of the securitized portfolio of any subsequent securitization transaction, then the institution, pursuant to the Solvency Ordinance, is deemed to be the originator of the securitization transaction.
Partial use	Ongoing or transitional (temporary) use of the standardized approach to credit risk or the IRB approach to calculate regulatory capital adequacy amounts.
PD/LGD approach	Regulatory method under the SolvV for calculating the risk-weighted exposure values of equity investments for the purpose of calculating capital adequacy for credit risk. The method is based on the availability of risk parameters that are determined with the help of rating systems approved by the supervisory authorities.
Exposure value or exposure at default (EAD)	The expected credit amount with a time horizon of one year that is exposed to a credit risk if a default event occurs. The advanced IRB approach for calculating the regulatory capital adequacy for the credit risk is based on internally estimated exposure values.
Residential mortgage-backed securities (RMBS)	A form of mortgage-backed securities (MBS) that is collateralized by a pool of private mortgage loans. Payments of principal and interest usually depend on the performance of the underlying mortgage portfolio.
Solvency Order (SolvV)	The Order governing the Capital Adequacy of Institutions, Groups of Institutions and Finance Holding Groups (Solvency Order) of December 14, 2006, was published in the German Federal Law Gazette (2006, Part I, Number 61, p. 2926 et seqq.) on December 20, 2006, and went into effect on January 1, 2007. It transposes the predefined European minimum capital standards pr corresponding equivalent guidelines of the Basel capital adequacy recommendations (Basel II) contained in the Banking Directive (2006/48/EC) and the Capital Adequacy Directive (2006/49/EC) into national law. The SolvV specifies the requirements for capital adequacy and capital backing of institutions pursuant to sections 10 and 10a KWG.
Sponsor	A sponsor is a bank which issues and manages a securitization program and is not the originator of this program. Within the framework of securitization transactions, sponsors are involved in ABCP programs or other securitization programs.
Standardized approach for operational risk	Regulatory method to determine the risk-weighted assets for operational risks using risk factors broken down by business areas.
Synthetic securitization	An asset securitization where the originator hedges the credit risk of a receivables portfolio, but without giving up ownership of the underlying receivables, as opposed to a true-sale securitization.
Total return swap	A credit derivative where the assignee transfers the entire risk of a reference asset to the assignor, whereby any gains from the reference asset and any increase in its value are periodically settled with the assignor against payment of variable or fixed interest and an offset of any impairment of the asset.

List of figures

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