Consolidated Financial Statements 2015

of the Volksbanken Raiffeisenbanken
Cooperative Financial Network

The Volksbanken Raiffeisenbanken Cooperative Financial Network

Facts and Figures at a Glance

Ratings	Fitch Ratings (network rating)	Standard & Poor's
Long-Term Issuer Default Rating	AA–	AA–
Short-Term Issuer Default Rating	F1+	A–1+
Support Rating	5	*)
Outlook	Stable	Stable
Individual Rating	aa–	aa–

* Standard & Poor's does not provide this kind of rating.

Volksbanken Raiffeisenbanken Cooperative Financial Network	2015 € million	2014 € million	Change (percent)
Financial performance			
Net interest income	20,021	20,047	–0.1
Allowances for losses on loans and advances	–74	–299	–75.3
Net fee and commission income	5,798	5,467	6.1
Gains and losses on financial and trading activities[1]	409	1,335	–69.4
Net income from insurance business[2]	993	1,281	–22.5
Profit before taxes	9,787	10,655	–8.1
Net profit	6,967	7,807	–10.8
Net assets			
Loans and advances to banks	32,988	38,293	–13.9
Loans and advances to customers	700,608	670,683	4.5
Allowances for losses on loans and advances	–7,631	–8,519	–10.4
Financial assets held for trading	53,570	61,181	–12.4
Investments	249,960	249,219	0.3
Investments held by insurance companies	82,766	77,545	6.7
Remaining assets	50,258	47,358	6.1
Financial position			
Deposits from banks	99,505	103,526	–3.9
Deposits from customers	739,218	713,485	3.6
Debt certificates issued including bonds	70,248	66,981	4.9
Financial liabilities held for trading	45,397	52,760	–14.0
Insurance liabilities	78,929	74,670	5.7
Remaining liabilities	36,215	37,837	–4.3
Equity	93,007	86,501	7.5
Total assets	**1,162,519**	**1,135,760**	**2.4**
Volume of business[3]	**1,510,001**	**1,446,483**	**4.4**
Profitability/efficiency			
Cost/income ratio (%)	63.6	60.7	
Return on equity (%)[4]	7.8	9.4	
Return on capital employed (%)[5]	0.6	0.7	
Regulatory capital ratios			
Tier 1 capital ratio (%)	12.4	11.5	
Total capital ratio (%)	15.8	15.1	
Employees as at reporting date	**187,616**	**190,544**	**–1.5**

(See back inside cover for footnotes 1 to 5)

1

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Contents

Editorial **5**

Introduction by the Board of Managing Directors 5

Management Report 2015 **7**

Business Performance 7

- Economic conditions 8
- Volksbanken Raiffeisenbanken Cooperative Financial Network 9
- Operating segments of the Volksbanken Raiffeisenbanken Cooperative Financial Network 18

Human Resources Report 23

Risk Report 29

- Risk management in a decentralized organization 31
- Risk capital management 36
- Credit risk, market risk, and liquidity risk 40

Outlook 43

- Real economy and banking industry 44
- Volksbanken Raiffeisenbanken Cooperative Financial Network 46

Consolidated Financial Statements 2015 of the Volksbanken Raiffeisenbanken Cooperative Financial Network **49**

Income statement for the period January 1 to December 31, 2015 50

Statement of comprehensive income for the period January 1 to December 31, 2015 51

Balance sheet as at December 31, 2015 52

Statement of changes in equity 54

Statement of cash flows 56

Notes to the consolidated financial statements 59

- A Significant financial reporting principles 60
- B Selected disclosures of interests in other entities 68
- C Income statement disclosures 72
  - 1. Information on operating segments 72
  - 2. Net interest income 75
  - 3. Allowances for losses on loans and advances 76
  - 4. Net fee and commission income 76
  - 5. Gains and losses on trading activities 77
  - 6. Gains and losses on investments 77

3

7. Other gains and losses on valuation of financial instruments	77
8. Premiums earned	78
9. Gains and losses on investments held by insurance companies and other insurance company gains and losses	78
10. Insurance benefit payments	78
11. Insurance business operating expenses	82
12. Administrative expenses	82
13. Other net operating expense/income	82
14. Income taxes	83
D Balance sheet disclosures	84
15. Cash and cash equivalents	84
16. Loans and advances to banks and customers	84
17. Allowances for losses on loans and advances	85
18. Derivatives used for hedging (positive and negative fair values)	85
19. Financial assets held for trading	86
20. Investments	86
21. Investments held by insurance companies	87
22. Property, plant and equipment, and investment property	87
23. Income tax assets and liabilities	88
24. Other assets	89
25. Deposits from banks and customers	90
26. Debt certificates including bonds	90
27. Financial liabilities held for trading	91
28. Provisions	92
29. Insurance liabilities	94
30. Other liabilities	94
31. Subordinated capital	95
E Financial instruments disclosures	96
32. Fair value of financial instruments	96
33. Maturity analysis	97
34. Exposures in countries particularly affected by the sovereign debt crisis	97
F Other disclosures	98
35. Capital requirements and regulatory indicators	98
36. Financial guarantee contracts and loan commitments	99
37. Trust activities	99
38. Asset management by the Union Investment Group	100
39. Leases	101
40. Changes in the contract portfolios held by Bausparkasse Schwäbisch Hall	102
41. Changes in the allocation assets of Bausparkasse Schwäbisch Hall	103
42. Cover statement for the mortgages and local authority loans extended by the mortgage banks	104
43. Board of Managing Directors	107
Review Report (Translation)	**109**

EDITORIAL 5
MANAGEMENT REPORT 2015 7
CONSOLIDATED FINANCIAL STATEMENTS 2015 49
REVIEW REPORT (TRANSLATION) 109

5

Introduction by the Board of Managing Directors

Reporting a profit before taxes of €9.8 billion, the Volksbanken Raiffeisenbanken Cooperative Financial Network remains one of the most profitable banking groups in Europe. A sharp rise in the volume of customer business enabled the network to maintain net interest income at virtually the prior-year level, while net fee and commission income actually increased.

Although persistently low interest rates and the rise in costs driven by regulatory requirements will have an adverse impact on financial performance going forward, the Cooperative Financial Network can tackle the challenges and any opportunities that arise in the market from a position of competitive strength. It is also supported in this by its close ties to business and society – as reflected in its 18.3 million-strong membership – and a sound level of equity, which has risen again to €93.0 billion.

The cooperative banks' network of branches, which is comprehensive even by European standards, means that they are standing by their promise of remaining close to their customers. In the digital age, however, customer focus also includes digital channels, where the cooperative banking group is currently making substantial investments. Having the right mix of these distribution channels is a major factor in future success. The cornerstone of the entire customer/bank relationship remains the cooperative bank branch. Even in an omnichannel environment, the branch – with its highly qualified specialist advisors – will continue to provide the crucial edge over a business model based primarily on technology.

The interest-rate situation remains one of the biggest challenges in Europe. In view of the Brexit vote and the resulting uncertainties, there is growing concern that the European Central Bank will persist with its disastrous policy of negative interest rates. The measurable economic benefits of negative interest rates are minimal at most. However, the damage caused by the policy of extremely low interest rates is considerable, especially for personal pension products but also for the long-term development of the financial sector as a whole.

Moreover, the rising tide of regulation is not making relationships between customers and their banks any easier. Even politicians now recognize the growing burden that regulatory requirements represent, particularly for small and medium-sized banks. Nonetheless, we will continue with our joint lobbying activities in pursuit of the principle of proportionality. More subsidiarity is also required in this context. The cooperative model, with its regional roots and banks that determine their own business policies, is proof positive of the success with which individual responsibility and overarching cooperation can be combined for the benefit of business.

Uwe Fröhlich
Gerhard Hofmann
Dr. Andreas Martin

7

Management Report 2015

Business Performance

Economic conditions

Germany's economic upturn continued in 2015. According to the latest calculations, inflation-adjusted gross domestic product (GDP) rose by 1.7 percent year on year. The growth rate was therefore marginally higher than in 2014 (1.6 percent).

Economic growth remained relatively steady despite the weaker pace in emerging markets and a renewed deterioration in the Greek debt crisis during the summer months. Compared with previous years, there was little fluctuation in the quarterly GDP growth rates (after adjustment for inflation, calendar, and seasonal effects).

The key economic growth driver continued to be consumer spending, which rose significantly, boosted mainly by the upward trends in employment and collective pay deals – trends already established for some time – and by one-off factors such as the introduction of the general statutory minimum wage of €8.50 per hour and gains in purchasing power caused by the low oil price. Demand was also stimulated by the substantial influx of migrants into Germany.

In contrast, capital investment and foreign trade made less of a contribution to the rise in GDP. Although German exports grew markedly, the robust domestic demand also led to a substantial rise in imports. Capital expenditure went up but the increase did not match the investment growth seen in previous upswings given the significant economic uncertainties still prevailing. Capital investment in the construction sector flatlined for the most part.

General inflationary pressure continued to ease in the year under review with the rate of inflation dropping from 0.9 percent in 2014 to just 0.3 percent in 2015. The critical factor was the fall in the price of oil, which gained momentum again towards the end of the year following a temporary period of stabilization during the spring.

The job market fundamentally remained in good shape. However, the growth in employment slowed slightly following the introduction of the general statutory minimum wage and of provisions allowing persons who meet certain criteria to retire at the age of 63 without incurring deductions to their pension benefits. The average number of people employed in Germany in 2015 rose by 329,000 to 43.0 million, with the number of people out of work falling by 104,000 to just under 2.8 million, equating to an unemployment rate of 6.4 percent. The influx of refugees into the country had not yet had an impact on the unemployment figures.

Volksbanken Raiffeisenbanken Cooperative Financial Network

Business situation

In 2015, against the backdrop of the generally sound performance of the German economy, the Volksbanken Raiffeisenbanken Cooperative Financial Network managed to sustain the excellent performance achieved in previous years.

The declared aim of the European Central Bank (ECB) was to counter the threat of a deflationary trend and bolster growth in the eurozone by supporting greater lending by banks. To this end, the ECB made a decision at the beginning of 2015 to maintain its interest rate on main refinancing operations at 0.05 percent and its rate on the deposit facility for banks at –0.2 percent. It also decided to carry out a monthly bond-buying program with a value of €60 billion over the period March 2015 to September 2016 with a view to steering inflation once again to a level close to, but below, 2 percent. In addition, the regulatory environment presented significant challenges in 2015, especially for smaller and medium-sized banks.

With its focus on value creation and customers, the regionally oriented business model of the Cooperative Financial Network continued to prove robust in 2015 in these difficult operating conditions. Profit before taxes amounted to €9,787 million, coming close to the outstanding equivalent prior-year figure of €10,655 million. The Cooperative Financial Network therefore once again demonstrated that it is one of the most profitable banking groups in Europe.

In the lending business with retail and corporate customers, the cooperative banks gained further market share in 2015 against the backdrop of a robust economy. Overall, lending business with retail and corporate customers grew by 4.8 percent year on year, significantly exceeding the former record levels achieved in each of the previous two years. Given lower growth in the market as a whole, the market share held by the primary banks rose by 0.4 percent to 15.8 percent. In lending business with corporate customers, the performance of the primary banks stood out clearly from the crowd with year-on-year growth of 4.7 percent compared with a growth rate for the sector of 1.4 percent. The primary banks also gained market share in the year under review in lending business with retail customers, with year-on-year growth of 4.8 percent driven mainly by long-term home finance. The Cooperative Financial Network also managed to generate an increase of 4.5 percent in customer deposits despite the ECB's policy of zero interest rates.

Equity advanced again, from €86.5 billion in 2014 to €93.0 billion as at December 31, 2015. This represented a further substantial year-on-year increase in equity of €6.5 billion (2014: increase of €7.1 billion) and was achieved despite the persistently difficult operating conditions, thereby underlining the sustainability of the Cooperative Financial Network's successful business model and strengthening its future viability. The sound level of capital adequacy provides the Cooperative Financial Network with a sufficient risk buffer while at the same time allowing it to expand its lending business with retail and corporate customers. The network also meets the standards it has set itself for satisfying the growing number of regulatory requirements and is one of the best capitalized banking groups in Europe.

The vitality and financial stability of the Cooperative Financial Network's business model, with its strong market position in retail and corporate banking, have been rewarded with capital market ratings of AA– from rating agencies Standard & Poor's and Fitch Ratings. These ratings are encouraging when viewed in comparison with the rest of the sector.

The popularity of the Cooperative Financial Network in the market was once again clearly demonstrated in 2015 by the further sustained growth in its membership. Cooperative banks support their members, promote the flow of business activity in the regions, and thereby help to develop the economy as a whole. Relationships with customers are based on long-term partnerships and the activities of the cooperative banks generate social benefits that extend far beyond the provision of financial services. In 2015, the German cooperative banks gained 258,000 members, bringing the total to 18.3 million as at December 31, 2015.

Financial Performance

In 2015, **net interest income** was virtually unchanged year on year at €20,021 million (2014: €20,047 million). This figure continued to be affected by the environment of low interest rates and the resulting deterioration in spreads as well as by very fierce competition in the market. Once again, the main factor that enabled the absolute net interest income figure to be maintained more or less at the same level year on year was the growth in interest-bearing customer business. This success against competitors would be much more obvious in net interest income if the interest rates dictated by monetary policy were set at 'normal' levels.

Allowances for losses on loans and advances at €74 million had an extremely modest impact on the Cooperative Financial Network's financial performance in 2015. This figure represented a decrease of €225 million or 75.3 percent compared with 2014. The lower interest burden faced by borrowers continued to provide a boost for their debt service capacity and was also a contributing factor in the ongoing contraction in the number of insolvencies among both retail and corporate customers. If interest rates were to increase in the foreseeable future, the potential risk would need to be sufficiently determined in good time and adequate allowances recognized.

The Cooperative Financial Network's **net fee and commission income** went up again in the year under review to €5,798 million, which equated to year-on-year growth of 6.1 percent. The principal growth driver was the strong customer demand for securities and funds, to which the cooperative banks were able to respond with individual advice and high-quality financial products and services. Growth across practically the entire range of products and services was evident in the local cooperative banks' customer business. The areas particularly worthy of note were the securities broking and custody business as well as the agency business for consumer finance and real estate. Payments processing again also accounted for a significant portion of net fee and commission income, although substantial regulation expense was incurred in connection with this business. The Cooperative Financial Network is committed to providing this infrastructure service. It is worth noting that competitors – and even fintech companies – are also increasingly coming to the conclusion that infrastructure services cannot be cross-subsidized by other areas of business on a permanent basis.

The Cooperative Financial Network's **gains and losses on trading activities** in 2015 came to a net gain of €607 million compared with a net gain of €752 million for 2014. This decline was largely attributable to non-operating items, such as the widening of spreads in the measurement of bond portfolios.

Gains and losses on investments amounted to a net loss of €561 million, whereas there had been a net gain of €148 million in 2014. The fall was primarily accounted for by negative effects from the measurement of securities and the absence in 2015 of significant positive one-off items that had been recognized in 2014, notably the positive impact from the disposal of securities written down in previous periods.

Other gains and losses on valuation of financial instruments declined from a net gain of €435 million in 2014 to a net gain of €363 million in the reporting year, the main reason being the fall in positive valuation effects in connection with bonds from the peripheral countries of the eurozone.

Net income from insurance business went down in 2015 by 22.5 percent to €993 million. Critical factors included the decline in gains and losses on investments held by insurance companies caused by the low interest rates. However, some of the decline was offset by a positive impact from continued dynamic growth in various insurance segments, resulting in an overall growth in premium income of 3.5 percent.

Administrative expenses rose by €339 million to €17,234 million in the year under review. The bulk of the administrative expenses were attributable to staff expenses, which came to €10,160 million. Staff expenses went up largely because of collectively agreed pay increases and additional expenses in connection with retirement pension provisions.

11

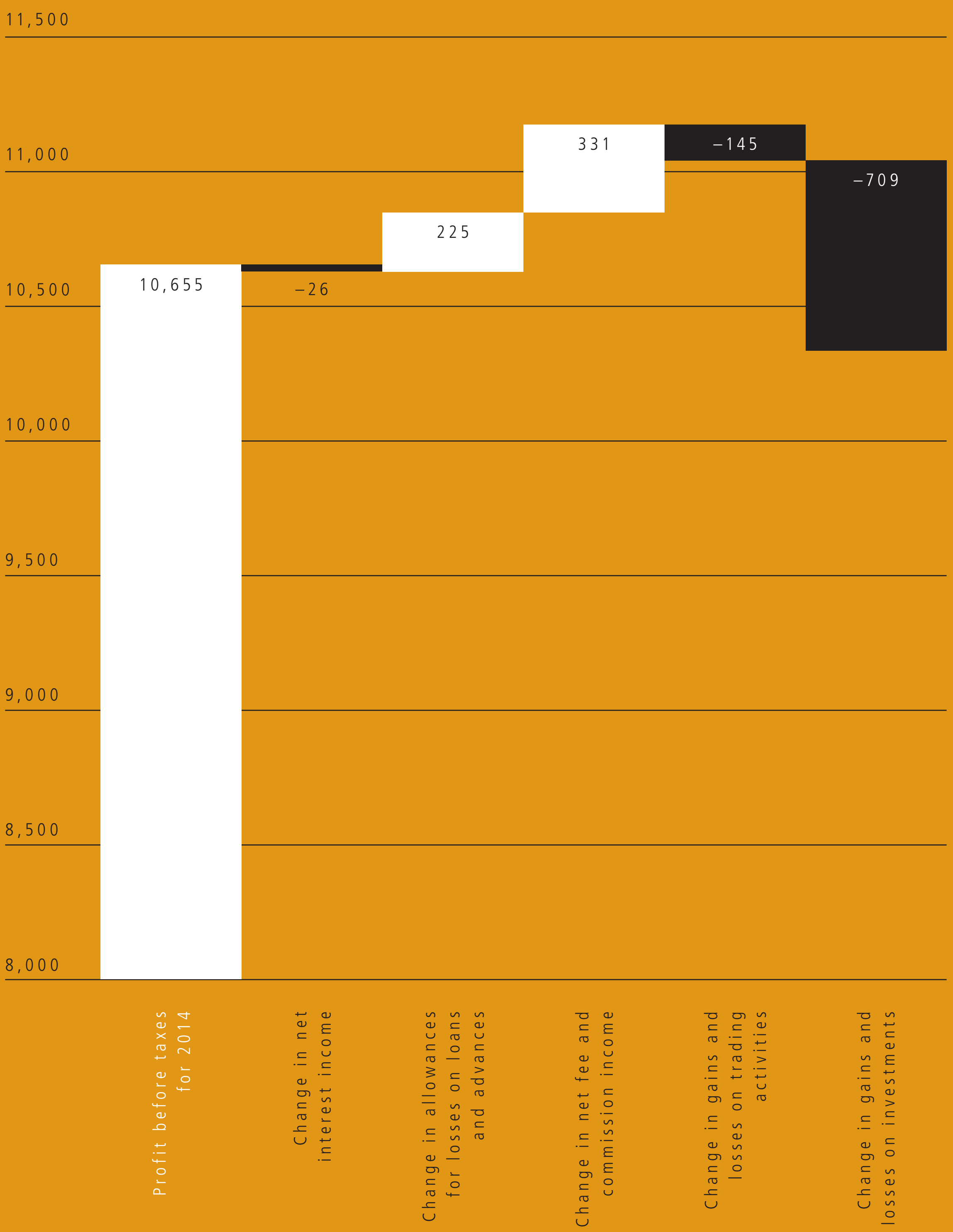
Financial performance

	2015 € million	2014 € million	Change (percent)
Net interest income	20,021	20,047	–0.1
Allowances for losses on loans and advances	–74	–299	–75.3
Net fee and commission income	5,798	5,467	6.1
Gains and losses on trading activities	607	752	–19.3
Gains and losses on investments	–561	148	>100.0
Other gains and losses on valuation of financial instruments	363	435	–16.6
Net income from insurance business	993	1,281	–22.5
Administrative expenses	–17,234	–16,895	2.0
Other net operating expense/income	–126	–281	–55.2
Profit before taxes	**9,787**	**10,655**	**–8.1**
Income taxes	–2,820	–2,848	–1.0
Net profit	**6,967**	**7,807**	**–10.8**

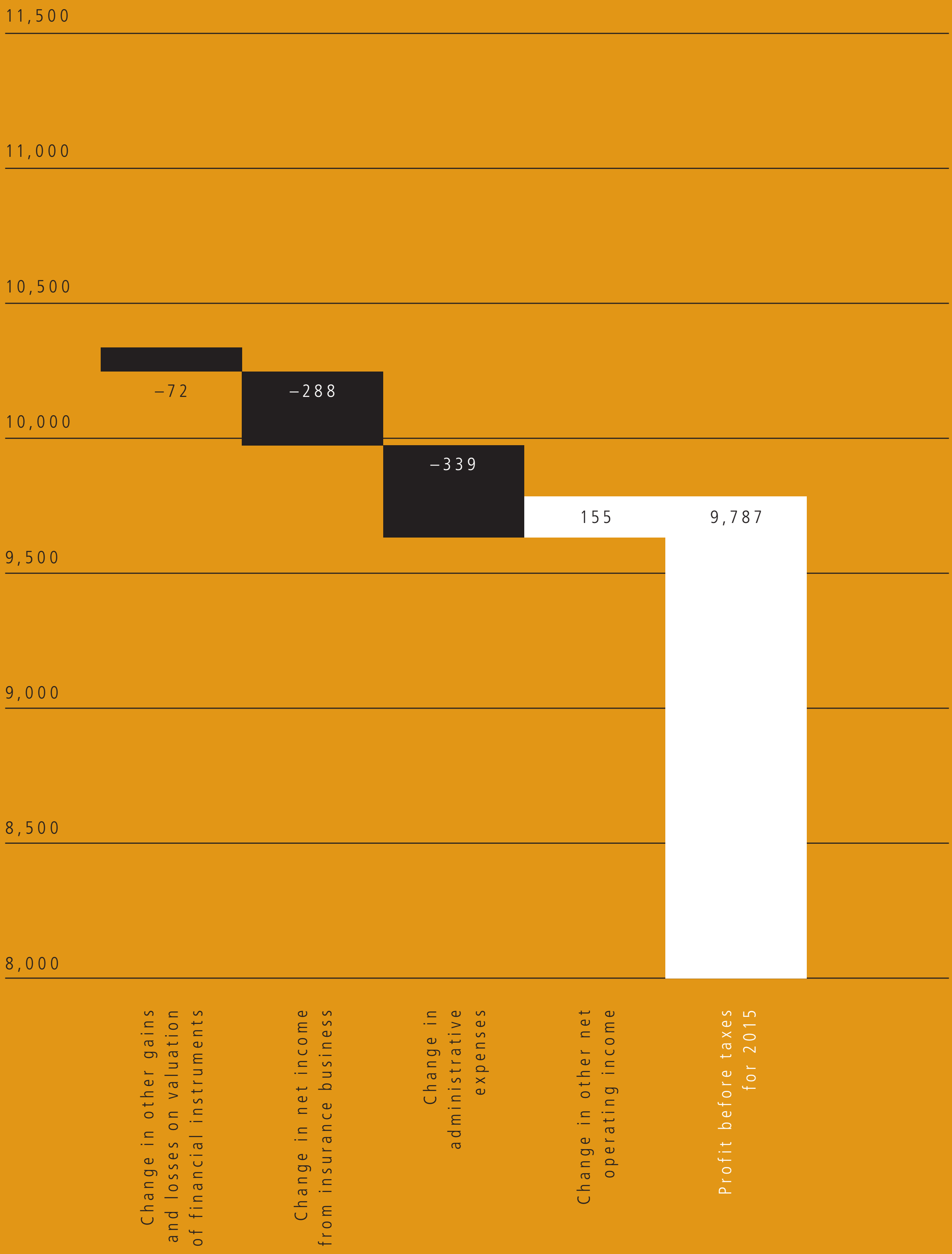
12

Breakdown in profit before taxes by income statement item

€ million



13



11,500
11,000
10,500
10,000
9,500
9,000
8,500
8,000
−72
−288
−339
155
9,787
Change in other gains and losses on valuation of financial instruments
Change in net income from insurance business
Change in administrative expenses
Change in other net operating income
Profit before taxes for 2015

Income taxes in 2015 remained virtually unchanged year on year at €2,820 million (2014: €2,848 million). However, current income taxes in the reporting year at €2,680 million were €172 million higher than in 2014. The regional focus of our cooperative banks, which are organized on a decentralized basis, meant that, in around 1,000 local authorities, considerable tax sums could be sustainably invested precisely in those areas in which the members and customers of our banks are based.

In 2015, consolidated **net profit** after tax therefore amounted to €6,967 million, falling between the outstanding figure of €7,807 million achieved in 2014 and the strong net profit of €6,862 million generated in 2013.

The **cost/income ratio** for the Cooperative Financial Network came to 63.6 percent in the year under review. The rise of 2.9 percentage points in the ratio was attributable to both the decline in income referred to above and the marginally higher administrative expenses. Initiatives have been launched centrally in the Cooperative Financial Network and locally in the banks to limit administrative expenses, particularly with a view to counteracting the rising costs caused by regulation.

Financial position

The consolidated **total assets** of the Volksbanken Raiffeisenbanken Cooperative Financial Network had risen by €26.7 billion to €1,162.5 billion as at December 31, 2015 (December 31, 2014: €1,135.8 billion). The **volume of business** had increased by 4.4 percent to €1,510.0 billion as at December 31, 2015.

The growth in total assets over the year under review was mainly attributable to the rise in volume at the primary banks, as already discussed under net interest income. The central institutions did not increase their total assets in 2015. As a consequence, the breakdown between the central institutions and the primary banks shifted by around one percentage point. Of the total assets, 60.0 percent was thus attributable to the primary banks (December 31, 2014: 59.2 percent), 30.2 percent to the DZ BANK Group (December 31, 2014: 30.5 percent), and 6.7 percent to the WGZ BANK Group (December 31, 2014: 7.2 percent).

On the **assets** side of the balance sheet, loans and advances to customers grew by 4.5 percent to €700.6 billion (December 31, 2014: €670.7 billion). In 2015, this rise was again predominantly attributable to the primary banks. They achieved a gain of 4.7 percent – split almost equally between corporate and retail customers –, a further increase on the previous year's gain of 4.1 percent. As anticipated, long-term home finance was the main growth driver in the retail customer business.

Financial assets held for trading contracted by €7.6 billion or 12.4 percent to €53.6 billion as at December 31, 2015. This decline in financial assets held for trading resulted largely from a decrease in the positive fair values of derivatives of 22.6 percent to €24.7 billion and from a decrease in securities of €2.8 billion to €14.4 billion. Some of the contraction in the financial assets held for trading was offset by a rise in the loans and advances reported under this item of €2.4 billion to €14.1 billion.

On the **equity and liabilities** side of the balance sheet, deposits from customers also grew by 3.6 percent from €713.5 billion as at December 31, 2014 to €739.2 billion as at December 31, 2015 despite the fierce competition. Deposits from banks declined by 3.9 percent to €99.5 billion at the end of the year.

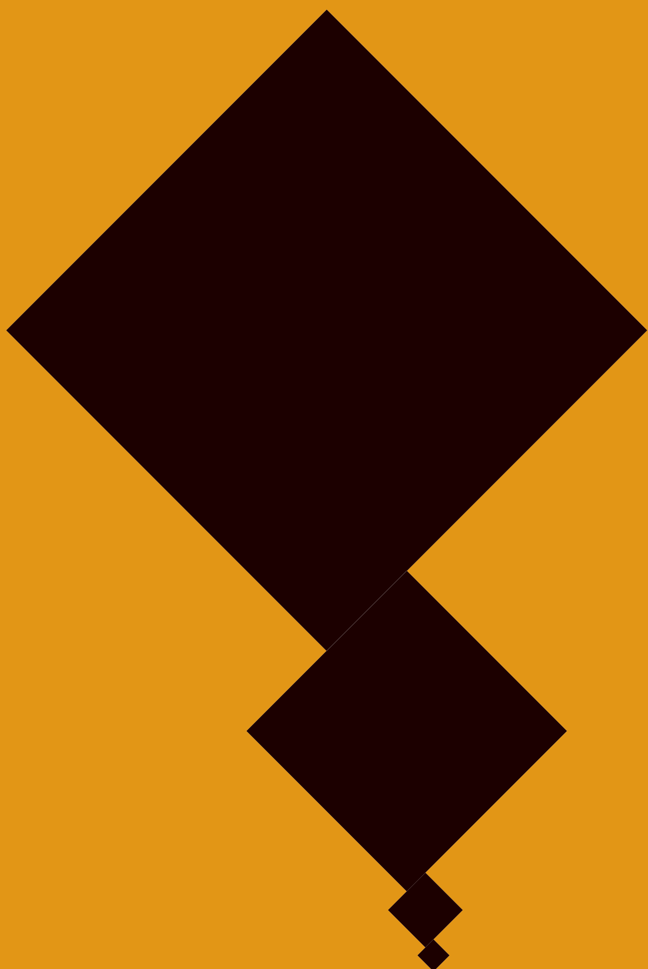
Corresponding to the change in financial assets held for trading, financial liabilities held for trading fell by €7.4 billion or 14.0 percent to €45.4 billion. In addition to a decrease in the negative fair values of derivatives of €4.4 billion to €27.8 billion, the liabilities reported under financial liabilities held for trading also declined by €3.9 billion to €5.9 billion.

The consolidated **equity** attributable to the Cooperative Financial Network remained at a robust level, increasing by 7.5 percent to €93.0 billion as at December 31, 2015 (December 31, 2014: €86.5 billion). The main reason for this rise was the appropriation of profits generated in 2015 to boost reserves.

15

Breakdown of the total assets held in the Volksbanken Raiffeisenbanken Cooperative Financial Network as at December 31, 2015

(percent)



Primary banks
60

DZ BANK Group
30

WGZ BANK Group
7
Münchener Hypothekenbank
3

Capital adequacy and regulatory ratios

The disclosures relating to own funds and own funds requirements are based on the outcome of the extended aggregated calculation (EAR) in accordance with article 49 (3) CRR in conjunction with article 113 (7) CRR as at the reporting date of December 31, 2015. The entities included in the consolidation comprise the members of the institutional protection scheme.

The consolidated own funds pursuant to the EAR largely consist of the own funds of the primary banks. From the perspective of the protection scheme, the growth in own funds therefore also arises primarily from the profits generated by the primary banks because new issues and rights issues by the central institutions are for the most part subscribed internally and consolidated within the Cooperative Financial Network (scope of consolidation based on institutional protection scheme). Own funds are consolidated on the basis of the corresponding own funds categories (corresponding approach).

The impact of consolidation on the level of the risk-weighted exposure amounts is negligible because of the exclusion of internal exposures within the network in accordance with article 113 (7) CRR, whereas own funds decrease. The total capital ratio for the Cooperative Financial Network (scope of consolidation based on institutional protection scheme) is therefore lower than the corresponding ratio for all the primary banks taken together.

For the first time, the leverage ratio for the institutional protection scheme of the Cooperative Financial Network as at December 31, 2015 was reported for informational purposes using the methodology specified in article 429 CRR. The capital measure was based on Tier 1 capital as determined in the extended aggregated calculation in accordance with article 49 (3) CRR. The risk exposures were determined by aggregating the individual leverage ratio submissions by all the member banks and adjusting them for material internal exposures within the institutional protection scheme.

As at December 31, 2015, the own funds of the Cooperative Financial Network amounted to €87.6 billion. On an IFRS basis, the corresponding common equity Tier 1 capital ratio including reserves in accordance with section 340f of the German Commercial Code (HGB) was 14.6 percent. Given the high quality of the capital, the equivalent fully loaded ratio was only slightly below this percentage. The bulk (87.9 percent) of the total risk exposure of €556.0 billion subject to capital charges (see table on page 17) was attributable to counterparty risk.

Calculated from an IFRS perspective and using Tier 1 capital including reserves in accordance with section 340f HGB (fully loaded) as the capital basis, the leverage ratio was 6.9 percent. These ratios underline the sound capital adequacy of the Cooperative Financial Network (scope of consolidation based on institutional protection scheme).

17

Breakdown of the total risk exposure

€ million

	2015
Risk-weighted exposure amounts for credit, counterparty, and dilution risk, and for free deliveries	488,513
Risk exposure amount for settlement and delivery risk	0
Total exposure amount for position, foreign-exchange, and commodities risk	15,521
Total amount of risk exposures arising from operational risk (OpR)	49,244
Additional risk exposure amount relating to overheads	0
Total amount of risk exposures for credit valuation adjustment (CVA)	2,674
Total amount of risk exposures relating to large exposures in the trading book	0
Other exposure amounts	0
Total risk exposure after adjustment	555,952

Operating segments of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Bank operating segment

The **net interest income** of the Bank operating segment rose by €100 million to €2,017 million in 2015 (2014: €1,917 million).

In corporate banking, net interest income in the Bank operating segment was unchanged year on year given growing competition, associated pressure on margins, and the persistently muted demand for corporate loans. Despite the historically low interest rates and stable economic conditions in Germany, businesses remained reluctant to commit to capital investment. Many corporate customers appeared unsettled, primarily because of the geopolitical instability and the weakening of economic growth in China. In addition, many businesses remain in a position where they fund capital spending from their own resources, precisely because they are continuing to perform well in terms of income and liquidity.

New development lending business expanded compared with 2014. The focus was once again on energy-efficient new building and renovations in the privately owned housing sector. The year under review also saw an encouraging trend in commercial development lending.

In the syndicated business/renewable energies product field, net interest margin contribution rose significantly in 2015 because DZ BANK is well positioned in the market for finance connected with renewable energies. In acquisition finance, large numbers of customers once again made use of the high degree of liquidity in bond markets to redeem their loans. This and the selective granting of new lending, especially outside Germany, led to a reduction in the size of the portfolio. There was a small year-on-year increase in net interest margin contribution from international trade and export finance business and from project finance business.

The decrease in net operating interest income (excluding income from long-term equity investments) in transport finance in 2015 resulted for the most part from a drop in leasing proceeds combined with higher special accelerated depreciation allowances in connection with ships taken over as part of a bail-out purchase, and from liquidity costs as a result of a continuing high level of early loan redemptions in this business. Global freight and passenger transport was influenced by a continuing economic recovery in the eurozone, moderate growth in the US economy, and a slowdown of economic expansion in emerging markets, particularly China. In addition, individual segments of the international shipping market suffered from an excess supply of transport capacity.

The leasing business also saw a slight contraction in net interest income in 2015. This year-on-year fall was largely attributable to a decline in net interest income in areas of activity that are not part of the defined core business and that are being systematically scaled back. One of the consequences of the geopolitical crises affecting the economic environment was that the willingness of businesses to commit to capital spending was rather subdued.

Allowances for losses on loans and advances decreased in the Bank operating segment from €147 million in 2014 to €94 million in 2015.

Net fee and commission income came to €586 million in 2015 and was therefore once again slightly higher than in the previous year (2014: €576 million). The service contribution in the asset securitization product field climbed significantly, boosted by the trend in the euro/US dollar exchange rate. In the international trade and export finance business, fiercer competition led to a lower contribution to earnings. The service contribution rose in 2015 on the back of a higher level of income from the securities custody business. Greater competition was also a significant factor behind the year-on-year fall in net fee and commission income from lending in the transport finance business.

The Bank operating segment's **gains and losses on trading activities** in 2015 came to a net gain of €458 million, down by €112 million compared with the figure of €570 million for 2014. This year-on-year decline was largely attributable to non-operating items, although the widening of spreads (primarily in connection with bank bonds) was virtually entirely offset by the increase in the contribution from trading on customer account. Interest-rate-related increases in the value of cross-currency basis swaps – the purpose of which was to hedge currency risk –

were also reflected in gains and losses on trading activities in 2015. In addition, the balance of recognized and unrecognized gains and losses relating to asset-backed securities (ABSs) had a slightly negative impact on gains and losses on trading activities in the Bank operating segment.

As in previous years, the gains and losses on trading activities in 2015 stemmed mainly from customer-related business in investment and risk management products involving the asset classes of interest rates, equities, loans, and foreign exchange at competitive prices. These products are complemented by a broad range of advisory and research services, structuring expertise, and platforms.

The main factors shaping trends on capital markets in the year under review were the retention of the historically low key lending rate, the negative interest rate on central bank deposits, and the monetary policy action taken by the ECB. In 2015, the regulatory environment also impacted markets and market players, and consequently also the gains and losses on trading activities in the Cooperative Financial Network.

The level of **gains and losses on investments** improved from a net gain of €61 million in 2014 to a net gain of €110 million in the reporting year. The improvement was largely attributable to the disposal of shares, although some gains were partially offset by value adjustments.

Other gains and losses on valuation of financial instruments improved from a net loss of €39 million in 2014 to a net gain of €7 million in 2015, largely because of a year-on-year improvement in the gains and losses on the valuation of non-derivative financial instruments using the fair-value option and in gains and losses on derivatives used for purposes other than trading.

Administrative expenses went up by €155 million to €1,830 million in the period under review. Growth in headcount and salary adjustments were the main reasons behind a rise in staff expenses. A larger project portfolio and a rise in premiums, contributions, and fees were also the principal factors that led to an increase in other administrative expenses.

The Bank operating segment's **profit before taxes** advanced by €60 million year on year to €1,156 million (2014: €1,096 million). The cost/income ratio rose from 57.4 percent in 2014 to 59.4 percent in the reporting year.

Retail operating segment

The **net interest income** generated by the Retail operating segment in the year under review amounted to €17,260 million and was thus only marginally lower than the corresponding 2014 amount of €17,277 million. The narrowing of margins in the deposit-taking and lending businesses caused by persistently low interest rates once again presented the primary banks with a difficult challenge. Brisk customer business meant that net interest income was only just under the level of the previous year. Net interest income from consumer finance was also affected by the gathering pace of competition and advancing digitization but nevertheless increased slightly year on year, driven by strong customer demand throughout the year. In LuxCredit foreign-currency lending, the volume of loans guaranteed for the local cooperative banks' clients in 2015 remained marginally below the prior-year level.

Allowances for losses on loans and advances decreased from €174 million in 2014 to €7 million in 2015. The risk situation in this operating segment proved stable, above all because of the improved economic environment in Germany.

Net fee and commission income in the Retail operating segment advanced significantly, rising from €5,542 million in 2014 to €5,911 million in the year under review. The main sources of income under net fee and commission income in this segment in 2015 were payments processing, account management, and substantial customer demand for fund, building society, and insurance products. In addition, the marked growth in average assets under management following the sharp rise in net new business contributed to the higher net fee and commission income in the Retail operating segment. The volume of fund services business was also expanded in 2015. Likewise, this was a contributing factor to the rise in net fee and commission income.

Gains and losses on trading activities once again fell slightly year on year, declining by €21 million to a net gain of €189 million. Within the overall contraction in the level of gains and losses on trading activities, there was a positive impact from the improvement in the gains and losses on exchange differences as a result of the customer-driven increase in transaction volume, caused in turn by the expansion of the fund services business.

The level of **gains and losses on investments** deteriorated by a significant €665 million, resulting in a net loss of €611 million in the reporting year (2014: net gain of €54 million). The principal determining factors were impairment losses recognized in respect of bonds.

The negative change in **other gains and losses on valuation of financial instruments** in the Retail operating segment to a net loss of €6 million (2014: net gain of €12 million) was attributable to a lower fair value measurement of own-account investments compared with 2014.

In terms of costs, further efforts were made to become more efficient. Nevertheless, **administrative expenses** in the Retail operating segment went up again by a total of 1.6 percent to €15,119 million in the year under review (2014: €14,880 million), the main reasons being collectively agreed pay rises, additional retirement pension expenses, and appointments to new and vacant positions. Higher consultancy, property, occupancy, and IT costs also contributed to the rise in administrative expenses in the Retail operating segment.

Given the factors described above, the Retail operating segment's **profit before taxes** declined from €7,845 million in 2014 to €7,549 million in the reporting year. The cost/income ratio for 2015 came to 66.7 percent (2014: 65.0 percent).

Real Estate Finance operating segment

The **net interest income** generated by the Real Estate Finance operating segment slightly exceeded the prior-year level at €1,593 million (2014: €1,552 million). The persistently brisk demand for advance and interim financing led to an increase in interest income in the non-collective home finance business and compensated for the lower average interest rates. In the home savings loans business, a smaller portfolio and the drop in average interest rates led to a fall in interest income.

Net interest income also increased slightly in the mortgage lending business. Given limited alternative investment options in terms of returns and against the backdrop of stable economic and political conditions, the transaction volume for commercial real estate in Germany rose substantially again to €55.1 billion in the reporting year. On the other hand, heavy demand from customers in both Germany and abroad for commercial real estate investments forced up purchase prices, leading to increasing downward pressure on yields.

The net reversal posted under **allowances for losses on loans and advances** in the Real Estate Finance operating segment increased from €9 million in 2014 to a net reversal of €27 million in the year under review.

The net expense traditionally reported for this operating segment under **net fee and commission income** increased in 2015 by €47 million to a net expense of €193 million (2014: net expense of €146 million), largely as a result of higher fee and commission expenses incurred in line with the growth in the volume of new building society business.

Gains and losses on investments declined by €61 million to a net loss of €53 million (2014: net gain of €8 million). The deterioration in gains and losses on investments in the Real Estate Finance operating segment was attributable for the most part to impairment losses and the recognition of a loss effect arising from the disposal of a bond classified as an available-for-sale financial asset.

Other gains and losses on valuation of financial instruments amounted to another very strong net gain of €364 million in the reporting year, but fell short of the net gain of €454 million posted for 2014. The gain reported for 2015 reflects the weaker narrowing of credit spreads compared with 2014 on bonds from the peripheral countries of the eurozone in the mortgage lending business.

Administrative expenses were reduced slightly to €700 million in the year under review (2014: €735 million). The main factors behind this reduction were the cost-cutting measures introduced by Bausparkasse Schwäbisch Hall in 2014 and projects to enhance efficiency.

Profit before taxes in the Real Estate Finance operating segment fell by €131 million to €1,050 million in the reporting year (2014: €1,181 million). The cost/income ratio for the Real Estate Finance operating segment increased to 40.6 percent (2014: 38.5 percent).

Insurance operating segment

Premiums earned grew by €491 million to €14,418 million, reflecting the integral position held by R+V within the Cooperative Financial Network. The already very high level of premiums earned in 2014, which had been boosted by significant growth stimulus, was therefore again exceeded, this year by 3.5 percent. Gross premiums written increased to €14,536 million in 2015, up by 3.5 percent on the impressive level of premiums generated in 2014 of €14,040 million.

Premium income in the life insurance and health insurance business grew year on year by 1.0 percent. In Germany, the gain was as much as 5.1 percent, substantially stronger growth than in the market as a whole. Premium income in the non-life insurance business went up by 4.1 percent, the growth being mainly driven by vehicle insurance and by business with retail and corporate customers. Inward reinsurance saw premium income rise by 16.6 percent, mainly as a result of upward trends in the vehicle and fire/non-life insurance sectors and positive currency effects.

Gains and losses on investments held by insurance companies and other insurance company gains and losses declined by 30.1 percent to a net gain of €3,132 million (2014: net gain of €4,481 million). The rise in long-term interest rates in the year under review contrasted with a marked fall in corresponding interest rates in 2014. Equities markets relevant to R+V improved during the course of 2015. The previous year had also seen gains, but to a lesser extent. Furthermore, exchange rate movements in 2015 were slightly more unfavorable for R+V than in the previous year. Overall, within the gains and losses on investments held by insurance companies, the market trends described above resulted in lower unrealized gains and higher impairment losses. Owing to the countervailing effects from the recognition of provisions for premium refunds (particularly in the life insurance and health insurance business) and claims by policyholders in the unit-linked life insurance business in the 'insurance benefit payments' line item presented below, however, the change in the level of gains on investments held by insurance companies only partially affected the level of net income from insurance business before taxes in 2015.

In 2015, **insurance benefit payments** declined by 3.9 percent to €14,664 million (2014: €15,264 million). In line with the change in premium income and lower gains on investments held by insurance companies, lower additions were made to insurance liabilities in respect of personal insurance. The rise in insurance benefit payments in the non-life insurance business was attributable to a number of factors, notably higher claims under natural disasters insurance.

Insurance business operating expenses incurred in the course of ordinary business activities went up by 0.1 percent to €2,287 million (2014: €2,284 million).

Profit before taxes in the Insurance operating segment went down by €231 million to €625 million in the reporting year (2014: €856 million).

Management Report 2015

Human Resources Report

The changes in the economic, legislative, and technical parameters faced by cooperative banks require continuous refinement of the successful business model and therefore of the human resources management system. Up to 2014 – not least because of the requirements imposed by regulation – the policy regarding the number of employees at the local cooperative banks and the central institutions still focused on attracting additional employees with appropriate skills and qualifications. In 2015 however, the number of employees fell by roughly 2.0 percent to 163,650, achieved through natural wastage whereby retiring employees were deliberately not replaced. The number of people employed by the entities in the Cooperative Financial Network totaled 187,616 as at December 31, 2015 (see chart on page 25).

One of the key concerns of human resources activities is to ensure that employees identify with the customer-focused business model of 'their' cooperative bank. An important component of this approach is the provision of sound inhouse training and continuous professional development for trainees. The ratio of trainees to other employees at the local cooperative banks and the central institutions was 7.9 percent in 2015 (see chart on page 26), which is high compared with the rest of the sector. The range of training offered by the cooperative banks clearly puts them in a strong position compared with other companies in what is becoming, from the perspective of employers, an increasingly small market of potential trainees. From the perspective of school leavers, cooperative banks are some of the most sought-after employers in Germany; they are among the holders of the seal of approval awarded to companies included in 'Germany's top 100 employers'. The appeal of the cooperative banks has been confirmed by the 2015/16 School Leavers Barometer, a representative survey carried out throughout Germany by the Berlin-based trendence Institute. The School Leavers Barometer involves around 10,000 respondents and is the largest and most comprehensive survey of school leavers' career objectives and target employers. The proportion of vocational trainees offered a full employment contract at the end of training is more than 80 percent, which also underlines the contribution made by the cooperative banks as employers in their respective regions.

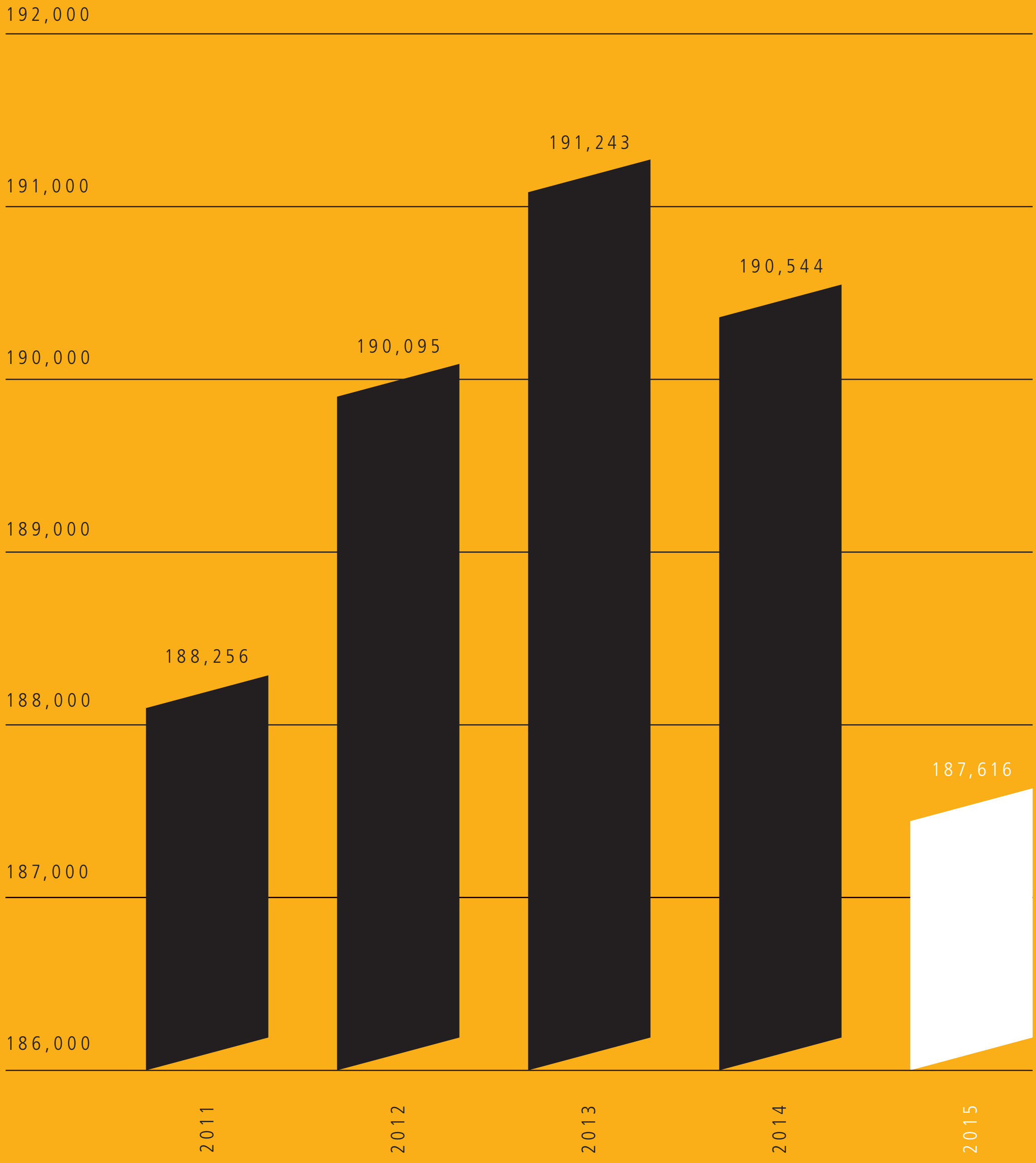
The local cooperative banks and the central institutions also offer university graduates attractive roles and career opportunities. This is demonstrated by the fact that the proportion of employees with degrees has been rising steadily for a number of years. In 2015, the ratio was 8.3 percent (see chart on page 27). The results from the trendence Graduate Barometer Europe confirm that the local cooperative banks also have a good reputation among future university graduates and are even among the holders of the seal of approval awarded to Europe's top 100 employers in 2015. The European survey involved responses from around 300,000 students at 900 universities in 24 countries.

Cooperative banks are aware of the importance of the knowledge and experience of employees for the long-term success of the business. Cooperative banks are regionally based employers who understand that key objectives of personnel activities are to retain suitably qualified employees in the bank, to motivate and develop them, and to attract new employees. This puts in place the prerequisites that will enable the banks to make the most of opportunities presented by change. The local cooperative banks are supported with a wide range of training and development activities offered for employees by regional associations and academies. This collaboration has borne fruit, demonstrated not least by employees' long periods of service. Almost a third of employees have worked for 'their bank' for more than 25 years (see chart on page 28).

Our objective will continue to be to increase the attractiveness of the Volksbanken Raiffeisenbank Cooperative Financial Network as a place to work and to highlight their unique selling proposition as an employer.

EDITORIAL 5
MANAGEMENT REPORT 2015 7
CONSOLIDATED FINANCIAL STATEMENTS 2015 49
REVIEW REPORT (TRANSLATION) 109
BUSINESS PERFORMANCE 7
HUMAN RESOURCES REPORT 23
RISK REPORT 29
OUTLOOK 43

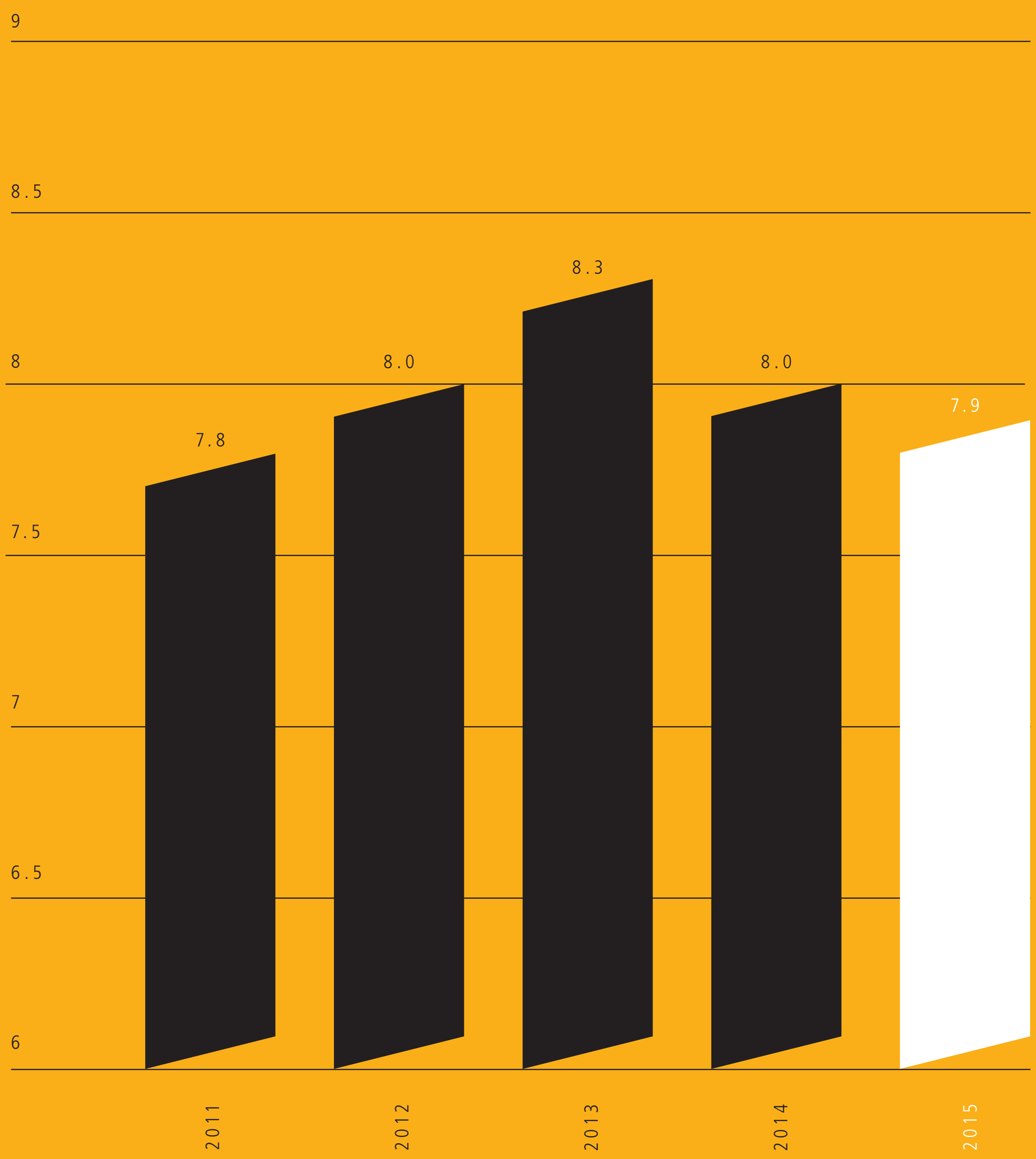
Number of employees*



*Volksbanken Raiffeisenbanken Cooperative Financial Network

Ratio of trainees to other employees*

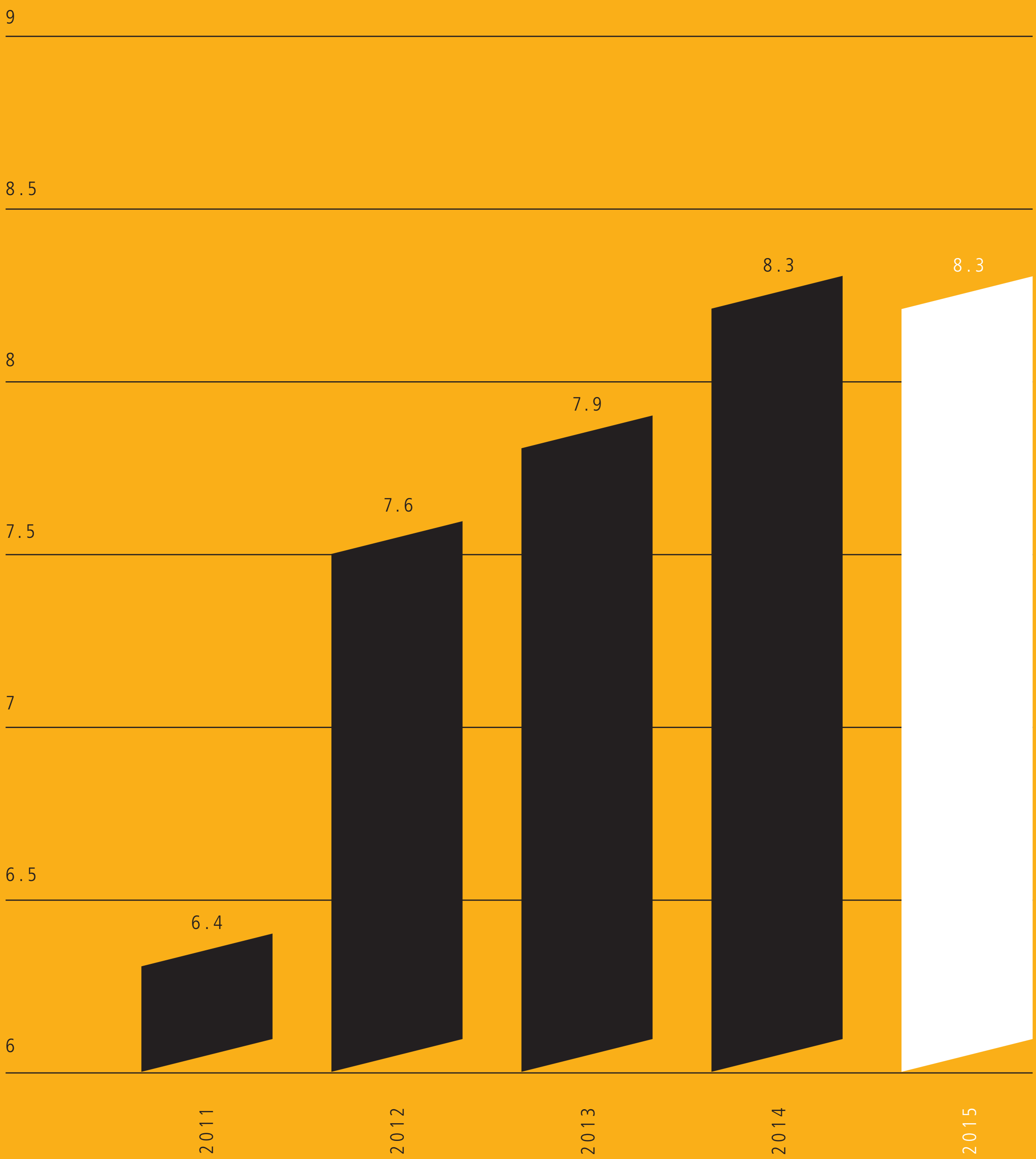
(percent)



* Volksbanken, Raiffeisenbanken, central institutions

Proportion of employees with a degree*

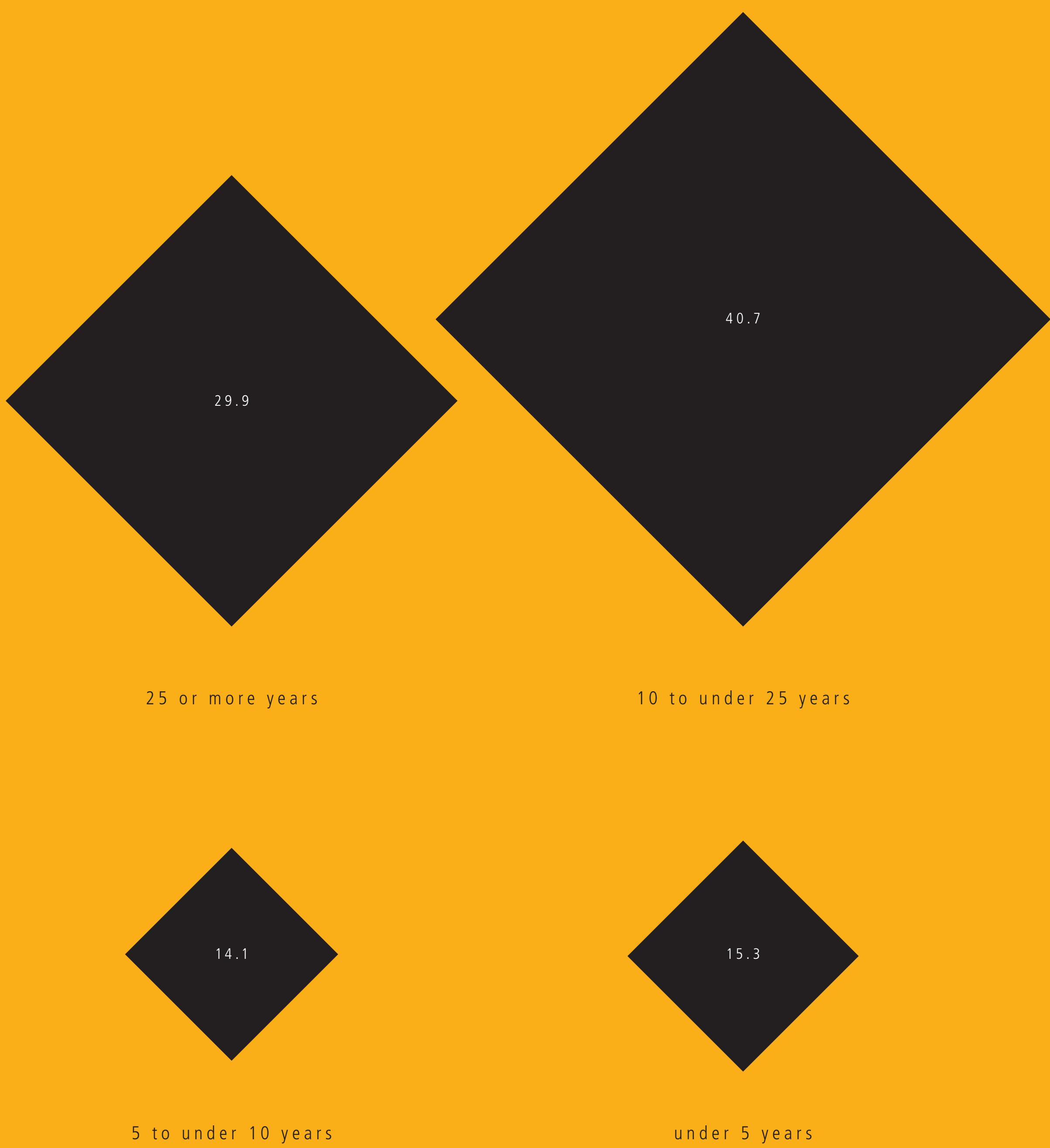
(percent)



* Volksbanken, Raiffeisenbanken, central institutions

Staff members' years of service

(percent)



Management Report 2015

Risk Report

The Volksbanken Raiffeisenbanken Cooperative Financial Network again enjoyed a very successful year in 2015, enabling it to continue carrying out its consistent and stabilizing role in the German financial sector. This positive impact is attributable to its sustainable business model. The protection scheme run by the BVR and the BVR Institutssicherung GmbH newly established in 2015 ensure the stability of the entire Cooperative Financial Network and confidence in the creditworthiness of all its members. Both schemes together, and each in its respective functions and area of responsibility, guarantee institutional protection and form the backbone of the cooperative risk management system.

The credit ratings of the Cooperative Financial Network remained stable and unchanged as at December 31, 2015. The credit rating agencies Standard & Poor's and Fitch have each given the Cooperative Financial Network a rating of AA-. These ratings have been unaffected by changes to the methodologies employed by the rating agencies, as a result of which the calculation of ratings takes only limited account of the probability of governmental support. The changes have led to numerous rating downgrades in the banking sector. The rating agencies point to the consistently successful business model focused on retail banking as the reason for their positive assessment. A good level of liquidity and funding is structurally secured by virtue of the business model. Capital adequacy is also judged to be above average. The granular credit structure and high proportion of mortgages are the hallmarks of the overall high level of quality in the customer lending business.

Risk management in a decentralized organization

Institutional protection scheme of the Cooperative Financial Network

BVR protection scheme
Section 4 of the BVR's articles of association requires the BVR to manage a protection scheme. This facility was specified expressly as a bank-protection scheme in section 12 of the legislation implementing the EU deposit guarantee schemes and investor compensation schemes directives until the effective date of the German Deposit Guarantee Act (EinSiG) on July 3, 2015. From August 1, 1998, the protection scheme was therefore subject to monitoring by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [Federal Financial Supervisory Authority] (section 12 (1) in conjunction with section 7 (3) of the German Deposit Guarantee and Investor Compensation Act, EAEG); as a result, the member institutions did not need to participate in any statutory compensation scheme until July 2, 2015. Since the effective date of the EinSiG, the protection scheme has been continued as an additional voluntary institutional protection scheme in accordance with section 2 (2) and section 61 EinSiG.

The main and unchanged aims of the BVR protection scheme are to safeguard the credit standing of the member institutions by averting imminent financial difficulties or eliminating any such existing problems at the affiliated institutions and to prevent any negative impact on confidence in the cooperative institutions. The BVR manages a guarantee fund and a guarantee network to assist with any supporting measures needed in this connection. The basic structures of the work of the protection scheme have remained in place since the EinSiG came into force.

In 2015 the protection scheme met, without qualification, all its responsibilities as a bank-protection scheme in accordance with statutory requirements and the articles of association. A total of 1,033 institutions of the Cooperative Financial Network belonged to the BVR protection scheme as at December 31, 2015 (December 31, 2014: 1,062 members). The decrease in membership stemmed solely from mergers.

Further development of the institutional protection scheme
One of the key changes in 2015 was further development to create a dual cooperative protection scheme comprising the existing BVR protection scheme and the newly established BVR Institutssicherung GmbH. The two institutional protection schemes are mutually complementary.

In order to satisfy the changes in the statutory requirements specified in the EinSiG while maintaining the existing level of protection, the Cooperative Financial Network's protection scheme was developed into a dual scheme, for the purposes of which BVR Institutssicherung GmbH (BVR-ISG), a wholly owned BVR subsidiary, was established.

BVR Institutssicherung GmbH
The BVR established BVR Institutssicherung GmbH (BVR-ISG) in 2015; the registered office of the new company is situated in Berlin. The necessary resolutions were unanimously approved at a general meeting of the BVR's members on May 6, 2015.

BVR-ISG operates an institutional protection scheme within the meaning of article 113 (7) of Regulation (EU) No. 575/2013 for CRR credit institutions. The scheme was recognized as a deposit guarantee scheme in accordance with section 43 EinSiG in a notice issued by BaFin on June 30, 2015. By operating the institutional protection scheme, BVR-ISG satisfies its responsibility under its articles of association to avert or eliminate imminent or existing financial difficulties in the institutional protection scheme's member credit institutions as defined by article 4 (1) no. 1 of Regulation (EU) No. 575/2013. To this end, BVR-ISG will initiate any preventive or restructuring action, as required. Where, in accordance with section 10 EinSiG, BaFin identifies a compensation event in relation to a CRR credit institution that is a member of the BVR-ISG protection scheme, BVR-ISG will compensate the customers of the credit institution concerned in accordance with sections 5 to 16 EinSiG.

Together with the BVR protection scheme, BVR-ISG forms the Cooperative Financial Network's protection scheme, which has been subject to further development to create this dual approach. The members of the BVR-ISG protection scheme are those CRR credit institutions that belong to the BVR, are affiliated to the BVR protection scheme, and that have joined the BVR-ISG scheme by giving an appropriate undertaking regarding participation and commitment. As at December 31, 2015, the membership comprised 1,031 CRR credit institutions and therefore all the cooperative banks authorized in Germany by BaFin.

Under section 50 (1) EinSiG, BVR-ISG is subject to supervision by BaFin, which, in accordance with section 50 (3) EinSiG, holds the auditing rights and rights to information specified in section 44 (1), (4), and (5) of the German Banking Act (KWG). BVR-ISG is also subject to monitoring by the German Federal Court of Audit with regard to its responsibilities to compensate depositors in accordance with sections 5 to 16 EinSiG and with regard to funding and target funding levels in accordance with sections 17 to 19 EinSiG.

To the extent possible under EinSiG, BVR-ISG's organizational and decision-making structures match the proven organizational and decision-making structures of the BVR protection scheme. To carry out the duties for which it is responsible by law and in accordance with its articles of association, BVR-ISG will for the time being use the BVR employees who also carry out the corresponding functions for the BVR protection scheme. Given the long-established successful operation of the BVR protection scheme, this ensures that BVR-ISG can properly carry out its duties as an institutional protection scheme (including classification, collection of contributions, etc.). BVR-ISG has also engaged a third-party service provider to carry out the processing of potential compensation procedures, although such procedures have as yet never been required, nor are any currently identifiable.

Risk identification and analysis

Basic structures

The Cooperative Financial Network is a decentralized organization made up of legally independent institutions that are linked by their business operations and – through the protection scheme – by their liability. In contrast to banking groups with a parent company at the top of a hierarchical structure, the Cooperative Financial Network has a decentralized structure in wich the individual institutions have their own decision-making powers. In this system, risk management focuses primarily on analyzing the risk carriers – i.e. the institutions – rather than on isolated analysis of the risk types. This fundamental methodological approach ensures that, in establishing that each individual institution's financial position and risk position are appropriate and its financial performance is adequate, the entire system – i.e. the entire Cooperative Financial Network – as a unit can be considered to be on a sound economic footing.

The BVR protection scheme includes reliable systems for identifying and classifying risks and for monitoring the risks of all its members and of the institutional protection scheme as a whole. Risks are rated on the basis of the BVR protection scheme's classification system, which was implemented in 2003. The aim of this rating process, which is based on the annual financial statements, is to obtain an all-round, transparent view of the financial position, financial performance, and risk position of all members and thus of the BVR protection scheme. Rating a bank in accordance with the classification system provides the basis for determining the risk-adjusted contributions to the guarantee fund and is also the starting point for preventive management.

The results of the classification are supplemented by further analysis, in particular evaluations of the data collected as part of an annual comparative analysis. This is a data pool that the BVR obtains itself from its member institutions and consists, above all, of accounting and reporting data. The data from the annual comparative analysis forms the basis for analyses that use key risk indicators to identify and examine particular abnormalities. In addition, the BVR prepares special analyses on specific issues, such as determining the impact of sustained low interest rates or evaluating levels of capital under Basel III.

In accordance with its risk-oriented procedure, the protection scheme performs individual bank analyses on institutions of major financial significance to the protection scheme as a whole. This also includes the unclassified member banks. In doing so, the protection scheme is applying the concept used to analyze large banks, taking into account the risks resulting from the size category of the affiliated institutions.

To assess the protection scheme's risk-bearing capacity, probabilities of default are determined on the basis of various stress scenarios and Monte Carlo simulations are used to calculate the possible restructuring amounts. This involves carrying out scenario-specific classifications on the basis of different assumptions (e.g. interest rate changes, declining credit ratings in the customer lending business).

Besides assessing each individual member institution, the BVR protection scheme develops standard tools, methods, and guidelines that provide each member institution in the scheme with a similar internal structure for managing risk (including VR-Control and the VR rating system). The institutions use this standardized concept to tackle their strategic and operational challenges.

The auditing associations check that the concept is implemented consistently, applying the assessment benchmark of risk proportionality during the audit of the annual financial statements.

Classification process and contributions to the protection scheme
The classification system uses eight key figures relating to financial position, financial performance, and risk position to assign the banks to one of nine credit rating categories ranging from A++ to D. The classification system is based on quantitative key figures, most of the data for which is taken from the banks' audited annual financial statements and audit reports. The protection scheme receives this data electronically from the regional auditing association responsible for the individual bank.

All banks covered by the protection scheme are included in the classification system, apart from institutions in the Cooperative Financial Network that are rated by an external rating company. In particular, these are in 2015 the central institutions, the mortgage banks, and Bausparkasse Schwäbisch Hall AG.

The overall results of the classification on the basis of the 2014 annual financial statements showed that the prior-year level – which was already very good – was sustained with a slight increase in the average total score. Despite persistent downward pressure on margins, net interest income was maintained on the back of volume growth. Net fee and commission income went up and the cost/income ratio remained at a sound level despite a marginal increase. Viewed over the long term, fair value gains and losses on the measurement of loans and advances are very low. Fair value gains and losses in the securities business also contributed to the good level of earnings overall, which were used by the banks primarily to further bolster their Tier 1 capital.

The rate of contributions paid into the BVR protection scheme's guarantee fund was held in 2015 at 0.12 percent of the assessment basis.

Risk management and monitoring

Preventive management
The results of the BVR's classification process also provide a basis for the BVR protection scheme's systematic preventive management. Preventive management continues to be used when a bank is classified as B- or lower on the basis of its annual financial statements, but sometimes earlier. In addition, other key figures and data have increasingly been used over the past few years so that any abnormalities at institutions can be identified at an early stage. In 2015, this data included information on the banks from a survey on the effect of the low interest rate environment carried out by Deutsche Bundesbank. The information was also made available to the BVR protection scheme in full.

Before the prevention phase, the monitoring of conspicuous institutions is playing an ever more significant role in the early analysis of institutions. In 2015, the monitoring also included institutions that were not showing any particular indications of risk but that could potentially represent a huge risk simply because of the size of their balance sheet. This underpins the long-term trend of shifting the focus of the protection scheme's work away from restructuring and toward end-to-end preventive management that now also includes monitoring. Significantly more institutions are now in the preventive phase of restructuring rather than the support phase.

The aim of preventive management is to identify and counteract adverse economic trends at an early stage, thereby helping to prevent the need for supporting measures. Data and other information from the banks that might be affected is analyzed and, following additional discussions with the management of these banks, appropriate measures are agreed that are aimed at stabilizing and improving their business performance.

In order to supplement the prevention phase enshrined in the statutes, the protection scheme established a monitoring process some years ago that precedes the actual preventive action. Irrespective of the results of the classification, further information sources available to the protection scheme are used to analyze the institutions in order to ascertain if there is anything conspicuous that might indicate unusual trends at an early stage.

Restructuring management
The work of the protection scheme in restructuring member institutions is firstly aimed at ensuring that these institutions' annual financial statements are able to receive an unqualified auditors' opinion, which it does by providing restructuring assistance. The next stage is to contractually agree appropriate measures in order to ensure that the bank's business regains its competitiveness and future viability while accommodating the interests of all members of the Cooperative Financial Network.

The Manual for Reorganizing and Restructuring Cooperative Banks forms the basis for providing restructuring assistance and carrying out restructuring measures. The principles documented in the manual provide affected banks with guidance on restructuring and describe strategies for re-establishing fundamental profitability. The aim is for the banks to enter this restructuring phase within no more than five years. The protection scheme's manual also specifically targets banks undergoing preventive measures and institutions that have identified the need for reorganization by themselves (either entirely or partly).

The BVR protection scheme continued to perform well in the year under review in terms of its restructuring activities. Once again, no new first-time support measures were required in 2015. Costs were therefore solely incurred in connection with legacy cases, where risks already covered had become acute or loss allowances were recognized in the protection scheme's annual financial statements. The total restructuring amounts in need of protection were not only significantly lower than expected, they were also – on a net basis – again smaller than the repayments under debtor warrant obligations and other guarantee release obligations. This once more meant that the capital base of the cooperative institutional protection scheme (comprising the BVR protection scheme and the BVR-ISG protection scheme) was further strengthened in 2015 and the guarantee fund resources and statutory funds at its disposal could be expanded yet again.

Outlook for the BVR protection scheme

In financial terms, the protection scheme expects to maintain its positive performance in 2016. At present there is no sign of any scenarios resulting from the BVR protection scheme's remit – as defined in its statutes – that might present a material threat to the stability of the scheme. Given the robust state of the German economy, the level of support and assistance provided by the protection scheme is not expected to increase in 2016. For this reason, the BVR protection scheme is also not planning to make any significant changes to its guarantee fund capital in 2016, especially as the accumulation of funds in the dual cooperative protection scheme will be focused for the time being primarily on the BVR-ISG protection scheme to achieve the required target funding level in accordance with section 17 (2) EinSiG.

At its meeting on February 16, 2016, the BVR Association Council approved a resolution based on the protection scheme's statutes to set the rate for contributions to the guarantee fund of the protection scheme in 2016 at 0.04 percent of the assessment basis for those institutions that are also members of the BVR-ISG protection scheme in order to prevent these institutions incurring a double charge. For the two other member institutions, the contribution rate was set at 0.088 percent of the assessment basis or 2.2 times the basic contribution. Further resolutions concerning contributions were included on the agenda for the general meeting of the BVR's members to be held on June 10, 2016 as part of the approval required for the new BVR-ISG contribution rules.

Following the successful implementation of the EinSiG in mid-2015 with the creation of the dual scheme, the BVR protection scheme is faced with new tasks in 2016 in connection with implementing requirements to prepare recovery plans within the meaning of sections 12 to 20 of the German Bank Recovery and Resolution Act (SAG). It is also likely that, following on from initial discussions in 2015, new challenges will arise as a result of the indirect and sectoral supervision responsibilities of the ECB, as demonstrated for example by the ECB's public consultation on institutional protection schemes initiated in the first quarter of 2016. The BVR protection scheme expects yet more issues to emerge in this regard, involving national and international institutions such as the ECB, the German Federal Agency for Financial Market Stabilization (FMSA), the European Single Resolution Board (SRB), and the European Commission.

Tools and methods for identifying and measuring risk

The framework concept for earnings and risk management in conjunction with the concepts for VR-Control have provided the cooperative primary institutions with a system that ensures the consistent measurement of market risk and credit risk across the entire business of each institution. In line with their individual business and risk strategies and in accordance with regulatory requirements such as the Minimum Requirements for Risk Management (MaRisk), the local cooperative banks choose which of the available methods to use.

A historical simulation is used to calculate market risk. Credit risk from the customer lending business is determined using a variant of the Credit Suisse model (Credit Risk+), which focuses on industries as the main risk drivers and has value-at-risk (VaR) as the main indicator. Besides calculating the VaR, the banks can develop stress scenarios for the specified risks.
An integrated approach is available to the institutions for measuring credit risk in own-account investing activities. It takes full account of the securities' risk drivers by simulating spread risk, migration risk, and credit risk in the securities portfolio. Furthermore, the risk arising from securities of the issuers in the Cooperative Financial Network is determined using simplified spread shifts. The end result is that the bank receives an expected portfolio value and a corresponding risk value in the form of an unexpected loss. For a periodic management analysis, expected and unexpected fair value gains and losses can also be determined. In addition, it is possible to calculate stress scenarios. The portfolio model and its parameters are regularly refined and validated by the relevant unit at parcIT GmbH.

The banking regulator is increasingly focused on banks' inhouse assessment of their own risk-bearing capacity for the bank as a whole. With the MaRisk, the regulator specifically deals with the calculation of risk coverage potential and the risk profiles in the banks' different approaches. The cooperative institutions also conduct numerous stress tests as part of the risk-bearing-capacity calculation.

Risk capital management

As legally independent companies, the cooperative institutions are responsible for their own capital management. Therefore, they manage their risk-bearing capacity in compliance with the MaRisk and to fit in with their business strategy.

The BVR protection scheme supports the consistent use of tools for measuring and managing risk capital. The risk-bearing-capacity calculation carried out by each of the institutions forms the basis for the management of risk capital. According to the data collected by the BVR protection scheme, the going concern approach is the predominant approach used by the banks. The main risks are interest rate risk and credit risk. The former is generally determined by simulating the effects of interest rate scenarios on a bank's planned net interest income, whereas portfolio models are used to determine credit risk. Pillar 2 risk-bearing capacity is satisfied in the form of its utilization by existing capital buffers, even in the conservative approaches used by the banks. The protection scheme analyzes risk-bearing capacity once a year and aggregates the main results. These are then made available to the banks for information purposes. Under the new German Financial and Risk-Bearing-Capacity Information Regulation (FinaRisikoV), this process will be extended to cover all institutions from 2016.

Together with the primary banks, central institutions, associations, and computing centers, a concept for the bank-wide allocation of risk capital on the basis of a statement of assets and liabilities has been developed. The method underlying this concept is the Markowitz approach to creating efficient portfolios. By implementing the concept, each bank is able to use the strategic risk categories it has selected to carry out an allocation process from an efficiency perspective and to calculate possible allocations.

The Cooperative Financial Network provides a comprehensive overview of its financial position and financial performance by preparing annual consolidated financial statements. These statements include a group-level presentation of key figures such as equity, the Tier 1 capital ratio, and the total capital ratio.

Capital adequacy

The consolidated capital ratios for 2015 were calculated using the extended aggregated calculation pursuant to article 49 (3) CRR in conjunction with article 113 (7) CRR.

On January 2, 2014, BaFin permitted the institutions in the Cooperative Financial Network that are affiliated with the BVR protection scheme to not deduct investments within the Cooperative Financial Network when calculating their capital ratios, as provided for in article 49 (3) CRR. This waiver of the requirement to deduct long-term equity investments was granted, among other reasons, because multiple application of own funds between the members of the institutional protection scheme has been eliminated.

The Cooperative Financial Network's regulatory total capital ratio was 15.8 percent as at December 31, 2015 (December 31, 2014: 15.1 percent). Overall, regulatory own funds increased by €6.1 billion to €87.6 billion. The increase was largely attributable to the retention of profits.

The Tier 1 capital ratio improved significantly to 12.4 percent (December 31, 2014: 11.5 percent). For information only, the material Tier 1 capital ratio, i.e. including the reserves pursuant to section 340f HGB, was 14.8 percent (December 31, 2014: 13.8 percent). The Cooperative Financial Network's capital is predominantly held by the primary institutions.

The total risk exposure as at December 31, 2015 amounted to €556.0 billion (December 31, 2014: €541.4 billion). The resulting own funds requirements amounted to €44.5 billion as at December 31, 2015 (December 31, 2014: €43.3 billion).

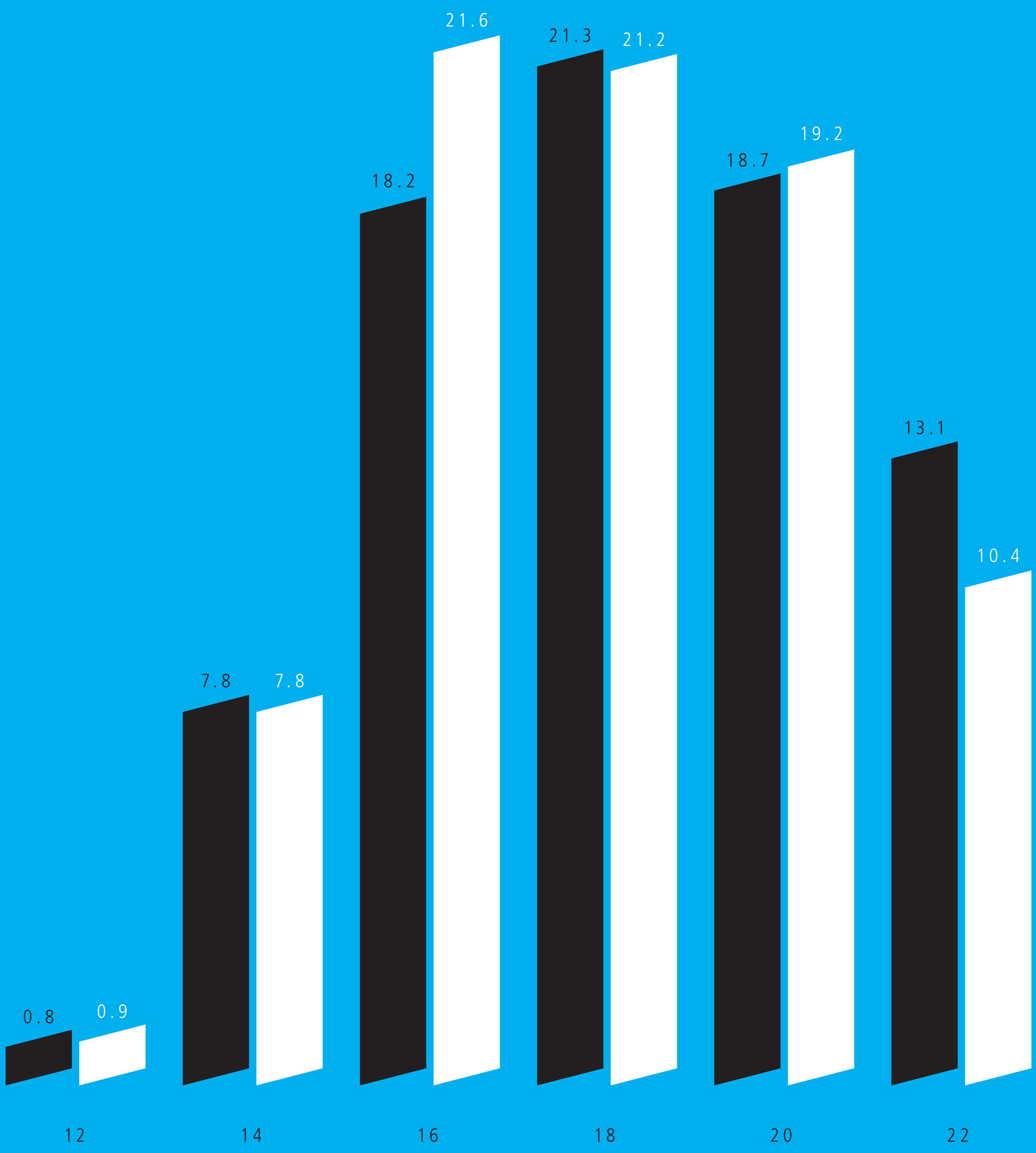
The protection scheme analyzes the regulatory capital ratios of each member bank. The chart on pages 38/39 shows the distribution of total capital ratios in the Cooperative Financial Network as at the reporting date of December 31, 2015 and as at December 31, 2014. It highlights the continuing healthy level of capital adequacy of the individual banks. The unweighted average for the total capital ratio as at December 31, 2015 was unchanged year on year at 19.0 percent.

The Cooperative Financial Network has healthy capital adequacy thanks to equity of €93 billion (December 31, 2014: 86.5 billion). It has continually boosted its level of capital in recent years by retaining profit. This substantiates the Cooperative Financial Network's sustainable business model with its broad diversification of sources of risk and income.

The leverage ratio, which is determined independently of risk, was calculated for the first time at the level of the institutional protection scheme (BVR protection scheme/BVR-ISG) as at December 31, 2015. The resulting figure of 6.0 percent (minimum requirement of 3.0 percent) also demonstrates the above-average capital adequacy within the Cooperative Financial Network. In the calculation conducted on a material basis, i.e. including the reserves in accordance with section 340f HGB and taking into account full application of the relevant CRR provisions, the leverage ratio was 6.9 percent.

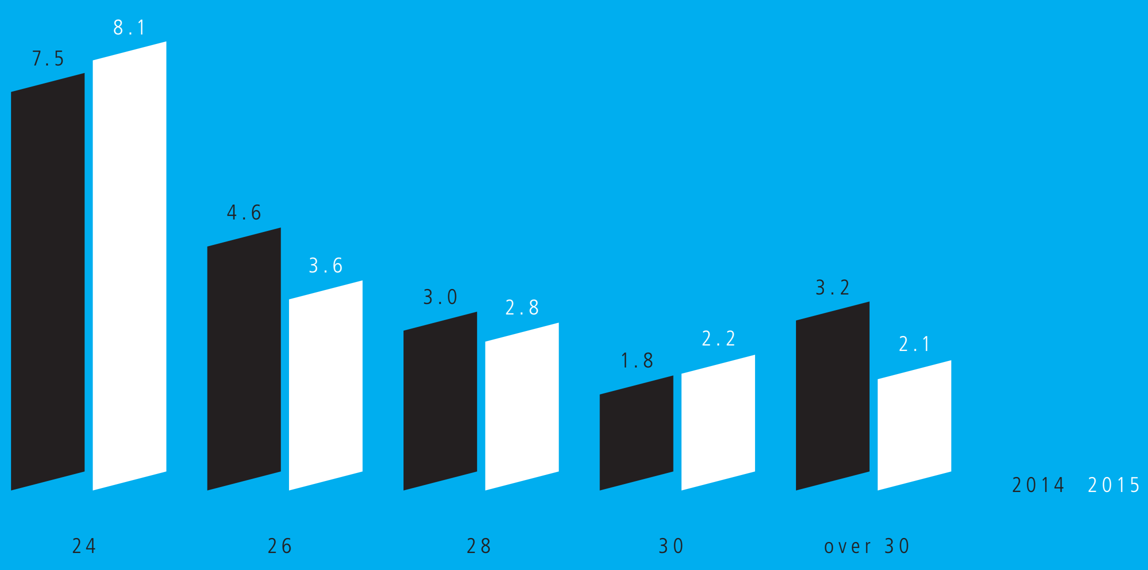
Distribution of total capital ratios in the Cooperative Financial Network*

Proportion of institutions (percent)



Total capital ratio up to ... percent

* As at December 31, 2015


7.5
8.1
4.6
3.6
3.0
2.8
1.8
2.2
3.2
2.1
2014
2015
24
26
28
30
over 30

Credit risk, market risk, and liquidity risk

Credit risk

Credit risk is the most important risk category given the cooperative banks' high volume of customer lending business. The cooperative banks manage their credit risk efficiently and sustainably using extensive, high-quality methods of risk measurement. So that they can assess the creditworthiness of individual borrowers, the cooperative banks have access to a rating system that is tailored to their requirements. The system was developed by the BVR together with its partners in the Cooperative Financial Network and satisfies the regulatory requirements. Credit risk at portfolio level is measured using value-at-risk methods along with structural analysis of credit ratings, size categories, proportion of unsecured lending, and sectoral concentrations.

The Cooperative Financial Network's strategy focuses on the profit-oriented assumption of risk, while taking its level of equity into consideration and pursuing a cautious lending policy. The cooperative banks are conservative in their lending decisions, with knowledge of the customer and borrowers' capacity to meet their obligations playing a central role. Overall, the Cooperative Financial Network's customer lending business has a granular credit structure and a high proportion of mortgages. The granularity and extensive regional diversification of the Cooperative Financial Network's business activities limit the formation of risk clusters.

The Cooperative Financial Network registered further significant growth in its lending business in 2015. Lending to retail and corporate customers saw a substantial increase of 4.5 percent compared with 2014. A key factor here was again the rise in home loans and loans to businesses. The growth in corporate banking was predominantly driven by lending to companies in the services, energy, and mining sectors. Because of their regional roots, the local cooperative banks have established a strong foothold in the renewable energies market and provide financial support to companies in relation to projects for increased energy efficiency and for power generation from renewable sources.

Long-term home finance was again a key growth driver in the retail customer business. Consumer home finance lending by the cooperative banks benefited from the favorable economic conditions. However, residential real estate prices in Germany also continued to go up in 2015. Price rises were particularly high in conurbations, although more modest when considered across the board. In the majority of towns, cities, and rural areas, prices were in line with trends in income and rents.

To help the member institutions monitor the regional markets, the BVR teamed up with vdp Research GmbH to develop a concept for measuring market volatility in individual postal code areas: BVR real-estate market monitoring. The measurements from BVR real-estate market monitoring provide additional regional information to complement the German Banking Industry Committee's market volatility concept. This enables the cooperative banks to determine the geographical areas forming their relevant markets and better comply with regulatory requirements.

Allowances for losses on loans and advances decreased in 2015 by 75.3 percent to €74 million. These allowances remained low, equating to a ratio of 0.01 percent of the total lending volume. In summary, the cooperative banks operate a healthy lending business overall.

The Cooperative Financial Network's exposures in respect of bonds from public-sector borrowers in countries particularly affected by the sovereign debt crisis remained at a manageable level, as was the case in previous years. The total carrying amount of these bonds came to €13.6 billion as at December 31, 2015 (December 31, 2014: €13.9 billion).

Market risk

Interest-rate risk has a significant influence on the banks' financial performance. Despite low interest rates in 2015, the Cooperative Financial Network's net interest income remained largely steady. As in prior years, the largest proportion of net interest income was generated from the net interest margin contribution in the customer business. Given the persistently low level of interest rates and growing competition for deposits, the banks expect interest margins to be narrower in the future. Moreover, a reversal of interest rates in financial markets poses certain risks because the funding costs of the loans extended in the current environment of low interest rates will go up in the event of an interest rate hike.

Along with credit risk, interest-rate risk plays an important role for most of the cooperative banks. The banks could face huge challenges if either the current low level of interest rates continues or there is a rapid and significant rise in interest rates. Supervisory authorities are factoring this problem into appropriate regulatory activities. For example, in April of this year the Basel Committee on Banking Supervision published its new 'Interest rate risk in the banking book' standard, which will come into force in 2018. The new EBA guidelines on managing interest rate risk in the banking book have been available since 2015 and came into effect at the beginning of 2016. However, specific details still need to be published by the German supervisor during the course of this year. One aspect common to both the Basel standard and the EBA guidelines is that, although they continue to provide for the modeling of interest rate risk in the banking book in Pillar 2, they place greater emphasis on the quality and consistency of the management of interest rate risk in institutions. If the internal management does not satisfy the requirements of supervisors, they can require an institution to use a standard model as described in the new Basel standard.

The protection scheme monitors the appropriateness of the member institutions' level of interest rate risk, in particular by using simulations to calculate net interest income.

Following the implementation of the new Basel 'Interest rate risk in the banking book' standard, the regulatory test criterion will also be determined on the basis of six interest rate shock scenarios instead of the previous two scenarios. It will play a key role in determining the Supervisory Review and Evaluation Process (SREP) supplement for interest rate risk in the banking book.

Liquidity risk

As in previous years, the Cooperative Financial Network has a reliable liquidity structure that has always proved crisis-resistant so far. The loan to deposit ratio of the Cooperative Financial Network is 95 percent. The basis for this lies in the diversifying, risk-mitigating effect created by the stable business structure of the banks, which tends to be divided into small units, and, in particular, in the institutions' traditional method of obtaining funding through customer deposits. Customers therefore recognize and reward the effectiveness of the institutional protection provided by the BVR protection scheme, which particularly aims to safeguard deposits but extends beyond the statutory deposit protection requirements. The cooperative central institutions collect the liquidity surpluses of the individual institutions, enabling cash pooling within the network of primary banks and specialized service providers. All member institutions of the BVR protection scheme complied with the newly introduced requirements relating to the liquidity coverage ratio (LCR).

EDITORIAL 5
MANAGEMENT REPORT 2015 7
CONSOLIDATED FINANCIAL STATEMENTS 2015 49
REVIEW REPORT (TRANSLATION) 109
BUSINESS PERFORMANCE 7
HUMAN RESOURCES REPORT 23
RISK REPORT 29
OUTLOOK 43

43

Management Report 2015

Outlook

Real economy and banking industry

The upward trend in economic growth in Germany continued at the beginning of 2016. According to official preliminary calculations, GDP growth in the first quarter (after adjustment for inflation, calendar, and seasonal effects) was strong at 0.7 percent compared with the previous quarter. The rate of economic growth therefore more than doubled compared with the fourth quarter of 2015 (0.3 percent). However, the pace of expansion in the economy is expected to slow in the second and third quarters.

Based on the data available in the early summer, the BVR anticipates that German economic output adjusted for inflation will rise by around 1.5 percent year on year on average in 2016. This forecast is based on a number of assumptions, including that the economic recovery in the eurozone will be sustained despite the majority vote by the people of the United Kingdom to leave the European Union (Brexit) and that the global economy will gain some momentum. The price of oil is expected to increase slightly and it is not anticipated that there will be any great change in the exchange rate between the euro and the US dollar.

According to forecasts, the marked expansion in consumer spending will remain the main growth driver in 2016. This spending will also continue to be boosted by the influx of refugees into Germany. On the other hand, only a small amount of stimulus is likely to be provided overall by capital investment and foreign trade. One of the factors that is likely to depress capital expenditure is the uncertainty about the future relationship between the United Kingdom and the rest of Europe.

Employment will continue to rise in line with the sustained economic upturn. The number of people in work is likely to rise by around 500,000 in 2016 to 43.5 million. Disregarding the increasing inclusion in the statistics of migrants seeking employment, the unemployment rate will fall by 0.2 percentage points to 6.2 percent.

This outlook is subject to considerable imponderables with the overall prospects on a downward trajectory. Should the Brexit decision give momentum to centrifugal forces in the European Union thereby weakening the cohesion between the member states or should global economic growth turn out to be weaker than anticipated, this would be likely to lead to a lower rise in GDP in Germany. However, it is also conceivable that global uncertainties could recede faster than predicted, leading to higher growth in the German economy.

The ECB's monetary policy will probably remain highly expansionary, at least initially. The bond-buying program expanded in 2016 will be continued until at least March 2017. The ECB is only likely to consider any increase in interest rates after this program has come to an end. The yields on German government bonds with long maturities will therefore probably remain very low compared with yields in the past.

Compared with 2015, there will be little change in the imminent challenges faced by the banking industry. The outlook therefore remains cautiously optimistic. We now find ourselves in the eighth year of a monetary policy that has prescribed low, zero, and negative interest rates. At the same time, there is barely any slowdown in the growth of regulatory requirements. This continues to present enormous challenges, particularly for smaller and medium-sized banks. These circumstances will again have an adverse impact on the financial performance of the banking industry. The capacity of banks to accumulate capital from their own resources is being impaired. In some cases, this could create an incentive to take excessive risk.

Banks are addressing the growing pressure on income and increasing volume of regulation by initiating further cost efficiency measures, which are resulting in the streamlining of processes and products, but are also causing a fall in employee numbers and rising merger activity. The banks are also attempting to hold their position against competitors by aiming for an even greater focus on customer requirements, for example by expanding digital products and services (omnichannel banking).

Despite the improvements in capital adequacy over the last few years and the reduction in leverage, a rapid rise in interest rates following the long period of low rates would be a dangerous scenario that banks need to take extremely seriously. The persistent European sovereign debt crisis and the consequences of the Brexit decision could also have a potentially negative impact.

Volksbanken Raiffeisenbanken Cooperative Financial Network

The outlook for the business performance of the Cooperative Financial Network in 2016 highlights that the persistently low interest rates, the rise in costs caused by regulatory requirements, and the European bank levy will continue to have an adverse effect on the financial performance of the Cooperative Financial Network. The future financial performance of the Cooperative Financial Network could be subject to risks arising from the general economic climate. Some European countries still have high levels of indebtedness and further intervention by the ECB and/or necessary austerity measures implemented by the governments concerned could have a negative impact on economic trends. Overall, the slight contraction in earnings in 2016 is likely to continue.

Net interest income will decline in all operating segments, above all as a consequence of the persistently low interest rates. In particular, income from interest-rate-dependent business models within the Cooperative Financial Network will continue to come under increasing pressure. A weakening of economic growth in the eurozone and/or further monetary policy measures by the ECB would probably also have an adverse effect on net interest income.

Allowances for losses on loans and advances are predicted to rise year on year in 2016. In 2015, significant reversals of specific loan loss allowances had a positive impact on overall allowances for losses on loans and advances and such reversals are not planned for 2016. The Cooperative Financial Network expects allowances for losses on loans and advances to normalize in 2016 and change in line with the lending portfolio, new business volume, and the long-term standard risk costs. Allowances for losses on loans and advances recognized in the Cooperative Financial Network would be negatively impacted, in particular, by a sharp economic downturn combined with rising sovereign debt in Europe, the effects of which even Germany would then be unable to escape.

The Cooperative Financial Network expects **net fee and commission income** to be just as good as in 2015. In particular, the positive assessment of the current capital market environment gives reason to believe that performance fees in the Retail operating segment will lead to a rise in fee and commission income. Any renewed uncertainty in capital and financial markets could have a negative impact on confidence among retail and institutional investors, thereby depressing net fee and commission income.

Net gains under **gains and losses on trading activities** are projected to increase in 2016, boosted by the customer-driven capital markets business. The positive income forecast particularly reflects the systematic implementation of strategic measures, especially in connection with institutional customers. The improvement in gains and losses on trading activities depends on there being no further significant fall in interest rates and capital markets remaining stable.

Gains and losses on investments are likely to remain subdued in 2016 because of the absence of positive one-off items.

Other gains and losses on valuation of financial instruments, which in 2015 were primarily influenced by positive effects, are expected to deteriorate significantly in 2016. The forecast trend in this case also reflects the reduced potential for reversing impairment losses.

Net income from insurance business is expected to contract in 2016. One of the main reasons will be an anticipated decline in the net gains under gains and losses on investments held by insurance companies. On the other hand, the targeted increase in market share could give rise to an extremely strong countervailing effect from growth in premiums. Exceptional events in financial and capital markets or changes in underwriting practices may affect the level of net income earned from insurance business.

Administrative expenses are predicted to rise moderately again in 2016. This forecast rise reflects tighter regulatory and statutory provisions and the expenses in connection with the European bank levy. Innovation-related expenditure and capital investment will also go up to safeguard the competitiveness of the Cooperative Financial Network over the long term. In view of the rising administrative expenses, one of the strategic aims is to improve the cost/income ratio by rigorously managing costs and accelerating growth in the operating business.
The merger of DZ BANK and WGZ BANK in 2016 is

expected to create not only extensive synergies but also growth potential and earnings potential, especially in the Bank operating segment, although the benefits will only materialize in the medium term from 2017 onward. The Cooperative Financial Network has a compelling business model, supported by sound risk-bearing capacity. The strong support from members and customers, combined with strong capital ratios, enables the Cooperative Financial Network to seize opportunities for growth that present themselves and thus to successfully maintain its outstanding market position in a challenging regulatory environment.

Consolidated Financial Statements 2015

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Income statement for the period January 1 to December 31, 2015

	Note no.	2015 € million	2014 € million	Change (percent)
Net interest income	2.	20,021	20,047	−0.1
Interest income and current income and expense		*28,792*	*30,657*	*−6.1*
Interest expense		*−8,771*	*−10,610*	*−17.3*
Allowances for losses on loans and advances	3.	−74	−299	−75.3
Net fee and commission income	4.	5,798	5,467	6.1
Fee and commission income		*7,292*	*6,793*	*7.3*
Fee and commission expense		*−1,494*	*−1,326*	*12.7*
Gains and losses on trading activities	5.	607	752	−19.3
Gains and losses on investments	6.	−561	148	>100.0
Other gains and losses on valuation of financial instruments	7.	363	435	−16.6
Premiums earned	8.	14,418	13,927	3.5
Gains and losses on investments held by insurance companies and other insurance company gains and losses	9.	3,013	4,388	−31.3
Insurance benefit payments	10.	−14,664	−15,264	−3.9
Insurance business operating expenses	11.	−1,774	−1,770	0.2
Administrative expenses	12.	−17,234	−16,895	2.0
Other net operating expense/income	13.	−126	−281	−55.2
Profit before taxes		**9,787**	**10,655**	**−8.1**
Income taxes	14.	−2,820	−2,848	−1.0
Net profit		**6,967**	**7,807**	**−10.8**
Attributable to:				
Shareholders of the Cooperative Financial Network		6,761	7,555	−10.5
Non-controlling interests		206	252	−18.3

Statement of comprehensive income for the period January 1 to December 31, 2015

	2015 € million	2014 € million	Change (percent)
Net profit	**6,967**	**7,807**	**–10.8**
Other comprehensive income/loss	**854**	**–513**	**>100.0**
Items that may be reclassified to the income statement	***219***	***956***	***–77.1***
Gains and losses on available-for-sale financial assets	103	1,397	–92.6
Gains and losses on cash flow hedges	14	–31	>100.0
Exchange differences on currency translation of foreign operations	44	12	>100.0
Gains and losses on hedges of net investments in foreign operations	–24	–16	50.0
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	17	27	–37.0
Income taxes relating to components of other comprehensive income/loss	65	–433	>100.0
Items that cannot be reclassified to the income statement	***635***	***–1,469***	***>100.0***
Gains and losses arising on remeasurements of defined benefit plans	905	–2,092	>100.0
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	–1	–4	–75.0
Income taxes relating to components of other comprehensive income/loss	–269	627	>100.0
Total comprehensive income	**7,821**	**7,294**	**7.2**
Attributable to:			
Shareholders of the Cooperative Financial Network	7,589	6,950	9.2
Non-controlling interests	232	344	–32.6

Balance sheet as at December 31, 2015

Assets	Note no.	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Cash and cash equivalents	15.	20,536	15,656	31.2
Loans and advances to banks	16.	32,988	38,293	−13.9
Loans and advances to customers	16.	700,608	670,683	4.5
Allowances for losses on loans and advances	17.	−7,631	−8,519	−10.4
Derivatives used for hedging (positive fair values)	18.	1,050	1,099	−4.5
Financial assets held for trading	19.	53,570	61,181	−12.4
Investments	20.	249,960	249,219	0.3
Investments held by insurance companies	21.	82,766	77,545	6.7
Property, plant and equipment, and investment property	22.	11,168	11,429	−2.3
Income tax assets	23.	3,772	4,484	−15.9
Other assets	24.	13,732	14,690	−6.5
Total assets		**1,162,519**	**1,135,760**	**2.4**

Equity and liabilities	Note no.	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Deposits from banks	25.	99,505	103,526	–3.9
Deposits from customers	25.	739,218	713,485	3.6
Debt certificates including bonds	26.	70,248	66,981	4.9
Derivatives used for hedging (negative fair values)	18.	9,453	10,423	–9.3
Financial liabilities held for trading	27.	45,397	52,760	–14.0
Provisions	28.	12,563	13,661	–8.0
Insurance liabilities	29.	78,929	74,670	5.7
Income tax liabilities	23.	1,263	1,198	5.4
Other liabilities	30.	7,569	7,819	–3.2
Subordinated capital	31.	5,367	4,736	13.3
Equity		93,007	86,501	7.5
Equity of the Cooperative Financial Network		90,088	83,153	8.3
Subscribed capital		*10,922*	*10,762*	*1.5*
Capital reserves		*784*	*754*	*4.0*
Retained earnings		*70,122*	*62,807*	*11.6*
Revaluation reserve		*1,444*	*1,258*	*14.8*
Cash flow hedge reserve		*–7*	*–15*	*–53.3*
Currency translation reserve		*62*	*32*	*93.8*
Unappropriated earnings		*6,761*	*7,555*	*–10.5*
Non-controlling interests		2,919	3,348	–12.8
Total equity and liabilities		**1,162,519**	**1,135,760**	**2.4**

Statement of changes in equity

€ million

	Subscribed capital	Capital reserves	Equity earned by the Cooperative Financial Network	Revaluation reserve	Cash flow hedge reserve	Currency translation reserve	Equity of the Cooperative Financial Network	Non-controlling interests	Total equity
Equity as at Jan. 1, 2014	**10,424**	**708**	**64,683**	**435**	**4**	**12**	**76,266**	**3,120**	**79,386**
Net profit	–	–	7,555	–	–	–	7,555	252	7,807
Other comprehensive income/loss	–	–	−1,441	835	−19	20	−605	92	−513
Total comprehensive income	**–**	**–**	**6,114**	**835**	**−19**	**20**	**6,950**	**344**	**7,294**
Issue and repayment of equity	338	46	–	–	–	–	384	144	528
Changes in the scope of consolidation	–	–	46	−12	–	–	34	1	35
Acquisition/disposal of non-controlling interests	–	–	101	–	–	–	101	−198	−97
Dividends paid	–	–	−582	–	–	–	−582	−63	−645
Equity as at Dec. 31, 2014	**10,762**	**754**	**70,362**	**1,258**	**−15**	**32**	**83,153**	**3,348**	**86,501**
Net profit	–	–	6,761	–	–	–	6,761	206	6,967
Other comprehensive income/loss	–	–	627	163	8	30	828	26	854
Total comprehensive income	**–**	**–**	**7,388**	**163**	**8**	**30**	**7,589**	**232**	**7,821**
Issue and repayment of equity	160	30	–	–	–	–	190	−248	−58
Changes in the scope of consolidation	–	–	4	–	–	–	4	1	5
Acquisition/disposal of non-controlling interests	–	–	−304	23	–	–	−281	−351	−632
Dividends paid	–	–	−567	–	–	–	−567	−63	−630
Equity as at Dec. 31, 2015	**10,922**	**784**	**76,883**	**1,444**	**−7**	**62**	**90,088**	**2,919**	**93,007**

Breakdown of subscribed capital	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Cooperative shares	10,673	10,271	3.9
Share capital	144	176	–18.2
Capital of silent partners	105	315	–66.7
Total	**10,922**	**10,762**	**1.5**

Statement of cash flows

	2015 € million	2014 € million
Net profit	**6,967**	**7,807**
Non-cash items included in net profit and reconciliation to cash flows from operating activities		
Depreciation, impairment losses, and reversal of impairment losses on assets, and other non-cash changes in financial assets and liabilities	451	–1,676
Non-cash changes in provisions	–1,102	2,305
Changes in insurance liabilities	7,262	9,977
Other non-cash income and expenses	366	981
Gains and losses on the disposal of assets and liabilities	476	–152
Other adjustments (net)	–18,213	–18,746
Subtotal	**–3,793**	**496**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	–26,402	–27,134
Other assets from operating activities	350	1,075
Derivatives used for hedging (positive and negative fair values)	–835	434
Financial assets and financial liabilities held for trading	–748	4,812
Deposits from banks and customers	21,475	26,543
Debt certificates including bonds	3,132	–909
Other liabilities from operating activities	–3,145	–2,676
Interest, dividends and operating lease payments received	31,997	29,063
Interest paid	–7,153	–8,333
Income taxes paid	–1,897	–2,314
Cash flows from operating activities	**12,981**	**21,057**
Proceeds from the sale of investments	6,742	13,551
Proceeds from the sale of investments held by insurance companies	18,764	24,670
Proceeds from the sale of intangible non-current assets	159	18
Payments for acquisitions of investments	–8,625	–23,490
Payments for acquisitions of investments held by insurance companies	–23,673	–32,110

	2015 € million	2014 € million
Payments for the acquisition of intangible non-current assets	–174	–
Net payments for acquisitions of property, plant and equipment, and investment property (excl. assets subject to operating leases)	–1,433	–1,144
Changes in the scope of consolidation	–13	–21
Cash flows from investing activities	**–8,253**	**–18,526**
Proceeds from capital increases	190	384
Proceeds from capital increases by non-controlling interests	–	144
Dividends paid to shareholders of the Cooperative Financial Network	–567	–582
Dividends paid to non-controlling interests	–63	–63
Other payments to non-controlling interests	–248	–
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	840	–2,738
Cash flows from financing activities	**152**	**–2,855**
Cash and cash equivalents as at January 1	**15,656**	**15,980**
Cash flows from operating activities	12,981	21,057
Cash flows from investing activities	–8,253	–18,526
Cash flows from financing activities	152	–2,855
Cash and cash equivalents as at December 31	**20,536**	**15,656**

The consolidated statement of cash flows shows the changes in cash and cash equivalents during the financial year. Cash and cash equivalents consist of cash on hand, balances with central banks and other government institutions as well as treasury bills and non-interest bearing treasury notes. The cash and cash equivalents do not include any financial investments with a maturity of more than three months at the date of acquisition. Changes in cash and cash equivalents are broken down into operating, investing and financing activities.

Cash flows from operating activities comprise cash flows mainly arising in connection with the revenue-generating activities of the Cooperative Financial Network or other activities that cannot be classified as investing or financing activities. Cash flows related to the acquisition and sale of non-current assets are allocated to investing activities. Cash flows from financing activities include cash flows arising from transactions with equity owners and from other borrowings to finance business activities.

Notes to the consolidated financial statements

A Significant financial reporting principles

Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network prepared by the Federal Association of German Cooperative Banks (BVR) are based on the regulations applicable to publicly traded companies. The BVR is under no legal obligation to prepare such consolidated financial statements. The cooperative shares and share capital of the local cooperative banks are held by their members. The local cooperative banks own the share capital of the central institutions either directly or through intermediate holding companies. The Cooperative Financial Network does not qualify as a corporate group as defined by the International Financial Reporting Standards (IFRS), the German Commercial Code (HGB) or the German Stock Corporation Act (AktG).

These consolidated financial statements have been prepared solely for informational purposes and to present the business development and performance of the Cooperative Financial Network, which is treated as a single economic entity in terms of its risks and strategies. These consolidated financial statements are not a substitute for analysis of the consolidated entities' financial statements.

The accounting policies applied in these consolidated financial statements are generally based on the International Financial Reporting Standards.

The underlying data presented in these consolidated financial statements is provided by the separate and consolidated financial statements of the entities in the Cooperative Financial Network and also includes data from supplementary surveys of the local cooperative banks. The consolidated financial statements of DZ BANK and of WGZ BANK included in these consolidated financial statements have been prepared on the basis of IFRS as adopted by the European Union.

As part of the preparation of these consolidated financial statements, the financial statements of the local cooperative banks, of the BVR protection scheme (BVR-SE) and of BVR Institutssicherung GmbH (BVR-ISG), all of which are included and have been prepared in accordance with the German Commercial Code, have been brought into line with IFRSs. Thus, using a simplified approach, assets, liabilities, equity, income and expenses are reconciled to the carrying amounts that would have resulted from consistent application of IFRS.

As in the previous years, certain assumptions and simplifications have been used to prepare these consolidated financial statements. These assumptions and simplifications have been made using tried-and-tested methods and have been properly verified. These assumptions and simplifications have been used to eliminate intra-network balances, transactions, income and expenses in a way that reflects the unique structure of the Cooperative Financial Network.

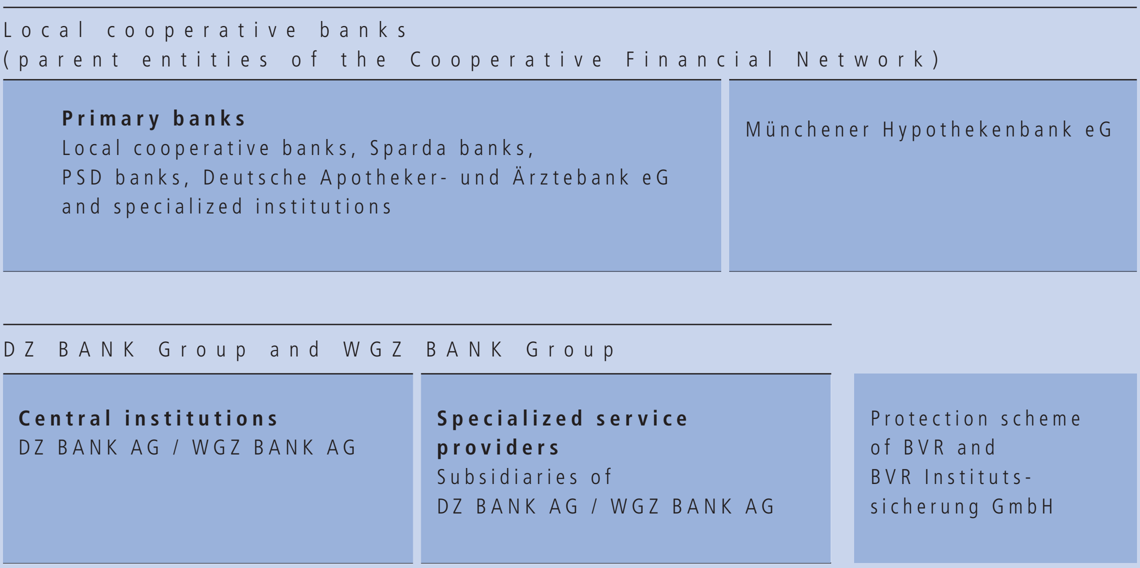
The financial year corresponds to the calendar year. In the interest of clarity, some items on the face of the balance sheet and the income statement have been aggregated and are explained by additional disclosures. Unless stated otherwise, all amounts are shown in millions of euros (€ million). All figures are rounded to the nearest whole number. This may result in very small discrepancies in the calculation of totals and percentages in these consolidated financial statements.

Scope of consolidation

The consolidated entities included in these consolidated financial statements are 1,018 primary banks (2014: 1,036), the DZ BANK Group, the WGZ BANK Group, Münchener Hypothekenbank eG (MHB), the BVR protection scheme, and BVR Institutssicherung GmbH included for the first time in the financial year under review. The consolidated primary banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

The primary banks and MHB are the legally independent, horizontally structured parent entities of the Cooperative Financial Network, whereas the other corporate groups and entities are consolidated as subsidiaries. The two cooperative central institutions and a total of 570 subsidiaries (2014: 622) have been consolidated in the DZ BANK Group and WGZ BANK Group.

Volksbanken Raiffeisenbanken
Cooperative Financial Network



The consolidated financial statements include 24 joint ventures between a consolidated entity and at least one other non-network entity (2014: 23) and 31 associates (2014: 25) over which a consolidated entity has significant influence, that are accounted for using the equity method.

Procedures of consolidation

Similar to IFRS 3 in conjunction with IFRS 10, business combinations are accounted for using the purchase method by offsetting the acquisition cost of a subsidiary against the share of the equity that is attributable to the parent entities and remeasured at fair value on the relevant date when control is acquired. This eliminates the multiple gearing of eligible own funds and any inappropriate creation of own funds for regulatory purposes between the consolidated entities listed above. Any positive difference is recognized as goodwill under other assets and is subject to an annual impairment test. Any negative goodwill is recognized immediately in profit or loss. Any share of subsidiaries' net assets not attributable to the parent entities is reported as non-controlling interests within equity.

Interests in joint ventures and investments in associates are accounted for using the equity method and reported under investments.

The consolidated subsidiaries have generally prepared their financial statements on the basis of the financial year ended December 31, 2015. There is one subsidiary (2014: 1) included in the consolidated financial statements with a different reporting date for its annual financial statements. With 25 exceptions (2014: 20), the separate financial statements of the entities accounted for using the equity method are prepared using the same balance sheet date as that of the consolidated financial statements.

Assets and liabilities as well as income and expenses arising within the Cooperative Financial Network are offset against each other on the basis of certain assumptions and simplifications. Gains and losses arising from transactions between entities within the Cooperative Financial Network are eliminated.

Financial instruments

Financial instruments within the scope of IAS 39 are designated upon initial recognition to the categories defined in IAS 39 on the basis of their characteristics and intended use. IAS 39 defines the following categories:

Financial instruments at fair value through profit or loss
Financial instruments in this category are recognized at fair value through profit or loss. This category is broken down into the following subcategories:

Financial instruments held for trading
The "financial instruments held for trading" subcategory covers financial assets and financial liabilities that are acquired or incurred for the purpose of selling or repurchasing them in the near term, that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or that are derivatives, except for derivatives that are designated as effective hedging instruments.

Contingent consideration in a business combination
This subcategory includes contingent considerations classified by the acquirer in a business combination as financial assets or financial liabilities.

Financial instruments designated as at fair value through profit or loss; fair value option
Financial assets and financial liabilities may be designated to the "financial instruments designated as at fair value through profit or loss" subcategory by exercising the fair value option, provided that the application of this option eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch), the financial assets and liabilities are managed as a portfolio on a fair value basis or they include one or more embedded derivatives required to be separated from the host contract.

Held-to-maturity investments
The "held-to-maturity investments" category consists of non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. These investments are measured at amortized cost.

Loans and receivables
The "loans and receivables" category comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost.

Available-for-sale financial assets
"Available-for-sale financial assets" are financial assets that cannot be classified in any other category. In principle, they are measured at fair value. Any changes in fair value occurring between 2 reporting dates are recognized in other comprehensive income. The fair value changes are reported in equity under the "revaluation reserve." If financial assets included in this category are sold, gains and losses recognized in the revaluation reserve are reclassified to the income statement.

Financial liabilities measured at amortized cost
This category mainly includes all financial liabilities within the scope of IAS 39 that are not held for trading or classified as liabilities measured at fair value through profit or loss.

Other financial instruments
Other financial instruments comprise, for example, insurance-related financial assets and financial liabilities, receivables and liabilities arising from finance leases, or liabilities from financial guarantee contracts.

Recognition and measurement of insurance-related financial assets and financial liabilities as well as receivables and liabilities from finance leases are described in this chapter under the section entitled Insurance business or Leases, respectively.

Liabilities from financial guarantee contracts, that are measured in accordance with IAS 39, have to be recognized by the guarantor at fair value at the time the commitment is made. The fair value normally corresponds to the present value of the consideration received for the assumption of the guarantee. In the context of subsequent measurement, the obligation is to be measured at the higher of a provision recorded in accordance with IAS 37 and the original amount less any amortization recognized subsequently.

Cash and cash equivalents

This item comprises the cash and cash equivalents held by the Cooperative Financial Network. These include cash on hand, balances with central banks and other government institutions as well as public-sector debt instruments and bills of exchange eligible for refinancing by central banks.

Cash on hand comprises euros and other currencies measured at face value or translated at the buying rate. Balances with central banks and other government institutions as well as public-sector debt instruments and bills of exchange eligible for refinancing by central banks are measured at amortized cost.

Loans and advances to banks and customers

All receivables attributable to registered debtors and not classified as “financial assets held for trading” are recognized as loans and advances to banks and customers. In addition to fixed-term receivables and receivables payable on demand in connection with lending, lease, and money market business, loans and advances to banks and customers include promissory notes and registered bonds.

Generally, loans and advances to banks and customers are measured at amortized cost. In fair value hedges, the carrying amounts of hedged receivables are adjusted by the change in the fair value attributable to the hedged risk. To avoid accounting anomalies, certain loans and advances are designated as at fair value through profit or loss. Receivables under finance leases are measured upon initial recognition in the balance sheet at an amount equal to the net investment in the lease at the inception of the lease. Lease payments are apportioned into payment of interest and repayment of principal. The interest portion based on the internal discount rate of the lease transaction for a constant periodic rate of return is recognized as interest income, whereas the repayment of principal reduces the carrying amount of the receivable.

Interest income on loans and advances to banks and customers is recognized as interest income from lending and money market operations. This also includes gains and losses on the amortization of hedge adjustments to carrying amounts due to fair value hedges. Hedge adjustments are recognized within other gains and losses on valuation of financial instruments under gains and losses arising on hedging transactions. Gains and losses on loans and advances designated as at fair value through profit or loss are also recognized in other gains and losses on valuation of financial instruments.

Allowances for losses on loans and advances

Financial assets not measured at fair value through profit or loss have to be reviewed at each reporting date to determine whether there is objective evidence of impairment. If such objective evidence is available, specific allowances in the amount of the determined impairment loss requirement are recognized for financial assets. Financial assets with similar features for which impairment losses are not recognized on an individual basis are grouped into portfolios and assessed collectively for possible impairment. Impairment losses are calculated on the basis of historical default rates for comparable portfolios. If any impairment is identified, a portfolio loan loss allowance is recognized.

The allowance for losses on loans and advances to banks and to customers is reported as a separate line item on the assets side of the balance sheet. Additions to and reversals of allowances for losses on loans and advances to banks and to customers are recognized in the income statement under allowances for losses on loans and advances.

The recognition of allowances for losses on loans and advances in the Cooperative Financial Network also includes changes in the provisions for loan commitments, other provisions for loans and advances, and liabilities from financial guarantee contracts. Additions to and reversals of these items are also recognized in the income statement under allowance for losses on loans and advances.

Derivatives used for hedging (positive and negative fair values)

Derivatives used for hedging (positive and negative market values) include the carrying amounts of derivative financial instruments designated as hedging instruments in an effective and documented hedging relationship within the meaning of IAS 39.

The derivative financial instruments are measured at fair value. Changes in the fair value of hedging instruments used to hedge the fair value of hedged items are recognized in the income statement. If the hedging instruments are intended as a cash flow hedge or a hedge of a net investment in a foreign operation, changes in fair value attributable to the effective portion of the hedge are recognized as other comprehensive income.

Financial assets and financial liabilities held for trading

Financial assets and financial liabilities held for trading include derivatives with positive and negative fair values that were entered into for trading purposes or that do not meet the requirements for an accounting treatment as hedging instruments.

Financial assets held for trading also include securities and loans and advances which are held for trading purposes as well as items related to commodities transactions. The loans and advances include promissory notes, registered bonds and money market receivables.

Apart from derivative financial instruments with negative fair values, financial liabilities held for trading include delivery commitments arising from the short-selling of securities, bonds issued and other debt certificates entered into for trading purposes, liabilities and obligations from commodities transactions. Bonds issued and other debt certificates include share- and index-linked certificates as well as commercial papers. Liabilities result primarily from money market transactions.

Financial assets and financial liabilities held for trading are recognized at fair value through profit or loss. Generally, gains and losses on financial instruments reported as financial assets or financial liabilities held for trading are recognized as gains and losses on trading activities.

Gains and losses on the valuation of derivative financial instruments entered into for hedging purposes, but that do not meet the requirements for classification as a hedging instrument, are recognized under other gains and losses on valuation of financial instruments as gains and losses on derivatives held for purposes other than trading. If, to avoid accounting mismatches, hedged items are classified as financial instruments designated as at fair value through profit or loss', the valuation gains and losses on the related derivatives concluded for economic hedging purposes are recognized under gains and losses on financial instruments designated as at fair value through profit or loss.

Investments

Investments include securities, shareholdings in subsidiaries and equity investments. Securities comprise bearer bonds and other fixed-income securities as well as shares and other non-fixed-income securities. Investments also include shares in unconsolidated subsidiaries. Equity investments consist of other shareholdings in companies in bearer or registered form where no significant influence exists, as well as interests in joint ventures and associates.

Generally, investments are initially recognized at fair value. Shares, investments in subsidiaries, joint ventures and associates, and other shareholdings for which a fair value cannot be reliably determined or which are accounted for using the equity method are initially recognized at cost.

Property, plant and equipment, and investment property

Property, plant and equipment, and investment property comprise land and buildings, office furniture and equipment, and other fixed assets with an estimated useful life of more than one reporting period used by the Cooperative Financial Network. This item also includes assets subject to operating leases. Investment property is real estate held for the purposes of generating rental income or capital appreciation.

Property, plant and equipment, and investment property is measured at cost less cumulative depreciation and impairment losses in subsequent reporting periods.

Depreciation and impairment losses on property, plant and equipment, and investment property are recognized as administrative expenses. Reversals of impairment losses are reported under other net operating expense/income.

Income tax assets and liabilities

Current and deferred tax assets are shown under the income tax assets balance sheet item; current and deferred tax liabilities are reported under the balance sheet item Income tax liabilities. Current income tax assets and liabilities are recognized in the amount of any expected refund or future payment.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts recognized in the consolidated financial statements and those of assets and liabilities recognized in the financial statements for tax purposes. Deferred tax assets are also recognized in respect of as yet unused tax loss carryforwards, provided that utilization of these loss carryforwards is sufficiently probable. Deferred tax assets are measured using the national and company-specific tax rates expected to apply at the time of realization.

Deferred tax assets and liabilities are not discounted. Where temporary differences arise in relation to items recognized in other comprehensive income, the resulting deferred tax assets and liabilities are also recognized in other comprehensive income. Current and deferred tax income and expense to be recognized through profit or loss is reported under income taxes in the income statement.

Other assets

Other assets include a number of items, including intangible assets. Intangible assets are recognized at cost. In the subsequent measurement of software, acquired customer relationships, and other intangible assets with a finite useful life, carrying amounts are reduced by cumulative amortization and cumulative impairment losses. Goodwill and other intangible assets with an indefinite useful life are not amortized, but are subject to an impairment test at least once during the financial year.

Deposits from banks and customers

All liabilities attributable to registered creditors and not classified as “financial liabilities held for trading” are recognized as deposits from banks and customers. In addition to fixed-maturity liabilities and liabilities repayable on demand arising from the deposit, home savings and money market businesses, these liabilities include, above all, registered bonds and promissory notes issued.

Deposits from banks and customers are measured at amortized cost. Where deposits from banks and amounts owed to other depositors are designated as a hedged item in an effective fair value hedge, the carrying amount is adjusted for any change in the fair value attributable to the hedged risk. To avoid accounting mismatches, certain liabilities are designated as at fair value through profit or loss.

Interest expense on deposits from banks and customers are recognized separately under net interest income. Interest expense also includes gains and losses on early repayment and on the amortization of hedge adjustments to carrying amounts due to fair value hedges. Hedge adjustments to the carrying amount due to fair value hedges are reported within other gains and losses on valuation of financial instruments under gains and losses arising on hedging transactions. Gains and losses on liabilities designated as at fair value through profit or loss are also recognized in other gains and losses on valuation of financial instruments.

Debt certificates issued including bonds

Debt certificates including bonds cover issued Pfandbriefe, other bonds and other debt certificates evidenced by paper for which transferable bearer certificates have been issued.

Debt certificates and gains and losses on these certificates are measured and recognized in the same way as deposits from banks and customers.

Provisions

Provisions are recognized for defined benefit obligations, within the context of the lending and home savings businesses, as well as for other uncertain liabilities to third parties.

Actuarial reports are used to calculate the carrying amounts of defined benefit obligations. These include assumptions about long-term salary and pension trends and average life expectancy. Assumptions about salary and pension trends are based on past trends and take account of expectations about future labor market trends. Recognized biometric tables (mortality tables published by Professor

Dr. Klaus Heubeck) are used to estimate average life expectancy. The discount rate used to discount future payment obligations is an appropriate market interest rate as at the reporting date for high-quality fixed-income corporate bonds with a maturity equivalent to that of the defined benefit obligations. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions regarding defined benefit obligations as well as gains and losses on remeasurements of plan assets are recognized as other comprehensive income in the financial year in which they occur.

Other provisions are measured based on the best estimate of the present value of their anticipated utilization, taking into account risks and uncertainties associated with the issues concerned as well as future events. The outflows of funds actually materializing in future may differ from the estimated utilization of provisions.

Provisions for loans and advances factor in the usual sector-specific level of uncertainty about amounts and maturity dates.

Provisions relating to building society operations are recognized to cover the payment of any bonuses that may have been agreed in the terms and conditions of home savings contracts. These bonuses may take the form of a reimbursement of some of the sales charges or interest bonuses on deposits. The bonuses constitute independent payment obligations and must be measured and recognized in accordance with IAS 37. In order to measure these obligations, building society simulations (collective simulations) are used to forecast building society customers' future behavior. Uncertainty in connection with the measurement of these provisions is linked to assumptions to be made about future customer behavior, which take account of various scenarios and measures. Material inputs for the collective simulations are the rate of mortgage loans not drawn down and the pattern of customer cancellations.

Provisions are recognized for risks arising from ongoing legal disputes and cover the possible resulting losses. Such provisions are recognized when it is more likely than not that a legal dispute will result in a payment obligation for an entity in the BVR. Any concentration risk owing to similarities between individual cases is taken into consideration.

Subordinated capital

Subordinated capital comprises all debt instruments in bearer or registered form that, in the event of insolvency or liquidation, are repaid only after settlement of all unsubordinated liabilities but before distribution to shareholders of any proceeds from the insolvency or liquidation.

Subordinated capital comprises subordinated liabilities and profit-sharing rights as well as regulatory core capital not included in equity, which is recognized as hybrid capital. The share capital repayable on demand comprises non-controlling interests in partnerships controlled by companies in the Cooperative Financial Network. These non-controlling interests must be classified as subordinated.

Subordinated capital and gains and losses on these certificates are measured and recognized in the same way as deposits from banks and customers.

Equity

Equity represents the residual value of the Cooperative Financial Network's assets minus its liabilities. Cooperative shares of the independent local cooperative banks and capital of silent partners are treated as economic equity in the consolidated financial statements and are recognized as equity. Equity thus comprises subscribed capital – consisting of cooperative shares or share capital and capital of silent partners – plus capital reserves of the local cooperative banks. It also includes equity earned by the Cooperative Financial Network, the reserve resulting from the fair value measurement of available-for-sale financial assets (revaluation reserve), the cash flow hedge reserve, the currency translation reserve, and the non-controlling interests in the equity of consolidated subsidiaries.

Trust activities

Trust activities are defined as business transacted on one's own behalf for a third-party account. Assets and liabilities held as part of trust activities do not satisfy the criteria for recognition on the balance sheet.

Income and expenses arising from trust activities are recognized as fee and commission income or as fee and commission expenses. Income and expenses resulting from the passing-through and administration of trust loans are netted and are included in the fee and commission income earned from lending and trust activities.

Insurance business

Insurance business in the Cooperative Financial Network is generally reported under specific insurance items on the face of the income statement and balance sheet.

Financial assets and financial liabilities
Financial assets and financial liabilities held or entered into in connection with insurance operations are generally accounted for and measured in accordance with IAS 39. They are reported in the investments held by insurance companies, or in the other assets and other liabilities of insurance companies. Impairment losses on financial assets recognized under the investments and the other assets of insurance companies are directly deducted from the assets' carrying amounts.

In addition to financial instruments within the scope of IAS 39, certain financial assets and financial liabilities are held as part of the insurance business and, as required by IFRS 4.25(c), are recognized and measured in accordance with the provisions of the HGB and other German accounting standards applicable to insurance companies. These financial assets and financial liabilities include deposits with ceding insurers, deposits received from reinsurers, receivables and payables arising out of direct insurance operations, and assets related to unit-linked contracts.

Insurance liabilities
Insurance companies are permitted to continue applying existing accounting policies to certain insurance-specific items during a transition period. Insurance liabilities are therefore recognized and measured in accordance with the provisions of the HGB and other German accounting standards applicable to insurance companies. Insurance liabilities are shown before the deduction of the share of reinsurers, which is reported as an asset.

Leases

A lease is classified as a finance lease if substantially all the risks and rewards incidental to the ownership of an asset are transferred from the lessor to the lessee. If a lease is classified as a finance lease, a receivable due from the lessee must be recognized. The receivable is measured at an amount equal to the net investment in the lease at the inception of the lease. Lease payments are apportioned into payment of interest and repayment of principal. Revenue is recognized as interest income on an accrual basis.

B Selected disclosures of interests in other entities

Investments in subsidiaries

Share in the business operations of the Cooperative Financial Network attributable to non-controlling interests

DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK) and Westdeutsche Genossenschafts-Zentralbank AG (WGZ BANK) are included in the consolidated financial statements together with their respective subsidiaries as a subgroup. In this context, DZ BANK and WGZ BANK are focused on their clients and owners, the local cooperative banks, as central bank, commercial bank and holding company. The objective of this focus is to sustainably expand the position of the Cooperative Financial Network as one of the leading universal financial service groups.

The shares of DZ BANK, with its headquarters in Frankfurt/Main, Germany, are held by the primary banks and by MHB, with ownership interests amounting to 86.2 percent (2014: 85.4 percent). Another 6.7 percent (2014: 6.7 percent) of the shares are held by WGZ BANK. The remaining shares of 7.1 percent (2014: 7.9 percent) are attributable to shareholders that are not part of the Cooperative Financial Network. The pro-rata share in net profit attributable to non-controlling interests amounts to €191 million (2014: €241 million). The carrying amount of non-controlling interests amounts to €2,836 million (2014: €3,279 million). In the financial year under review, the dividend payment made to non-controlling interests amounts to €62 million (2014: €62 million).

The shares of WGZ BANK, with its headquarters in Düsseldorf, Germany, are held by the primary banks with ownership interests amounting to 98.1 percent (2014: 98.1 percent). The remaining shares of 1.9 percent (2014: 1.9 percent) are attributable to shareholders that are not part of the Cooperative Financial Network. The pro-rata share in net profit attributable to non-controlling interests amounts to €15 million (2014: €11 million). The carrying amount of non-controlling interests amounts to €83 million (2014: €69 million). In the financial year under review, the dividend payment made to non-controlling interests amounts to €1 million, unchanged from the prior year.

Nature and extent of significant restrictions

National regulatory requirements, contractual provisions, and provisions of company law restrict the ability of the DZ BANK Group companies included in the consolidated financial statements to transfer assets within the group. Prior-year amounts were adjusted as a result of the reassessment of the nature and extent of significant restrictions. Where restrictions can be specifically assigned to individual line items on the balance sheet, the carrying amounts of the assets subject to restrictions on the balance sheet date are shown in the following table:

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Assets	**74,732**	**70,721**	**5.7**
Loans and advances to customers	4,174	4,944	–15.6
Investments held by insurance companies	70,552	65,770	7.3
Other assets	6	7	–14.3
Liabilities	**119,148**	**112,392**	**6.0**
Deposits from banks	1,690	1,583	6.8
Deposits from customers	50,926	48,343	5.3
Provisions	653	580	12.6
Insurance liabilities	65,879	61,886	6.5

Nature of the risks associated with interests in consolidated structured entities

Risks arising from interests in consolidated structured entities largely result from loans to fully consolidated funds within the DZ BANK Group, some of which are extended in the form of junior loans.

Interests in joint arrangements and investments in associates

Nature, extent and financial effects of interests in joint arrangements
The carrying amount of individually immaterial joint ventures accounted for using the equity method totaled €564 million as at the balance sheet date (2014: €615 million).

Aggregated financial information for joint ventures accounted for using the equity method that individually are not material:

	2015 € million	2014 € million	Change (percent)
Share of profit from continuing operations	110	95	15.8
Share of other comprehensive income/loss	24	56	–57.1
Pro-rata share of total comprehensive income/loss	134	151	–11.3

Nature, extent and financial effects of interests in associates
The carrying amount of individually immaterial associates accounted for using the equity method totaled €410 million as at the balance sheet date (2014: €369 million).

Aggregated financial information for associates accounted for using the equity method that individually are not material:

	2015 € million	2014 € million	Change (percent)
Share of profit from continuing operations	17	21	–19.0
Share of profit from discontinued operations	1	1	–
Share of other comprehensive income/loss	22	–6	>100.0
Pro-rata share of total comprehensive income/loss	40	16	>100.0

Interests in unconsolidated structured entities

Structured entities are entities that have been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the entity. The Cooperative Financial Network mainly distinguishes between the following types of interests in unconsolidated structured entities, based on their design and the related risks; these entities largely concern companies of the DZ BANK Group:
- Interests in investment funds issued by the Cooperative Financial Network,
- Interests in investment funds not issued by the Cooperative Financial Network,
- Interests in securitization vehicles,
- Interests in asset-leasing vehicles

Interests in investment funds issued by the Cooperative Financial Network
The interests in the investment funds issued by the Cooperative Financial Network largely comprise investment funds issued by entities in the Union Investment Group in accordance with the contractual form model without voting rights and, to a lesser extent, those that are structured as a company with a separate legal personality. Furthermore, the DVB Bank Group makes subordinated loans available to fully consolidated funds for the purpose of transport finance. In turn, these funds make subordinated loans or direct equity investments available to unconsolidated entities.

The maximum exposure of the investment funds issued and managed by the DZ BANK Group is determined as a gross value, excluding deduction of available collateral, and amounts to €10,331 million as at the reporting date (2014: €11,509 million). These investment fund assets resulted in losses of €15 million (2014: losses of €5 million) as well as income of €1,636 million (2014: €1,445 million).

Interests in investment funds not issued by the Cooperative Financial Network
The interests in the investment funds not issued by the Cooperative Financial Network above all comprise investment funds managed by entities in the Union Investment Group within the scope of their own decision-making powers that have been issued by entities outside the Cooperative Financial Network and parts of such investment funds. Their total volume amounted to €27,269 million (2014: €24,289 million). The DZ BANK Group also extends loans to investment funds in order to generate interest income. In addition, there are investment funds issued by entities outside the Cooperative Financial Network in connection with unit-linked life insurance of the R+V Group (R+V) amounting to €7,351 million (2014: €2,088 million) that, however, do not result in a maximum exposure.

The maximum exposure arising from the investment funds not issued by the DZ BANK Group is determined as a gross value, excluding deduction of available collateral, and amounts to €2,095 million as at the reporting date (2014: €1,816 million). Income generated from these investment fund assets in the financial year 2015 amounted to €108 million (2014: €108 million).

Interests in securitization vehicles
The interests in securitization vehicles are interests in vehicles where the DZ BANK Group’s involvement goes beyond that of an investor.

The material interests in securitization vehicles comprise the two multi-seller ABCP programs: CORAL and AUTOBAHN. DZ BANK acts as sponsor and program agent for both programs. It is also the program administrator for AUTOBAHN.

The maximum exposure of the interests in securitization vehicles in the DZ BANK Group is determined as a gross value, excluding deduction of available collateral, and amounts to €3,459 million as at the reporting date (2014: €3,283 million). Income generated from these interests in the financial year 2015 amounted to €84 million (2014: €85 million).

Interests in asset-leasing vehicles
The interests in asset-leasing vehicles comprise shares in limited partnerships and voting rights, other than the shares in limited partnerships, in partnerships established by VR LEASING for the purpose of real estate leasing (asset-leasing vehicles), in which the asset, and the funding occasionally provided by the DZ BANK Group, are placed.

The actual maximum exposure of the interests in asset-leasing vehicles in the DZ BANK Group is determined as a gross value, excluding deduction of available collateral, and amounts to €1 million as at the reporting date. Interest income and current income and expense generated from these interests in the financial year 2015 amounted to €5 million (2014: €3 million).

C Income statement disclosures

1. Information on operating segments

Financial year 2015 € million	Bank	Retail	Real Estate Finance	Insurance	Other/ Consolidation	Total
Net interest income	2,017	17,260	1,593	–	–849	20,021
Allowances for losses on loans and advances	–94	–7	27	–	–	–74
Net fee and commission income	586	5,911	–193	–	–506	5,798
Gains and losses on trading activities	458	189	–19	–	–21	607
Gains and losses on investments	110	–611	–53	–	–7	–561
Other gains and losses on valuation of financial instruments	7	–6	364	–	–2	363
Premiums earned	–	–	–	14,418	–	14,418
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	3,132	–119	3,013
Insurance benefit payments	–	–	–	–14,664	–	–14,664
Insurance business operating expenses	–	–	–	–2,287	513	–1,774
Administrative expenses	–1,830	–15,119	–700	–	415	–17,234
Other net operating expense/income	–98	–68	31	26	–17	–126
Profit/loss before taxes	**1,156**	**7,549**	**1,050**	**625**	**–593**	**9,787**
Cost/income ratio (percent)	59.4	66.7	40.6	–	–	63.6

Financial year 2014 € million	Bank	Retail	Real Estate Finance	Insurance	Other/ Consolidation	Total
Net interest income	1,917	17,277	1,552	–	–699	20,047
Allowances for losses on loans and advances	–147	–174	9	–	13	–299
Net fee and commission income	576	5,542	–146	–	–505	5,467
Gains and losses on trading activities	570	210	–18	–	–10	752
Gains and losses on investments	61	54	8	–	25	148
Other gains and losses on valuation of financial instruments	–39	12	454	–	8	435
Premiums earned	–	–	–	13,927	–	13,927
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	4,481	–93	4,388
Insurance benefit payments	–	–	–	–15,264	–	–15,264
Insurance business operating expenses	–	–	–	–2,284	514	–1,770
Administrative expenses	–1,675	–14,880	–735	–	395	–16,895
Other net operating expense/income	–167	–196	57	–4	29	–281
Profit/loss before taxes	**1,096**	**7,845**	**1,181**	**856**	**–323**	**10,655**
Cost/income ratio (percent)	57.4	65.0	38.5	–	–	60.7

Definition of operating segments
The Volksbanken Raiffeisenbanken Cooperative Financial Network is founded on the underlying principle of decentralization. It is based on the local primary banks, whose business activities are supported by the two central institutions – DZ BANK and WGZ BANK – and by specialized service providers within the cooperative sector. These specialized service providers are integrated into the central institutions. The main benefit derived by the primary banks from their collaboration with these specialized services providers and the central institutions is that they can offer a full range of financial products and services.

The Bank operating segment combines the activities of the Cooperative Financial Network in the corporate customers, institutional customers and capital markets businesses. The operating segment focuses on corporate customers. It essentially comprises DZ BANK, WGZ BANK, the VR LEASING Group, the DVB Bank Group, DZ BANK Ireland plc, and WGZ BANK Ireland plc.

The Retail operating segment covers private banking and activities relating to asset management. The segment focuses on retail clients. It mainly includes primary banks as well as the DZ PRIVATBANK, TeamBank AG Nürnberg (TeamBank) and Union Investment Group.

The Real Estate Finance operating segment encompasses the home savings and loan operations, mortgage banking, and real estate business. The entities allocated to this operating segment include Bausparkasse Schwäbisch Hall Group (BSH), Deutsche Genossenschafts-Hypothekenbank AG, WL BANK AG Westfälische Landschaft Bodenkreditbank, and MHB.

Insurance operations are reported under the Insurance operating segment. This operating segment consists solely of R+V.

Other/Consolidation contains the BVR protection scheme (BVR-SE) as well as BVR Institutssicherung GmbH (BVR-ISG), whose task is to avert impending or existing financial difficulties faced by member institutions by taking preventive action or implementing restructuring measures. This operating segment also includes intersegment consolidation items.

Presentation of the disclosures on operating segments
The information on operating segments presents the interest income generated by the operating segments and the associated interest expenses on a netted basis as net interest income.

Intersegment consolidation
The adjustments to the figure for net interest income resulted largely from the consolidation of dividends paid within the Cooperative Financial Network.

The figure under Other/Consolidation for net fee and commission income relates specifically to the fee and commission business transacted between the primary banks, TeamBank, BSH, and R+V.

The figure under Other/Consolidation for administrative expenses includes the contributions paid to BVR-SE and BVR-ISG by member institutions of the Cooperative Financial Network.

The remaining adjustments are largely attributable to the consolidation of income and expenses.

2. Net interest income

	2015 € million	2014 € million	Change (percent)
Interest income and current income and expense	**28,792**	**30,657**	**−6.1**
Interest income from	***27,396***	***29,307***	***−6.5***
Lending and money market business	24,307	25,709	−5.5
of which building society operations	1,031	1,008	2.3
Finance leases	184	232	−20.7
Fixed-income securities	3,646	4,121	−11.5
Other assets	−538	−523	2.9
Financial assets with a negative effective interest rate	−19	–	–
Current income from	***1,267***	***1,224***	***3.5***
Shares and other variable-yield securities	1,023	1,144	−10.6
Investments in subsidiaries and equity investments	264	89	>100.0
Operating leases	−20	−9	>100.0
Income/loss from using the equity method for	***48***	***46***	***4.3***
Investment in joint ventures	41	36	13.9
Investments in associates	7	10	−30.0
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***81***	***80***	***1.3***
Interest expense	**−8,771**	**−10,610**	**−17.3**
Interest expense on	***−8,506***	***−9,964***	***−14.6***
Deposits from banks and customers	−6,424	−7,882	−18.5
of which: building society operations	−820	−773	6.1
Debt certificates including bonds	−1,887	−1,825	3.4
Subordinated capital	−241	−297	−18.9
Other liabilities	19	40	−52.5
Financial liabilities with a positive effective interest rate	27	–	–
Other interest expense	***−265***	***−646***	***−59.0***
Total	**20,021**	**20,047**	**−0.1**

The interest income from other assets and the interest expense on other liabilities result from gains and losses on the amortization of fair value changes of the hedged items in portfolio hedges of interest-rate risk. Owing to the current low level of interest rates in the money markets and capital markets, there may be a negative effective interest rate for financial assets and a positive effective interest rate for financial liabilities. In 2014, these effects were shown in net fee and commission income.

3. Allowances for losses on loans and advances

	2015 € million	2014 € million	Change (percent)
Additions	–2,143	–2,467	–13.1
Reversals	1,906	2,092	–8.9
Directly recognized impairment losses	–167	–187	–10.7
Recoveries from loans and advances previously impaired	318	296	7.4
Changes in the provisions for loans and advances as well as in the liabilities from financial guarantee contracts	12	–27	>100.0
Impairment losses on loans and advances available for sale	–	–6	100.0
Total	**–74**	**–299**	**–75.3**

4. Net fee and commission income

	2015 € million	2014 € million	Change (percent)
Fee and commission income	**7,292**	**6,793**	**7.3**
Securities business	3,278	2,912	12.6
Asset management	346	283	22.3
Payments processing including card processing	2,398	2,345	2.3
Lending business and trust activities	262	264	–0.8
Financial guarantee contracts and loan commitments	181	182	–0.5
Foreign commercial business	134	112	19.6
Building society operations	5	29	–82.8
Other	688	663	3.8
Income from negative effective interest rates for financial liabilities	–	3	–100.0
Fee and commission expense	**–1,494**	**–1,326**	**12.7**
Securities business	–491	–423	16.1
Asset management	–116	–89	30.3
Payments processing including card processing	–284	–286	–0.7
Lending business and trust activities	–165	–117	41.0
Financial guarantee contracts and loan commitments	51	–11	>100.0
International business	–28	–22	27.3
Building society operations	–103	–129	–20.2
Other	–358	–248	44.4
Expenses from negative effective interest rates for financial assets	–	–1	100.0
Total	**5,798**	**5,467**	**6.1**

The income from negative effective interest rates for financial liabilities and the expenses from negative effective interest rates for financial assets were presented in net interest income in 2015.

EDITORIAL 5
MANAGEMENT REPORT 2015 7
CONSOLIDATED FINANCIAL STATEMENTS 2015 49
REVIEW REPORT (TRANSLATION) 109
INCOME STATEMENT 50
STATEMENT OF COMPREHENSIVE INCOME 51
BALANCE SHEET 52
STATEMENT OF CHANGES IN EQUITY 54
STATEMENT OF CASH FLOWS 56
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 59

5. Gains and losses on trading activities

	2015 € million	2014 € million	Change (percent)
Gains and losses on trading in financial instruments	287	637	−54.9
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	135	−74	>100.0
Gains and losses on commodities trading	185	189	−2.1
Total	**607**	**752**	**−19.3**

6. Gains and losses on investments

	2015 € million	2014 € million	Change (percent)
Gains and losses on securities	−636	83	>100.0
Gains and losses on investments in subsidiaries and equity investments	75	65	15.4
Total	**−561**	**148**	**>100.0**

7. Other gains and losses on valuation of financial instruments

	2015 € million	2014 € million	Change (percent)
Gains and losses from hedge accounting	**31**	**−27**	**>100,0**
Fair value hedges	***31***	***−27***	***>100,0***
Gains and losses on hedging instruments	1.895	−3.776	>100,0
Gains and losses on hedged items	−1.864	3.749	>100,0
Gains and losses on derivatives held for purposes other than trading	**−86**	**2**	**>100,0**
Gains and losses on financial instruments designated as at fair value through profit or loss	**418**	**460**	**−9,1**
Total	**363**	**435**	**−16,6**

8. Premiums earned

	2015 € million	2014 € million	Change (percent)
Net premiums written	**14,442**	**13,957**	**3.5**
Gross premiums written	14,536	14,040	3.5
Reinsurance premiums ceded	−94	−83	13.3
Change in provision for unearned premiums	**−24**	**−30**	**−20.0**
Gross premiums	−26	−29	−10.3
Reinsurers' share	2	−1	>100.0
Total	**14,418**	**13,927**	**3.5**

9. Gains and losses on investments held by insurance companies and other insurance company gains and losses

	2015 € million	2014 € million	Change (percent)
Interest income and current income	2,575	2,587	−0.5
Administrative expenses	−115	−122	−5.7
Gains and losses on valuation and disposals	478	1,809	−73.6
Other gains and losses of insurance companies	75	114	−34.2
Total	**3,013**	**4,388**	**−31.3**

10. Insurance benefit payments

	2015 € million	2014 € million	Change (percent)
Expenses for claims	**−9,850**	**−9,487**	**3.8**
Gross expenses for claims	−9,890	−9,524	3.8
Reinsurers' share	40	37	8.1
Changes in benefit reserve, provisions for premium refunds and in other insurance liabilities	**−4,814**	**−5,777**	**−16.7**
Changes in gross liabilities	−4,808	−5,765	−16.6
Reinsurers' share	−6	−12	−50.0
Total	**−14,664**	**−15,264**	**−3.9**

Claims rate trend for direct non-life insurance business including claim settlement costs

Gross claims provisions in direct business and payments made against the original provisions:

€ million	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
At the end of the year	3,856	3,634	3,901	3,345	3,341	3,324	2,953	2,704	2,672	2,509	2,396
1 year later	–	3,523	3,847	3,336	3,359	3,135	2,901	2,623	2,601	2,414	2,253
2 years later	–	–	3,769	3,247	3,279	3,160	2,763	2,527	2,531	2,306	2,170
3 years later	–	–	–	3,220	3,254	3,139	2,756	2,533	2,472	2,268	2,127
4 years later	–	–	–	–	3,241	3,122	2,756	2,505	2,487	2,230	2,110
5 years later	–	–	–	–	–	3,139	2,768	2,513	2,478	2,245	2,088
6 years later	–	–	–	–	–	–	2,710	2,469	2,434	2,214	2,085
7 years later	–	–	–	–	–	–	–	2,466	2,422	2,210	2,056
8 years later	–	–	–	–	–	–	–	–	2,426	2,205	2,048
9 years later	–	–	–	–	–	–	–	–	–	2,207	2,042
10 years later	–	–	–	–	–	–	–	–	–	–	2,048
Settlements	**–**	**111**	**132**	**125**	**100**	**185**	**243**	**238**	**246**	**302**	**348**

The figures for the Condor non-life insurance companies are included from 2009.

Net claims provisions in direct business and payments made against the original provisions:

€ million	2015	2014	2013	2012	2011	2010
At the end of the year	3,827	3,574	3,669	3,313	3,298	3,254
1 year later	–	3,460	3,613	3,300	3,317	3,056
2 years later	–	–	3,533	3,211	3,236	3,077
3 years later	–	–	–	3,180	3,208	3,057
4 years later	–	–	–	–	3,194	2,939
5 years later	–	–	–	–	–	3,049
Settlements	**–**	**114**	**136**	**133**	**104**	**205**

Claims rate trend for inward reinsurance business

Gross claims provisions in inward reinsurance business and payments made against the original provisions:

€ million	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Gross provisions for claims outstanding	**2,433**	**1,976**	**1,710**	**1,506**	**1,409**	**1,190**	**892**	**712**	**596**	**524**	**504**
Cumulative payments for the year concerned and prior years											
1 year later	–	464	481	385	463	437	282	232	127	138	134
2 years later	–	–	685	630	640	632	399	347	203	175	179
3 years later	–	–	–	764	345	739	468	410	250	212	208
4 years later	–	–	–	–	891	856	516	447	282	240	224
5 years later	–	–	–	–	–	922	588	475	307	252	246
6 years later	–	–	–	–	–	–	626	528	324	266	252
7 years later	–	–	–	–	–	–	–	555	366	283	265
8 years later	–	–	–	–	–	–	–	–	384	307	276
9 years later	–	–	–	–	–	–	–	–	–	321	295
10 years later	–	–	–	–	–	–	–	–	–	–	305
Gross provisions for claims outstanding and payments made against the original provision											
At the end of the year	2,433	1,976	1,710	1,506	1,409	1,190	892	712	596	524	504
1 year later	–	2,157	1,840	1,593	1,536	1,401	1,026	779	583	541	497
2 years later	–	–	1,859	1,569	1,472	1,343	872	765	529	480	461
3 years later	–	–	–	1,628	1,014	1,338	826	696	518	432	420
4 years later	–	–	–	–	1,528	1,360	837	680	479	423	382
5 years later	–	–	–	–	–	1,396	858	691	470	396	381
6 years later	–	–	–	–	–	–	870	709	480	391	362
7 years later	–	–	–	–	–	–	–	719	498	399	360
8 years later	–	–	–	–	–	–	–	–	504	403	367
9 years later	–	–	–	–	–	–	–	–	–	407	368
10 years later	–	–	–	–	–	–	–	–	–	–	372
Settlements	**–**	**–181**	**–149**	**–122**	**–119**	**–206**	**22**	**–7**	**92**	**117**	**132**

The figures for the Condor non-life insurance companies are included from 2009.

Net claims provisions in inward reinsurance business and payments made against the original provisions:

€ million	2015	2014	2013	2012	2011	2010
Net provisions for claims outstanding	**2,428**	**1,970**	**1,695**	**1,491**	**1,389**	**1,164**
Cumulative payments for the year concerned and prior years						
1 year later	–	464	473	383	461	432
2 years later	–	–	677	620	636	625
3 years later	–	–	–	754	333	729
4 years later	–	–	–	–	878	839
5 years later	–	–	–	–	–	904
Net provisions for claims outstanding and payments made against the original provision						
At the end of the year	2,428	1,970	1,695	1,491	1,389	1,164
1 year later	–	2,152	1,827	1,576	1,519	1,377
2 years later	–	–	1,845	1,554	1,454	1,321
3 years later	–	–	–	1,612	997	1,314
4 years later	–	–	–	–	1,510	1,337
5 years later	–	–	–	–	–	1,372
Settlements	**–**	**–182**	**–150**	**–121**	**–121**	**–208**

11. Insurance business operating expenses

	2015 € million	2014 € million	Change (percent)
Gross expenses	−1,794	−1,786	0.4
Reinsurers' share	20	16	25.0
Total	**−1,774**	**−1,770**	**0.2**

12. Administrative expenses

	2015 € million	2014 € million	Change (percent)
Staff expenses	−10,160	−10,059	1.0
General and administrative expenses	−6,141	−5,904	4.0
Depreciation/amortization and impairment losses	−933	−932	0.1
Total	**−17,234**	**−16,895**	**2.0**

13. Other net operating income/expense

	2015 € million	2014 € million	Change (percent)
Gains and losses on non-current assets classified as held for sale and disposal groups	39	1	>100.0
Other operating income	868	1,009	−14.0
Other operating expenses	−1,033	−1,291	−20.0
Total	**−126**	**−281**	**−55.2**

14. Income taxes

	2015 € million	2014 € million	Change (percent)
Current tax expense	–2,680	–2,508	6.9
Expense on deferred taxes	–140	–340	–58.8
Total	**–2,820**	**–2,848**	**–1.0**

Current taxes in relation to the German limited companies are calculated using an effective corporation tax rate of 15.825 percent based on a corporation tax rate of 15 percent plus the solidarity surcharge. The effective rate for trade tax is 14.0 percent based on an average trade tax multiplier of 400 percent. The tax rates correspond to those for the previous year.

Deferred taxes must be calculated using tax rates expected to apply when the tax asset or liability arises. The tax rates used are therefore those that are valid or have been announced for the periods in question as at the balance sheet date.

	2015 € million	2014 € million	Change (percent)
Profit before taxes	**9,787**	**10,655**	**–8.1**
Notional rate of income tax of the Cooperative Financial Network (percent)	29.825	29.825	
Income taxes based on notional rate of income tax	**–2,919**	**–3,178**	**–8.1**
Tax effects	**99**	**330**	**–70.0**
Tax effects of tax-exempt income and non-tax deductible expenses	233	179	30.2
Tax effects of different tax types, different trade tax multipliers, and changes in tax rates	5	-1	>100.0
Tax effects of different tax rates in other countries	15	8	87.5
Current and deferred taxes relating to prior reporting periods	56	166	–66.3
Reversal of valuation adjustments of deferred tax assets	17	43	–60.5
Other tax effects	–227	–65	>100.0
Income taxes	**–2,820**	**–2,848**	**–1.0**

The table shows a reconciliation from notional income taxes to recognized income taxes based on application of the current tax law in Germany.

D Balance sheet disclosures

15. Cash and cash equivalents

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Cash on hand	6,364	6,409	–0.7
Balances with central banks and other government institutions	14,171	9,247	53.2
of which: with Deutsche Bundesbank	10,921	6,941	57.3
Public-sector debt instruments and bills of exchange eligible for refinancing by central banks	1	–	–
Total	**20,536**	**15,656**	**31.2**

16. Loans and advances to banks and customers

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Loans and advances to banks	**32,988**	**38,293**	**–13.9**
Repayable on demand	***17,534***	***17,331***	***1.2***
Other loans and advances	***15,454***	***20,962***	***–26.3***
Mortgage loans and other loans secured by mortgages on real estate	19	74	–74.3
Local authority loans	8,577	10,557	–18.8
Finance leases	100	–	–
Other loans and advances	6,758	10,331	–34.6
Loans and advances to customers	**700,608**	**670,683**	**4.5**
Mortgage loans and other loans secured by mortgages on real estate	272,199	256,703	6.0
Local authority loans	38,091	41,383	–8.0
Home savings loans advanced by building society	33,659	29,960	12.3
of which: from allotment (home savings loans)	3,651	4,437	–17.7
for advance and interim financing	27,905	23,377	19.4
other building loans	2,103	2,146	–2.0
Finance leases	3,575	4,118	–13.2
Other loans and advances	353,084	338,519	4.3

EDITORIAL 5
MANAGEMENT REPORT 2015 7
CONSOLIDATED FINANCIAL STATEMENTS 2015 49
REVIEW REPORT (TRANSLATION) 109
INCOME STATEMENT 50
STATEMENT OF COMPREHENSIVE INCOME 51
BALANCE SHEET 52
STATEMENT OF CHANGES IN EQUITY 54
STATEMENT OF CASH FLOWS 56
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 59

17. Allowances for losses on loans and advances

	Specific loan loss allowances € million	Portfolio loan loss allowances € million	Total € million
Balance as at Jan. 1, 2014	**8,103**	**1,181**	**9,284**
Additions	2,271	196	2,467
Utilizations	–1,132	–	–1,132
Reversals	–1,824	–305	–2,129
Other changes	36	–7	29
Balance as at Dec. 31, 2014	**7,454**	**1,065**	**8,519**
Additions	2,027	116	2,143
Utilizations	–984	–	–984
Reversals	–1,758	–197	–1,955
Changes in the scope of consolidation	–14	–	–14
Other changes	–86	8	–78
Balance as at Dec. 31, 2015	**6,639**	**992**	**7,631**

18. Derivatives used for hedging (positive and negative fair values)

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Derivatives used for hedging (positive fair values)	**1,050**	**1,099**	**–4.5**
for fair value hedges	1,049	1,095	–4.2
for cash flow hedges	1	4	–75.0
Derivatives used for hedging (negative fair values)	**9,453**	**10,423**	**–9.3**
for fair value hedges	9,442	10,395	–9.2
for cash flow hedges	10	27	–63.0
for hedges of net investments in foreign operations	1	1	–

19. Financial assets held for trading

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Derivatives (positive fair values)	**24,665**	**31,884**	**–22.6**
Interest-linked contracts	22,221	28,301	–21.5
Currency-linked contracts	1,253	2,104	–40.4
Share- and index-linked contracts	320	426	–24.9
Credit derivatives	287	400	–28.3
Other contracts	584	653	–10.6
Securities	**14,424**	**17,182**	**–16.1**
Bonds and other fixed-income securities	13,387	16,433	–18.5
Shares and other variable-yield securities	1,037	749	38.5
Loans and advances	**14,117**	**11,744**	**20.2**
Inventories and trade receivables	**364**	**371**	**–1.9**
Total	**53,570**	**61,181**	**–12.4**

20. Investments

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Securities	**246,591**	**245,949**	**0.3**
Bonds and other fixed-income securities	193,932	197,228	–1.7
Shares and other variable-yield securities	52,659	48,721	8.1
Investments in subsidiaries	**1,315**	**1,106**	**18.9**
Equity investments	**2,054**	**2,164**	**–5.1**
Investments in joint ventures	548	597	–8.2
Investments in associates	413	391	5.6
Other shareholdings	1,093	1,176	–7.1
Total	**249,960**	**249,219**	**0.3**

21. Investments held by insurance companies

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Investment property	2,251	1,924	17.0
Investments in subsidiaries, joint ventures and in associates	527	504	4.6
Mortgage loans	8,732	8,047	8.5
Promissory notes and loans	8,001	8,043	–0.5
Registered bonds	9,438	9,376	0.7
Other loans	837	898	–6.8
Variable-yield securities	7,288	6,248	16.6
Fixed-income securities	36,598	34,457	6.2
Derivatives (positive fair values)	233	443	–47.4
Deposits with ceding insurers	163	172	–5.2
Assets related to unit-linked contracts	8,698	7,433	17.0
Total	**82,766**	**77,545**	**6.7**

22. Property, plant and equipment, and investment property

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Land and buildings	6,839	6,752	1.3
Office furniture and equipment	1,408	1,451	–3.0
Assets subject to operating leases	460	1,200	–61.7
Investment property	264	93	>100.0
Other fixed assets	2,197	1,933	13.7
Total	**11,168**	**11,429**	**–2.3**

23. Income tax assets and liabilities

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Income tax assets	**3,772**	**4,484**	**−15.9**
Current income tax assets	1,620	1,973	−17.9
Deferred tax assets	2,152	2,511	−14.3
Income tax liabilities	**1,263**	**1,198**	**5.4**
Current income tax liabilities	899	816	10.2
Deferred tax liabilities	364	382	−4.7

	Deferred tax assets Dec. 31, 2015 € million	Deferred tax assets Dec. 31, 2014 € million	Deferred tax liabilities Dec. 31, 2015 € million	Deferred tax liabilities Dec. 31, 2014 € million
Tax loss carryforwards	35	89		
Loans and advances to banks and customers (net)	91	35	520	719
Financial assets and liabilities held for trading, derivatives used for hedging (positive and negative fair values)	1,199	1,518	28	37
Investments	360	383	1,080	1,360
Investments held by insurance companies	26	13	449	589
Deposits from banks and customers	796	1,079	160	83
Debt certificates including bonds	111	157	14	22
Provisions	1,737	1,966	43	37
Insurance liabilities	118	129	287	246
Intangible assets	–	1	29	29
Other balance sheet items	132	126	207	245
Total (gross)	**4,605**	**5,496**	**2,817**	**3,367**
Netting of deferred tax assets and deferred tax liabilities	−2,453	−2,985	−2,453	−2,985
Total (net)	**2,152**	**2,511**	**364**	**382**

Deferred tax assets and liabilities are recognized for temporary differences in respect of the balance sheet items shown in the table as well as for tax loss carryforwards.

24. Other assets

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Other assets held by insurance companies	3,182	3,790	–16.0
Goodwill	59	121	–51.2
Other intangible assets	350	272	28.7
Prepaid expenses	202	211	–4.3
Other receivables	2,803	2,791	0.4
Non-current assets and disposal groups classified as held for sale	198	33	>100.0
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	6,512	7,008	–7.1
Residual other assets	426	464	–8.2
Total	**13,732**	**14,690**	**–6.5**

The breakdown of other assets held by insurance companies is as follows:

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Intangible assets	**155**	**163**	**–4.9**
Reinsurers' share of insurance liabilities	**208**	**254**	**–18.1**
Provision for unearned premiums	8	6	33.3
Benefit reserves	65	71	–8.5
Provisions for claims outstanding	135	177	–23.7
Receivables	**661**	**876**	**–24.5**
Receivables arising out of direct insurance operations	419	529	–20.8
Receivables arising out of reinsurance operations	182	291	–37.5
Other receivables	60	56	7.1
Credit balances with banks, checks and cash on hand	**241**	**337**	**–28.5**
Residual other assets	**1,917**	**2,160**	**–11.3**
Property, plant and equipment	437	456	–4.2
Prepaid expenses	34	31	9.7
Remaining assets held by insurance companies	1,446	1,673	–13.6
Total	**3,182**	**3,790**	**–16.0**

25. Deposits from banks and customers

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Deposits from banks	**99,505**	**103,526**	**–3.9**
Repayable on demand	7,223	10,349	–30.2
With agreed maturity or notice period	92,282	93,177	–1.0
Deposits from customers	**739,218**	**713,485**	**3.6**
Savings deposits and home savings deposits	***238,345***	***237,205***	***0.5***
Savings deposits with agreed notice period of three months	172,203	169,869	1.4
Savings deposits with agreed notice period of more than three months	15,216	18,993	–19.9
Home savings deposits	50,926	48,343	5.3
Other deposits from customers	***500,873***	***476,280***	***5.2***
Repayable on demand	379,985	339,360	12.0
With agreed maturity or notice period	120,888	136,920	–11.7

26. Debt certificates issued including bonds

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Bonds issued	**48,489**	**51,803**	**–6.4**
Mortgage Pfandbriefe	26,385	22,048	19.7
Public-sector Pfandbriefe	8,383	11,023	–23.9
Other bonds	13,721	18,732	–26.8
Other debt certificates issued	**21,759**	**15,178**	**43.4**
Total	**70,248**	**66,981**	**4.9**

27. Financial liabilities held for trading

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Derivatives (negative fair values)	**27,822**	**32,190**	**–13.6**
Interest-linked contracts	22,328	27,332	–18.3
Currency-linked contracts	1,259	1,733	–27.4
Share- and index-linked contracts	799	762	4.9
Credit derivatives	166	210	–21.0
Other contracts	3,270	2,153	51.9
Short positions	**849**	**883**	**–3.9**
Bonds issued and other debt certificates	**10,815**	**9,817**	**10.2**
Liabilities	**5,867**	**9,827**	**–40.3**
Liabilities from commodities transactions and commodity lending	**44**	**43**	**2.3**
Total	**45,397**	**52,760**	**–14.0**

INCOME STATEMENT 50
STATEMENT OF COMPREHENSIVE INCOME 51
BALANCE SHEET 52
STATEMENT OF CHANGES IN EQUITY 54
STATEMENT OF CASH FLOWS 56
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 59

28. Provisions

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Provisions for defined benefit plans	8,186	9,088	−9.9
Provisions for loans and advances	418	432	−3.2
Provisions relating to building society operations	653	580	12.6
Residual provisions	3,306	3,561	−7.2
Total	**12,563**	**13,661**	**−8.0**

Funding status of defined benefit obligations	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Present value of defined benefit obligations not funded by plan assets	7,684	8,558	−10.2
Present value of defined benefit obligations funded by plan assets	1,703	1,745	−2.4
Present value of defined benefit obligations	**9,387**	**10,303**	**−8.9**
less fair value of plan assets	−1,201	−1,215	−1.2
Defined benefit obligations (net)	**8,186**	**9,088**	**−9.9**
Provisions for defined benefit plans	**8,186**	**9,088**	**−9.9**

Changes in the present value of the defined benefit obligations	2015 € million	2014 € million	Change (percent)
Present value of defined benefit obligations as at Jan. 1	**10,303**	**8,159**	**26.3**
Current service cost	149	113	31.9
Interest expense	206	261	−21.1
Pension benefits paid including plan settlements	−374	−345	8.4
Past service cost	−9	–	–
Actuarial gains (−)/losses (+)	−911	2,100	>100.0
Other changes	23	15	53.3
Present value of defined benefit obligations as at Dec. 31	**9,387**	**10,303**	**−8.9**

Changes in plan assets	2015 € million	2014 € million	Change (percent)
Fair value of plan assets as at Jan. 1	**1,215**	**1,145**	**6.1**
Interest income	24	34	−29.4
Contributions to plan assets	26	22	18.2
Pension benefits paid	−56	−47	19.1
Return on plan assets (excluding interest income)	−21	52	>100.0
Other changes	13	9	44.4
Fair value of plan assets as at Dec. 31	**1,201**	**1,215**	**−1.2**

Actuarial assumptions used for defined benefit obligations	Dec. 31, 2015 (percent)	Dec. 31, 2014 (percent)
Weighted discount rate	2.24	1.99
Weighted salary increase	1.89	2.05
Weighted pension increase	1.76	1.90

29. Insurance liabilities

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Provision for unearned premiums	1,104	1,071	3.1
Benefit reserve	52,634	49,724	5.9
Provision for claims outstanding	9,257	8,352	10.8
Provision for premium refunds	7,923	8,568	–7.5
Other insurance liabilities	53	40	32.5
Reserve for unit-linked insurance contracts	7,958	6,915	15.1
Total	**78,929**	**74,670**	**5.7**

30. Other liabilities

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Other liabilities of insurance companies	4,255	4,203	1.2
Other liabilities and accruals	2,256	2,382	–5.3
Liabilities included in disposal groups	7	–	–
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	479	567	–15.5
Residual other liabilities	572	667	–14.2
Total	**7,569**	**7,819**	**–3.2**

The breakdown of other liabilities held by insurance companies is as follows:

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Residual provisions	**327**	**366**	**–10.7**
Provisions for employee benefits	297	324	–8.3
Provisions for share-based payment transactions	1	1	–
Other provisions	29	41	–29.3
Payables and residual other liabilities	**3,928**	**3,837**	**2.4**
Subordinated capital	73	38	92.1
Deposits received from reinsurers	78	90	–13.3
Payables arising out of direct insurance operations	1,574	1,687	–6.7
Payables arising out of reinsurance operations	230	268	–14.2
Debt certificates including bonds	29	28	3.6
Deposits from banks	524	447	17.2
Derivatives (negative fair values)	70	64	9.4
Liabilities from capitalization transactions	775	595	30.3
Other payables	198	184	7.6
Residual other liabilities	377	436	–13.5
Total	**4,255**	**4,203**	**1.2**

31. Subordinated capital

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Subordinated liabilities	4,851	4,518	7.4
Profit-sharing rights	494	196	>100.0
Share capital repayable on demand	22	22	–
Total	**5,367**	**4,736**	**13.3**

E Financial instruments disclosures

32. Fair value of financial instruments

	Carrying amount Dec. 31, 2015 € million	Fair value Dec. 31, 2015 € million	Carrying amount Dec. 31, 2014 € million	Fair value Dec. 31, 2014 € million
Assets				
Cash and cash equivalents	14,172	14,172	9,247	9,247
Loans and advances to banks[1]	32,935	34,931	38,185	39,572
Loans and advances to customers[1]	693,030	699,519	662,272	669,424
Derivatives used for hedging (positive fair values)	1,050	1,050	1,099	1,099
Financial assets held for trading[2]	53,206	53,206	60,810	60,810
Investments[3]	248,999	249,204	248,231	248,496
Investments held by insurance companies[2,3]	71,614	72,688	67,977	69,311
Other assets[2]	9,645	9,074	10,192	9,342
Liabilities				
Deposits from banks	99,505	101,724	103,526	105,070
Deposits from customers	739,218	743,352	713,485	718,568
Debt certificates including bonds	70,248	70,955	66,981	68,232
Derivatives used for hedging (negative fair values)	9,453	9,453	10,423	10,423
Financial liabilities held for trading[2]	45,353	45,353	52,717	52,717
Other liabilities[2]	2,882	2,408	3,122	2,561
Subordinated capital	5,367	5,633	4,736	5,035

1 Carrying amounts less loan loss allowances
2 Fair values and carrying amounts are only disclosed for financial instruments
3 Excluding investment in joint ventures and in associates

The table shows the disclosures on the fair value of financial instruments included in the published annual reports of the DZ BANK Group and the WGZ BANK Group. For all other companies included in the consolidated financial statements, the fair value was deemed to be equivalent to the carrying amount.

33. Maturity analysis

Balance as at Dec. 31, 2015	≤ 3 months € million	>3 months–1 year € million	>1 year € million	Indefinite € million
Loans and advances to banks	14,574	3,296	20,617	413
Loans and advances to customers	39,645	56,021	602,025	19,987
Deposits from banks	30,207	8,867	62,828	349
Deposits from customers	589,240	27,995	76,732	51,192
Debt certificates including bonds	15,462	11,187	45,960	–
Balance as at Dec. 31, 2014				
Loans and advances to banks	15,609	4,416	24,356	564
Loans and advances to customers	38,319	55,690	574,018	21,067
Deposits from banks	30,541	10,056	65,992	448
Deposits from customers	548,880	32,532	84,651	53,315
Debt certificates issued including bonds	12,103	12,099	45,285	–

The contractual maturities shown in the table do not match the estimated actual cash inflows and cash outflows.

34. Exposures in countries particularly affected by the sovereign debt crisis

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Portugal	827	725	14.1
Italy	7,795	8,182	–4.7
Ireland	747	563	32.7
Greece	1	1	–
Spain	4,279	4,451	–3.9
Total	**13,649**	**13,922**	**–2.0**

The table shows the carrying amounts of debt related to national governments and other public authorities particularly affected by the sovereign debt crisis.

Debt held as part of the insurance business is only recognized in the proportion attributable to the shareholders of the Cooperative Financial Network.

F Other disclosures

35. Capital requirements and regulatory indicators

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Total capital	**87,628**	**81,565**	**7.4**
Tier 1 capital	69,174	62,092	11.4
of which: Common Equity Tier 1 capital	68,233	60,838	12.2
Additional Tier 1 capital	941	1,254	−25.0
Tier 2 capital	18,454	19,473	−5.2
Total risk exposure	**555,952**	**541,435**	**2.7**
Common Equity Tier 1 capital ratio (percent)	**12.3**	**11.2**	
Tier 1 capital ratio (percent)	**12.4**	**11.5**	
Total capital ratio (percent)	**15.8**	**15.1**	
Common Equity Tier 1 capital ratio incl. reserves pursuant to Section 340f HGB (for information, percent)[1]	**14.6**	**13.6**	
Tier 1 capital ratio incl. reserves pursuant to Section 340f HGB (for information, percent)[1]	**14.8**	**13.8**	
Leverage ratio (for information, percent)[2]	**6.0**	not determined	
Leverage ratio incl. reserves pursuant to Section 340f HGB (for information, percent)[3]	**6.9**	not determined	

1 The balance of reserves pursuant to Section 340f HGB is based on the financial statements data reported for regulatory purposes before additions and reversals within the scope of the 2015 and 2014 financial statements.
2 Disclosure of the leverage ratio of the bank-specific protection system using the transitional definition for Tier 1 capital.
3 Disclosure of ratio after full introduction of the new CRR provisions (fully loaded), subject to the assumption of full reclassification and inclusion of allowances pursuant to Section 340f HGB as Tier 1 capital from a business point of view.

The disclosures refer to the bank-specific protection system (Cooperative Financial Network) and the relevant reporting date. The disclosures in relation to own funds and capital requirements are based on the results of the extended aggregated calculation in accordance with Art. 49 (3) CRR in conjunction with Art. 113 (7) CRR.

As at December 31, 2015, the leverage ratio of the bank-specific protection system of the Cooperative Financial Network is disclosed for the first time through corresponding application of the requirements set out in Art. 429 CRR. Tier 1 capital was used as the capital measure pursuant to the extended aggregated calculation in accordance with Art. 49 (3) CRR, adjusted by any Tier 1 capital items of the members of the bank-specific protection system held internally within the Cooperative Financial Network. The exposure values were determined by aggregating the individual figures reported for the leverage ratio of all member institutions and adjusted by material items held internally within the Cooperative Financial Network. The underlying report forms as at December 31, 2015 are based on the Commission Implementing Regulation (EU) No. 680/2014, which does not reflect the amendments introduced by the Delegated Regulation (EU) No. 2015/62 dated October 10, 2014.

The primary banks and MHB are included on an individual basis using the respective reports. The central institutions are included using their reports on a consolidated basis.

In accordance with Art. 429 (4) second subparagraph CRR, the reports taken into account for the DZ BANK Group also comprise, as at December 31, 2015, the exposure values from Group companies that were consolidated in financial reporting, but not for regulatory purposes. For reasons of consistency, an adjustment was made for material exposure values that are not attributable to the regulatory scope of consolidation since the corresponding Tier 1 capital of those Group companies are not reflected in the extended aggregated calculation.

36. Financial guarantee contracts and loan commitments

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Financial guarantee contracts	18,024	17,020	5.9
Loan commitments	65,965	59,477	10.9
Total	**83,989**	**76,497**	**9.8**

The amounts shown for financial guarantee contracts and loan commitments are the nominal values of the respective exposure.

37. Trust activities

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Trust assets	**2,692**	**2,169**	**24.1**
of which: trust loans	1,679	1,127	49.0
Trust liabilities	**2,692**	**2,169**	**24.1**
of which: trust loans	1,679	1,127	49.0

38. Asset management by the Union Investment Group

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Fund assets	**230,685**	**205,061**	**12.5**
Other types of asset management	**40,714**	**35,132**	**15.9**
Unit-linked asset management	696	500	39.2
Institutional asset management	10,342	8,401	23.1
Advisory and outsourcing	29,676	26,231	13.1
Accounts managed by third parties	**–10,597**	**–8,136**	**30.2**
Total	**260,802**	**232,057**	**12.4**

As at the balance sheet date, the Union Investment Group (through Union Asset Management Holding) had total assets under management of €260,802 million (December 31, 2014: €232,057 million). The fund assets comprise equity funds, fixed-income funds, money market funds, mixed funds, other securities funds, capital preservation funds, real estate funds, alternative investment funds and hybrid funds issued by Union Investment Group.

In addition, Union Investment Group has assets under management within the scope of institutional asset management, unit-linked asset management, and advisory and outsourcing. The fund volume of funds that have been issued by Union Investment Group but whose portfolio management has been outsourced is shown as a deduction. The definition of assets under management is based on the aggregate statistics from the Federal Association of German Fund Management Companies (BVI), Frankfurt/Main.

39. Leases

Finance leases with the Cooperative Financial Network as lessor

	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Gross investment	**4,025**	**4,628**	**–13.0**
Up to 1 year	1,188	1,336	–11.1
More than 1 year and up to 5 years	2,337	2,655	–12.0
More than 5 years	500	637	–21.5
less unearned finance income	**–397**	**–540**	**–26.5**
Net investment	**3,628**	**4,088**	**–11.3**
less present value of unguaranteed residual values	**–90**	**–94**	**–4.3**
Present value of minimum lease payment receivables	**3,538**	**3,994**	**–11.4**
Up to 1 year	1,038	1,146	–9.4
More than 1 year and up to 5 years	2,071	2,304	–10.1
More than 5 years	429	544	–21.1

As at the balance sheet date, the accumulated allowance for uncollectable minimum lease payments at lessor companies amounted to €41 million (December 31, 2014: €63 million).

The DVB Bank Group and the VR Leasing Group are active as finance lessors in the Cooperative Financial Network. The entities in the DVB Bank Group primarily enter into leases for ships, ship containers, aircraft, and aircraft engines. Entities in the VR Leasing Group mainly enter into equipment leases with their customers.

40. Changes in the contract portfolios held by Bausparkasse Schwäbisch Hall

	Not allocated Number of contracts	Not allocated Home savings sum € million	Allocated Number of contracts	Allocated Home savings sum € million	Total Number of contracts	Total Home savings sum € million
Balance as at Dec. 31, 2014	**7,430,011**	**249,946**	**906,514**	**24,343**	**8,336,525**	**274,289**
Additions in 2015 as a result of						
New contracts (redeemed contracts)[1]	830,965	31,610	–	–	830,965	31,610
Transfers	24,911	689	1,210	30	26,121	719
Allocation waivers and cancellations	9,814	416	–	–	9,814	416
Splitting	223,194	–	111	–	223,305	–
Allocations and acceptance of allocations	–	–	393,333	10,128	393,333	10,128
Other	110,267	3,623	34	2	110,301	3,625
Total	**1,199,151**	**36,338**	**394,688**	**10,160**	**1,593,839**	**46,498**
Disposals in 2015 as a result of						
Allocations and acceptance of allocations	–393,333	–10,128	–	–	–393,333	–10,128
Reductions	–	–859	–	–	–	–859
Termination	–302,177	–7,216	–288,303	–6,964	–590,480	–14,180
Transfers	–24,911	–689	–1,210	–30	–26,121	–719
Pooling[1]	–93,875	–	–3	–	–93,878	–
Expiration	–	–	–174,032	–4,716	–174,032	–4,716
Allocation waivers and cancellations	–	–	–9,814	–416	–9,814	–416
Other	–110,267	–3,623	–34	–2	–110,301	–3,625
Total	**–924,563**	**–22,515**	**–473,396**	**–12,128**	**–1,397,959**	**–34,643**
Net addition/disposal	274,588	13,823	–78,708	–1,968	195,880	11,855
Balance as at Dec. 31, 2015	**7,704,599**	**263,769**	**827,806**	**22,375**	**8,532,405**	**286,144**

1 Including increases

Volume of unredeemed contracts	Number of contracts	Home savings sum € million
Contracts signed prior to Jan. 1, 2015	62,694	2,479
Contracts signed in 2015	267,799	12,147

41. Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2015 € million
Additions	
Amounts carried forward from 2014 (surplus)	
Amounts not yet disbursed	45,215
Additions in 2015	
Savings deposits (including credited residential construction bonuses)	8,928
Repayable amounts (including credited residential construction bonuses)[1]	1,920
Interest on home savings deposits	706
Total	**56,769**
Withdrawals	
Withdrawals in 2015	
Amounts allocated (if disbursed)	
Home savings deposits	5,729
Building loans	1,109
Repayment of deposits on non-allocated home savings contracts	1,148
Surplus of additions	
(Amounts not yet disbursed) at the end of 2015[2]	48,783
Total	**56,769**

1 Amounts repaid are the portion of the loan principal actually repaid.
2 The surplus amounts allocated include:
a undisbursed home savings deposits from allocated home savings contracts €115 million
b undisbursed home savings loans from funds allocated €4,220 million

42. Cover statement for the mortgages and local authority loans extended by the mortgage banks	Mortgage Pfandbriefe Dec. 31, 2015 € million	Mortgage Pfandbriefe Dec. 31, 2014 € million	Mortgage Pfandbriefe Change (percent)	Public-sector Pfandbriefe Dec. 31, 2015 € million	Public-sector Pfandbriefe Dec. 31, 2014 € million	Public-sector Pfandbriefe Change (percent)
Ordinary cover	**47,484**	**44,730**	**6.2**	**31,131**	**36,243**	**–14.1**
Loans and advances to banks	37	24	54.2	1,048	2,261	–53.6
of which: Mortgage loans	37	24	54.2	–	–	–
Local authority loans	–	–	–	1,048	2,261	–53.6
Loans and advances to customers	47,300	44,560	6.1	22,945	24,939	–8.0
of which: Mortgage loans	47,300	44,560	6.1	84	97	–13.4
Local authority loans	–	–	–	22,861	24,842	–8.0
Investments consisting of bonds and other fixed-income securities	–	–	–	4,839	6,613	–26.8
Property, plant and equipment	147	146	0.7	2,299	2,430	–5.4
Extended cover	**2,353**	**1,726**	**36.3**	**507**	**348**	**45.7**
Loans and advances to banks	150	–	–	358	187	91.4
Investments consisting of bonds and other fixed-income securities	2,203	1,726	27.6	149	161	–7.5
Total cover	**49,837**	**46,456**	**7.3**	**31,638**	**36,591**	**–13.5**
Pfandbriefe requiring cover	**–44,558**	**–39,794**	**12.0**	**–28,250**	**–32,583**	**–13.3**
Nominal excess cover	**5,279**	**6,662**	**–20.8**	**3,388**	**4,008**	**–15.5**
Present value of excess cover	**8,839**	**9,380**	**–5.8**	**4,316**	**4,954**	**–12.9**
Risk-related present value of excess cover	**7,016**	**8,482**	**–17.3**	**3,628**	**4,391**	**–17.4**

The present value of excess cover is higher than the nominal excess cover because it includes an interest component.

Maturity structure of mortgage Pfandbriefe and public–sector Pfandbriefe in issue	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Mortgage Pfandbriefe	**44,558**	**39,794**	**12.0**
≤ 6 months	4,560	2,868	59.0
> 6 months and ≤ 12 months	1,305	2,396	–45.5
> 12 months and ≤ 18 months	1,664	4,664	–64.3
> 18 months and ≤ 2 years	1,886	1,450	30.1
> 2 years and ≤ 3 years	2,773	3,522	–21.3
> 3 years and ≤ 4 years	3,671	2,274	61.4
> 4 years and ≤ 5 years	3,555	3,193	11.3
> 5 years and ≤ 10 years	13,818	11,947	15.7
> 10 years	11,326	7,480	51.4
Public-sector Pfandbriefe	**28,250**	**32,583**	**–13.3**
≤ 6 months	1,722	2,267	–24.0
> 6 months and ≤ 12 months	3,479	1,996	74.3
> 12 months and ≤ 18 months	1,900	1,758	8.1
> 18 months and ≤ 2 years	1,129	3,578	–68.4
> 2 years and ≤ 3 years	2,666	3,151	–15.4
> 3 years and ≤ 4 years	2,129	2,732	–22.1
> 4 years and ≤ 5 years	2,270	2,271	0.0
> 5 years and ≤ 10 years	5,910	6,837	–13.6
> 10 years	7,045	7,993	–11.9

Fixed-interest periods of cover assets	Dec. 31, 2015 € million	Dec. 31, 2014 € million	Change (percent)
Mortgage Pfandbriefe	**49,837**	**46,456**	**7.3**
≤ 6 months	2,969	3,264	−9.0
> 6 months and ≤ 12 months	2,540	2,942	−13.7
> 12 months and ≤ 18 months	2,203	2,306	−4.5
> 18 months and ≤ 2 years	2,725	2,707	0.7
> 2 years and ≤ 3 years	4,909	4,999	−1.8
> 3 years and ≤ 4 years	4,497	4,706	−4.4
> 4 years and ≤ 5 years	4,630	4,342	6.6
> 5 years and ≤ 10 years	17,525	15,661	11.9
> 10 years	7,839	5,529	41.8
Public-sector Pfandbriefe	**31,638**	**36,591**	**−13.5**
≤ 6 months	1,693	2,300	−26.4
> 6 months and ≤ 12 months	2,175	2,599	−16.3
> 12 months and ≤ 18 months	1,523	1,687	−9.7
> 18 months and ≤ 2 years	2,181	2,461	−11.4
> 2 years and ≤ 3 years	2,115	3,989	−47.0
> 3 years and ≤ 4 years	2,008	2,229	−9.9
> 4 years and ≤ 5 years	1,717	1,883	−8.8
> 5 years and ≤ 10 years	6,530	7,665	−14.8
> 10 years	11,696	11,778	−0.7

150 properties were in forced administration at the balance sheet date (December 31, 2014: 213). The mortgage loans held as cover include past-due payments for interests to be paid in the amount of 1 million (December 31, 2014: €1 million).

43. Board of Managing Directors of the National Association of German Cooperative Banks (BVR)

Uwe Fröhlich (President)
Gerhard P. Hofmann
Dr. Andreas Martin

Berlin, July 01, 2016

National Association of German Cooperative Banks (BVR)
BVR

Board of Managing Directors

Uwe Fröhlich Gerhard P. Hofmann Dr. Andreas Martin

EDITORIAL 5
MANAGEMENT REPORT 2015 7
CONSOLIDATED FINANCIAL STATEMENTS 2015 49
REVIEW REPORT (TRANSLATION) 109

109

Review Report (Translation)

Review Report (Translation)

To the National Association of German Cooperative Banks (BVR)

We have reviewed the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network that were prepared by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks], Berlin – consisting of the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cashflows and the notes – for the period from January 1 to December 31, 2015.

The Board of Managing Directors of BVR is responsible for preparing the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network in accordance with the significant financial reporting principles presented in section A of the notes to the consolidated financial statements. Our responsibility is to issue a review report on the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network based on our review.

We conducted our review of the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. Those standards require that we plan and perform our review such that, having conducted a critical assessment, we can with reasonable certainty exclude the possibility that the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network have not been prepared, in all material respects, in accordance with the significant financial reporting principles presented in section A of the notes to the consolidated financial statements. A review is essentially restricted to interviews of employees and to analytical assessments and therefore does not offer the degree of certainty provided by an audit. As we did not conduct an audit under the terms of our engagement, we cannot issue an audit opinion.

Our review did not reveal any findings that might lead us to conclude that the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network have not been prepared, in all material respects, in accordance with the significant financial reporting principles presented in section A of the notes to the consolidated financial statements.

Without qualifying our conclusion, we refer to section A of the notes to the consolidated financial statements, in which the significant financial reporting principles are described. The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network have been prepared solely for informational purposes and to present the business development and performance of the Cooperative Financial Network, which is treated as a single economic entity in terms of its risks and strategies. These consolidated financial statements are not a substitute for analysis of the consolidated entities' financial statements. Consequently, the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network may not be suitable for other purposes.

Our report is destined only for BVR. We do not assume any responsibility or liability vis-à-vis third parties.

The engagement, in performance of which we provided the aforementioned services for BVR, was based on the General Terms and Conditions of Engagement for public Auditors and public Auditing Firms in the version dated January 1, 2002. By acknowledging and using the information contained in this review report, each recipient confirms acknowledgement of the provisions in those Terms and Conditions (including the liability provisions in no. 9 of those Terms and Conditions) and accepts that they apply in the relationship with us.

Eschborn / Frankfurt/Main, July 1, 2016

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Wagner (German public auditor)
Müller (German public auditor)

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1 Gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments
2 Premiums earned, gains and losses on investments held by insurance companies, other insurance company gains and losses, insurance benefit payments, insurance business operating expenses
3 Total assets including financial guarantee contracts and loan commitments, trust activities, and assets under management in the Union Investment Group
4 Ratio of net profit to average equity
5 Ratio of net profit to total assets

BVR