2011 Consolidated Financial Statements

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	A+	AA–
Short-Term Issuer Default Rating	F1+	A–1+
Support Rating	1	*
Outlook	Stable	Stable

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

Volksbanken Raiffeisenbanken Cooperative Financial Network	2011 € million	2010 € million	Change (percent)
Financial performance			
Net interest income	19,431	18,967	2.4
Allowances for losses on loans and advances	–738	–879	–16.0
Net fee and commission income	4,788	5,015	–4.5
Loss on financial and commodities transactions[1]	–2,592	–178	>100.0
Net income from insurance business[2]	616	619	–0.5
Profit before taxes	5,688	8,113	–29.9
Net profit	4,462	6,089	–26.7
Cost/income ratio (percent)	71.2	63.2	
Net assets			
Loans and advances to banks	44,589	40,136	11.1
Loans and advances to customers	606,820	583,326	4.0
Allowances for losses on loans and advances	–9,648	–10,709	–9.9
Financial assets held for trading	74,392	71,285	4.4
Investments	235,266	237,043	–0.7
Investments held by insurance companies	56,934	55,338	2.9
Other assets	50,126	43,894	14.2
Financial position			
Deposits from banks	103,257	109,658	–5.8
Amounts owed to other depositors	646,760	619,985	4.3
Debt certificates including bonds	87,539	93,260	–6.1
Financial liabilities held for trading	64,849	49,892	30.0
Insurance liabilities	57,437	56,216	2.2
Other liabilities	33,208	29,061	14.3
Cooperative Network´s capital	65,429	62,241	5.1
Total assets/total equity and liabilities	**1,058,479**	**1,020,313**	**3.7**
Volume of business[3]	**1,305,638**	**1,272,290**	**2.6**
Regulatory capital ratios under SolvV			
Tier 1 capital ratio (percent)	9.1	8.9	
Total capital ratio (percent)	14.0	13.7	
Employees as at Dec. 31	**188,256**	**187,296**	**0.5**

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

Consolidated Financial Statements 2011

of the Volksbanken Raiffeisenbanken
Cooperative Financial Network

Contents

5
Introduction by the Board of Managing Directors

7
Management Report 2011
Business Performance
Human Resources Report
Risk Report
Outlook

35
Consolidated Financial Statements 2011
Income Statement for the Period
January 1 to December 31, 2011
Statement of Comprehensive Income for the Period
January 1 to December 31, 2011
Balance Sheet as at December 31, 2011
Changes in the Cooperative Network's capital
Statement of Cash Flows
Notes to the Consolidated Financial Statements

84
Review Report (Translation)

Introduction by the Board of Managing Directors

A growing number of customers and members are placing their trust in the institutions of the Volksbanken Raiffeisenbanken Cooperative Financial Network. This can be clearly seen from these annual consolidated financial statements. Against the backdrop of the European sovereign debt crisis, which political decision-makers are battling to resolve, around 30 million customers and over 17 million members have opted for the stability and reliability of the cooperative business model.

Customers entrusted the local cooperative banks, Sparda banks, PSD banks, and other cooperative specialized institutions with Euro 647 billion of their money last year, considerably more than in 2010. Deposits had risen by an encouraging 4.3 percent by the end of 2011. The demand for credit also went up. Loans and advances to customers increased by an impressive 4 percent on a consolidated basis. The Cooperative Financial Network's relationship with its customers is therefore thriving, multifaceted, and based on trust.

The excellent credit ratings of the Cooperative Financial Network are another way in which trust is created, with the network proving to be a source of stability within the German financial sector.

The storms that battered the European economy in 2011 naturally left their mark on our consolidated results. The 'haircut' on Greek government bonds and the widening of spreads on the government bonds of other periphery countries had a significant negative impact on the results of our very successful customer business. Nevertheless, the equity attributable to the Cooperative Financial Network increased by a further Euro 3 billion last year, bringing it to Euro 65 billion.

The Cooperative Financial Network has established a sustainable business model by firmly focusing on retail clients and small & medium-sized corporate customers, a business that depends on trust. Moreover, its comfortable level of equity and substantial inflow of deposits from its numerous branches enables the Cooperative Financial Network to tap into potential for growth from its own resources.

This stable position opens up huge opportunities and creates flexibility for future activities. It allows us to continue to fulfill retail and corporate customers' requirements, whatever their finance needs.

The results in these annual consolidated financial statements show that the Cooperative Financial Network was again successful in its work last year. Many customers recognized this fact and rewarded us by placing their trust in us. It would be quite wrong to attach any responsibility to the robust and dependable cooperative banks for the misconduct of other international market players whose business practices have been less trustworthy. This would not be fair to the Cooperative Financial Network or in the interests of its many customers.

Uwe Fröhlich
Gerhard P. Hofmann
Dr. Andreas Martin

Management Report 2011

8
Business Performance
Economic conditions

Volksbanken Raiffeisenbanken Cooperative Financial Network

Operating segments of the Cooperative Financial Network

Events after the reporting period

20
Human Resources Report

24
Risk Report
Risk management in a decentralized organization

Risk capital management

Liquidity management

31
Outlook
Real economy and banking industry

Volksbanken Raiffeisenbanken Cooperative Financial Network

Business Performance
Economic Conditions

In 2011 the German economy continued to recover from the severe recession of 2008 and 2009. According to the latest official figures, Germany's gross domestic product (GDP) rose by 3.0 percent year on year. A very buoyant start to 2011 – attributable to the weather – enabled economic output in the second quarter to return to its prerecession level. By the end of the year, however, the overall rate of expansion had dropped off significantly owing to the sovereign debt crisis in Europe and the United States and the general weakness of the global economy.

Economic growth in 2011 was fueled, above all, by strong domestic demand for consumer products and capital equipment. Consumer spending – boosted by the positive trend in the labor market, rising net earnings, and higher income from self-employment and investments – increased at the highest rate seen since 2006. Demand for capital equipment was driven by companies' improved financial performance, increasing utilization of production capacity, and low interest rates. Moreover, factors such as the sustained trend toward improving the energy efficiency of buildings and the increased popularity of 'concrete gold' led to greater investment in house building. Domestic demand accounted for 2.4 percentage points of overall economic growth.

Foreign trade also provided growth impetus. Export business was stimulated, in particular, by strong demand in eastern Europe, Turkey, Russia and China. In contrast, demand for German exports declined significantly in Greece and Portugal, which were affected by the sovereign debt crisis. The growth in exports and in domestic demand for capital equipment and consumer products pushed up imports, although they did not increase as much as exports. Cross-border trade contributed around 0.7 percentage points of the rise in GDP.

The situation on the labor market continued to ease in 2011 thanks to strong economic growth. According to the latest official figures, the number of people in work in Germany increased to a record 41.1 million, 547,000 more than in 2010. Employment rose in almost every sector of the economy, with especially strong growth in business services. Furthermore, the number of unemployed people declined by 263,000 to 2.98 million and the unemployment rate fell to 7.1 percent.

Business Performance
Volksbanken Raiffeisenbanken Cooperative Financial Network

Business Development

The Volksbanken Raiffeisenbanken Cooperative Financial Network was a pillar of the German banking market in 2011, a year that presented difficult economic conditions for the German banking industry. With its focus on value creation and customers, the regionally oriented business model of the Cooperative Financial Network proved robust and reliable, especially against the backdrop of a challenging economic environment dominated by the sovereign debt crisis.

In 2011 the Cooperative Financial Network managed to overcome the problems accompanying the sovereign debt crisis and achieved encouraging earnings, although they were lower than in 2010. The net profit generated enabled the Cooperative Financial Network to significantly increase its equity and pay an attractive dividend to shareholders.

Equity attributable to the Cooperative Financial Network increased to over Euro 65.4 billion in 2011, not only underlining the sustainability and stability of the Cooperative Financial Network's business performance but also representing a significant investment in its future viability.

One of the main factors in the success achieved in 2011 was the strong lending and deposit-taking market, shored up by customer-focused financial products and services. The primary banks are impressively fulfilling their role in the real economy as providers of funding to small and medium-sized enterprises (SMEs), holding a particularly high 29 percent share of the market for lending to small businesses and self-employed people. Last year, the primary banks accounted for a considerable proportion of corporate funding in all regions of Germany, playing a key part in ensuring Germany avoided a credit crunch.

The Cooperative Financial Network's deposits rose sharply again in 2011. It occupies a strong competitive position because a lack of adequate funding causes bottlenecks for many banks. Its surplus of deposits increased again year on year, providing the Cooperative Financial Network with sufficient leeway for growth so that it can meet both the short and long-term lending requirements of private and corporate customers.

This trend logically resulted in the Cooperative Financial Network's credit rating being raised from A+ to AA– with stable outlook by rating agency Standard & Poor’s in December 2011.

Competition in the retail business continued to intensify in 2011, which benefited customers significantly. The Cooperative Financial Network is firmly in favor of fair competition on the basis of a level playing field for all market participants. The aggressive terms offered by banks receiving state support run contrary to this objective and led to unjustifiable distortions of competition once again last year.

The Cooperative Financial Network is highly competitive. This, combined with its remarkable level of capital and liquidity, should enable it to consolidate and build on its impressive market position in 2012.

Despite the turmoil in the financial markets and the euro crisis, the Volksbanken Raiffeisenbanken Cooperative Financial Network attained a positive level of earnings again in 2011. Owing to the very good figures reported in 2010, **profit before taxes** declined by almost 30 percent to Euro 5,688 million in 2011 (2010: Euro 8,113 million).

Net interest income, by far the largest source of income for the Cooperative Financial Network, increased from Euro 18,967 million in 2010 to Euro 19,431 million in 2011. This 2.4 percent rise was achieved despite the unfavorable yield curve and ongoing price competition for customer deposits. A decreasing maturity structure contribution and precautionary measures, such as short-term investments at the European Central Bank or in German government bonds at relatively low interest rates, were more than compensated for by the continued growth in lending and deposit-taking business with private and corporate customers.

Allowances for losses on loans and advances reduced from Euro 879 million in 2010 to Euro 738 million in 2011. This improvement resulted from specific loan loss allowance reversals in interbank business and, in particular, in private and corporate client business, which were due to the more benign economic situation in Germany.

Net fee and commission income fell to Euro 4,788 million in 2011 (2010: Euro 5,015 million) owing to turbulence and uncertainty in the capital markets. Fee and commission income from securities business therefore declined slightly, but continued to account for the largest proportion overall along with fee and commission income from payments processing including card processing, which remained largely stable.

Gains and losses on trading activities decreased from Euro 1,279 million in 2010 to Euro 665 million in 2011 because of the significantly lower valuation of the securities held for dealing purposes. The Cooperative Financial Network continued to successfully meet the needs of customers in its business with structured products for private clients and risk management products for corporate customers and institutional investors. The investment certificates business was encouraging, continuing with its rigorous quality strategy and firm focus on guaranteed and secure investments in line with investor expectations.

Gains and losses on investments and **Other gains and losses on valuation of financial instruments** were both affected by high charges resulting from the sovereign debt crisis. Losses on investments increased from Euro 1,149 million in 2010 to Euro 1,496 million in 2011, above all due to impairment losses recognized on Greek government bonds. Other losses on valuation of financial instruments grew from Euro 308 million in 2010 to Euro 1,761 million in 2011, largely owing to rating-related reductions in the fair value of the bonds of European periphery countries particularly affected by the sovereign debt crisis.

Net income from insurance business remained stable at Euro 616 million in 2011 (2010: Euro 619 million). Increased premiums were offset by significantly lower gains on investments and, accordingly, lower insurance benefit payments.

The Cooperative Financial Network's **Administrative expenses** rose by 2.8 percent to Euro 15,895 million in the year under review (2010: Euro 15,464 million). One of the reasons for this rise was the bank levy, which had to be paid for the first time in 2011, along with the increased number of reporting, documentation, and disclosure requirements. Despite the growth in expenses, the primary banks' administrative expense margin remained constant year on year.

Income taxes amounted to Euro 1,226 million in 2011 (2010: Euro 2,024 million), with Euro 2,013 million attributable to current income taxes (2010: Euro 1,920 million). This continued increase in current income taxes of almost 5 percent means that the institutions in the Cooperative Financial Network remain one of the largest municipal tax payers. Income of Euro 787 million from deferred taxes (2010: expenses of Euro 104 million incurred for deferred taxes) resulted in a countervailing effect on the face of the income statement.

The net profit for 2011 after tax amounted to a profit of Euro 4,462 million, compared with a net profit of Euro 6,089 million in 2010.

The Cooperative Financial Network's **cost/income ratio** improved from 63.2 percent in 2010 to 71.2 percent in 2011.

Financial Position

The **Total assets** of the Volksbanken Raiffeisenbanken Cooperative Financial Network had risen by Euro 38.2 billion to Euro 1,058.5 billion as at December 31, 2011 (December

31, 2010: Euro 1,020.3 billion). The **Volume of business**, which comprises the Cooperative Financial Network's total assets, financial guarantee contracts and loan commitments, trust activities, and the asset management of the Union Investment Group, had increased from Euro 1,272.3 billion as at December 31, 2010 to Euro 1,305.6 billion as at December 31, 2011.

Of the total assets, 57.1 percent was attributable to the primary banks (December 31, 2010: 57.4 percent), 32.2 percent to the DZ BANK Group (December 31, 2010: 31.7 percent), and 7.5 percent to the WGZ BANK Group (December 31, 2010: 7.8 percent).

On the **Assets** side of the balance sheet, loans and advances to customers advanced by 4.0 percent to Euro 606.8 billion (December 31, 2010: Euro 583.3 billion). This growth was predominantly fueled by the primary banks in 2011, which achieved their biggest increase in more than ten years. The primary banks are thus playing a key role as a stable source of funding for consumers and SMEs in Germany. The growth was almost entirely accounted for by medium- and long-term lending.

Financial assets held for trading had increased to Euro 74.4 billion by December 31, 2011 (December 31, 2010: Euro 71.3 billion). Whereas the amount of derivatives (positive fair values) went up by Euro 9.6 billion to Euro 36.0 billion, holdings of bonds and other fixed-income securities continued to be reduced, falling by Euro 9.5 billion to Euro 20.7 billion. Receivables went up by Euro 3.4 billion.

On the **Equity and liabilities** side of the balance sheet, amounts owed to other depositors had grown from Euro 620.0 billion as at December 31, 2010 to Euro 646.8 billion as at December 31, 2011. This significant rise came despite competition in the German banking market and resulted above all from the increase in demand deposits and time deposits. In contrast, savings deposits only saw a moderate inflow. At 45 percent, demand deposits account for the largest share of deposits held by the primary banks (2010: 44 percent).

Financial liabilities held for trading advanced from Euro 49.9 billion in 2010 to Euro 64.8 billion in 2011. This rise was largely due to the increase of Euro 9.2 billion in derivatives (negative fair values) and an increase of Euro 4.4 billion in liabilities.

The Cooperative Financial Network continued to be amply equipped with capital resources in 2011 and had Cooperative Network´s Capital of Euro 65.4 billion as at December 31, 2011 (December 31, 2010: Euro 62.2 billion), which was again boosted by the recognition of further reserves.

Regulatory capital

The capital held by the Cooperative Financial Network – as required by the Solvency Regulation (SolvV) – grew by Euro 4.2 billion, or 6.4 percent, to Euro 70.1 billion.

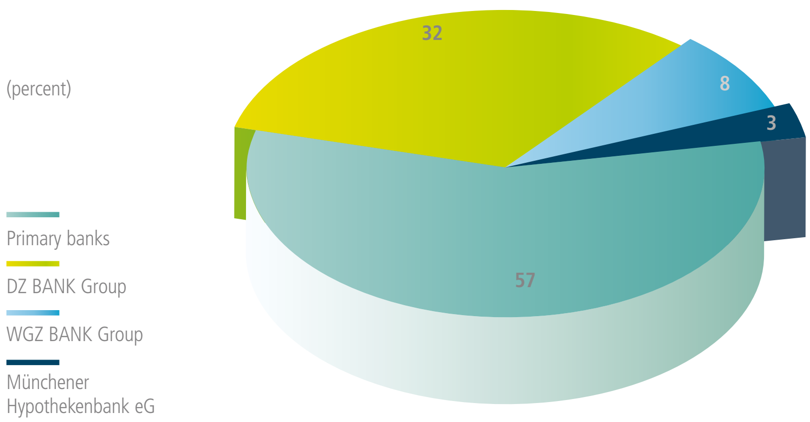
The corresponding total capital ratio rose from 13.7 percent to 14.0 percent. The Tier 1 capital ratio as defined by the SolvV also improved, increasing from 8.9 percent at the end of 2010 to 9.1 percent at year-end 2011. Both of these key ratios continued to comfortably exceed the regulatory minimums of 8.0 percent for the total capital ratio and 4.0 percent for the Tier 1 capital ratio.

The corresponding figures for the primary banks experienced similar trends, with their Tier 1 capital ratio rising from 10.7 percent to 11.2 percent and their total capital ratio increasing from 14.7 percent to 15.6 percent.

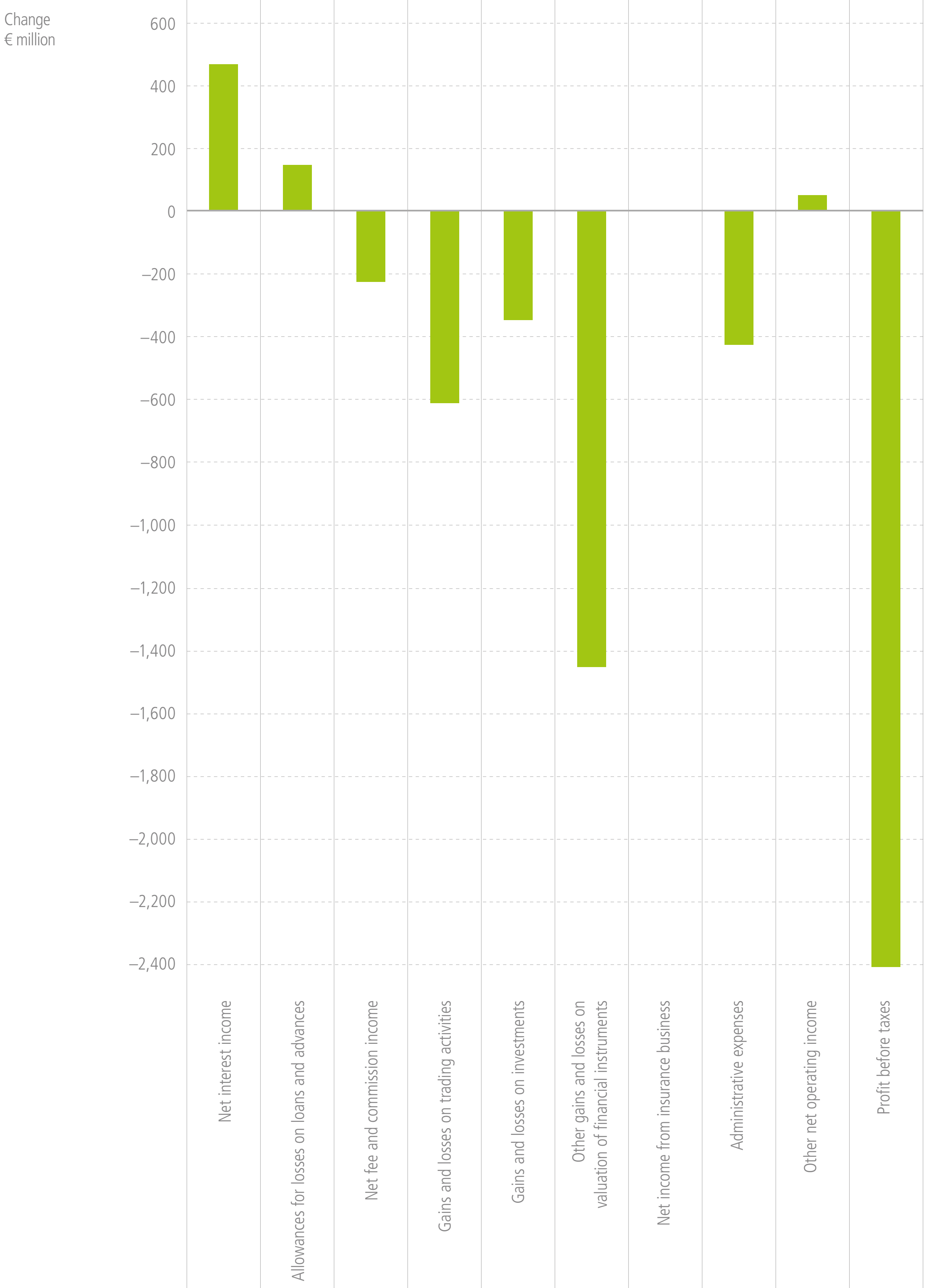
Financial Performance

	2011 € million	2010 € million	Change (percent)
Net interest income	19,431	18,967	2.4
Allowances for losses on loans and advances	–738	–879	–16.0
Net fee and commission income	4,788	5,015	–4.5
Gains and losses on trading activities	665	1,279	–48.0
Gains and losses on investments	–1,496	–1,149	30.2
Other gains and losses on valuation of financial instruments	–1,761	–308	>100.0
Net income from insurance business	616	619	–0.5
Administrative expenses	–15,895	–15,464	2.8
Other net operating income	78	33	>100.0
Profit before taxes	**5,688**	**8,113**	**–29.9**
Income taxes	–1,226	–2,024	–39.4
Net profit	**4,462**	**6,089**	**–26.7**

Breakdown of the total assets held in the Volksbanken Raiffeisenbanken Cooperative Financial Network as at December 31, 2011



2010/2011 year-on-year Changes in Income Statement Line Items



Business Performance

Operating Segments of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Bank Operating Segment

The **net interest income** earned by the Bank operating segment advanced from Euro 1,604 million in 2010 to Euro 1,800 million in 2011. This growth in net interest income resulted from a decrease in trading securities in favor of an increase in long-term securities. Maturities of higher-yielding deposits by the primary banks in the Retail operating segment compensated for the decline in maturity transformation contributions resulting from the low interest rate environment. There was a further year-on-year improvement in the income/loss from using the equity method for interests in joint ventures and investments in associates, which form part of net interest income. Unlike in 2010, there were no charges recognized for the pro-rata share in the loss incurred by the Österreichische Volksbanken-AG Group (2010: loss of Euro 42 million).

The encouraging trend in joint credit business observed during 2010 continued in the year under review. Both the volume of new business and the number of applications once again increased. Loans in the fast-growing market of renewable energies are an important aspect of the Cooperative Financial Network's SME financing business. Customer relationship management capacity was expanded during the reporting year. The volume of new business in transport finance increased again owing to extremely brisk global trade, especially in the first half of 2011, and the resulting increase in worldwide freight and passenger transport. This was accompanied by a greater focus on selected stable new commitments. The business situation for small and medium-sized enterprises was extremely stable over the year as a whole, which impacted positively on the volume of lease originations.

Allowances for losses on loans and advances grew from Euro 148 million in 2010 to Euro 217 million in 2011. Successful efforts to aid the recovery of non-performing loans in the workout portfolio and continued systematic implementation of the risk-conscious business strategy established in previous years resulted in specific loan loss allowance reversals in customer lending business and interbank business. This change in specific loan loss allowances was more than compensated for by increases in portfolio loan loss allowances. These increases were caused by, among other things, rating adjustments and an increased drawdown of lines of credit.

Net fee and commission income declined slightly, by Euro 7 million, to Euro 547 million in 2011 (2010: Euro 554 million) and therefore remained a stable source of income. Earnings from payments processing including card processing and from international business increased year on year. In contrast, the contribution to profits from securities business fell slightly. The highly competitive market for business with corporate customers and the reduction in the volume of structured finance business as planned also led to a decrease in net fee and commission income.

Gains and losses on trading activities in the Bank operating segment fell from Euro 1,184 million in 2010 to Euro 479 million in 2011. This reduction was largely due to the difficult market environment and the associated significantly lower valuation of the securities held for dealing purposes. The reduction was also caused by impairment losses of Euro 58 million related to asset-backed securities (ABS). Companies in the Bank operating segment again concluded successful deals in their customer business. In view of the sovereign debt crisis in the euro zone, which escalated over the course of the year, and the uncertainty about its impact, retail investors focused on the safety and reliability of investments and on issuers' credit standing in 2011. This trend benefited the high-quality AKZENT Invest brand, with the market-leading position for investment certificates with capital protection being defended easily. As a consequence of the extremely low interest rates, private customers were particularly keen on products with simple structures, such as floating-rate notes with a minimum coupon, callable bonds, and step-up and step-down bonds. Corporate customers made the most of the favorable interest rates to enter into long-term interest-rate hedging instruments. Institutional investors appreciated the Cooperative Financial Network's expertise in trading in corporate bonds and interest-rate derivatives as well as the range of covered bond issues and corporate promissory notes.

Gains and losses on investments declined by Euro 383 million to Euro 69 million despite the recognition of impairment losses on Greek government bonds. Reversals of impairment losses on ABS contributed to earnings, whereas in 2010 there had been a significant loss of Euro 452 million on the back of impairment losses.

Administrative expenses went up in 2011, above all due to higher consultancy costs and the first-time recognition of the bank levy. They amounted to Euro 1,502 million in 2011, some 4 percent higher than in 2010 when administrative expenses came to Euro 1,443 million.

The Bank operating segment's **profit before taxes** fell by Euro 304 million year on year to Euro 971 million (2010: Euro 1,275 million). The cost/income ratio rose from 50.3 percent in 2010 to 55.8 percent in the reporting year.

Retail operating segment

There was another small year-on-year rise in the Retail operating segment's **net interest income**, which amounted to Euro 16,602 million in 2011 (2010: Euro 16,473 million). This increase was achieved despite a competitive environment dominated by extreme competitiveness and even distortion of competition as well as a high level of volatility and uncertainty in the financial markets. The primary banks' lending and deposit-taking business declined slightly on the back of sustained low interest rates and more intense price competition surrounding customer deposits. The proportion of the primary banks' net interest income accounted for by the maturity structure contribution continued to reduce overall. However, net interest income was boosted by consumer finance and foreign currency loans. The quality and growth strategy was successfully continued with the easyCredit consumer finance product in 2011. The volume of LuxCredit loans was increased in the foreign-currency lending business.

Allowances for losses on loans and advances declined to Euro 353 million in the reporting year (2010: Euro 625 million). Loan loss allowances for corporate customers decreased by about a half. There was a particularly significant improvement in allowances for losses on loans and advances in the trade and services sectors. The proportion of non-performing loans in most other sectors was also considerably lower than in 2010. Loan loss allowances for private clients fell by almost a third in 2011. This reflected the reduction in personal bankruptcies, which was due to the extremely robust labor market.

The **net fee and commission income** of Euro 5,011 million earned in 2011 was down slightly year on year (2010: Euro 5,107 million). Customers held back from securities business, particularly in the fourth quarter of 2011, owing to turbulence in the stock markets. Besides the small declines reported by the primary banks, the performance fee in asset management was lower than it had been in 2010 and was not entirely compensated for by the increase in the average volume of assets under management and the resulting growth in income. Capital preservation strategies within an investment fund were highly popular with private clients and institutional clients alike. The Cooperative Financial Network remained the clear market leader for fund-based Riester personal pension products thanks to its UniProfiRente product. In order to boost its competitiveness in private banking, the Cooperative Financial Network pooled its activities in this sector in DZ PRIVATBANK, Luxembourg.

A positive trend was observed in **gains and losses on trading activities**, especially at the primary banks, and was attributable above all to commodities trading. The Retail operating segment's overall gains on trading activities advanced by Euro 77 million to Euro 193 million in 2011 (2010: Euro 116 million).

Gains and losses on investments were caused, in particular, by further impairment losses recognized on Greek government bonds and amounted to Euro 1,265 million (2010: Euro 530 million).

The Retail operating segment's **administrative expenses** went up only slightly in 2011 despite the overall rise in regulatory requirements – resulting, above all, from the increased number of reporting, documentation, and disclosure requirements – and the greater expense of consumer protection. Nevertheless, the primary banks' administrative expense margin remained largely constant year on year. Other reasons for the growth in administrative expenses were the costs incurred in connection with the acquisition of the private banking portfolio of UniCredit Luxembourg, the merger of DZ PRIVATBANK with WGZ BANK Luxembourg, and the opening of new branches of DZ PRIVATBANK in Germany.

The **profit before taxes** reported by the Retail operating segment fell from Euro 6,793 million in 2010 to Euro 6,236 million in 2011. The cost/income ratio therefore rose slightly, from 65.0 percent in 2010 to 68.2 percent in 2011.

Real Estate Finance operating segment

The Real Estate Finance operating segment's **net interest income** advanced by Euro 63 million to Euro 1,444 million in 2011 (2010: Euro 1,381 million). Additional interest income from the greater volume of the building society's building loan business and from the investment of available funds from the high level of new home savings business in recent years more than compensated for the growth in interest expense accompanying the increase in home savings deposits. Another factor in the rise in net interest income was the approximately Euro 40 million contributed by the Hungarian building society Fundamenta, which was included in the scope of consolidation for the first time in 2011. The sharp rise in new business reaffirmed Bausparkasse Schwäbisch Hall's leading market position in 2011. Against the background of Germany's strong economic output compared with the rest of Europe, there was an uptrend in commercial real-estate finance in the mortgage lending business, which contributed to the increase in interest income.

The level of **allowances for losses on loans and advances** in the Real Estate Finance operating segment increased from Euro 86 million in 2010 to Euro 112 million in 2011. This was above all due to the sharp rise in portfolio loan loss allowances during the period under review.

The **net fee and commission income** earned by the Real Estate Finance business segment is usually a negative figure and, in 2011, amounted to a loss of Euro 276 million (2010: loss of Euro 224 million). This further significant decrease of Euro 52 million was attributable to the sharp rise in the volume of new business both in mortgage lending and in building society operations. The fees and commissions paid to the primary banks in the Retail operating segment and to the Schwäbisch Hall field sales force increased, particularly in building society operations. Bausparkasse Schwäbisch Hall signed around 900,000 new home savings contracts in 2011 with a total home savings value of Euro 31.7 billion, which equates to year-on-year growth of 10.5 percent. The volume of lending to customers brokered jointly with the primary banks rose by 3.9 percent, reaching a record high of Euro 11.2 billion.

Gains and losses on investments amounted to Euro 147 million in 2011 (2010: Euro 231 million). The losses incurred in the year under review were largely attributable to impairment losses recognized on Greek government bonds held as part of the mortgage banking business. Whereas the 2010 figure had been affected by impairment losses on ABSs, such losses were reversed in 2011.

Other gains and losses on valuation of financial instruments in the Real Estate Finance operating segment increased to Euro 1,809 million in 2011 (2010: Euro 342 million). This was largely due to rating-related write-downs in connection with the sovereign debt crisis in the European periphery countries. The securities are held as part of the mortgage banking business and are immediately designated as at fair value through profit or loss owing to application of the fair value option.

Administrative expenses in the Real Estate Finance operating segment increased to Euro 634 million (2010: Euro 597 million). This rise was also due to the bank levy, which had to be paid for the first time, but also due to the introduction of new methods for measuring risk and the necessary modifications to the IT systems.

The Real Estate Finance operating segment posted a **loss before taxes** of Euro 1,485 million in 2011 (2010: Euro 80 million), above all due to impairment losses and write-downs on exposures to bonds of countries particularly affected by the sovereign debt crisis.

Insurance Operating Segment

Net income in the insurance operating segment amounted to Euro 286 million in 2011 compared with Euro 376 million in 2010. This decrease in income resulted specifically from a significant decline in gains and losses from investments held by insurance companies and from a large loss in inward reinsurance. Net income in this operating segment in 2011 was also negatively affected by a loss of Euro 65 million from the recognition of impairment losses as a result of the marking of Greek government bonds to market price. Close collaboration with the primary banks in the Retail operating segment maintained the insurance premiums earned in the Insurance operating segment at a high level.

Premiums earned advanced by 2.5 percent to Euro 11,193 million (2010: Euro 10,921 million). The insurance operating segment therefore managed to build on the already very high level of premiums earned in 2010, which had been boosted by significant growth stimulus. Gross premiums received increased to Euro 11,332 million in 2011, up 2.1 percent on the impressive level of premiums generated in 2010. Forecasts that the general sectoral trend would be outperformed in terms of premium growth in non-life insurance were confirmed. Slightly lower premium income was generated in the life insurance business than in 2010 owing to the strategic realignment of an Italian subsidiary. However, premiums in Germany rose slightly. Despite the adverse impact of the ongoing debate about the future structure of the healthcare system in Germany, premium income from health insurance increased. R+V continued its growth strategy in inward reinsurance.

Gains and losses on investments held by insurance companies and other insurance company gains and losses amounted to a net gain of Euro 2,175 million (2010: gain of Euro 3,051 million). The lower level of gains on investments held by insurance companies compared with 2010 reflected the relevant developments in the financial, capital, and currency markets and included the impairment losses on Greek government bonds. Owing to the recognition of reserves for deferred policyholder participation in life insurance in the 'insurance benefit payments' line item presented below, however, the associated change in the level of gains on investments held by insurance companies only partially affects the level of net income from insurance business.

Insurance benefit payments in the reporting year amounted to Euro 10,968 million, which represented a decrease of 5.8 percent on the 2010 figure of Euro 11,645 million. There was a year-on-year fall in the number of high-volume minor claims in the non-life insurance business despite the large number of claims during the winter period in early 2011. In line with the gains and losses on investments held by insurance companies, lower additions were made to insurance liabilities at companies offering personal insurance. By contrast, losses in inward reinsurance in 2011 were markedly higher than in 2010. Additional losses resulted, in particular, from the earthquake disasters in Japan and New Zealand as well as from the floods in Australia and Thailand.

Insurance business operating expenses rose from Euro 1,935 million in 2010 to Euro 2,095 million in 2011, largely as a result of the growth achieved in the insurance business.

Business Performance
Events after the Reporting Period

As part of further action to help resolve the sovereign debt crisis, in particular Greece's liquidity problems, the Cooperative Financial Network voluntarily agreed to waive some of its Greek debt and decided to participate in the swap plan of the European System of Financial Supervisors (ESFS). In doing so, the Cooperative Financial Network has waived repayment of more than 50 percent of the funds it has lent to Greece.

As of the balance sheet date, the Cooperative Financial Network recognised impairments on Greek government bonds down to market value. As a result of the significantly reduced market prices at that time, the debt waiver had no further impact on the financial performance after the reporting period.

Human Resources Report

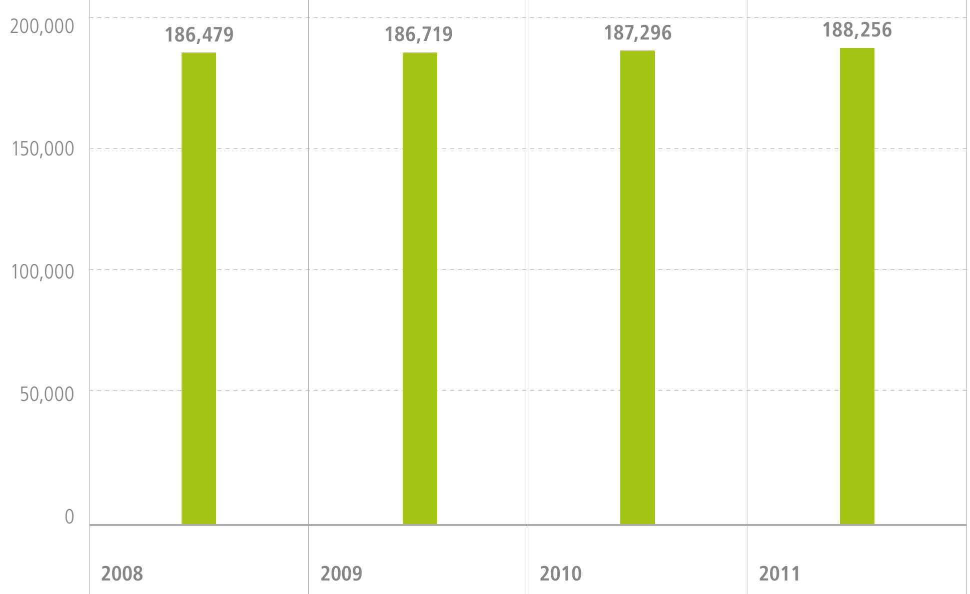
The positive results described in the Business Performance section would not have been possible without a highly skilled and motivated workforce, whose expertise and commitment underpin the Cooperative Financial Network's sustainable – i.e. long-term – client relationships. Figure 1 showing staff members' years of service reveals that over 70 percent of those employed by the local cooperative banks have been working at these organizations for more than 15 years, representing another small year-on-year increase. This is the reason why the relationships between cooperative financial advisors and their clients are usually close and long-lasting, which is particularly important in the context of offering advice appropriate to customers' stage of life. In 2011, the number of employees again rose slightly, underpinning the Cooperative Financial Network's sustained position as a responsible employer in the region. The companies in the Cooperative Financial Network employed 188,256 people as at December 31, 2011.

The cooperative institutions continually invest heavily in the systematic training and development of their workforce in order to maintain the high quality of their services and to fulfill legal and consumer protection requirements.

In addition to ongoing training and development programs as part of the GenoPE cooperative staff development concept, initial vocational training has traditionally been highly important in helping to secure the skilled workforce needed. Compelling evidence for this approach is provided by the local cooperative banks' ratio of trainees to other employees, which has remained stable over the long term. In response, among other things, to the challenges of demographic change, the ratio of trainees to other employees rose slightly year on year, and continued to exceed 7 percent. It therefore remained above the average for German industry as a whole.

The local cooperative banks remain an employer of choice for young professionals, as proven by surveys of schoolchildren, students, and university graduates. For many years now, the local cooperative banks have been one of the most popular companies at which to train – as evidenced by the trendence pupil barometer, a representative nationwide survey of over 15,000 pupils in Germany. In 2011 the local cooperative banks were once again voted one of Germany's top 100 employers by the trendence pupil barometer and, bucking the industry trend, were ranked slightly higher than in the previous year. The local cooperative banks were also again voted one of Germany's top 100 employers by the trendence university graduate barometer. Every year this survey asks 11,000 university students who are approaching their final exams who their employer of choice would be and what their career goals are.

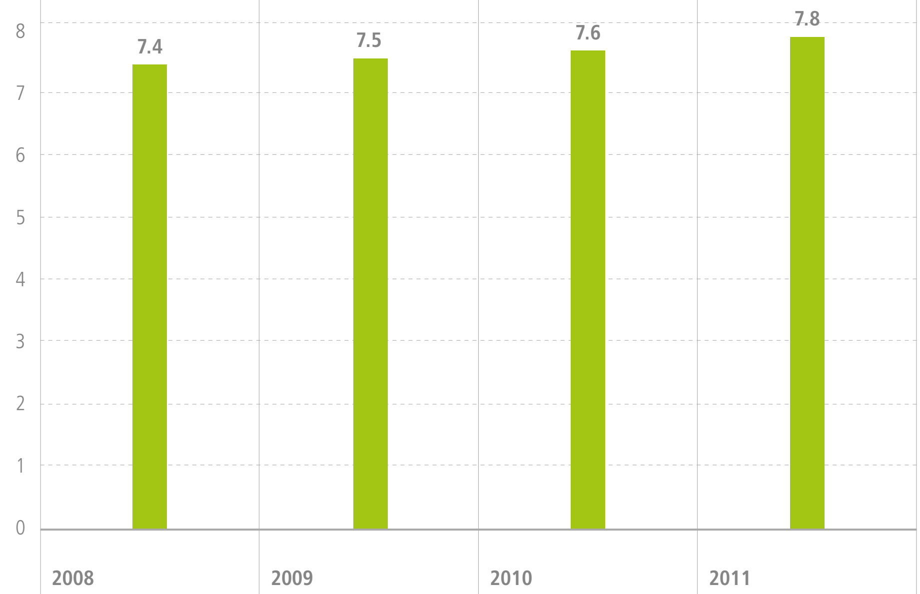
Number of employees[1]



1 Volksbanken Raiffeisenbanken Cooperative Financial Network

Ratio of trainees to other employees[1]

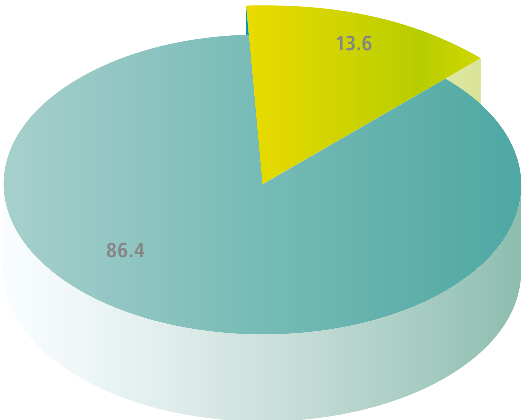
(percent)



1 Local cooperative banks and central institutions

Transfer of Trainees to Employment Contracts on Successful Completion of Training in 2011[1]

(percent)



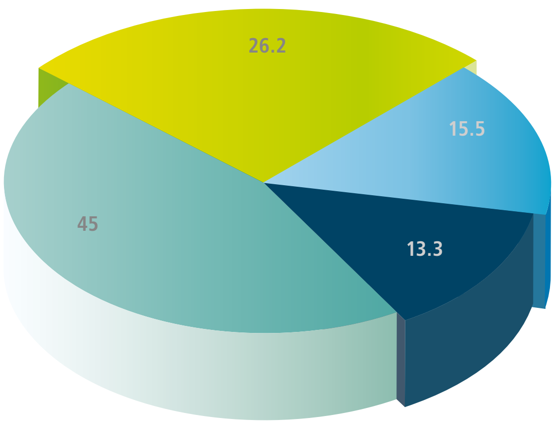
Employment contracts offered

Employment contracts not offered

1 Local cooperative banks, central institutions

Staff Members' Years of Service[1]

(percent)



Under 5 years

5 to under 15 years

15 to under 25 years

25 or more years

1 Local cooperative banks, central institutions
As at December 31, 2011

Risk Report

The Volksbanken Raiffeisenbanken Cooperative Financial Network once again performed its consistent and stabilizing role in the German banking market in 2011. This positive impact is attributable to its sustainable business model and its firm commitment to its fundamental values of self-reliance, personal responsibility, solidarity, and autonomy. The protection scheme run by the BVR is instrumental in ensuring the stability of the entire Cooperative Financial Network and confidence in the creditworthiness of all its members. The BVR protection scheme acts as the financial and organizational linchpin in the solidarity-based system of local cooperative banks and the other affiliated institutions within the network.

The encouraging overall outlook for the Cooperative Financial Network's rating was confirmed by the positive credit ratings awarded by Standard & Poor’s and Fitch Ratings. The upgrade by Standard & Poor’s to AA– in December 2011 is a sign of the Cooperative Financial Network's very strong position overall in an environment in which the agencies are constantly downgrading ratings.

Risk Report
Risk management in a decentralized organization

BVR protection scheme

The BVR's articles of association, section 4, requires the BVR to manage a protection scheme. This facility is specified expressly as a bank-protection scheme in section 12 of the legislation implementing the EU deposit guarantee schemes and investor compensation schemes directives. Since August 1, 1998, the protection scheme has therefore been 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); as a result, the member institutions do not need to participate in any statutory compensation scheme.

The main 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.

In 2011 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 1,136 members of the Cooperative Financial Network belonged to the BVR protection scheme as at December 31, 2011 (December 31, 2010: 1,152 members). The decrease stemmed solely from mergers.

Risk identification and analysis

Basic structures

The basic understanding of the analytics on which the protection scheme is based is geared to and defined by the cooperative structure of the Cooperative Financial Network. In contrast to banking groups with a parent company at the top of a hierarchical structure, the Cooperative Financial Network consists of entirely legally independent institutions. In particular, this means they are not controlled centrally or managed uniformly. This structure is of fundamental importance to the monitoring of the institutions because it has to focus primarily on analyzing the risk carriers – i.e. the institutions – rather than on analyzing 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 a reliable system for identifying and classifying risks and for monitoring the risks of all its members and the institution-related protection scheme. 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 and the Cooperative Financial Network as a whole. 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 develops special analyses on issues that are important from a risk perspective, such as calculating the volume of bonds of European periphery countries particularly affected by the sovereign debt crisis or determining the impact of sustained low interest rates on the institutions' financial situation.

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.

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.

Tools and methods for identifying and measuring risk
When the VR-Control concept was developed, accompanying processes were put in place to ensure the consistent measurement of market risk and counterparty risk across the entire business of each institution. This also satisfies the Minimum Requirements for Risk Management (MaRisk).

The historic simulation process is used to calculate market risk. Counterparty 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 with value-at-risk (VaR) having been selected as the main indicator. Besides calculating the VaR, the banks can develop stress scenarios for the aforementioned risks.

In 2011 the BVR led the development of an integrated approach to measuring counterparty risk in own-account investing activities. It takes account of all aspects of risk in securities business 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. This provides the bank with the expected value of the portfolio plus any unexpected losses and enables it to calculate the expected fair value gains and losses for balance sheet management purposes. The BVR validates the model and its parameters each month.

Over the past two years, the banking regulator has increasingly focused on assessing banks' inhouse risk-bearing capacity concepts. It has published a best-practice paper to complement the MaRisk, for the first time providing specific assistance with calculating aggregate risk cover and the risk profiles in the banks' different approaches.

The majority of the cooperative banks calculate an institution's risk-bearing capacity periodically on the basis of the going concern approach. To this end, a project was launched in 2011 to carry out a cross-sectional study about utilization and the methods used. This showed that, based on a periodic analysis, utilization of the available capital and components of net profit was low.

Classification process
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 (eight classes ranging from A+ to D were used up until the classification of the 2008 annual financial statements). The classification system is based on quantitative key figures, most of whose data is taken from the banks' audited annual financial statements and audit reports. The protection scheme transmits this data electronically to 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, they are the central institutions, the mortgage banks, and Bausparkasse Schwäbisch Hall AG.

Whereas the results of the classification for previous annual periods (in particular 2008 and 2009) showed a downward trend due to the financial crisis, the class distribution in 2010 revealed a significant year-on-year improvement that continued into 2011. The main contributing factors were the increased net interest income and the lower expenses for allowances for losses on loans and advances. Strong growth in the lending business was the main reason for the rise in net interest income.

The general meeting of members of the BVR adopted the revised classification system on September 30, 2011. This system will be used for the first time for the classification on the basis of the 2011 annual financial statements. The main changes to the key figures used in the classification system relate to the revision of the two unsecured loan ratios, elimination of the industry structure ratio, and introduction of the risk-adjusted income ratio.

Risk management and monitoring

Preventive management

The results of the BVR's classification process also provide the basis for the BVR protection scheme's systematic preventive management. Preventive management is used for all banks that have been classified as B– or lower on the basis of their annual financial statements or that have become conspicuous on the basis of other information.

The focus of the protection scheme's work has steadily shifted toward preventive management. Significantly more institutions are now in the preventive phase of restructuring rather than the support phase. The aim of prevention is and will continue to be counteracting adverse trends at an early stage, thereby helping prevent the need for supporting measures. Data and other information from the banks that might be affected are 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 relevant institution's statutes, the protection scheme has established a monitoring process that precedes the actual preventive action. During this process, the institution is analyzed 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.

Until now, restructuring measures have been provided and carried out in accordance with the 'Handbook for banks undergoing restructuring', whose standards were laid down under the direction of the protection scheme in 2003. Owing to the changes that have taken place in many areas since then, the standards were fundamentally revised in 2011 and the revised version came into effect in 2012. The new 'Handbook for the realignment and restructuring of cooperative banks' contains an update on the tried-and-tested restructuring process and takes account of the growing importance of preventive management. The principles documented in the handbook provide affected banks with guidance on restructuring and describe concepts for re-establishing their fundamental profitability. The aim is for the banks to enter this restructuring phase within no more than five years. This aim has been achieved by all the restructured banks to date. For the first time, the protection scheme's new handbook also specifically targets banks undergoing preventive measures and institutions that have identified the need for reorientation by themselves (either entirely or partly).

The protection scheme's positive business performance continued in 2011. Two member banks required initial supporting measures last year. The other supporting measures were provided to existing cases, where restructuring funds were granted on the basis of commitments to cover existing risks that had become acute. The total restructuring amounts in need of protection were again well below the expected amount. This meant that the protection scheme's capital base was strengthened in 2011 and the guarantee fund resources at its disposal were increased.

In 2011, all institutions were able to absorb the impact of the ongoing financial crisis and sovereign debt crisis from their own resources; no supporting measures in the form of money from the guarantee fund were required.

Outlook for the Protection Scheme

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 in particular, the level of support and assistance provided by the protection scheme is not expected to increase in 2012. Nonetheless, the rate of contributions paid into the guarantee fund – amounting to 1.2 per mil (new basis of assessment) or 1.5 per mil (old basis of assessment) – has not been changed for 2012 in order to adequately address the material and other aspects of the new requirements expected to emerge from the ongoing discussions about the EU directive on deposit guarantees.

On July 12, 2010 the European Commission presented a proposal for the directive of the European Parliament and European Council on deposit guarantees. As things stand, it is anticipated that the BVR will be able to continue with its tried-and-tested institution-related protection scheme. Of note in 2011 was the attempt in the 'trialogue' talks to reach agreement at European level. It remains to be seen what impact this will have on the final version of the directive on deposit guarantees.

Risk Report
Risk Capital Management

The cooperative institutions design their risk-bearing capacity to comply with the MaRisk and fit in with their business strategy. To ensure the tools for managing risk capital are used consistently, the protection scheme worked with the primary banks, central institutions, computing centers, and the regional and trade associations to draw up a concept for the bank-wide allocation of risk – on the basis of a statement of assets and liabilities – and supported its implementation. This enables the banks to use the strategic risk categories they have selected to carry out an allocation process from an efficiency perspective and to calculate possible allocations. The idea underlying this optimization method is the Markowitz approach to creating efficient portfolios.

The legally independent institutions are responsible for their own capital management. The protection scheme gains an overview of their level of capital by analyzing the regulatory capital ratios. In addition, the protection scheme prepares annual consolidated financial statements for the Cooperative Financial Network. These include consolidation of the Cooperative Network´s capital and calculation of the consolidated capital ratios: the solvency ratio and the Tier 1 capital ratio. The annual consolidated financial statements provide a comprehensive overview of the Cooperative Financial Network's financial position and financial performance.

Risk Report
Liquidity Management

The Cooperative Financial Network has a highly reliable liquidity management system, which passed without difficulty the real-life stress test presented by the financial crisis and sovereign debt crisis as well as all other crises. The reasons for this lie, above all, in the strong diversification effect created by the variety and high number of small and medium-sized cooperative banks and in the institutions' traditional method of obtaining finance through customer deposits. 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 within the Cooperative Financial Network.

Basel III implements new ratios for measuring liquidity risk. The liquidity coverage ratio (LCR), which has already been defined, is aimed at ensuring banks' short-term liquidity. However, the Cooperative Financial Network is requesting that it be allowed to comply with the liquidity coverage ratio at network level. The option to calculate a waiver for the network may enable the cooperative banks' liquidity management system to be taken into account. Essentially, the waiver model provides for the ongoing centralized determination of the LCR at consolidated level for all credit institutions in the Cooperative Financial Network. The consolidated financial network has launched a project to define the necessary parameters, process requirements, etc. The findings will be available at the end of 2012 and a pilot scheme will start in 2013.

Outlook
Real Economy and Banking industry

Having overcome an economic slowdown at the end of 2011, the German economy returned to its growth trajectory in the first half of 2012. However, the European sovereign debt crisis is having an increasing negative impact on economic activity. On the one hand, growing uncertainty about political and economic developments in the euro zone is weakening the propensity to invest. On the other, German exports to crisis-hit countries in southern Europe are very subdued, although this continues to be partially compensated for by brisk demand from the emerging markets.

Compared with the fourth quarter of 2011, German economic output in the first quarter of 2012 grew at a strong 0.5 percent, adjusted for inflation and seasonal and calendar factors. However, the indications are that Germany's economy will not be able to maintain the high rate of growth through the year. Average economic output for the year is only likely to increase by around 1 percent, which would mean considerably weaker economic growth than in 2011.

Foreign trade is unlikely to provide any growth stimulus this year, and imports are in fact predicted to increase at a slightly higher rate than exports. Economic growth will therefore be driven by domestic demand alone, bolstered by a sustained uptrend in the labor market. It is expected that average unemployment for the year will fall to approximately 2.8 million people. Consumer spending is likely to continue to go up on the back of a robust rise in income, giving a significant boost to economic growth. The increase in consumer spending will be supported by a small drop in energy prices, which means less purchasing power is being lost to oil-exporting nations. Owing to weak growth in demand from abroad, gross investment in plant and equipment will increase only slightly, although financing conditions, which remain favorable overall, are encouraging investment in equipment and buildings.

The economy continues to face significant downside risks. Further intensification of the European sovereign debt crisis would have a stronger adverse effect on foreign trade and on the confidence of German companies and consumers, which would significantly hamper economic growth. However, it is also conceivable that uncertainty will gradually ease and the German economy will expand at a stronger rate than expected.

This year, Germany and its economic growth are again likely to be the main source of momentum for the economic performance of the euro zone. Nonetheless, the economic output of the single currency area as a whole is widely predicted to decline slightly as most southern European countries are in recession. Inflation risks will remain moderate in the medium term owing to weaker economic performance overall. Although the rate of inflation in the euro zone was significantly higher than 2 percent – the critical threshold from a monetary policy perspective – in the first half of the year due to increased energy prices, it is expected to be on a downward trend by the end of the year.

Monetary policy is strongly expansionary at the moment. The European Central Bank reduced its key lending rate to a historically low level on July 5, 2012. Monetary policy is not expected to change course during 2012 owing to the ongoing high level of uncertainty surrounding the development of the European sovereign debt crisis. Demand for especially safe types of investment is likely to remain high in the financial markets. Yields on long-term German government bonds are therefore forecast to remain very low on a historical comparison.

Against the backdrop of these economic prospects and the imminent regulatory changes, 2012 will be another difficult year for the banking industry. National and international regulators feel compelled to impose strict, almost excessive rules on the entire financial services sector in order to avoid any escalation of the impact of the sovereign debt crisis on this sector. Of most significance are the equity capital and liquidity rules that have been defined.

The sustained low interest rates and continuing latent uncertainty in the capital markets are causing customers to keep their investment capital – which they most certainly have – in secure types of investment. This is impacting negatively on earnings in the financial services sector. Expenses for allowances for losses on loans and advances may also rise at an above-average rate in the second half of the year if the widely predicted economic slowdown takes place.

One of the consequences of the financial crisis is that nearly all banking groups have 'rediscovered' retail banking, in particular to safeguard their liquidity. We therefore anticipate that competition for customer deposits will rise, while margins are likely to fall.

Ultimately, the sovereign debt crisis will remain a significant source of risk and uncertainty for the financial sector's earnings forecasts.

Outlook
Volksbanken Raiffeisenbanken Cooperative Financial Network

Financial performance is likely to suffer again in 2012 owing to continued uncertainty resulting from the ongoing sovereign debt crisis in the euro zone, the difficult interest-rate situation, countless additional regulatory requirements, and intensified competition. Nevertheless, earnings this year will be similar to those of 2011 although not quite as high.

Economic conditions and, in particular, interest rates, which the European Central Bank is likely to keep at an extremely low level, will tend to have a negative impact on **net interest income.** If interest rates remain low and the interest-rate curve stays flat for a long time, the situation may become challenging in the long term, with considerable pressure on margins in customer business. The stabilizing effects on earnings resulting from maturity transformation, which compensate for declining net interest margin contributions from customer business and capital in the event of a continued fall in market interest rates, will reduce over time. This trend would automatically lead to a further fall in interest income. A strategic focus on corporate banking with the aim of increasing the Cooperative Financial Network's market penetration, the further targeted expansion in private banking, and the intensification of multichannel sales in retail banking will give a boost to net interest income.

Allowances for losses on loans and advances are likely to remain at a normal level. According to current estimates, this level will be sustained in 2012. Risks would arise if an escalation in the sovereign debt crisis were to trigger an economic downturn.

Economic conditions are anticipated to depress **net fee and commission income** in 2012. Reluctance on the part of private and institutional investors will particularly affect fee and commission income from securities business. Net fee and commission income is likely to rise again in 2013, but only once private and institutional investors have regained their confidence and the markets have settled down.

Gains on trading activities in 2012 will be higher than in 2011, provided that private and institutional investors gradually overcome their reluctance in the markets. This uptrend also requires a lasting solution to the sovereign debt crisis, which will then ease the tension in the capital markets.

Following the impairment losses recognized on Greek bonds in 2011 and the decline in impairment losses on securitization exposures, **losses on investments** should reduce substantially in 2012 and 2013.

There will be a positive trend in **net income from insurance** due to a continued rise in premiums in 2012 and 2013. This rise is fueled by the uptrend in non-life insurance and in health & life insurance. Following the losses incurred in 2011, gains and losses on investments held by insurance companies are expected to normalize again on the back of improving conditions in the capital markets in 2012 and 2013. Insurance business operating expenses in the next few years will keep step with premium income due to increases under collective pay agreements, the planned expansion of headcount, regulatory requirements, necessary IT projects, and rising fee and commission expenses. Unusual events on the capital markets, for example associated with the euro crisis or in underwriting, can affect earnings targets.

Administrative expenses will go up in 2012 and 2013, reflecting the higher expenses caused by the tighter regulatory and statutory requirements for finance companies. They will also be pushed up by increases under collective pay agreements and inflationary rises in general and administrative expenses.

In view of the ongoing sovereign debt crisis and additional adverse effects caused by regulatory changes, 2012 will be another difficult year for the entire financial sector. Nonetheless, the Volksbanken Raiffeisenbanken Cooperative Financial Network's risk position will remain comfortable and it will maintain ample capital resources. Thanks to its strong capital ratios, the Cooperative Financial Network has sufficient leeway for growth so that it can meet private and corporate customers' lending requirements. It is also in a comfortable position from which to tackle the future challenges posed by the regulatory requirements of Basel III.

Consolidated Financial Statements 2011

of the Volksbanken Raiffeisenbanken
Cooperative Financial Network

38
Income Statement for the Period January 1 to December 31, 2011

39
Statement of Comprehensive Income for the Period January 1 to December 31, 2011

40
Balance Sheet as at December 31, 2011

42
Changes in the Cooperative Network's Capital

44
Statement of Cash Flows

47
Notes to the Consolidated Financial Statements

General Disclosures

Income Statement Disclosures	**page**
1. Information on operating segments	56
2. Net interest income	59
3. Allowances for losses on loans and advances	60
4. Net fee and commission income	60
5. Gains and losses on trading activities	61
6. Gains and losses on investments	61
7. Other gains and losses on valuation of financial instruments	61
8. Premiums earned	62
9. Gains and losses on investments held by insurance companies and other insurance company gains and losses	62
10. Insurance benefit payments	62
11. Insurance business operating expenses	63
12. Administrative expenses	63
13. Other net operating income	63
14. Income taxes	64

Balance Sheet Disclosures	
15. Cash and cash equivalents	65
16. Loans and advances to banks and customers	65
17. Allowances for losses on loans and advances	66
18. Derivatives used for hedging (positive and negative fair values)	66
19. Financial assets held for trading	67
20. Investments	67
21. Investments held by insurance companies	68
22. Property, plant and equipment, and investment property	68
23. Income tax assets and liabilities	69
24. Other assets	70
25. Deposits from banks and amounts owed to other depositors	70
26. Debt certificates including bonds	71
27. Financial liabilities held for trading	71
28. Provisions	72
29. Insurance liabilities	74
30. Other liabilities	74
31. Subordinated capital	74
32. Exposures in countries particularly affected by the sovereign debt crisis	75

Other Disclosures	page
33. Financial guarantee contracts and loan commitments	75
34. Trust activities	76
35. Asset management by the Union Investment Group	76
36. Leases	77
37. Capital requirements and capital ratios	77
38. Changes in the contract portfolios held by Bausparkasse Schwäbisch Hall	78
39. Changes in the allocation assets of Bausparkasse Schwäbisch Hall	79
40. Cover statement for the mortgages and local authority loans extended by the mortgage banks	80
41. Events after the reporting period	82

Board of Managing Directors of the National Association of German Cooperative Banks (BVR) 82

84

Review Report (Translation)

Income Statement
for the Period January 1 to December 31, 2011

	Note no.	2011 € million	2010 € million	Change (percent)
Net interest income	2.	19,431	18,967	2.4
Interest income and current income and expense		*35,554*	*35,094*	*1.3*
Interest expense		*–16,123*	*–16,127*	*–*
Allowances for losses on loans and advances	3.	–738	–879	–16.0
Net fee and commission income	4.	4,788	5,015	–4.5
Fee and commission income		*6,107*	*6,329*	*–3.5*
Fee and commission expense		*–1,319*	*–1,314*	*0.4*
Gains and losses on trading activities	5.	665	1,279	–48.0
Gains and losses on investments	6.	–1,496	–1,149	30.2
Other gains and losses on valuation of financial instruments	7.	–1,761	–308	>100.0
Premiums earned	8.	11,193	10,921	2.5
Gains and losses on investments held by insurance companies and other insurance company gains and losses	9.	1,983	2,835	–30.1
Insurance benefit payments	10.	–10,968	–11,645	–5.8
Insurance business operating expenses	11.	–1,592	–1,492	6.7
Administrative expenses	12.	–15,895	–15,464	2.8
Other net operating income	13.	78	33	>100.0
Profit before taxes		**5,688**	**8,113**	**–29.9**
Income taxes	14.	–1,226	–2,024	–39.4
Net profit		**4,462**	**6,089**	**–26.7**

Attributable to:				
Shareholders of the Cooperative Financial Network		4,376	5,980	–26.8
Non-controlling interests		86	109	–21.1

Statement of Comprehensive Income for the Period January 1 to December 31, 2011

	2011 € million	2010 € million	Change (percent)
Net profit	**4,462**	**6,089**	**–26.7**
Gains and losses on available-for-sale financial assets	–726	–768	–5.5
Gains and losses on cash flow hedges	–10	9	>100.0
Exchange differences on currency translation of foreign operations	–	22	–100.0
Actuarial gains and losses on defined benefit plans	63	–293	>100.0
Share of other comprehensive income/loss attributable to joint ventures and associates accounted for using the equity method	–8	–13	–38.5
Other comprehensive income/loss before taxes	**–681**	**–1,043**	**–34.7**
Income taxes relating to components of other comprehensive income/loss	162	314	–48.4
Other comprehensive income/loss	**–519**	**–729**	**–28.8**
Total comprehensive income/loss	**3,943**	**5,360**	**–26.4**
Attributable to:			
Shareholders of the Cooperative Financial Network	3,941	5,321	–25.9
Non-controlling interests	2	39	–94.9

Balance Sheet as at December 31, 2011

Assets

	Note no.	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Cash and cash equivalents	15.	17,958	16,315	10.1
Loans and advances to banks	16.	44,589	40,136	11.1
Loans and advances to customers	16.	606,820	583,326	4.0
Allowances for losses on loans and advances	17.	–9,648	–10,709	–9.9
Derivatives used for hedging (positive fair values)	18.	1,468	1,390	5.6
Financial assets held for trading	19.	74,392	71,285	4.4
Investments	20.	235,266	237,043	–0.7
Investments held by insurance companies	21.	56,934	55,338	2.9
Property, plant and equipment, and investment property	22.	10,668	10,388	2.7
Income tax assets	23.	6,772	6,325	7.1
Other assets	24.	13,260	9,476	39.9
Total assets		**1,058,479**	**1,020,313**	**3.7**

Equity and Liabilities	Note no.	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Deposits from banks	25.	103,257	109,658	−5.8
Amounts owed to other depositors	25.	646,760	619,985	4.3
Debt certificates including bonds	26.	87,539	93,260	−6.1
Derivatives used for hedging (negative fair values)	18.	7,520	2,787	>100.0
Financial liabilities held for trading	27.	64,849	49,892	30.0
Provisions	28.	9,935	9,594	3.6
Insurance liabilities	29.	57,437	56,216	2.2
Income tax liabilities	23.	1,629	2,094	−22.2
Other liabilities	30.	7,802	7,602	2.6
Subordinated capital	31.	6,322	6,984	−9.5
Cooperative Network's capital		65,429	62,241	5.1
Subscribed capital		*9,624*	*9,377*	*2.6*
Capital reserves		*700*	*703*	*−0.4*
Retained earnings		*49,110*	*43,876*	*11.9*
Revaluation reserve		*−1,131*	*−674*	*67.8*
Cash flow hedge reserve		*−25*	*−19*	*31.6*
Currency translation reserve		*5*	*15*	*−66.7*
Non-controlling interests		*2,770*	*2,983*	*−7.1*
Unappropriated earnings		*4,376*	*5,980*	*−26.8*
Total equity and liabilities		**1,058,479**	**1,020,313**	**3.7**

Changes in the Cooperative Network's Capital

€ million	Subscribed capital	Capital reserves	Capital earned by the Cooperative Financial Network	Revaluation reserve	Cash flow hedge reserve	Currency translation reserve	Cooperative Network's capital before non-controlling interests	Non-controlling interests	Total Cooperative Network's capital
Cooperative Network's capital as at Jan. 1, 2010	**9,037**	**769**	**45,038**	**–183**	**–24**	**–20**	**54,617**	**2,961**	**57,578**
Net profit	–	–	5,980	–	–	–	5,980	109	6,089
Other comprehensive income/loss	–	–	–197	–502	5	35	–659	–70	–729
Total comprehensive income/loss	**–**	**–**	**5,783**	**–502**	**5**	**35**	**5,321**	**39**	**5,360**
Cooperative Network's capital issued and repaid	340	–66	–	–	–	–	274	36	310
Changes in scope of consolidation	–	–	80	11	–	–	91	53	144
Acquisition/disposal of non-controlling interests	–	–	10	–	–	–	10	–24	–14
Dividends paid	–	–	–458	–	–	–	–458	–82	–540
Other changes	–	–	–597	–	–	–	–597	–	–597
Cooperative Network's capital as at Dec. 31, 2010	**9,377**	**703**	**49,856**	**–674**	**–19**	**15**	**59,258**	**2,983**	**62,241**
Net profit	–	–	4,376	–	–	–	4,376	86	4,462
Other comprehensive income/loss	–	–	38	–457	–6	–10	–435	–84	–519
Total comprehensive income/loss	**–**	**–**	**4,414**	**–457**	**–6**	**–10**	**3,941**	**2**	**3,943**
Cooperative Network's capital issued and repaid	247	–3	–	–	–	–	244	–82	162
Changes in scope of consolidation	–	–	–	–	–	–	–	23	23
Acquisition/disposal of non-controlling interests	–	–	42	–	–	–	42	–78	–36
Dividends paid	–	–	–491	–	–	–	–491	–78	–569
Other changes	–	–	–335	–	–	–	–335	–	–335
Cooperative Network's capital as at Dec. 31, 2011	**9,624**	**700**	**53,486**	**–1,131**	**–25**	**5**	**62,659**	**2,770**	**65,429**

The table below gives a breakdown of subscribed capital.

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Cooperative shares	8,913	8,690	2.6
Share capital	173	169	2.4
Capital of silent partners	538	518	3.9
Total	**9,624**	**9,377**	**2.6**

Statement of Cash Flows

	2011 € million	2010 € million
Net profit	**4,462**	**6,089**
Non-cash items included in net profit/loss and reconciliation to cash flows from operating activities		
Depreciation, amortization, impairment losses, reversals of impairment losses on assets and other non-cash changes in financial assets and liabilities	4,030	1,916
Non-cash changes in provisions	339	685
Changes in insurance liabilities	5,211	6,053
Other non-cash income and expenses	9	5,041
Gains and losses on the disposal of assets and liabilities	1,499	1,145
Other adjustments (net)	–18,486	–18,642
Subtotal	**–2,936**	**2,287**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	–29,540	–25,485
Other assets from operating activities	–367	412
Derivatives used for hedging (positive and negative fair values)	1,214	1,007
Financial assets and financial liabilities held for trading	11,852	–2,454
Deposits from banks and amounts owed to other depositors	20,076	33,574
Debt certificates including bonds	–5,716	–13,951
Other liabilities from operating activities	–4,177	–2,728
Interest, dividends and operating lease payments received	36,096	40,897
Interest paid	–15,851	–20,849
Income taxes paid	–1,946	–1,818
Cash flows from investing activities	**8,705**	**10,892**

	2011 € million	2010 € million
Proceeds from the sale of investments	20,429	15,526
Proceeds from the sale of investments held by insurance companies	28,695	30,495
Payments for the acquisition of investments	–22,168	–18,770
Payments for the acquisition of investments held by insurance companies	–30,909	–35,104
Payments for the acquisition of property, plant and equipment, and investment property (excluding assets subject to operating leases)	–1,201	–887
Changes in the scope of consolidation	–4	17
Net change in cash and cash equivalents from other investing activities	–4	–33
Cash flows from investing activities	**–5,162**	**–8,756**
Proceeds from increases Cooperative Network's capital	244	310
Dividends paid to shareholders of the Cooperative Financial Network and non-controlling interests	–569	–540
Other payments to shareholders of the Cooperative Financial Network and non-controlling interests	–82	–
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	–1,493	–1,193
Cash flows from financing activities	**–1,900**	**–1,423**
Cash and cash equivalents as at Jan. 1	**16,315**	**15,602**
Cash flows from operating activities	8,705	10,892
Cash flows from investing activities	–5,162	–8,756
Cash flows from financing activities	–1,900	–1,423
Cash and cash equivalents as at Dec. 31	**17,958**	**16,315**

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 public-sector debt instruments and bills of exchange eligible for refinancing by central banks. The cash and cash equivalents does 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 Volksbanken Raiffeisenbanken 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 Cooperative Network capital holders and from other borrowing to finance business activities.

Notes to the Consolidated Financial Statements
General disclosures

Basis of preparation

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network prepared by the National Association of German Cooperative Banks (BVR) are based on the regulations applicable to publicly traded companies in the European Union (EU). 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 the DZ BANK Group and of the WGZ BANK Group 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 and of the BVR protection scheme that 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.

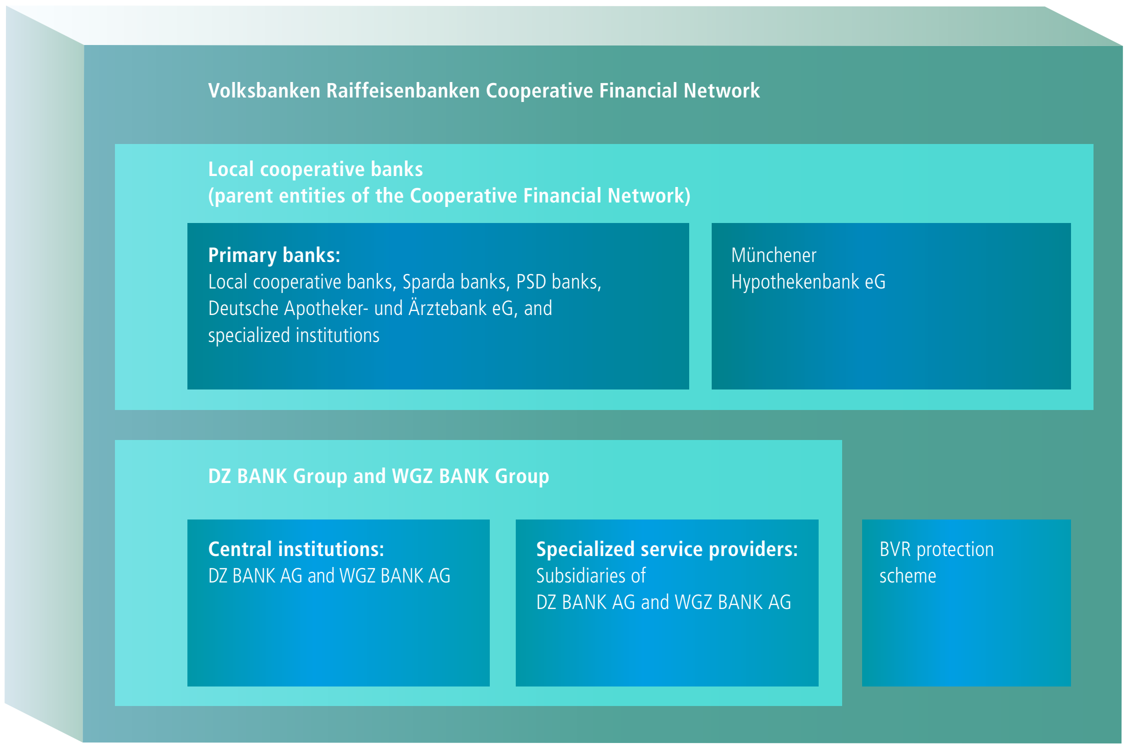
In the interest of clarity, some items on the face of the balance sheet and the income statement have been aggregated and are explained by additional disclosures. Unless stated otherwise, all amounts are shown in millions of euros (€ million). All figures are rounded to the nearest whole number. This 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 the 1,115 primary banks (2010: 1,131), the DZ BANK Group, the WGZ BANK Group, Münchener Hypothekenbank eG (MHB), and the BVR protection scheme. 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 in the consolidated financial statements, whereas the other corporate groups and entities are consolidated as subsidiaries. The two cooperative central institutions and a total of 941 subsidiaries (2010: 984) have been consolidated in the DZ BANK Group and WGZ BANK Group.

The consolidated financial statements include 22 joint ventures between a consolidated entity and at least one other non-network entity (2010: 24) and 15 associates (2010: 12) 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 IAS 27, 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. Any positive difference between these two amounts is recognized as goodwill under other assets and subjected 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 the Cooperative Network's capital.

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 a financial year ended December 31, 2011. There are 3 subsidiaries (2010: 3 subsidiaries) included in the consolidated financial statements with different reporting dates for their annual financial statements. With 5 exceptions (2010: 4 exceptions), the separate financial statements of the entities accounted for using the equity method are prepared to 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. Significant 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 two subcategories, as shown below.

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 as defined by IAS 39.

Financial instruments designated as at fair value through profit or loss; fair value option

Generally, all 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. The Cooperative Financial Network uses this category on the basis of all the specified application criteria.

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 two reporting dates are recognized in other comprehensive income. The fair value changes are reported in the Cooperative Network's capital 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

Separate regulations apply to other financial instruments, such as insurance-related financial assets and financial liabilities, liabilities under financial guarantee contracts, and assets and liabilities arising from finance leases.

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 its 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 a 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 to banks and customers.

The recognition of allowances for losses on loans and advances in the Cooperative Financial Network also includes changes in the provisions for loan commitments 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 to banks and customers.

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 in accordance with IAS 39.

Changes in the fair value of hedging instruments used to protect the fair value of hedged items are recognized in the income statement. If the hedging instruments are intended as a cash flow hedge, 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 paper. Liabilities result primarily from money market transactions.

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. Financial assets and financial liabilities held for trading are recognized at fair value through profit or loss.

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 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 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 directly in the Cooperative Network's equity, 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.

Deposits from banks and amounts owed to other depositors

All liabilities attributable to registered creditors and not classified as "financial liabilities held for trading" are recognized as deposits from banks and amounts owed to other depositors. In addition to fixed-maturity liabilities and liabilities repayable on demand arising from the deposit, home savings and money market businesses, these liabilities also include registered bonds and promissory notes issued.

Deposits from banks and amounts owed to other depositors 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 amounts owed to other depositors 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 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 amounts owed to other depositors.

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 and other post-employment benefits. 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 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 and plan assets are recognized as other comprehensive income / loss 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.

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 the Cooperative Network's capital, 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 amounts owed to other depositors.

Cooperative Network's capital

The Cooperative Network's capital represents the residual value of the 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 the Cooperative Network's capital. The Cooperative Network's capital 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 the capital 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 Cooperative Network's capital 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 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

Under IFRS 4.13, insurance companies are permitted to continue applying existing accounting policies to certain insurance-specific items during a transition period. As required by IFRS 4.25(c), 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.

Income Statement Disclosures

1. Information on operating segments

Financial Year 2011 € million	Bank	Retail	Real Estate Finance	Insurance	Other/ Consoli-dation	Total
Net interest income	1,800	16,602	1,444	–	–415	19,431
Allowances for losses on loans and advances	–217	–353	–112	–	–56	–738
Net fee and commission income	547	5,011	–276	–	–494	4,788
Gains and losses on trading activities	479	193	–1	–	–6	665
Gains and losses on investments	–69	–1,265	–147	–	–15	–1,496
Other gains and losses on valuation of financial instruments	46	26	–1,809	–	–24	–1,761
Premiums earned	–	–	–	11,193	–	11,193
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	2,175	–192	1,983
Insurance benefit payments	–	–	–	–10,968	–	–10,968
Insurance business operating expenses	–	–	–	–2,095	503	–1,592
Administrative expenses	–1,502	–14,140	–634	–	381	–15,895
Other net operating income	–113	162	50	–19	–2	78
Profit/loss before taxes	**971**	**6,236**	**–1,485**	**286**	**–320**	**5,688**
Cost/income ratio (percent)	55.8	68.2	>100.0	–	–	71.2

Financial Year 2010 € million	Bank	Retail	Real Estate Finance	Insurance	Other/ Consoli-dation	Total
Net interest income	1,604	16,473	1,381	–	–491	18,967
Allowances for losses on loans and advances	–148	–625	–86	–	–20	–879
Net fee and commission income	554	5,107	–224	–	–422	5,015
Gains and losses on trading activities	1,184	116	–22	–	1	1,279
Gains and losses on investments	–452	–530	–231	–	64	–1,149
Other gains and losses on valuation of financial instruments	19	13	–342	–	2	–308
Premiums earned	–	–	–	10,921	–	10,921
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	3,051	–216	2,835
Insurance benefit payments	–	–	–	–11,645	–	–11,645
Insurance business operating expenses	–	–	–	–1,935	443	–1,492
Administrative expenses	–1,443	–13,806	–597	–	382	–15,464
Other net operating income	–43	45	41	–16	6	33
Profit/loss before taxes	**1,275**	**6,793**	**–80**	**376**	**–251**	**8,113**
Cost/income ratio (percent)	50.3	65.0	99.0	–	–	63.2

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 AG Deutsche Zentral-Genossenschaftsbank (DZ BANK) and Westdeutsche Genossenschafts-Zentralbank AG (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 investment banking 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, WGZ BANK Ireland plc, and ReiseBank AG.

The Retail operating segment therefore 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, MHB, the WGZ Immobilien + Treuhand Group, and WGZ Immobilien + Management GmbH.

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

Other/Consolidation contains the BVR protection scheme, 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 the BVR protection scheme 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

	2011 € million	2010 € million	Change (percent)
Interest income and current income and expense	**35,554**	**35,094**	**1.3**
Interest income from	***34,197***	***33,857***	***1.0***
Lending and money market business	28,774	28,332	1.6
of which: home savings loans	947	916	3.4
finance leases	392	362	8.3
Fixed-income securities	5,690	5,787	–1.7
Other assets	–267	–262	1.9
Current income from	***1,171***	***1,068***	***9.6***
Shares and other variable-yield securities	1,018	927	9.8
Investments in subsidiaries and equity investments	56	67	–16.4
Operating leases	97	74	31.1
Income/loss from using the equity method for	***85***	***31***	***>100.0***
Interests in joint ventures	74	58	27.6
Investments in associates	11	–27	>100.0
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***101***	***138***	***–26.8***
Interest expense	**–16,123**	**–16,127**	**–**
Interest expense on	***–15,370***	***–15,495***	***–0.8***
Deposits from banks and amounts owed to other depositors	–13,159	–13,174	–0.1
of which: home savings loans	–702	–655	7.2
Debt certificates including bonds	–1,840	–1,987	–7.4
Subordinated capital	–422	–427	–1.2
Other liabilities	51	93	–45.2
Other interest expense	***–753***	***–632***	***19.1***
Total	**19,431**	**18,967**	**2.4**

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.

3. Allowances for losses on loans and advances

	2011 € million	2010 € million	Change (percent)
Additions	–2,864	–3,020	–5.2
Reversals	2,349	2,334	0.6
Directly recognized impairment losses	–306	–445	–31.2
Receipts from loans and advances previously impaired	216	275	–21.5
Changes in the provisions for loans and advances as well as in the liabilities from financial guarantee contracts	–133	–23	>100.0
Total	**–738**	**–879**	**–16.0**

4. Net fee and commission income

	2011 € million	2010 € million	Change (percent)
Fee and commission income	**6,107**	**6,329**	**–3.5**
Securities business	2,644	2,799	–5.5
Asset management	145	150	–3.3
Payments processing including card processing	2,121	2,135	–0.7
Lending business and trust activities	270	269	0.4
Financial guarantee contracts and loan commitments	175	162	8.0
International business	136	131	3.8
Building society operations	309	285	8.4
Other	307	398	–22.9
Fee and commission expense	**–1,319**	**–1,314**	**0.4**
Securities business	–516	–533	–3.2
Asset management	–10	–10	–
Payments processing including card processing	–221	–222	–0.5
Lending business and trust activities	–104	–133	–21.8
Financial guarantee contracts and loan commitments	–7	–5	40.0
International business	–20	–16	25.0
Building society operations	–357	–318	12.3
Other	–84	–77	9.1
Total	**4,788**	**5,015**	**–4.5**

5. Gains and losses on trading activities

	2011 € million	2010 € million	Change (percent)
Gains and losses on trading in financial instruments	535	1,153	–53.6
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	–66	–50	32.0
Gains and losses on commodities trading	196	176	11.4
Total	**665**	**1,279**	**–48.0**

6. Gains and losses on investments

	2011 € million	2010 € million	Change (percent)
Gains and losses from securities	–1,515	–1,134	33.6
Gains and losses from investments in subsidiaries and equity investments	19	–15	>100.0
Total	**–1,496**	**–1,149**	**30.2**

7. Other gains and losses on valuation of financial instruments

	2011 € million	2010 € million	Change (percent)
Gains and losses arising on hedging transactions	**19**	**–5**	**>100.0**
Fair value hedges	***18***	***–1***	***>100.0***
Gains and losses on hedging instruments	–3,536	–618	>100.0
Gains and losses on hedged items	3,554	617	>100.0
Cash flow hedges	***1***	***–4***	***>100.0***
Gains and losses on derivatives held for purposes other than trading	**–1**	**440**	**>100.0**
Gains and losses on financial instruments designated as at fair value through profit or loss	**–1,779**	**–743**	**>100.0**
Total	**–1,761**	**–308**	**>100.0**

8. Premiums earned

	2011 € million	2010 € million	Change (percent)
Net premiums written	**11,241**	**10,930**	**2.8**
Gross premiums written	11,332	11,104	2.1
Reinsurance premiums ceded	–91	–174	–47.7
Change in provision for unearned premiums	**–48**	**–9**	**>100.0**
Gross premiums	–36	–26	38.5
Reinsurers' share	–12	17	>100.0
Total	**11,193**	**10,921**	**2.5**

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

	2011 € million	2010 € million	Change (percent)
Interest income and current income	2,442	2,334	4.6
Administrative expenses	–121	–99	22.2
Gains and losses on valuation and disposals	–545	418	>100.0
Other gains and losses of insurance companies	207	182	13.7
Total	**1,983**	**2,835**	**–30.1**

10. Insurance benefit payments

	2011 € million	2010 € million	Change (percent)
Expenses for claims	**–9,035**	**–7,472**	**20.9**
Gross expenses for claims	–9,091	–7,615	19.4
Reinsurers' share	56	143	–60.8
Changes in benefit reserve, reserve for deferred policyholder participation, and in other insurance liabilities	**–1,933**	**–4,173**	**–53.7**
Changes in gross liabilities	–1,897	–4,157	–54.4
Reinsurers' share	–36	–16	>100.0
Total	**–10,968**	**–11,645**	**–5.8**

11. Insurance business operating expenses

	2011 € million	2010 € million	Change (percent)
Gross expenses	–1,624	–1,530	6.1
Reinsurers' share	32	38	–15.8
Total	**–1,592**	**–1,492**	**6.7**

12. Administrative expenses

	2011 € million	2010 € million	Change (percent)
Staff expenses	–9,486	–9,367	1.3
General and administrative expenses	–5,500	–5,213	5.5
Depreciation/amortization and impairment losses	–909	–884	2.8
Total	**–15,895**	**–15,464**	**2.8**

13. Other net operating income

	2011 € million	2010 € million	Change (percent)
Gains and losses on non-current assets and disposal groups classified as held for sale	–44	–12	>100.0
Other operating income	1,094	1,171	–6.6
Other operating expenses	–972	–1,126	–13.7
Total	**78**	**33**	**>100.0**

14. Income taxes

	2011 € million	2010 € million	Change (percent)
Current tax expense	–2,013	–1,920	4.8
Deferred tax income/expense	787	–104	>100.0
Total	**–1,226**	**–2,024**	**–39.4**

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 15.0 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.

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

	2011 € million	2010 € million	Change (percent)
Profit before taxes	**5,688**	**8,113**	**–29.9**
Notional rate of income tax in the Cooperative Financial Network (percent)	29.825	29.825	
Expected income taxes	**–1,696**	**–2,420**	**–29.9**
Income tax effects	**470**	**396**	**18.7**
Impact of tax-exempt income and non-deductible expenses	159	248	–35.9
Adjustments resulting from other types of income tax, other trade tax multipliers, and changes in tax rates	–29	15	>100.0
Tax rate differences on income subject to taxation in other countries	10	9	11.1
Current and deferred taxes relating to prior periods	95	369	–74.3
Change in impairment losses on deferred tax assets	415	–353	>100.0
Other effects	–180	108	>100.0
Recognized income taxes	**–1,226**	**–2,024**	**–39.4**

Balance Sheet Disclosures

15. Cash and cash equivalents

	2011 € million	2010 € million	Change (percent)
Cash on hand	5,223	5,204	0.4
Balances with central banks and other government institutions	12,652	11,074	14.2
of which: with Deutsche Bundesbank	12,494	10,789	15.8
Public-sector debt instruments and bills of exchange eligible for refinancing by central banks	83	37	>100.0
Total	**17,958**	**16,315**	**10.1**

16. Loans and advances to banks and customers

	2011 € million	2010 € million	Change (percent)
Loans and advances to banks	**44,589**	**40,136**	**11.1**
Repayable on demand	***15,459***	***8,599***	***79.8***
Other loans and advances	***29,130***	***31,537***	***–7.6***
Mortgage loans	80	99	–19.2
Local authority loans	6,160	6,678	–7.8
Other loans and advances	22,890	24,760	–7.6
Loans and advances to customers	**606,820**	**583,326**	**4.0**
Mortgage loans	213,995	211,921	1.0
Local authority loans	46,231	48,007	–3.7
Building loans advanced by building society	23,975	22,182	8.1
of which: from allotment (home savings loans)	6,430	6,582	–2.3
for advance and interim financing	15,880	14,360	10.6
other building loans	1,665	1,240	34.3
Finance leases	5,590	5,036	11.0
Other loans and advances	317,029	296,180	7.0

17. Allowances for losses on loans and advances

€ million	Specific loan loss allowances	Portfolio loan loss allowances	Total
Balance as of Jan. 1, 2010	**11,080**	**1,395**	**12,475**
Additions	2,919	101	3,020
Utilizations	–2,269	–	–2,269
Reversals	–2,117	–258	–2,375
Changes in scope of consolidation	–1	6	5
Other changes	–97	–50	–147
Balance as of Dec. 31, 2010	**9,515**	**1,194**	**10,709**
Additions	2,523	341	2,864
Utilizations	–1,528	–	–1,528
Reversals	–2,156	–222	–2,378
Changes in scope of consolidation	1	–	1
Other changes	–5	–15	–20
Balance as of Dec. 31, 2011	**8,350**	**1,298**	**9,648**

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

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Derivatives used for hedging (positive fair values)	**1,468**	**1,390**	**5.6**
Fair value hedges	1,467	1,384	6.0
Cash flow hedges	1	6	–83.3
Derivatives used for hedging (negative fair values)	**7,520**	**2,787**	**>100.0**
Fair value hedges	7,493	2,759	>100.0
Cash flow hedges	27	28	–3.6

19. Financial assets held for trading

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Derivatives (positive fair values)	**36,013**	**26,397**	**36.4**
Interest-linked contracts	30,364	21,053	44.2
Currency-linked contracts	1,459	1,126	29.6
Share- and index-linked contracts	947	1,640	–42.3
Credit derivatives	2,234	1,452	53.9
Other contracts	1,009	1,126	–10.4
Securities	**21,198**	**31,125**	**–31.9**
Bonds and other fixed-income securities	20,698	30,192	–31.4
Shares and other variable-yield securities	500	933	–46.4
Receivables	**16,795**	**13,394**	**25.4**
Inventories and trade receivables	**386**	**369**	**4.6**
Total	**74,392**	**71,285**	**4.4**

20. Investments

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Securities	**231,113**	**232,897**	**–0.8**
Bonds and other fixed-income securities	188,744	190,345	–0.8
Shares and other variable-yield securities	42,369	42,552	–0.4
Investments in subsidiaries	**1,913**	**1,881**	**1.7**
Equity investments	**2,240**	**2,265**	**–1.1**
Interests in joint ventures	634	526	20.5
Investments in associates	222	218	1.8
Other shareholdings	1,384	1,521	–9.0
Total	**235,266**	**237,043**	**–0.7**

21. Investments held by insurance companies

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Investment property	1,402	1,170	19.8
Investments in subsidiaries, joint ventures and associates	431	454	–5.1
Mortgage loans	5,722	4,975	15.0
Promissory notes and loans	9,103	9,641	–5.6
Registered bonds	9,185	9,245	–0.6
Other loans	1,689	1,620	4.3
Variable-yield securities	4,254	4,475	–4.9
Fixed-income securities	19,883	18,480	7.6
Derivatives (positive fair values)	168	90	86.7
Deposits with ceding insurers	152	149	2.0
Assets related to unit-linked contracts	4,945	5,039	–1.9
Total	**56,934**	**55,338**	**2.9**

22. Property, plant and equipment, and investment property

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Land and buildings	6,319	6,073	4.1
Office furniture and equipment	1,401	1,379	1.6
Assets subject to operating leases	1,353	1,488	–9.1
Investment property	123	121	1.7
Other fixed assets	1,472	1,327	10.9
Total	**10,668**	**10,388**	**2.7**

23. Income tax assets and liabilities

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Income tax assets	**6,772**	**6,325**	**7.1**
Current income tax assets	3,269	3,432	–4.7
Deferred tax assets	3,503	2,893	21.1
Income tax liabilities	**1,629**	**2,094**	**–22.2**
Current income tax liabilities	843	988	–14.7
Deferred tax liabilities	786	1,106	–28.9

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.

	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Dec. 31, 2011 € million	Dec. 31, 2010 € million
Tax loss carryforwards	709	211		
Loans and advances to banks and customers (net)	249	234	1,014	825
Financial assets and liabilities held for trading, derivatives used for hedging (positive and negative fair values)	1,532	1,199	532	570
Investments	925	935	463	258
Investments held by insurance companies	158	157	237	293
Deposits from banks and amounts owed to other depositors	958	644	178	224
Debt certificates including bonds	197	185	48	91
Provisions	896	868	123	112
Insurance liabilities	328	319	534	455
Other balance sheet items	226	172	332	309
Total (gross)	**6,178**	**4,924**	**3,461**	**3,137**
Netting of deferred tax assets and deferred tax liabilities	–2,675	–2,031	–2,675	–2,031
Total (net)	**3,503**	**2,893**	**786**	**1,106**

24. Other assets

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Other assets held by insurance companies	3,433	3,326	3.2
Goodwill	189	187	1.1
Other intangible assets	312	309	1.0
Prepaid expenses	334	384	–13.0
Other receivables	2,406	2,534	–5.1
Non-current assets classified as held for sale	138	146	–5.5
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	5,098	1,664	>100.0
Residual other assets	1,350	926	45.8
Total	**13,260**	**9,476**	**39.9**

25. Deposits from banks and amounts owed to other depositors

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Deposits from banks	**103,257**	**109,658**	**–5.8**
Repayable on demand	11,274	8,047	40.1
With agreed maturity or notice period	91,983	101,611	–9.5
Amounts owed to other depositors	**646,760**	**619,985**	**4.3**
Savings deposits and home savings deposits	***226,104***	***222,463***	***1.6***
Savings deposits with agreed notice period of three months	165,396	159,801	3.5
Savings deposits with agreed notice period of more than three months	21,963	26,504	–17.1
Home savings deposits	38,745	36,158	7.2
Other amounts owed to other depositors	***420,656***	***397,522***	***5.8***
Repayable on demand	248,622	233,169	6.6
With agreed maturity or notice period	172,034	164,353	4.7

26. Debt certificates including bonds

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Bonds issued	**79,710**	**88,570**	**–10.0**
Mortgage Pfandbriefe	22,128	21,476	3.0
Public-sector Pfandbriefe	24,821	30,934	–19.8
Other bonds	32,761	36,160	–9.4
Other debt certificates	**7,829**	**4,690**	**66.9**
Total	**87,539**	**93,260**	**–6.1**

27. Financial liabilities held for trading

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Derivatives (negative fair values)	**39,122**	**29,882**	**30.9**
Interest-linked contracts	31,856	22,964	38.7
Currency-linked contracts	1,489	1,490	–0.1
Share- and index-linked contracts	2,020	2,745	–26.4
Credit derivatives	2,328	1,495	55.7
Other contracts	1,429	1,188	20.3
Delivery commitments arising from short sales of securities	**2,977**	**2,756**	**8.0**
Bonds and other debt certificates issued	**12,817**	**11,769**	**8.9**
Commercial paper	2,449	1,643	49.1
Other bonds	10,368	10,126	2.4
Liabilities	**9,888**	**5,451**	**81.4**
Liabilities from commodities transactions and commodity lending	**45**	**34**	**32.4**
Total	**64,849**	**49,892**	**30.0**

28. Provisions

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Provisions for defined benefit obligations	5,402	5,374	0.5
Provisions for loans and advances	534	492	8.5
Provisions relating to building society operations	423	380	11.3
Residual provisions	3,576	3,348	6.8
Total	**9,935**	**9,594**	**3.6**

Breakdown of provisions for defined benefit obligations

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Present value of defined benefit obligations not funded by plan assets	5,377	5,346	0.6
Present value of defined benefit obligations funded by plan assets	1,042	1,023	1.9
Present value of defined benefit obligations	**6,419**	**6,369**	**0.8**
less fair value of plan assets	–1,045	–1,042	0.3
Defined benefit obligations (net)	**5,374**	**5,327**	**0.9**
Recognized surplus	27	45	–40.0
Unrecognized surplus	1	2	–50.0
Provisions for defined benefit obligations	**5,402**	**5,374**	**0.5**

Changes in the present value of the defined benefit obligations

	2011 € million	2010 € million	Change (percent)
Present value of defined benefit obligations as at Jan. 1	**6,369**	**5,957**	**6.9**
Current service cost	105	93	12.9
Interest expense	316	324	–2.5
Pension benefits paid	–309	–295	4.7
Actuarial gains (–)/losses (+)	–78	279	>100.0
Other changes	16	11	45.5
Present value of defined benefit obligations as at Dec. 31	**6,419**	**6,369**	**0.8**

Changes in plan assets

	2011 € million	2010 € million	Change (percent)
Fair value of plan assets as at Jan. 1	**1,042**	**1,034**	**0.8**
Expected return on plan assets	39	36	8.3
Contributions to plan assets	13	17	–23.5
Withdrawals from plan assets	–1	–	–
Pension benefits paid	–45	–49	–8.2
Actuarial gains (–)/losses (+)	–13	–4	>100.0
Other changes	10	8	25.0
Fair value of plan assets as at Dec. 31	**1,045**	**1,042**	**0.3**

Actuarial assumptions used for defined benefit obligations and plan assets

	Dec. 31, 2011 (percent)	Dec. 31, 2010 (percent)
Discount rate	5.00–5.60	5.00–5.50
Expected rate of return on plan assets	3.74	3.28
Salary increases	1.50–3.50	1.50–3.50
Pension increases	0.00–3.00	0.00–3.00
Staff turnover	1.00–7.00	1.00–7.00

29. Insurance liabilities

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Provision for unearned premiums	1,053	1,016	3.6
Benefit reserve	40,344	39,145	3.1
Provision for claims outstanding	6,510	6,115	6.5
Reserve for deferred policyholder participation	4,871	5,253	–7.3
Other insurance liabilities	34	50	–32.0
Reserve for unit-linked insurance contracts	4,625	4,637	–0.3
Total	**57,437**	**56,216**	**2.2**

30. Other liabilities

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Other liabilities of insurance companies	4,063	4,124	–1.5
Other payables and accruals	2,621	2,723	–3.7
Liabilities included in disposal groups	9	13	–30.8
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	451	180	>100.0
Residual other liabilities	658	562	17.1
Total	**7,802**	**7,602**	**2.6**

31. Subordinated capital

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Subordinated liabilities	4,639	5,005	–7.3
Profit-sharing rights	1,254	1,558	–19.5
Other hybrid capital	387	374	3.5
Share capital repayable on demand	42	47	–10.6
Total	**6,322**	**6,984**	**–9.5**

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

	Dec. 31, 2011 € million
Portugal	899
Italy	4,873
Ireland	675
Greece	546
Spain	4,432
Total	**11,425**

The table shows the carrying amounts of debt related to national governments and other public authorities in countries 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.

Other Disclosures

33. Financial guarantee contracts and loan commitments

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Financial guarantee contracts	17,108	17,677	–3.2
Loan commitments	55,366	52,088	6.3
Total	**72,474**	**69,765**	**3.9**

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

34. Trust activities

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Trust assets	4,409	4,807	–8.3
of which: trust loans	3,099	3,508	–11.7
Trust liabilities	4,409	4,807	–8.3
of which: trust loans	3,099	3,508	–11.7

35. Asset management by the Union Investment Group

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Fund assets	**156,341**	**164,086**	**–4.7**
Other types of asset management	**20,303**	**19,119**	**6.2**
Institutional asset management	3,659	2,793	31.0
Advisory and outsourcing	16,644	16,326	1.9
Accounts managed by third parties	**–6,368**	**–5,800**	**9.8**
Total	**170,276**	**177,405**	**–4.0**

As at the balance sheet date, Union Investment Group (through Union Asset Management Holding) had total assets under management of Euro 170,276 million (December 31, 2010: Euro 177,405 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. As at the balance sheet date, Union Investment Group also managed assets as part of institutional asset management, and advisory and outsourcing operations. The fund value 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 BVI Bundesverband Investment und Asset Management e.V. (BVI) [Federal Association of German Fund Management Companies], Frankfurt am Main.

36. Leases

Finance leases with the Cooperative Financial Network as lessor

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Gross investment	**6,700**	**5,748**	**16.6**
Up to 1 year	1,787	1,810	–1.3
More than 1 year and up to 5 years	3,450	3,310	4.2
More than 5 years	1,463	628	>100.0
less unearned finance income	**–1,112**	**–709**	**56.8**
Net investment	**5,588**	**5,039**	**10.9**
less present value of unguaranteed residual values	**–107**	**–95**	**12.6**
Present value of minimum lease payment receivables	**5,481**	**4,944**	**10.9**
Up to 1 year	1,501	1,553	–3.3
More than 1 year and up to 5 years	2,913	2,869	1.5
More than 5 years	1,067	522	>100.0

As at the balance sheet date, the accumulated allowance for uncollectable minimum lease payments at lessor companies amounted to Euro 49 million (December 31, 2010: Euro 37 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. The real estate and equipment leases entered into with customers by the entities in the VR LEASING Group mainly comprise partial-payout leases, full-payout leases, and cancelable leases; these entities also enter into hire purchase agreements.

37. Capital requirements and capital ratios

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Total capital	**70,126**	**65,902**	**6.4**
Tier 1 capital	45,641	42,762	6.7
Tier 2 capital	27,037	25,949	4.2
Capital requirements	**40,201**	**38,522**	**4.4**
Tier 1 capital ratio (percent)	**9.1**	**8.9**	
Total capital ratio (percent)	**14.0**	**13.7**	

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

	Not allocated		Allocated		Total	
	Number of contracts	Home savings sum € million	Number of contracts	Home savings sum € million	Number of contracts	Home savings sum € million
Balance as at Dec. 31, 2010	**6,144,532**	**196,315**	**1,081,142**	**28,363**	**7,225,674**	**224,678**
Additions in 2011 as a result of						
New contracts (redeemed contracts)[1]	858,062	29,990	–	–	858,062	29,990
Transfers	24,167	648	3,330	89	27,497	737
Allocation waivers and cancellations	7,748	247	–	–	7,748	247
Splitting	225,114	–	383	–	225,497	–
Allocations and acceptance of allocations	–	–	408,333	9,510	408,333	9,510
Other	108,281	3,634	82	8	108,363	3,642
Total	**1,223,372**	**34,519**	**412,128**	**9,607**	**1,635,500**	**44,126**
Disposal in 2011 as a result of						
Allocations and acceptance of allocations	–408,333	–9,510	–	–	–408,333	–9,510
Reductions	–	–1,189	–	–	–	–1,189
Termination	–329,139	–7,047	–258,012	–5,110	–587,151	–12,157
Transfers	–24,167	–648	–3,330	–89	–27,497	–737
Pooling[1]	–125,182	–	–12	–	–125,194	–
Expiration	–	–	–168,272	–4,425	–168,272	–4,425
Allocation waivers and cancellations	–	–	–7,748	–247	–7,748	–247
Other	–108,281	–3,634	–82	–8	–108,363	–3,642
Total	**–995,102**	**–22,028**	**–437,456**	**–9,879**	**–1,432,558**	**–31,907**
Net addition/disposal	228,270	12,491	–25,328	–272	202,942	12,219
Balance as of Dec. 31, 2011	**6,372,802**	**208,806**	**1,055,814**	**28,091**	**7,428,616**	**236,897**

1 Including increases

Volume of unredeemed contracts

	Number of contracts	Home savings sum € million
Contracts signed prior to Jan. 1, 2011	53,549	1,877
Contracts signed in 2011	243,796	9,120

39. Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2011 € million
Additions	
Amounts carried forward from 2010 (surplus)	
Amounts not yet disbursed	30,190
Additions in 2011	
Savings deposits (including credited residential construction bonuses)	8,102
Repayable amounts (including credited residential construction bonuses)[1]	2,143
Interest on home savings deposits	643
Building society guarantee fund[2]	23
Total	**41,101**
Withdrawals	
Withdrawals in 2011	
Amounts allocated (if disbursed)	
Home savings deposits	5,227
Building loans	1,975
Repayment of deposits on non-allocated home savings contracts	927
Surplus of additions	
(Amounts not yet disbursed) at the end of 2011[3]	32,972
Total	**41,101**

1 Amounts repaid are the portion of the loan principal actually repaid.
2 Section 6 of the German Building and Loan Associations Act stipulates that income from the investment of funds earmarked for allocation that temporarily cannot be allocated must be transferred to the special building society guarantee fund in order to protect the interests of savers. Under IFRS accounting, this fund is included in retained earnings as part of the Cooperative Network's capital.
3 The surplus amounts allocated include:
a) undisbursed home savings deposits from allocated home savings contracts Euro 121 million
b) undisbursed home savings loans from funds allocated Euro 3,059 million

40. Cover statement for the mortgages and local authority loans extended by the mortgage banks

	Mortgage Pfandbriefe			Public-sector Pfandbriefe		
	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Ordinary cover	**40,630**	**39,427**	**3.1**	**54,964**	**60,445**	**–9.1**
Loans and advances to banks	73	62	17.7	5,563	5,910	–5.9
of which: mortgage loans	73	62	17.7	–	–	–
local authority loans	–	–	–	5,563	5,910	–5.9
Loans and advances to customers	40,492	39,300	3.0	32,298	34,541	–6.5
of which: mortgage loans	40,492	39,300	3.0	699	1,287	–45.7
local authority loans	–	–	–	31,599	33,254	–5.0
Investments consisting of bonds and other fixed-income securities	–	–	–	11,956	13,540	–11.7
Property, plant and equipment	65	65	–	5,147	6,454	–20.3
Extended cover	**2,939**	**3,868**	**–24.0**	**3,501**	**4,492**	**–22.1**
Loans and advances to banks	1,166	425	>100.0	2,324	2,641	–12.0
Investments consisting of bonds and other fixed-income securities	1,773	3,446	–48.5	1,177	1,840	–36.0
Derivatives held as cover	–	–3	–100.0	–	11	–100.0
Bank buildings held as cover	**85**	**85**	**–**	**–**	**–**	**–**
Total cover	**43,654**	**43,380**	**0.6**	**58.465**	**64,937**	**–10.0**
Pfandbriefe requiring cover	**–38,091**	**–37,283**	**2.2**	**–51,209**	**–59,255**	**–13.6**
Nominal excess cover	**5,563**	**6,097**	**–8.8**	**7,256**	**5,682**	**27.7**
Present value of excess cover	**7,595**	**8,113**	**–6.4**	**7,947**	**6,215**	**27.9**
Risk-related present value of excess cover	**6,563**	**6,997**	**–6.2**	**7,368**	**5,729**	**28.6**

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, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Mortgage Pfandbriefe	**38,091**	**37,283**	**2.2**
Up to 1 year	4,899	5,546	–11.7
More than 1 year and up to 5 years	21,237	19,732	7.6
More than 5 years and up to 10 years	8,202	9,104	–9.9
More than 10 years	3,753	2,901	29.4
Public-sector Pfandbriefe	**51,209**	**59,255**	**–13.6**
Up to 1 year	8,155	8,591	–5.1
More than 1 year and up to 5 years	23,249	25,613	–9.2
More than 5 years and up to 10 years	8,998	13,504	–33.4
More than 10 years	10,807	11,547	–6.4

Fixed-interest periods of cover assets

	Dec. 31, 2011 € million	Dec. 31, 2010 € million	Change (percent)
Mortgage Pfandbriefe	**43,654**	**43,380**	**0.6**
Up to 1 year	5,999	5,989	0.2
More than 1 year and up to 5 years	20,363	21,083	–3.4
More than 5 years and up to 10 years	14,179	13,437	5.5
More than 10 years	3,113	2,871	8.4
Public-sector Pfandbriefe	**58,465**	**64,937**	**–10.0**
Up to 1 year	7,840	7,829	0.1
More than 1 year and up to 5 years	25,971	28,902	–10.1
More than 5 years and up to 10 years	10,673	13,799	–22.7
More than 10 years	13,981	14,407	–3.0

387 properties were in forced administration at the balance sheet date (December 31, 2010: 562). The mortgage loans held as cover include past-due payments totaling Euro 46 million (December 31, 2010: Euro 56 million).

41. Events after the Reporting Period

As part of further action to help resolve the sovereign debt crisis, in particular Greece's liquidity problems, the Cooperative Financial Network voluntarily agreed to waive some of its Greek debt and decided to participate in the swap plan of the European System of Financial Supervisors (ESFS). In doing so, the Cooperative Financial Network has waived repayment of more than 50 percent of the funds it has lent to Greece.

As of the balance sheet date, the Cooperative Financial Network recognised impairments on Greek government bonds down to market value. As a result of the significantly reduced market prices at that time, the debt waiver had no further impact on the financial performance after the reporting period.

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

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

Berlin, July 2, 2012

National Association of German Cooperative Banks (BVR)
BVR

Board of Managing Directors

Uwe Fröhlich Gerhard P. Hofmann Dr. Andreas Martin

Review Report (Translation)

To the National Association of German Cooperative Banks (BVR)

For the period from January 1 to December 31, 2011, the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR) [National Association of German Cooperative Banks], Berlin, has voluntarily aggregated the data presented in the consolidated financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank and WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and in the separate financial statements of Münchener Hypothekenbank eG, the BVR protection scheme, and 1,115 primary banks, which have been prepared in accordance with German commercial law. The resultant aggregation of data is hereby referred to as the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network.

The BVR is under no legal obligation to prepare consolidated financial statements for the Volksbanken Raiffeisenbanken Cooperative Financial Network. The Cooperative Financial Network does not qualify as a corporate group as defined by IFRS, the German Commercial Code (HGB), or the German Stock Corporation Act (AktG). The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network have been prepared solely for informational purposes and do not constitute consolidated financial statements either within the meaning of IAS 1.16 or as defined by German commercial law.

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network incorporate the following components that have been aggregated on the basis of certain assumptions and simplifications: the consolidated income statement; the consolidated statement of comprehensive income; the consolidated balance sheet; the consolidated explanatory notes on changes in the Cooperative Network's capital; the consolidated statement of cash flows; and the notes to the consolidated financial statements for the period from January 1 to December 31, 2011.

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network have been prepared on the basis of the accounting policies presented in the notes to the consolidated financial statements. The separate financial statements of Münchener Hypothekenbank eG, the BVR protection scheme, and the primary banks, which have been prepared in accordance with German commercial law, have been aligned with the accounting policies presented in the notes to the consolidated financial statements and take account of appropriate and plausible assumptions. When the relevant data is aggregated, certain selected measures that reflect the unique structure of the Cooperative Financial Network are carried out to eliminate balance sheet and income statement items within the Cooperative Financial Network. The preparation of the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network is the responsibility of the BVR's Board of Managing Directors. Our responsibility is to issue a review report on the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network with respect to the aforementioned measures as part of the aggregation of the relevant data based on our review.

We reviewed the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network with respect to the measures and procedures used in the full consolidation of the aforementioned entities, the adequacy of the collection and aggregation of the data of the consolidated entities, the appropriateness of the measures taken based on certain assumptions and simplifications to eliminate transactions within the Cooperative Financial Network, the preparation of the consolidated financial statements in accordance with the accounting policies presented in the notes to the consolidated financial statements, and the transparent and appropriate presentation of the notes to the consolidated financial statements.

We conducted our review of the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network with respect to the aforementioned measures as part of the aggregation of the relevant data 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 aforementioned entities have not been fully consolidated, the methods and procedures used to collect and aggregate the data of the consolidated entities are inappropriate, the measures taken based on certain assumptions and simplifications to eliminate transactions within the Cooperative Financial Network have been carried out inappropriately, the consolidated financial statements have not been prepared in accordance with the accounting policies presented in the notes to the consolidated financial statements, and that the presentation of the notes to the consolidated financial statements is intransparent or inappropriate. Our review was 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 of the aforementioned measures as part of the aggregation of the relevant data used to prepare the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network did not reveal any findings that might lead us to conclude that the aforementioned entities have not been fully consolidated, the methods and procedures used to collect and aggregate the data of the consolidated entities are inappropriate, the measures taken based on certain assumptions and simplifications to eliminate transactions within the Cooperative Financial Network have been carried out inappropriately, the consolidated financial statements have not been prepared in accordance with the accounting policies presented in the notes to the consolidated financial statements, or that the presentation of the notes to the consolidated financial statements is intransparent or inappropriate.

Eschborn / Frankfurt/Main, July 9, 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

National Association
of German Cooperative Banks · BVR
Business policy & Communications
Schellingstraße 4 · 10785 Berlin
phone: +49 (0)30 2021-1300
fax: +49 (0)30 2021-1905
mail: presse@bvr.de
www.bvr.de

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC® C092559

Primary banks	2011 € million	2010 € million	Change (percent)
Financial performance			
Net interest income	15,919	15,880	0.2
Allowances for losses on loans and advances	–289	–543	–46.8
Net fee and commission income	4,173	4,182	–0.2
Loss on financial and commodities transactions[1]	–784	–435	80.2
Profit before taxes	5,994	6,169	–2.8
Net profit	4,286	4,663	–8.1
Cost/income ratio (percent)	67.8	65.8	
Net assets			
Loans and advances to banks	77,718	71,789	8.3
Loans and advances to customers	424,510	407,710	4.1
Allowances for losses on loans and advances	–6,941	–7,950	–12.7
Investments	192,011	193,599	–0.8
Other assets	32,955	30,368	8.5
Financial position			
Deposits from banks	99,031	95,515	3.7
Amounts owed to other depositors	523,587	505,778	3.5
Debt certificates including bonds	19,878	22,886	–13.1
Other liabilities	15,651	13,289	17.8
Cooperative Network´s capital	62,106	58,048	7.0
Total assets/total equity and liabilities	**720,253**	**695,516**	**3.6**
Volume of business[2]	**771,444**	**743,972**	**3.7**
Regulatory capital ratios under SolvV			
Tier 1 capital ratio (percent)	11.2	10.7	
Total capital ratio (percent)	15.6	14.7	
Employees as at Dec. 31	**158,250**	**158,200**	**–**

1 Gains and losses on trading activities plus gains and losses on investments
2 Total assets/total equity and liabilities, including financial guarantee contracts and loan commitments plus trust activities

BVR