Consolidated Financial Statements 2012

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
Individual Rating	a+	aa–

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

Volksbanken Raiffeisenbanken Cooperative Financial Network	2012 € million	2011 € million	Change (percent)
Financial performance			
Net interest income	19,644	19,431	1.1
Allowances for losses on loans and advances	–1,034	–738	40.1
Net fee and commission income	4,860	4,788	1.5
Profit/loss on financial and commodities transactions[1]	1,238	–2,592	> 100.0
Net income from insurance business[2]	817	616	32.6
Profit before taxes	9,312	5,688	63.7
Net profit/loss	6,872	4,462	54.0
Cost/income ratio (percent)	61.2	71.2	
Net assets			
Loans and advances to banks	41,785	44,589	–6.3
Loans and advances to customers	632,448	606,820	4.2
Allowances for losses on loans and advances	–9,785	–9,648	1.4
Financial assets held for trading	72,205	74,392	–2.9
Investments	242,161	235,266	2.9
Investments held by insurance companies	64,100	56,934	12.6
Remaining assets	47,422	50,126	–5.4
Financial position			
Deposits from banks	110,824	103,257	7.3
Deposits from customers	664,839	646,760	2.8
Debt certificates including bonds	83,259	87,539	–4.9
Financial liabilities held for trading	58,307	64,849	–10.1
Insurance liabilities	63,260	57,437	10.1
Other liabilities	37,649	33,208	13.4
Cooperative Network's capital	72,198	65,429	10.3
Total assets/total equity and liabilities	**1,090,336**	**1,058,479**	**3.0**
Volume of business[3]	**1,358,308**	**1,305,638**	**4.0**
Regulatory capital ratios under SolvV			
Tier I capital ratio (percent)	10.1	9.1	
Total capital ratio (percent)	14.7	14.0	
Employees as at Dec. 31	**190,095**	**188,256**	**1.0**

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 2012

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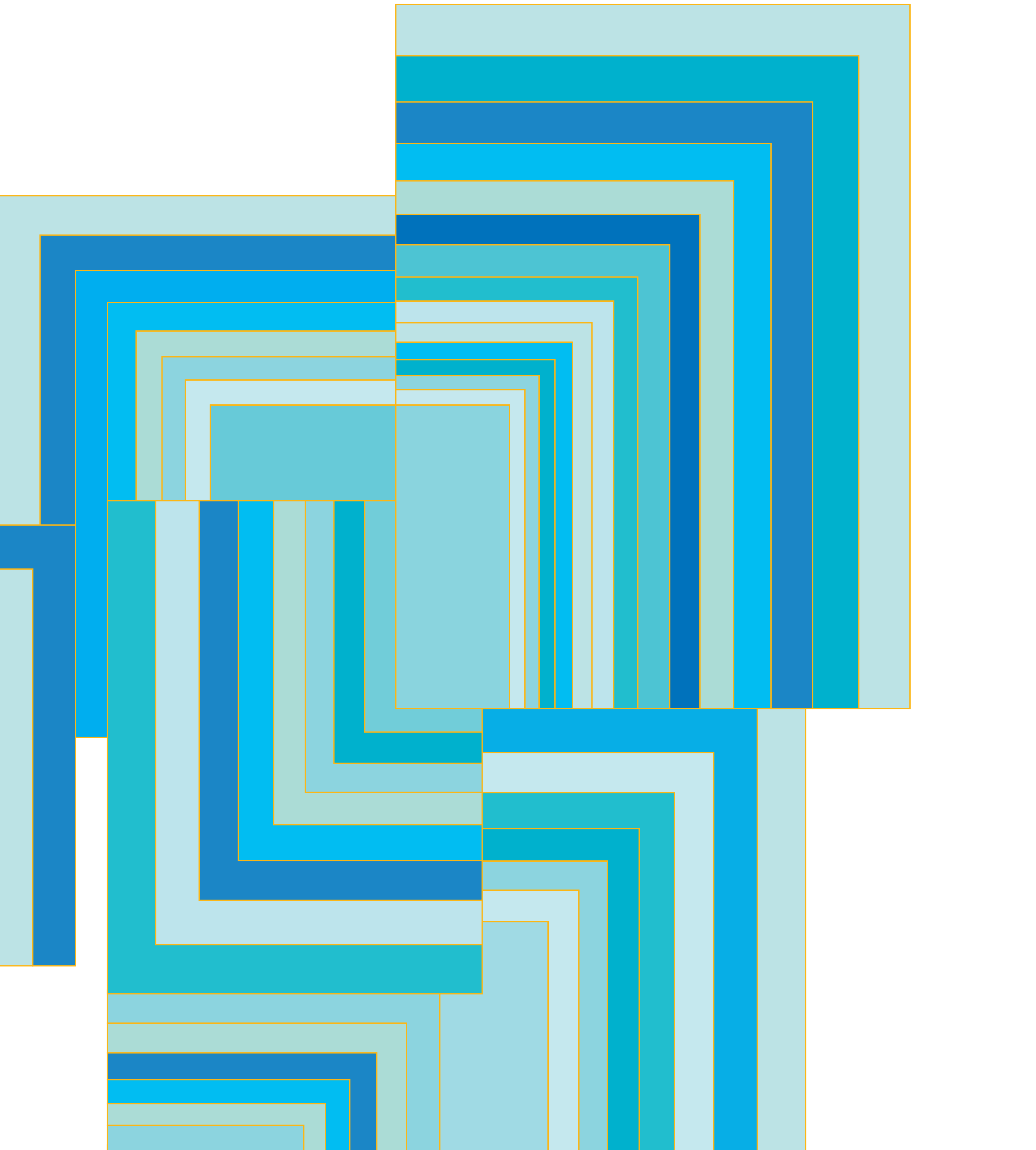

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Introduction by the Board of Managing Directors

A team is only ever successful when it works together effortlessly and seamlessly. Strong players, dependable support, intelligent allocation of roles, and a clear strategy are crucial.

The results presented in the 2012 consolidated financial statements emphatically underline the effectiveness of the Volksbanken Raiffeisenbanken Cooperative Financial Network's game plan.

Despite economic conditions remaining unsettled, the 1,101 local cooperative banks together with their countless specialized institutions and combined workforce of more than 190,000 employees, achieved a net profit after taxes of Euro 6.9 billion, building on the strong results of previous years. Total assets grew to Euro 1.09 trillion.

The institutions were successful in both their deposit-taking and their lending business. Despite fierce competition, customer deposits continued to grow and reached Euro 665 billion. Lending to customers was also up, rising by an impressive 4.2 percent to Euro 632 billion.

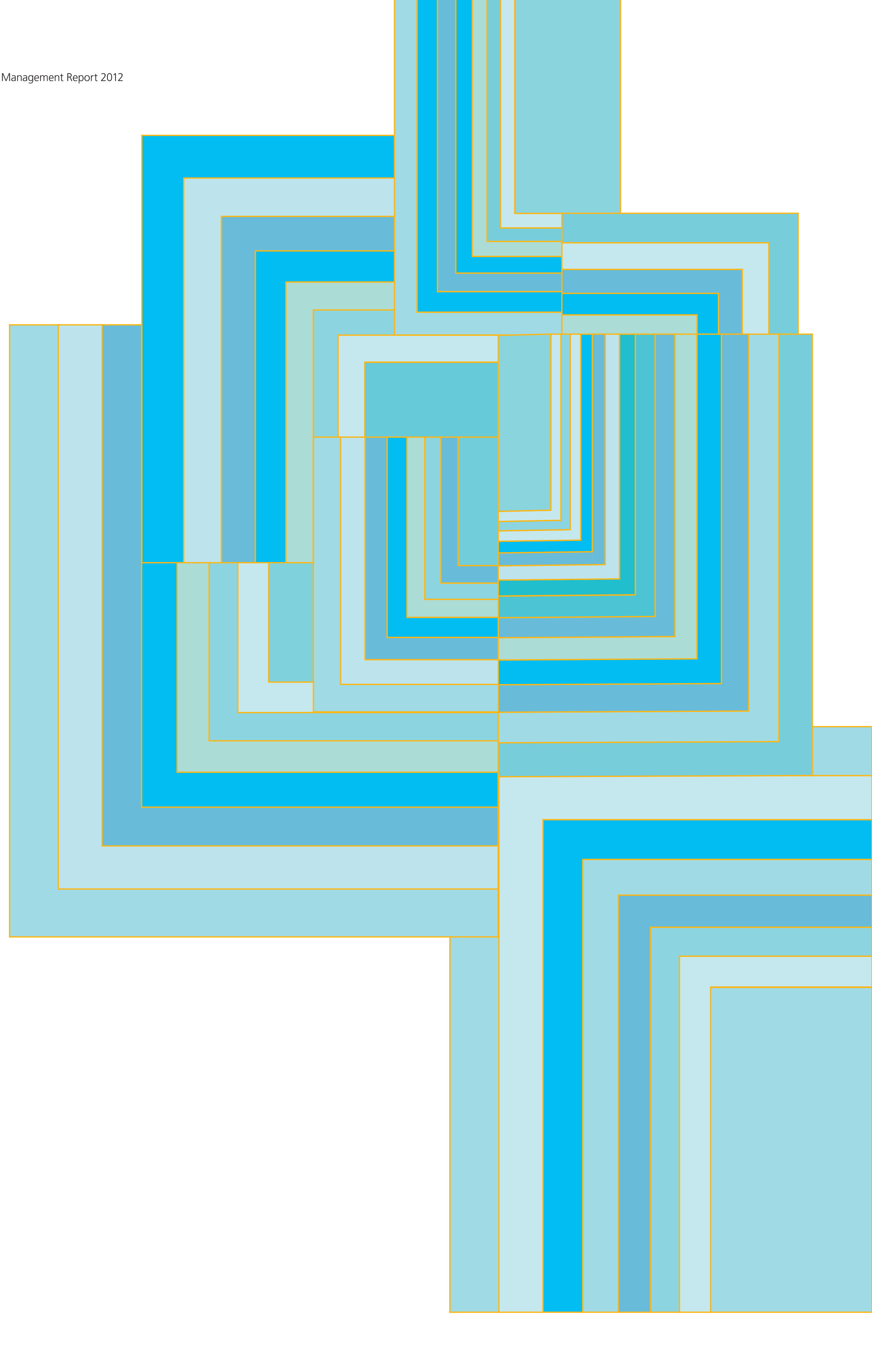
The Volksbanken Raiffeisenbanken Cooperative Financial Network is thereby demonstrating the central economic role that it plays at regional level and beyond. It acts as a reliable team player and trustworthy funding partner in its interaction with countless small and medium-sized enterprises and offers targeted advice and tailored financial services to meet the specific needs of the constantly growing number of members and retail customers.

All of this is permanently underpinned by solid and secure foundations. With equity attributable to the Cooperative Financial Network now standing at Euro 72 billion, the network has a strong capital base and is protected against economic uncertainties. Moreover, the Cooperative Financial Network is well placed in terms of its risk-bearing capacity. A solvency ratio of 14.7 percent means that it unambiguously fulfills the regulatory requirements.

Rating agencies have confirmed the close cooperation of the small and large local banks with their central institutions and specialized service providers in the Cooperative Financial Network. Bucking both the European and the German trend, the network's Standard & Poor's rating had already improved to AA– in 2011. The A+ rating from FitchRatings has been maintained. The outlook for both credit ratings is stable.

It would be a harsh and poor decision to damage this constructive cooperation, which has a stabilizing effect on the entire economy, with overly extensive regulatory requirements in Germany and Europe. A team that operates seamlessly and reliably should not be made to pay for the wrong decisions made by other, less dependable competitors. Whether in sport or in the financial industry, this would be the antithesis of fair play.

Uwe Fröhlich
Gerhard Hofmann
Dr. Andreas Martin



Management Report 2012

Business Performance
Economic conditions

In 2012, Germany's economic growth lost a lot of momentum. The latest data from the German Federal Statistical Office shows that, adjusted for inflation, the country's gross domestic product (GDP) rose by 0.7 percent year on year. Economic output had gone up by 3.0 percent in 2011. This faltering growth was due in part to the end of the bounce-back process after the 2008/2009 recession. The European sovereign debt crisis and the subdued global economy also had an increasingly severe impact on the economic situation as the year progressed.

The challenging international environment filtered through to the German economy through foreign trade and capital expenditure. Germany's exports increased at around half the rate achieved in the previous year owing to declining demand, especially from southern European countries. Nonetheless, foreign trade contributed 0.9 percentage points of the rise in GDP because exports again grew at a stronger rate than imports.

By contrast, capital expenditure did not provide any growth stimulus despite financing conditions remaining favorable. Far from it: the high level of uncertainty and gloomy forecasts for unit sales and profit caused companies to markedly scale back their spending on capital equipment and inventory. There was also a fall in construction investment, although the rate of decline was far less here because feeble demand for commercial and public-sector construction was offset by a rise in house-building. Overall, faltering investing activities caused GDP to decline by 0.9 percentage points.

Consumer spending continued to be a pillar of growth. Private consumer spending was stimulated by higher wage settlements under collective pay agreements and the ongoing uptrend in employment. Moreover, general inflationary pressure had less of an impact on consumers' purchasing power than in 2011. Government spending also rose on the back of increasing wages and salaries for public-sector workers. Overall, government and private consumer spending accounted for 0.7 percentage points of economic growth.

The labor marked enjoyed robust health in 2012. Employment increased again, despite the easing of the economic tailwind. The latest official data reveals that the number of people in employment in Germany advanced to 41.61 million, up by 455,000 on 2011. This constitutes a record high. There was a slight fall of 78,850 in the number of unemployed persons, bringing the total to 2.89 million. The rate of unemployment dropped by 0.3 percentage points year on year, and the average for 2012 was 6.8 percent.

Business Performance
Volksbanken Raiffeisenbanken
Cooperative Financial Network

Business developement
In 2012, the Volksbanken Raiffeisenbanken Cooperative Financial Network again underlined its capability to perform in a fiercely competitive market. Despite economic conditions remaining challenging, above all due to the sovereign debt crisis, which persisted through the reporting period, the Cooperative Financial Network was again able to achieve stable growth last year and boost its profit before taxes by 63.7 percent to Euro 9,312 million (2011: Euro 5,688 million). This positive business performance is a sign of customers' belief in the cooperative sector as a cornerstone of the German banking market.

The earnings power of the Cooperative Financial Network enables it to considerably strengthen its equity base on a regular basis. Equity attributable to the Cooperative Financial Network continued to increase, rising from Euro 65.4 billion in 2011 to Euro 72.2 billion in 2012. This shows that the Cooperative Financial Network was able to strengthen its capital base despite the challenging economic environment. It therefore lives up to its ambition of being one of the best capitalized banking groups in Europe.

The primary banks continued to gain market share in their customer business, above all in lending business. The total value of the loans extended to retail and corporate customers rose by 4.8 percent year on year, with the corporate customer lending volume in particular growing at a far higher rate than the market. The 'Deutschland – made by Mittelstand' campaign expresses the Cooperative Financial Network's respect for its corporate customers as well as the special significance of small and medium-sized enterprises as a customer group for the Cooperative Financial Network.

Another positive trend was that deposits continued to rise in step with the growth in lending business. There was further organic growth of 2.8 percent in customer deposits. The Cooperative Financial Network is well positioned in the competition for customer deposits.

The vitality and financial stability of the Cooperative Financial Network's business model with its strong market position in retail and corporate banking have been rewarded with long-term credit ratings of 'AA-' (Standard & Poor's) and 'A+' (Fitch Ratings). These ratings are encouraging when viewed in comparison with the rest of the sector.

Cooperative banks primarily define themselves in their business activities in terms of their customer relationships, supporting their customers through long-term partnerships within the framework of a value-oriented business model. This creates broad backing in the community. Cooperative membership therefore continues to attract considerable interest from potential investors. Almost net 350,000 new members joined in 2012. As at December 31, 2012, 17.3 million members had invested in the German cooperative banks, reflecting the considerable attractiveness of the Cooperative Financial Network in the market.

Financial performance
The Cooperative Financial Network's largest contribution to earnings traditionally comes from **net interest income**. At Euro 19,644 million, net interest income was just 1.1 percent ahead of the previous year, an impressive performance given the persistently fierce competition in the market and the unfavorable yield curve. Overall, the higher volume achieved in the group's lending and deposit-taking businesses with retail and corporate customers more than offset the slight decline of 0.04 percentage points in the interest margin which fell to 1.83 percent.

Allowances for losses on loans and advances remained below the long-term average at Euro 1,034 million. This reflects not only the health and granularity of the customer lending business but also Germany's good economic performance with a low number of insolvencies and a continued uptrend in the job market. As expected, netted expenses for allowances for losses on loans and advances increased from the very low level of Euro 738 million reported in 2011. While the recognition of new allowances for losses on loans and advances was at the same level as the previous year, there was a reduction in the reversal of such allowances.

Despite ongoing uncertainty among investors following the sovereign debt crisis, **net fee and commission income** improved by 1.5 percent, rising to Euro 4,860 million. This modest increase was largely attributable to steady revenue from businesses such as payments processing and to growth in the sale of guarantee products and in the brokerage of home savings contracts, loans, and leases. Increased market volatility and, in particular, the uncertainty resulting from the sovereign debt crisis tended to ensure that retail customers in the traditional equity fund business remained risk-averse.

The Cooperative Financial Network's **gains and losses on trading activities** in 2012 came to a net gain of Euro 856 million compared with a figure of Euro 665 million for 2011. The higher valuation of securities held for trading as a result of the narrowing of spreads had a positive impact. The Cooperative Financial Network continued to perform well in meeting client needs in its business with structured products for retail customers and with investment and risk management products for corporate customers and institutional investors. The rigorous quality strategy in the investment certificates business continued to deliver encouraging results, with its focus on the overriding investor expectations of guaranteed and secure investments. This meant the Cooperative Financial Network was again the market leader in the key area of investment certificates with capital protection in 2012.

Gains and losses on investments and **other gains and losses on valuation of financial instruments** were influenced by the recovery in the financial markets, despite individual losses. The level of gains and losses on investments amounted to a gain of Euro 390 million, compared with a loss of Euro 1,496 million in 2011. Other gains and losses on valuation of financial instruments had equated to a loss of Euro 1,761 million in 2011, largely owing to rating-related reductions in the fair value of the bonds of countries hit hard by the sovereign debt crisis. Reflecting the reversal of the impairment losses on these bonds, other gains and losses on valuation of financial instruments were almost even in 2012, amounting to a loss of Euro 8 million.

Net income from insurance business climbed by 32.6 percent to Euro 817 million in 2012. This increase in income resulted specifically from a rise in premium income, a significantly higher gain under gains and losses on investments held by insurance companies, and a lower loss in inward reinsurance.

The 2.8 percent rise in **administrative expenses,** which totaled Euro 16,348 million mirrored the encouraging growth achieved in many areas of the Cooperative Financial Network. The rise was also attributable to the increased regulatory and statutory requirements placed on banks. This was also the reason for the slight increase in the number of employees.

In 2012, **income taxes** amounted to Euro 2,440 million, virtually all of which related to current tax, i.e. tax paid. This amount underlines the particular importance of the Cooperative Financial Network for Germany's regional authorities by virtue of it being one of the largest municipal tax payers. The income taxes line item had stood at Euro 1,226 million in 2011 but included refunds of deferred taxes amounting to Euro 787 million, which meant Euro 2,013 million was paid. Current income taxes therefore increased by 20.8 percent in 2012.

The **net profit** for 2012 after tax amounted to Euro 6,872 million, compared with Euro 4,462 million in 2011.

The Cooperative Financial Network's **cost/income ratio** improved by 10 percentage points to 61.2 percent in 2012 owing to significantly better earnings.

Financial position

The **total assets** of the Volksbanken Raiffeisenbanken Cooperative Financial Network had risen by Euro 31.8 billion to Euro 1,090.3 billion as at December 31, 2012 (December 31, 2011: Euro 1,058.5 billion). The **volume of business,** which comprises the Cooperative Financial Network's total assets, financial guarantee contracts and loan commitments, trust activities, and the assets managed by the Union Investment Group, had increased from Euro 1,305.6 billion as at December 31, 2011 to Euro 1,358.3 billion as at December 31, 2012.

Of the total assets, 57.8 percent was attributable to the primary banks (December 31, 2011: 57.1 percent), 31.6 percent to the DZ BANK Group (December 31, 2011: 32.2 percent), 7.5 percent to the WGZ BANK Group (December 31, 2011: 7.5 percent), and 3.1 percent to Münchener Hypothekenbank (December 31, 2011: 3.2 percent).

On the **assets** side of the balance sheet, loans and advances to customers grew by 4.2 percent to Euro 632.4 billion (December 31, 2011: Euro 606.8 billion). In 2012 again, this rise was primarily attributable to the primary banks, which achieved a gain of 4.8 percent compared with 4.1 percent in the previous year. This growth was predominantly fueled by long-term loans and advances, which went up by 4.5 percent. Lending to corporate customers (loans to non-financial companies and self-employed people) by the primary banks rose at an above-average rate of almost 7 percent. The market as a whole grew by just 0.9 percent. Lending to consumers continued to be characterized by a preference for long-term investments in residential real estate.

As at December 31, 2012, financial assets held for trading amounted to Euro 72.2 billion, a decrease of Euro 2.2 billion (2.9 percent) on the figure as at December 31, 2011. Whereas the amount of derivatives (positive fair values) went up by Euro 4.5 billion to Euro 40.5 billion, holdings of bonds and other fixed-income securities classified as financial assets held for trading continued to be reduced, falling by Euro 4.9 billion to Euro 15.8 billion, while receivables fell by Euro 1.9 billion to Euro 14.9 billion.

On the **equity and liabilities side** of the balance sheet, deposits from customers had grown again, from Euro 646.8 billion as at December 31, 2011 to Euro 664.8 billion as at December 31, 2012. The lion's share of this amount was invested in short-term demand deposits, i.e. deposits in current accounts and overnight money, at the primary banks. The steady rise in such deposits shows that customers clearly prefer liquid products. At 49.5 percent, demand deposits accounted for the largest share of deposits held by the primary banks (2011: 44.9 percent).

Mirroring the change in financial assets held for trading, financial liabilities held for trading contracted by Euro 6.5 billion (10.1 percent) to Euro 58.3 billion. This decrease was primarily attributable to a total reduction of Euro 3.4 billion in the volume of bonds and other debt certificates issued and a Euro 3.8 billion reduction in liabilities under financial liabilities held for trading.

The equity attributable to the Cooperative Financial Network remained at a robust level, increasing by 10.3 percent to Euro 72.2 billion (2011: Euro 65.4 billion). The main reason for this rise was the use of profits generated in 2012 to boost reserves.

Regulatory capital

The capital held by the Cooperative Financial Network – as required by the Solvency Regulation (SolvV) – grew by Euro 4.7 billion, or 6.7 percent, to Euro 74.8 billion.

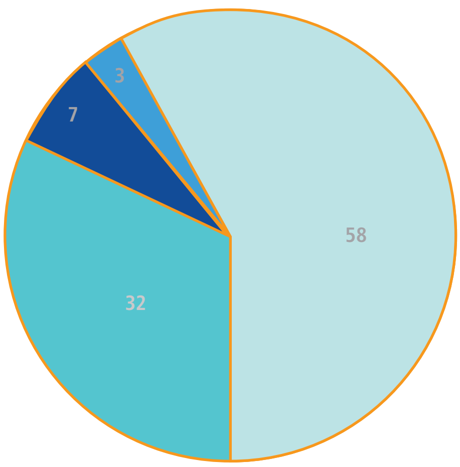
The corresponding total capital ratio rose from 14.0 percent to 14.7 percent. The Tier 1 capital ratio as defined by the SolvV also improved, increasing from 9.1 percent at the end of 2011 to 10.1 percent at year-end 2012. Both of these key ratios continued to comfortably exceed the regulatory minimums of 8.0 percent for the total capital ratio and 4.0 percent for the Tier 1 capital ratio.

Financial performance

	2012 € million	2011 € million	Change (percent)
Net interest income	19,644	19,431	1.1
Allowances for losses on loans and advances	–1,034	–738	40.1
Net fee and commission income	4,860	4,788	1.5
Gains and losses on trading activities	856	665	28.7
Gains and losses on investments	390	–1,496	> 100.0
Other gains and losses on valuation of financial instruments	–8	–1,761	–99.5
Net income from insurance business	817	616	32.6
Administrative expenses	–16,348	–15,895	2.8
Other net operating income	135	78	73.1
Profit before taxes	**9,312**	**5,688**	**63.7**
Income taxes	–2,440	–1,226	99.0
Net profit	**6,872**	**4,462**	**54.0**

Breakdown of the total assets held in the Volksbanken Raiffeisenbanken Cooperative Financial Network as at December 31, 2012

(percent)



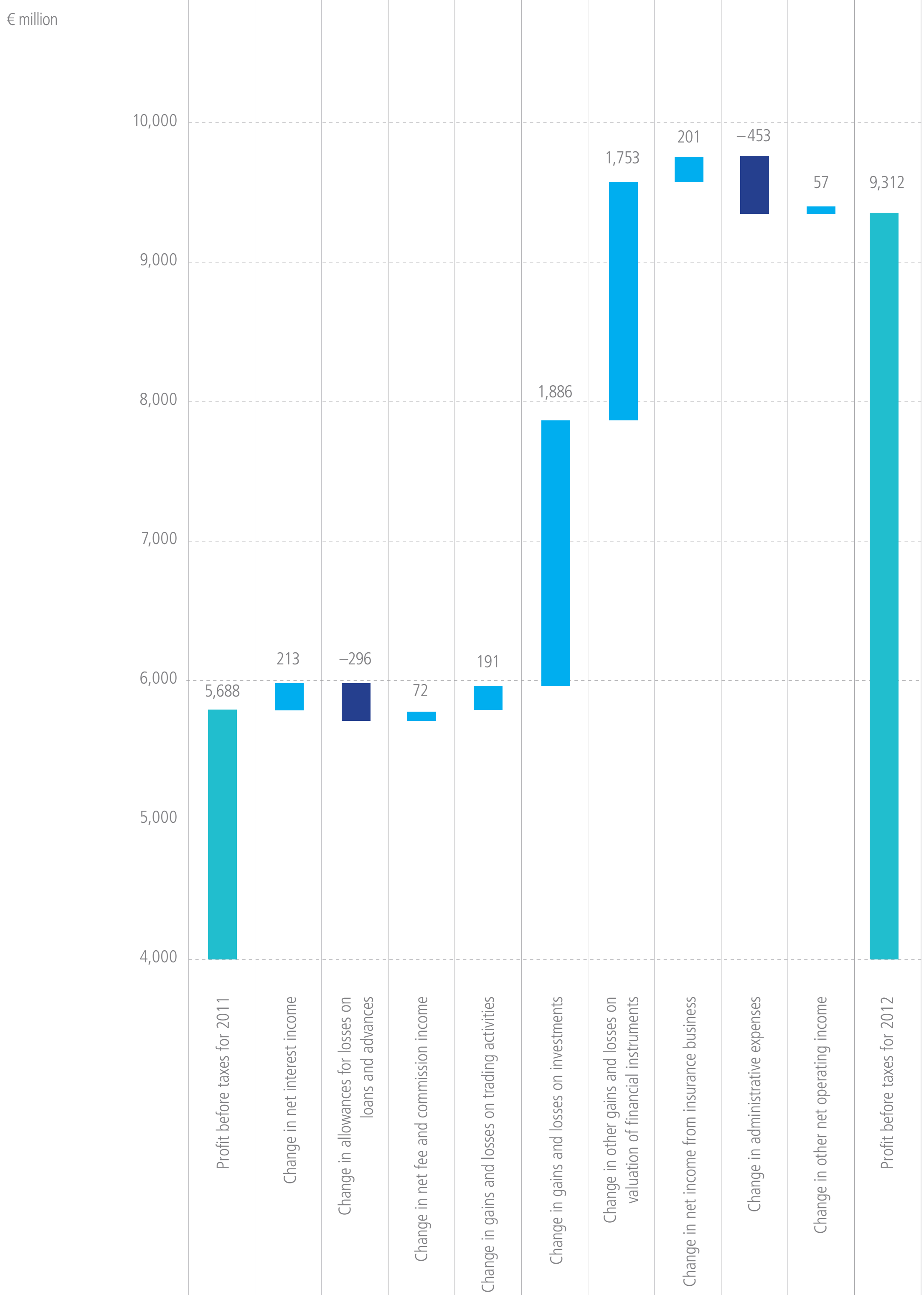
Primary banks

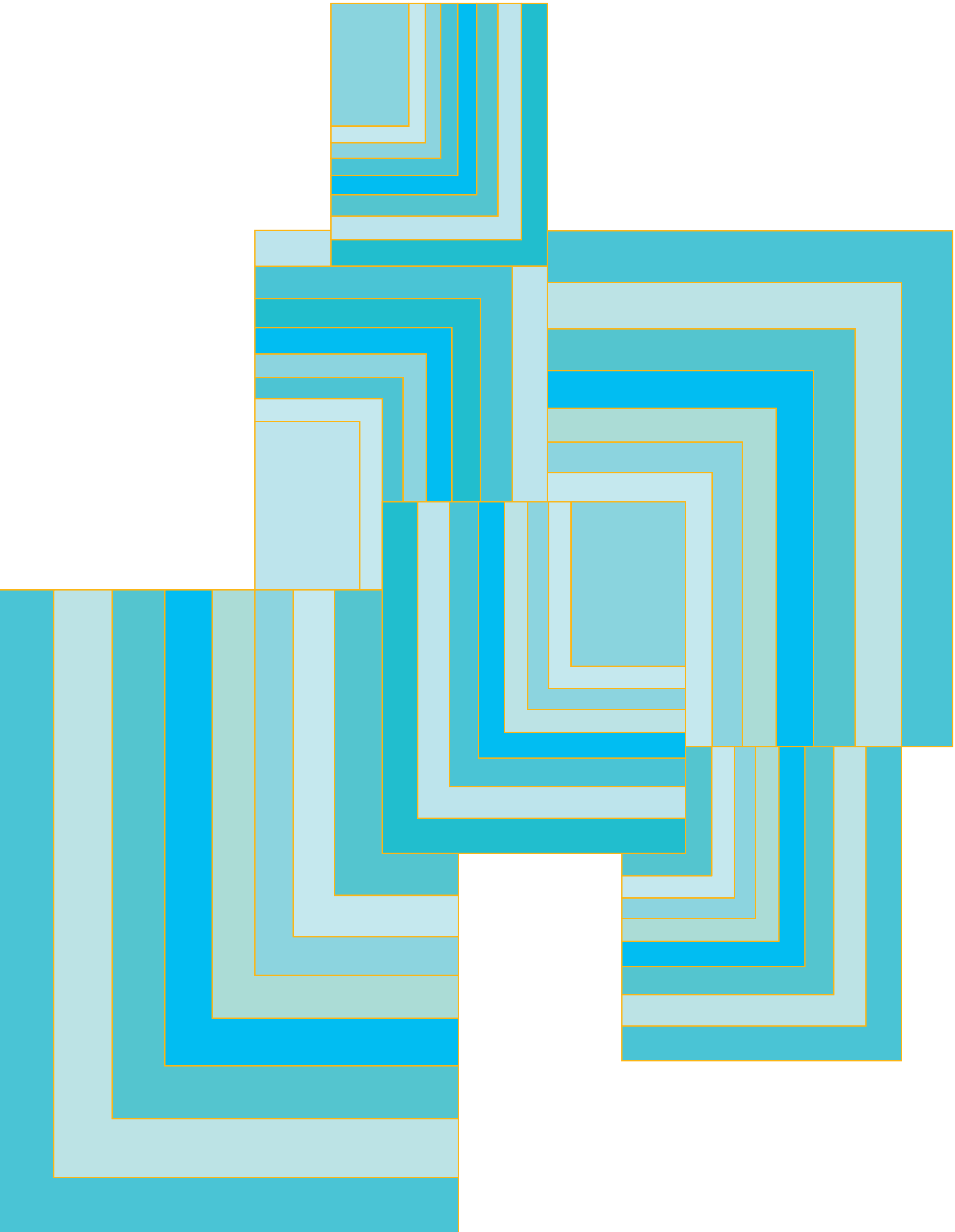
DZ BANK Group

WGZ BANK Group

Münchener Hypothekenbank eG

Breakdown of change in profit before taxes by income statement 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 1,800 million in 2011 to Euro 1,914 million in 2012. In corporate banking business, there was further expansion of joint business with the primary banks and direct business with medium-sized companies and major corporate customers in the reporting year. The corporate customer lending business registered a significant year-on-year increase in the volume of new applications. In the agriculture, nature, and renewable energies sector – a key future area of growth for the Cooperative Financial Network – the success enjoyed in 2011 was maintained in the reporting year. Development lending also went up. As a consequence, the Cooperative Financial Network once again increased its market share in respect of development programs operated by Germany's development bank, KfW Bankengruppe. Programs for energy-efficient building and renovation work and for capital investment in renewable energies accounted for significant proportions of the business. In the direct business with medium-sized companies and major corporate customers, structured finance (including syndicated loans, acquisition finance, and project finance) was particularly in demand in the reporting year.

By contrast, the volume of new business in transport finance was lower than in 2011. All segments of worldwide freight and passenger transportation were impacted by a noticeable global economic slowdown and what was by long-term comparison only a modest rate of growth in global trade, primarily in the second half of 2012. Furthermore, the international transport industry was suffering from considerable overcapacity in its various markets, not to mention extremely tough market conditions in some areas of maritime transport. In line with the new business strategy, net interest income from international leasing business was lower than in 2011. Despite modest growth in lease originations during the first half of 2012, the second half of the year was characterized by a marked slowdown in the leasing sector caused by the ongoing sovereign debt crisis and the impact on corporate planning from the associated uncertainty.

Allowances for losses on loans and advances grew from Euro 217 million in 2011 to Euro 393 million in 2012. Despite individual allowances relating to project finance, corporate banking, and long-term equity investments – but on the other hand also as a result of the reversal of allowances following successful turnarounds – specific loan loss allowances remained within anticipated levels and therefore, overall, reflected the strength of the credit portfolio. There was also a net addition to specific loan loss allowances in the leasing business, an addition necessitated primarily by the situation in the eastern European business.

The **net fee and commission income** grew from Euro 547 million in 2011 to Euro 564 million in 2012 and therefore remained a stable source of income. This income was boosted by commission earned from structured finance in the transport finance business and from asset management as well as consultancy fees. The contribution from payments processing, including card processing, and from lending and trust activities was also slightly higher than in 2011. By contrast, the contribution from securities business fell short of the level achieved in 2011, particularly in the case of equities products, as did the contribution from international business.

The Bank operating segment's **gains and losses on trading activities** in 2012 came to a net gain of Euro 637 million compared with a figure of Euro 479 million for 2011. This result was largely attributable to the trading profit from capital markets business, which reflected the higher valuation of the securities held for trading as a result of the narrowing of spreads against a background of tough market conditions over the entire year, but primarily in the first quarter of 2012. The corresponding loss, which was substantially lower, was caused by an increase in the fair values of liabilities, in turn the result of narrower spreads. The balance of recognized and unrecognized gains and losses relating to asset-backed securities (ABSs) had a positive impact. This was offset by losses caused by interest-rate-related changes in the measurement of cross-currency basic swap spreads. As in previous years, gains and losses on trading activities stemmed mainly from customer-related business in investment and risk management products involving the asset classes of interest rates, equities, loans, foreign exchange, and commodities, and from business in structures and via platforms. In a volatile market environment with interest rates at an all-time low, retail investors were attracted primarily by structured interest-rate products, favoring products with simple interest-rate structures such as floating-rate bonds with a minimum coupon, callable bonds, and step-up/step-down bonds. In the corporate banking business, large and medium-sized companies made the most of the favorable interest rates to enter into long-term interest-rate hedges. These hedges included traditional payer swaps and combinations of payer swaps and interest-rate caps. The reporting year also saw significant expansion in the foreign-exchange business and the addition of a large number of new customers. Institutional investors appreciated the Cooperative Financial Network's expertise in trading interest-rate derivatives as well as the range of traditional Pfandbriefe, bank bonds, and covered bonds.

The level of **gains and losses on investments** deteriorated from a loss of Euro 69 million to a loss of Euro 340 million. A loss of Euro 71 million arose in connection with the investment in the Österreichische Volksbanken-AG Group. Following the loss of significant influence over this group in 2012, the group was no longer included in the consolidated financial statements using the equity method. A further loss totaling Euro 81 million resulted from impairment losses on long-term equity investments. Gains and losses on investments included losses resulting from the disposal of Greek bonds as well as losses on disposals and impairment losses in connection with ABSs, which in 2011 had generated a gain.

Other gains and losses on valuation of financial instruments declined from a gain of Euro 46 million in 2011 to a loss of Euro 54 million in 2012, predominantly due to interest-rate-related changes in the measurement of cross-currency basis swap spreads.

Administrative expenses went up by around 7 percent to Euro 1,608 million in the period under review. The reasons for this rise were higher project costs, heightened regulatory and statutory requirements, growth in the number of employees, and salary increases.

The Bank operating segment's **profit before taxes** fell by Euro 314 million year on year to Euro 657 million (2011: Euro 971 million). The cost/income ratio rose from 55.8 percent in 2011 to 60.5 percent in the reporting year.

Retail operating segment

The **net interest income** of the Retail operating segment was slightly up on 2011 at Euro 16,611 million (2011: Euro 16,602 million) despite the dampening effect of monetary policy on earnings prospects. The gradual worsening of margins caused by the phase of low interest rates was offset by volume increases. The primary banks' lending business, which relies on a surplus of deposits, generated growth in 2012. Net interest income from consumer finance rose substantially during the year under review. The Cooperative Financial Network succeeded in expanding its market share against a background of fierce competition in the market for consumer finance. In the LuxCredit foreign-currency lending business, the volume contracted from Euro 7.1 billion at the end of 2011 to Euro 6.5 billion at the end of 2012.

Allowances for losses on loans and advances rose to Euro 510 million (2011: Euro 353 million), although they remained at a low level from a long-term perspective. The risk situation in the Retail operating segment generally proved stable in 2012, above all because of a generally rigorous approach to risk management.

Net fee and commission income in the Retail operating segment was slightly up on the previous year at Euro 5,058 million (2011: Euro 5,011 million). In this segment, the primary banks generated the largest proportion of such income thanks to their steady revenue, for example from payments processing, and growth in the brokerage of home savings contracts, loans, and leases. The average volume of assets under management in 2012 went up by Euro 20.3 billion year on year to Euro 190.5 billion. In addition to the increase in income generated by this business, performance fees also rose in 2012. The Retail operating segment reported net inflows from guarantee products, UniProfiRente, traditional fund-based saving, and open-ended real estate funds (which invest in tangible assets), owing to customers' continued extreme risk aversion. With a market share of 52.9 percent, the Cooperative Financial Network maintained its position as leader in the market for capital preservation fund products. The Cooperative Financial Network also occupies a leading position in the market for fund-based Riester solutions. There was also a sharp rise in assets under management in institutional business. Net fee and commission income in private banking declined slightly due to the challenging market environment. The funds of high-net-worth individuals managed by the merged DZ PRIVATBANK had grown to Euro 13.5 billion by the end of 2012. A contributing factor was the further increase in close collaboration with the partner banks as part of the enhanced market presence in the cooperative private banking business.

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 20 million to Euro 213 million in 2012 (2011: Euro 193 million).

Gains and losses on investments were influenced by reversals of impairment losses on European government bonds in 2012 and amounted to a gain of Euro 860 million (2011: loss of Euro 1,265 million).

Other gains and losses on valuation of financial instruments declined from a gain of Euro 26 million in 2011 to Euro 12 million in 2012, largely because of losses in respect of the fair value measurement of swaps.

The Retail operating segment's **administrative expenses** went up by only 2.1 percent to Euro 14,433 million in 2012 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. The primary banks' administrative expense margin fell slightly year on year. Other reasons for the growth in administrative expenses were the staff expenses in connection with DZ PRIVATBANK's entry into the German market and the merger with WGZ Luxembourg. In 2011, the latter had only been included in the figures for the second half of the year.

The **profit before taxes** reported by the Retail operating segment rose from Euro 6,236 million in 2011 to Euro 7,891 million in 2012. The cost/income ratio therefore fell slightly, from 68.2 percent in 2011 to 63.2 percent in 2012.

Real Estate Finance operating segment

The **net interest income** of the Real Estate Finance operating segment advanced by Euro 78 million to Euro 1,522 million in 2012 (2011: Euro 1,444 million). This increase largely resulted from a rise in interest income from the greater volume of home finance and the investment of available funds. The effect from lower deposit interest rates compared with those available in 2011 was more than offset by the rise in volume caused by the brisk level of business over the last few years. In 2012, the enduring customer approval of the rates and charges offered by Bausparkasse Schwäbisch Hall once again confirmed Bausparkasse Schwäbisch Hall as the market leader in building society operations. The countervailing reduction in net interest income from mortgage lending was primarily the result of a one-off expense as non-strategic portfolios were scaled back earlier than planned. In contrast, there was encouraging year-on-year growth in net operating interest income derived from the scheduled increase in the volume of commercial real-estate finance on the back of healthier economic growth figures compared with other European countries and a stable real-estate market in Germany.

The level of **allowances for losses on loans and advances** in the Real Estate Finance operating segment decreased to Euro 61 million in 2012, compared with Euro 112 million in the previous year, which had been affected by a sharp rise in portfolio loan loss allowances.

The **net fee and commission income** is usually a negative figure for the Real Estate Finance operating segment and, in 2012, amounted to a loss of Euro 284 million (2011: loss of Euro 276 million). This further slight deterioration of Euro 8 million was attributable to the rise in the volume of new business, particularly in mortgage lending operations. The sales fees and commissions relating to building society operations that were paid to the primary banks in the Retail operating segment and to the Schwäbisch Hall field sales force remained stable.

Gains and losses on investments showed a year-on-year improvement, amounting to a loss of Euro 32 million in 2012 (2011: loss of Euro 147 million). The losses incurred in the previous year were largely attributable to impairment losses recognized on Greek government bonds held as part of the mortgage banking business.

Other gains and losses on valuation of financial instruments amounted to a small gain of Euro 27 million in 2012, compared with a considerable loss of Euro 1,809 million in 2011. The prior-year losses were largely due to rating-related write-downs on bonds in connection with the sovereign debt crisis.

Administrative expenses in the Real Estate Finance operating segment increased to Euro 669 million (2011: Euro 634 million), also as a result of higher project costs and heightened regulatory and statutory requirements. Furthermore, staff expenses in the year under review were impacted by headcount growth, increases under collective pay agreements, and additional expenses in connection with retirement pensions, the latter in turn being the result of a reduction in the discount rate for provisions covering preretirement part-time employment and early retirement.

The Real Estate Finance operating segment posted a **profit before taxes** of Euro 559 million, most of which was generated from the operating business. The loss of Euro 1,485 million reported in the previous year was primarily caused by losses incurred in connection with the lasting sovereign debt crisis.

Insurance operating segment

Net income in the Insurance operating segment advanced by 71.3 percent to Euro 490 million in 2012 (2011: Euro 286 million). This increase in income resulted specifically from a rise in premium income, a significantly higher gain under gains and losses on investments held by insurance companies, and a lower loss in inward reinsurance. However, the net gain on investments held by insurance companies was reduced by losses of Euro 35 million on the disposal of government bonds from countries of the euro zone particularly affected by the sovereign debt crisis. This was less than in 2011, when impairment losses of Euro 65 million had been recognized under gains and losses on investments held by insurance companies as Greek government bonds were marked to market.

Premiums earned climbed to Euro 11,787 million (2011: Euro 11,193 million), reflecting the tight integration of R+V into the Cooperative Financial Network. The already very high level of premiums earned in 2011, which had been boosted by significant growth stimulus, was therefore exceeded by 5.3 percent. Gross premiums received increased to Euro 11,875 million in 2012, up 4.8 percent on the impressive level of premiums generated in 2011. R+V's expectations of significant premium growth in its property and casualty insurance business were confirmed with an increase of 6.4 percent, with most of this growth being derived from vehicle insurance. Premium income in R+V's life insurance business grew by 5.1 percent year on year, the increase in premium income being most noticeable in Germany. Higher premium income was largely derived from the one-off premium pension insurance business and the R+V PrivatRente IndexInvest product. Despite the adverse impact of the ongoing debate about the future structure of the healthcare system in Germany, premium income at R+V-Krankenversicherung rose markedly by 16.6 percent, to a significant extent as a result of encouraging growth in regular premiums. In the inward reinsurance business, premium income fell slightly by 0.3 percent and was thus just below the level achieved in 2011.

Gains and losses on investments held by insurance companies and other insurance company gains and losses amounted to a net gain of Euro 3,353 million (2011: gain of Euro 2,175 million). This increase was spread across all areas of the business, but was more concentrated in the life insurance and health insurance businesses. The higher level of gains on investments held by insurance companies compared with 2011 reflected the relevant developments in the financial, capital, and currency markets. Significant features of the investments held by insurance companies in 2012 included higher unrealized gains and lower impairment losses caused by a number of factors including the narrowing of spreads, lower levels of interest than in 2011, and a noticeable uptrend in share prices on equity markets from the middle of 2012 onward. Owing to the recognition of provisions for premium refunds and claims by policyholders in the fund-linked business in connection with both life insurance and health 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 12,509 million, which represented an increase of 14.0 percent on the 2011 figure of Euro 10,968 million. The property and casualty insurance business was particularly affected by the period of cold weather in February 2012 and by individual losses in connection with fire insurance. Overall however, there were no extreme events within the category of natural perils. There was also a slight fall in the number of high-volume minor claims. In line with the gains and losses on investments held by insurance companies, higher additions were made to insurance liabilities at companies offering personal insurance. In the inward reinsurance business, there was a noticeably lower volume of claims than in 2011, even taking into account the claims caused by Hurricane Sandy. In 2011, this business had suffered substantial insurance claims as a result of natural disasters, in particular the earthquakes in Japan and New Zealand.

Insurance business operating expenses rose from Euro 2,095 million in 2011 to Euro 2,145 million in 2012, largely as a result of the growth achieved in the insurance business.

Human Resources Report

Demographic change, technological advances, and social, regulatory, and legal changes are increasingly impacting on the world of work. Although technology is becoming more pervasive, employees need to have highly specialized skills. The consequent rising demands in the workplace call for qualified, motivated employees. Moreover, the general lack of skilled workers is increasing and is having a more noticeable impact on companies from year to year.

The institutions of the Cooperative Financial Network have been taking a close look at the issues emerging in relation to demographic change, have identified potential staff shortages, and are now taking prompt action to prepare for the future. Appropriate skills training for employees plays an important role in ensuring the institutions can comply with regulatory requirements.

To tackle these challenges, the local cooperative banks are continuing to pursue a strategy of providing inhouse training and development for their young talent. There was a slight rise in the ratio of trainees to other employees, which advanced to 8.0 percent. The proportion of trainees taken on as employees also went up, reaching 87.3 percent for 2012.

An university education is becoming more and more important, as can be seen in the increase in the proportion of employees with a degree from 6.4 percent in 2011 to 8.1 percent in 2012.

This fits in with the very good range of training and development opportunities that the banks offer to their employees. For example, it is possible to undertake vocational training in combination with a degree course. The proportion of students taking up this option rose by 0.7 percent to 8.9 percent.

The number of people employed by the companies in the Cooperative Financial Network had increased to a total of 190,095 as at December 31, 2012.

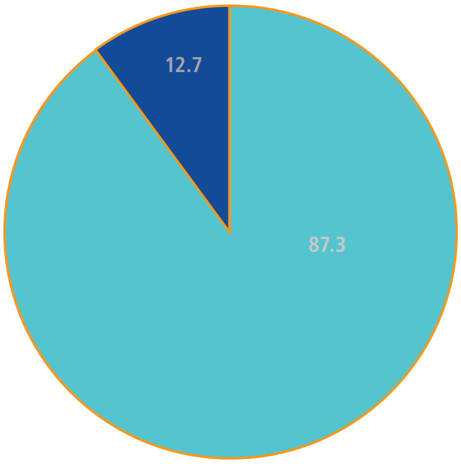
The banks have therefore assumed a responsible role, both as local employers and with regard to education policy. They are supported by the services offered by the regional associations and academies. Employees appreciate the development opportunities, which strengthen their loyalty to the company. This is reflected in how long they remain with the company: 45.1 percent of staff have notched up between ten and 25 years of service.

Potential applicants are also aware of the local cooperative banks' appeal as an employer, and this has been confirmed in surveys. In 2012, for example, the local cooperative banks were once again voted one of Germany's top 100 employers by the trendence barometer of high-school pupils views.

The local cooperative banks also again achieved a good position on the list of Germany's top 100 employers in the trendence graduate barometer.

Our continuing objective is to increase the local cooperative banks' attractiveness as a place to work and specifically promote their unique selling proposition as an employer. In 2012, which was the International Year of Cooperatives, the spotlight was trained, in particular, on the cooperative principle and the cooperative values.

Transfer of trainees to employment contracts on successful completion of training in 2012[1]



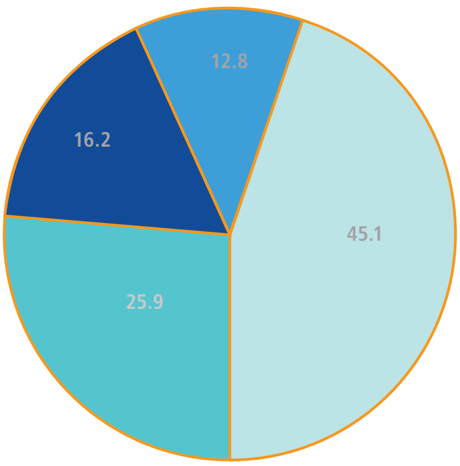
(percent)

Employment contracts offered

Employment contracts not offered

1 Local cooperative banks, central institutions

Staff members' years of service as of 31, December 2012 [1]



(percent)

Under 5 years

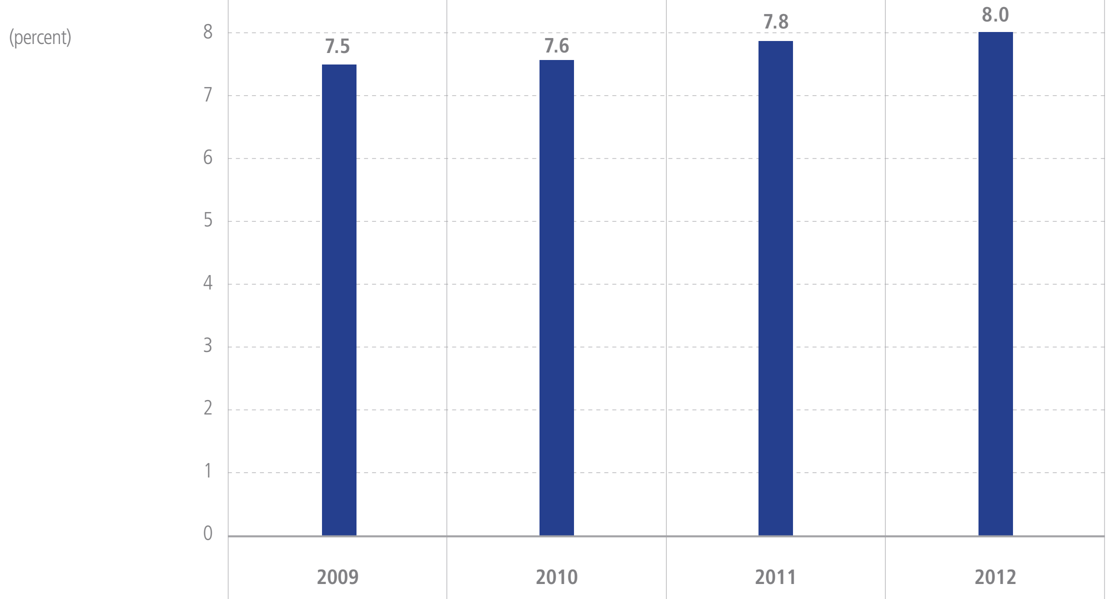
5 to 10 years

10 to 25 years

25 or more years

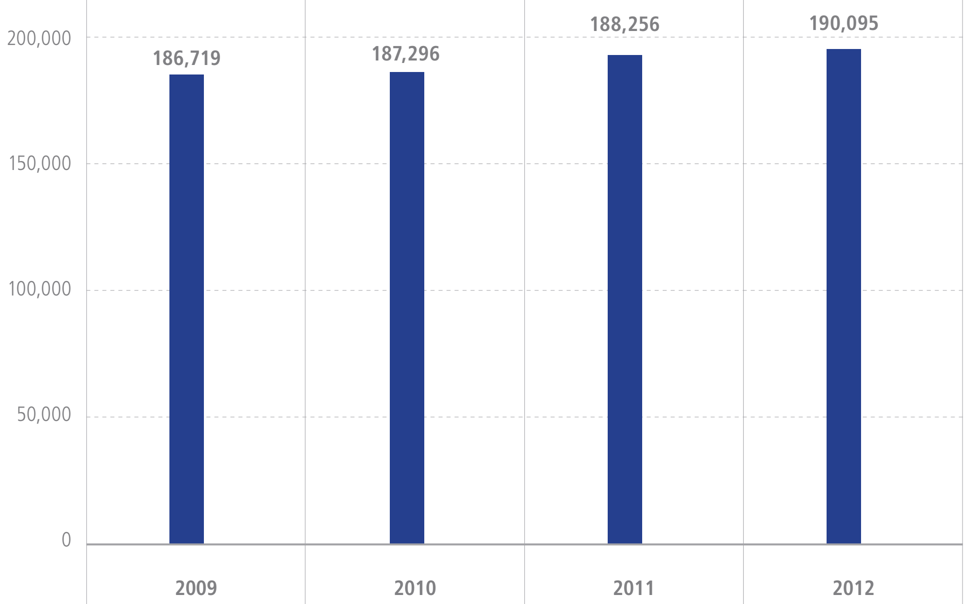
1 Local cooperative banks, central institutions

Ratio of trainees to other employees[1]



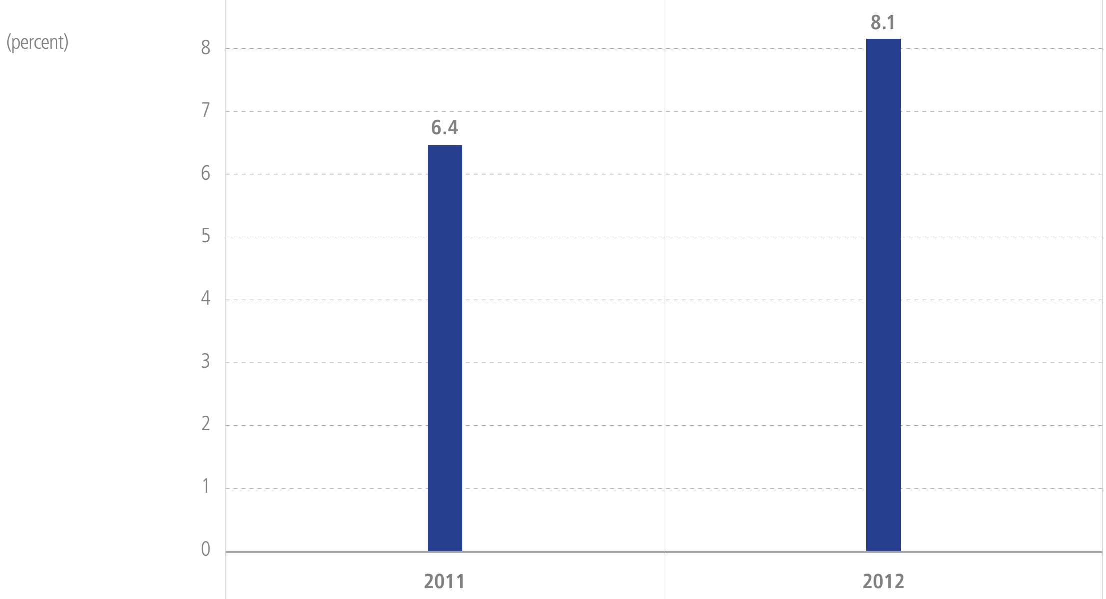
1 Local cooperative banks, central institutions

Number of employees[1]



1 Volksbanken Reiffeisenbanken Cooperative Financial Network, central institutions

Proportion of employees with an university degree[1]



1 Local cooperative banks, central institutions

Risk Report

The Volksbanken Raiffeisenbanken Cooperative Financial Network once again delivered a successful financial performance in 2012 and carried out its consistent and stabilizing role in the German financial sector. This positive impact is attributable to its sustainable business model. The protection scheme run by the BVR ensures 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 cooperative institutions and other institutions.

The encouraging overall outlook for the Cooperative Financial Network's rating was confirmed by the stable and positive credit ratings awarded by Standard & Poor’s and Fitch Ratings. The rating agencies attest to the Cooperative Financial Network's exceptionally good level of capital and its shareholders' strong inclination to retain profits. Liquidity and funding are rated as being at a sound, above-average level. This assessment is based, in particular, on the stable volume of deposits in the retail business. The granular credit structure and high proportion of mortgages are the hallmarks of the overall high level of quality in the customer lending business.

Risk Report
Risk management in a decentralized organization

Remit of the BVR protection scheme

Section 4 of the BVR's articles of association 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 that still apply today, having come into force in 1994 and having been modified most recently in 2010. 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 2012 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 1,116 members of the Cooperative Financial Network belonged to the BVR protection scheme as at December 31, 2012 (December 31, 2011: 1,136 members). The decrease in membership stemmed solely from mergers.

Risk identification and analysis

Basic structures

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

The BVR protection scheme includes a reliable system for identifying and classifying risks and for monitoring the risks of all its members and of 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 prepares special analyses on specific issues, such as determining the impact of sustained low interest rates or evaluating levels of capital under Basel III.

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

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

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

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

Classification process

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

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

Since 2009, the results of the classification have revealed a positive trend in the form of a rise in the number of institutions with good or very good credit ratings. The latest assessments show that there is a slightly higher proportion of small and medium-sized institutions in the upper classes A++ to A. The main contributing factors were again the increased net interest income and comparatively low expenses for allowances for losses on loans and advances. Encouraging growth in the lending business was the main reason for the rise in net interest income.

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. The aim of prevention is and will continue to be counteracting adverse trends at an early stage, thereby helping to prevent the need for supporting measures. Data and other information from the banks that might be affected 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 statutes, the protection scheme has established a monitoring process that precedes the actual preventive action. Irrespective of the results of the classification, further information sources available to the protection scheme are used to analyze the institutions in order to ascertain if there is anything conspicuous that might indicate unusual trends at an early stage.

Restructuring management

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

Restructuring measures are provided and carried out in accordance with the 'Handbook for the realignment and restructuring of cooperative banks', which was developed in 2012 and represents a continuation of the tried-and-tested restructuring process, the standards for which were laid down in 2003, and also 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 has continued. No member banks required first-time supporting measures in 2012. The supporting measures provided related to legacy 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 below the expected amount. This again meant that the protection scheme's capital base was further strengthened in 2012 and the guarantee fund resources at its disposal were increased.

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, the level of support and assistance provided by the protection scheme is not expected to increase in 2013. Nonetheless, the rate of contributions paid into the guarantee fund – amounting to 1.2‰ – 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 directives.

The discussions surrounding the further steps needed to regulate financial markets centered on two new issues in 2012: the proposals for a European banking union and intensive deliberations about the restructuring and resolution of systemically important banks within the framework of the Crisis Management Directive (CMD). As no outcome has been reached on these two issues so far, political discussions on the proposal presented by the European Commission on July 12, 2010 for the Deposit Guarantee Schemes (DGS) Directive have been 'put on ice' and virtually no amendments have been made. It is still anticipated that the BVR will be able to continue with its tried-and-tested institution-related protection scheme. It remains to be seen what specific impact the final versions of the two directives (CMD and DGS) and their implementation in national law will have on the protection scheme.

Tools and methods for identifying and measuring risk

The VR-Control concept provides the cooperative institutions with a process for ensuring the consistent measurement of market risk and credit risk across the entire business of each institution. This also serves to implement the Minimum Requirements for Risk Management (MaRisk).

The historic simulation process is used to calculate market risk. Credit risk from the customer lending business is determined using a variant of the Credit Suisse model (Credit Risk $^{+}$), which focuses on industries as the main risk drivers and has value-at-risk (VaR) as the main indicator. Besides calculating the VaR, the banks can develop stress scenarios for the specified risks.

An integrated approach to measuring credit risk in own-account investing activities, which was developed under the leadership of the BVR, has been widely used since 2012. It takes full account of the aspects of risk in the 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 portfolio model and its parameters regularly.

The banking regulator is increasingly focused on banks' inhouse assessment of their own bank-wide risk-bearing capacity. With the MaRisk, the regulator specifically deals with the calculation of 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. A cross-sectional study showed that, based on a periodic analysis, utilization of the available capital and components of net profit was low.

Risk Report

Risk capital management

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

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

The protection scheme gains an overview of its affiliated institutions' level of capital by analyzing the regulatory capital ratios. The following chart shows the distribution of the total capital ratios indicating the solvency of the Cooperative Financial Network and highlights the high level of capital adequacy of the individual banks. The unweighted average for the total capital ratio was 17.8 percent.

By preparing annual consolidated financial statements, the Cooperative Financial Network provides a comprehensive overview of its financial position and financial performance. It is also provides an overview of the equity attributable to the Cooperative Financial Network, as well as its Tier 1 capital ratio and solvency ratio.

The Cooperative Financial Network has healthy capital adequacy thanks to equity of Euro 72.2 billion. Despite the financial crisis, it has continually boosted its level of capital in recent years by retaining profit. The amount of capital held – as required by the Solvency Regulation (SolvV) – increased to Euro 74.8 billion in 2012, while the total capital ratio indicating solvency stood at 14.7 percent. The Tier 1 capital ratio as defined by the SolvV also went up in 2012, reaching 10.1 percent. This substantiates the Cooperative Financial Network's sustainable business model with its broad diversification of sources of risk and income.

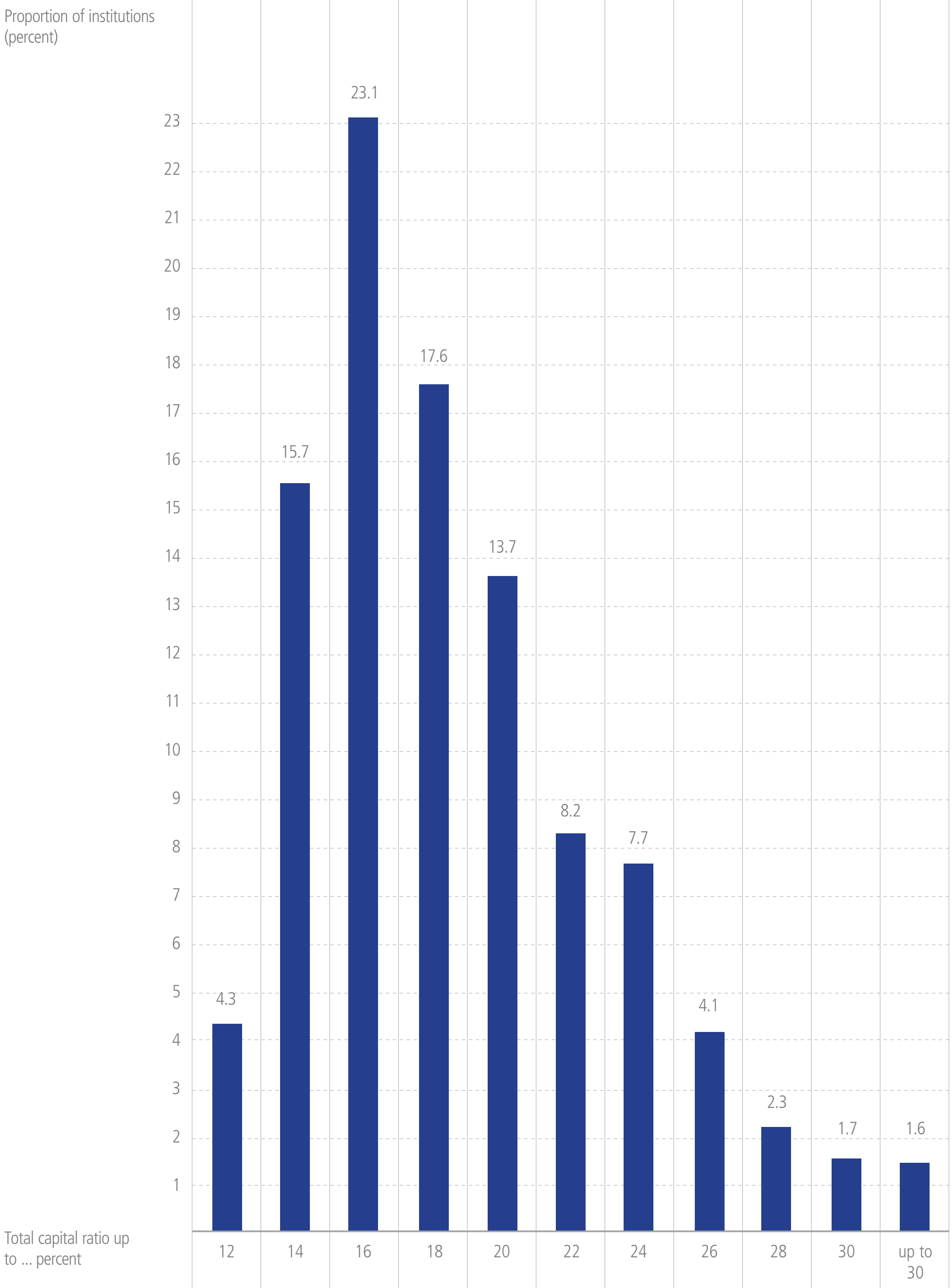
Basel III

As things stand, the latest regulations under Basel III will come into force on January 1, 2014. One important core area of the new regulatory measures aims to fundamentally improve institutions' capital adequacy and liquidity. At European level, the Basel III regulations are implemented by the CRD IV package, which consists of the amended Capital Requirements Directive IV (CRD IV) and the associated Capital Requirements Regulation (CRR).

Above all, the CRD IV package is designed to increase the quantity and quality of institutions' regulatory capital. In the future, eligible capital will be defined more strictly, focusing on the 'core' Tier 1 capital available to directly cover a bank's risks and losses. Besides applying this stricter definition of capital, the banks must meet qualitatively more stringent capital requirements and revised standards for the liquidity coverage ratio.

Hand in hand with the central institutions, associations, and computing centers, the BVR is closely examining the tighter regulatory requirements and their consequences. During the EU negotiations on implementation of the Basel III regulations, the Cooperative Financial Network succeeded in achieving recognition of the specific nature of capital in the cooperative banks, in particular paid-up shares in cooperatives. The latest analyses show that the Cooperative Financial Network will fulfill the new regulatory requirements from the outset.

Distribution of total capital ratios in the Cooperative Financial Network



as of December 31, 2012

Risk Report
Credit risk, market risk, and liquidity risk

Credit risk

Positive economic data, including a rise in the rate of employment and a reduction in the number of insolvencies, provided a fillip to the Cooperative Financial Network's lending business in 2012. Lending to retail and corporate customers saw a substantial year-on-year increase of 4.2 percent. In particular, the lending volume in the corporate banking business rose at an above-average rate.

The growth of corporate banking was driven, among other things, by business in the renewable energies sector. Because of their regional roots, the local cooperative banks have established a strong foothold in this market and provide financial support to companies in relation to projects for increased energy efficiency and for power generation from renewable sources. Besides presenting growth opportunities, the renewable energies sector also has risk structures that are the result, above all, of the rapid pace of change and the complexity of the projects for which the loans are needed. The protection scheme analyzes the business trends in this sector and the resultant risks.

Brisk consumer demand for real-estate loans also led to an increase in the Cooperative Financial Network's long-term loans and advances in 2012. Given the very low interest rates and high level of liquidity, the protection scheme closely monitors real-estate prices. The BVR does not currently anticipate a broad-based real-estate price bubble. From a regional perspective, individual market segments have shown strong price rises although there has been a fundamental explanation for these trends so far. To help the member institutions to monitor the regional markets, the BVR teamed up with vdpResearch GmbH to develop a concept for measuring market volatility in individual ZIP code areas: BVR real-estate market monitoring. The measurements from BVR real-estate market monitoring provide additional regional information to complement the German Banking Industry Committee's market volatility concept. This enables the cooperative banks to determine the geographical areas forming their relevant markets and better comply with regulatory requirements.

Overall, the Cooperative Financial Network's customer lending business is characterized by a granular credit structure and a high proportion of mortgages and local authority loans. The granularity and extensive regional diversification of the Cooperative Financial Network's business activities limit the formation of risk clusters. In 2012, expenses for allowances for losses on loans and advances came to approximately Euro 1 billion, which equated to 0.3 percent of the total lending volume. This figure remains below the long-term average and indicates that the lending business is in a healthy state overall.

There was a further reduction in the Cooperative Financial Network's exposures to countries particularly affected by the sovereign debt crisis in respect of bonds from public-sector borrowers. The total carrying amount of these bonds reduced from Euro 11.4 billion as at December 31, 2011 to Euro 11.0 billion as at December 31, 2012, a fall of 3.5 percent. According to current estimates, these exposures present a manageable risk for the Cooperative Financial Network overall.

Market risk

The main type of market risk for the cooperative banks is interest-rate risk. It results, above all, from the maturity transformation of short-term deposit business and long-term loan business. Maturity transformation is an important element of the cooperative banks' sustainable business strategy. It enables the institutions to perform their necessary role for the economy as a whole while, at the same time, ensuring funding security and a high level of availability for customers' deposits. The cooperative banks manage the interest-rate risk on basis of their risk-bearing capacity.

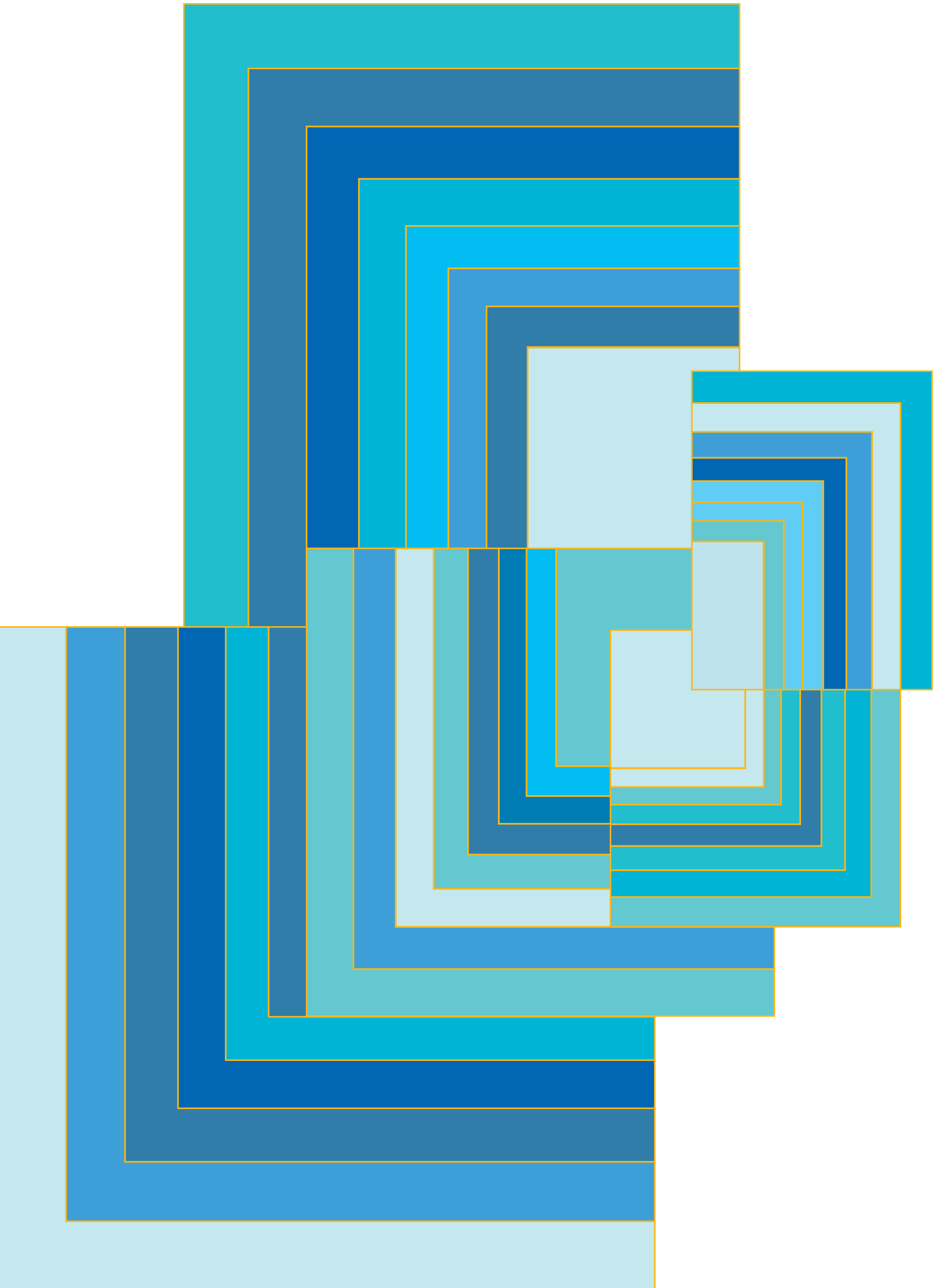
Interest-rate risk has a significant influence on the banks' financial performance. Despite the flatter interest-rate curve in 2012, the Cooperative Financial Network's net interest income increased. Interest rates have been favorable to the cooperative banks in recent years. However, given the persistent low level of interest rates and growing competition for deposits, the banks will have to expect lower net interest income in the future.

The protection scheme monitors the appropriateness of the member institutions' level of interest-rate risk. It conducts simulation calculations for net interest income, analyzes interest-rate risk coefficients, and assesses the related compliance with the regulatory 'test criterion'.

Liquidity risk
The Cooperative Financial Network has a reliable liquidity structure that has always proved crisis-resistant so far. The reasons for this lie, above all, in the diversifying, risk-mitigating effect created by the stable business structure of the banks, which tend to be divided into small units, and in the institutions' traditional method of obtaining finance through customer deposits. Customers recognize and reward the effectiveness of the protection scheme operated by the BVR, which goes beyond the legal requirements for deposit protection and is specifically designed to safeguard 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. The loan to deposit ratio of the Cooperative Financial Network is below 95 percent.

Basel III now incorporates new ratios for the measurement of liquidity risk. The liquidity coverage ratio (LCR) indicates an institution's short-term liquidity. Compliance with the LCR requirement ensures a bank has sufficient funding for 30 days in the event of a crisis.

To gain a better picture of the impact of the new ratio on management, the Cooperative Financial Network began collecting data both for individual institutions and for the network as a whole. The data collected enables the network to track how this ratio changes in the period before it becomes mandatory. In particular, its volatility is being closely monitored. The results have implications for individual institutions and, at the same time, for the Cooperative Financial Network. After the introduction of the CRD IV package on January 1, 2014, the minimum requirements for the LCR are to be phased in, starting at 60 percent from 2015 and rising to 100 percent in 2019.



Outlook
Real economy and banking industry

The decline in German manufacturing at the end of 2012 did not continue into the new year. Economic growth continues to be held back by the European sovereign debt crisis and the generally challenging global economic conditions. Private consumer spending provided the main source of growth stimulus in the first quarter of 2013. By contrast, capital expenditure declined still further, owing to the harsh winter weather and persistent economic uncertainty. Foreign trade made virtually no impact on economic growth.

Economic growth is predicted to pick up significantly over the remainder of the year. Because of the fall in GDP that the German economy registered at the start of the year on the back of a weak fourth quarter of 2012, the BVR's forecast for average growth over 2013 as a whole is, like last year, only moderate at 0.7 percent. The euro zone's economic prospects are expected to brighten again, especially in the second half of the year, and slowly turn the corner. The global economy should also become more buoyant and return to its trend growth rate. Growth impetus is anticipated, in particular, from the emerging markets and, increasingly, from the United States. The better global conditions are likely to have a positive effect on German exports and stimulate companies' investing activities.

The labor market will remain stable in 2013. Employment will increase as migration to Germany continues and the number of German citizens in work increases further. However, demographic change means that employment is likely to rise at a slower rate than in the previous year. The average rate of unemployment in 2013 will remain at the 2012 level.

Disposable income will rise considerably due to the favorable situation in the labor market and increases in wages covered by collective pay agreements, some of which will be substantial. Fueled by this growth in income, consumer spending will provide much of the growth stimulus for the economy as a whole. Growth in personal consumption will be underpinned by the fact that price rises will remain modest and the extremely low interest rates will generate little incentive for people to save for the future. As was the case in 2012, the savings ratio for consumers is predicted to be slightly lower in 2013 than in the previous year.

The economic growth forecasts must also take account of the downside risk. If the euro crisis were to flare up again or the euro zone remained in recession throughout 2013, the impact on the German economy would be significant. In this case, companies would remain reluctant to invest, exports would decline, and overall GDP growth would be far lower than predicted.

Monetary policy in the euro zone is likely to remain extremely expansionary in 2013. As a result, interest rates will probably continue to hover above zero in the money markets. Held down by the subdued economy, moderate inflation in both Germany and the euro zone, and sustained strong demand from investors for particularly safe types of investment, long-term interest rates are also likely to persist at a low level.

Over the next few years, the banking sector will continue to face challenges in view of the economic situation and the regulatory changes that continue to emerge.

Although Deutsche Bundesbank stated in its 2012 Financial Stability Review that the situation in the financial markets of the euro zone had calmed down for now, the recent government crisis in Portugal has highlighted the fragility of the markets.

In many European countries, the banks are expected to incur losses as a result of weak economic growth. The losses will make it more difficult for these banks to comply with growing regulatory capital requirements.

The sustained low interest rates and continuing latent uncertainty in the capital markets is causing customers to keep their investment capital in secure types of investment. This is impacting negatively on earnings in the financial services sector.

The increasing focus on funding from a regulatory perspective will intensify competition for the deposits of retail customers. This competitive pressure is likely to squeeze achievable margins still further. Against this backdrop, the various sales channels will have to compete. It is anticipated that the banks will have to review their business models and, if necessary, amend them.

Finally, risk premiums are expected to be re-evaluated. When making their investment decisions, investors will have to weigh up safety and returns more carefully. At EU level, they are waiting for progress with the EU's forthcoming new Deposit Guarantee Schemes Directive and Crisis Management Directive, which deals with the resolution of banks.

As in previous years, the sovereign debt crisis will remain a considerable source of potential risk and uncertainty for the financial sector's earnings forecasts.

Outlook
Volksbanken Raiffeisenbanken Cooperative Financial Network

As far as 2013 and 2014 are concerned, the BVR is positive about the **financial performance** of the Cooperative Financial Network, even if it does not achieve the same level of results as in 2012. The BVR expects the figures in the consolidated income statement to remain at a high level in 2013 and 2014 owing to the Cooperative Financial Network's fundamental profitability borne out of its healthy customer business. It cannot be ruled out that earnings will fluctuate as the sovereign debt crisis progresses due to the effects of remeasurement.

In the familiar environment of low interest rates, a further decline in portfolio margins is to be expected, although this may be at least partly offset by a further increase in the volume of business. The growth figures as at March 31, 2013 point to a steady growth trajectory. This is likely to mean that the Cooperative Financial Network's **net interest income** will exhibit only a slight downward trend in both 2013 and 2014. The banks will deal with the expected squeeze on net interest income by continuing to improve both their cost-efficiency and their sales structures to create a multichannel approach with assured high-quality advice. Implementation of the BVR's strategic project, webErfolg, will contribute to these improvements. This project is aimed at raising online services to an innovative level – in terms of both quality and quantity – and enabling each individual bank to use them as a sales channel so that they can meet the expectations of today's customers. In addition, the new broad-reaching campaign aimed at corporate customers, 'Deutschland – made by Mittelstand', is expected to boost revenue from corporate banking.

Based on the current assessment of the economic situation, there should not be any significant volatility in the need for additions to a**llowances for losses on loans and advances.** In the longer term, these allowances are expected to rise from their historically low level. A sharp and sustained economic downturn throughout Europe brought about by further intensification of the European sovereign debt crisis and its impact on the real economy could lead to increasingly severe risks.

In 2013, **net fee and commission income** will attain approximately the same high level as in 2012. It is expected to rise in 2014, particularly as a result of an increase in the volume of core business with retail customers and small and medium-sized enterprises as well as the anticipated growth in the volume of assets under management in the Union Investment Group.

The net gains under **gains and losses on trading activities** are likely to be lower in 2013. The positive effect from changes in spreads will tail off, especially in the case of Pfandbriefe, sovereign bonds, and government bonds. Once again in 2013, the uncertainty in capital markets and the tighter regulatory framework are likely to depress net gains on trading activities. As before, the continued significant volatility in financial markets, combined with a cautious approach by retail and institutional investors, may continue to impact negatively on gains and losses on trading activities. Gains and losses on trading activities are likely to benefit as the situation in financial markets returns to normal in 2013 and 2014.

Like gains and losses on trading activities, **gains and losses on investments** will be affected by market trends resulting from the sovereign debt crisis, which means volatility in the level of such gains and losses still cannot be ruled out. Looking ahead to the next few years, these effects are unlikely to impact significantly on the Cooperative Financial Network's financial performance.

Net income from insurance business is expected to contract in 2013. Although premiums earned will again increase slightly (the result of expected premium growth in property and casualty insurance business and life/health insurance), prudent estimates suggest that net gains on investments held by insurance companies will fall in 2013. A slight increase in net income from insurance business is then predicted for 2014. Insurance business operating expenses will go up as a result of additional regulatory requirements. The rate of increase for expenses in 2013 and 2014 will be limited by the predicted rate of increase for premiums. Unusual events in the capital markets caused by the sovereign debt crisis or changes in underwriting may affect the net income forecasts in this case.

There will be a rise in **administrative expenses** in 2013 and 2014. This rise will reflect the response of the Cooperative Financial Network to the tighter regulatory and statutory provisions. The necessary compliance measures will force an increase in expenses, not least staff expenses. The predicted rise in administrative expenses also includes increases under collective pay agreements and inflationary rises in general and administrative expenses.

The financial sector also remains at the center of public attention as a result of the sovereign debt crisis in the euro zone. Moreover, the issue of macrofinancial risk arising from the interplay between the real economy and the financial sector is gaining importance. Thanks to its strong capital ratios and positive earnings prospects, the Cooperative Financial Network is well positioned to meet current and future regulatory requirements. The introduction of a far-reaching split banking system at national or EU level could have a negative impact and put the Cooperative Financial Network – which has stable network structures based on division of labor – at a disadvantage.

Consolidated Financial Statements 2012

of the Volksbanken Raiffeisenbanken
Cooperative Financial Network

Income statement for the period January 1 to December 31, 2012

	Note no.	2012 € million	2011 € million	Change (percent)
Net interest income	2.	19,644	19,431	1.1
Interest income and current income and expense		*34,294*	*35,554*	*–3.5*
Interest expense		*–14,650*	*–16,123*	*–9.1*
Allowances for losses on loans and advances	3.	–1,034	–738	40.1
Net fee and commission income	4.	4,860	4,788	1.5
Fee and commission income		*6,237*	*6,107*	*2.1*
Fee and commission expense		*–1,377*	*–1,319*	*4.4*
Gains and losses on trading activities	5.	856	665	28.7
Gains and losses on investments	6.	390	–1,496	> 100.0
Other gains and losses on valuation of financial instruments	7.	–8	–1,761	–99.5
Premiums earned	8.	11,787	11,193	5.3
Gains and losses on investments held by insurance companies and other insurance company gains and losses	9.	3,196	1,983	61.2
Insurance benefit payments	10.	–12,509	–10,968	14.0
Insurance business operating expenses	11.	–1,657	–1,592	4.1
Administrative expenses	12.	–16,348	–15,895	2.8
Other net operating income	13.	135	78	73.1
Profit before taxes		**9,312**	**5,688**	**63.7**
Income taxes	14.	–2,440	–1,226	99.0
Net profit		**6,872**	**4,462**	**54.0**
Attributable to:				
Shareholders of the Cooperative Financial Network		6,707	4,376	53.3
Non-controlling interests		165	86	91.9

Statement of comprehensive income for the period January 1 to December 31, 2012

	2012 € million	2011 € million	Change (percent)
Net profit	**6,872**	**4,462**	**54.0**
Gains and losses on available-for-sale financial assets	1,944	–726	> 100.0
Gains and losses on cash flow hedges	41	–10	> 100.0
Exchange differences on currency translation of foreign operations	13	–	–
Gains and losses from hedges of net investments in foreign operations	–2	–	–
Actuarial gains and losses on defined benefit plans	–1,877	63	> 100.0
Share of other comprehensive income/loss attributable to joint ventures and associates accounted for using the equity method	89	–8	> 100.0
Other comprehensive income/loss before taxes	**208**	**–681**	**> 100.0**
Income taxes relating to components of other comprehensive income/loss	–35	162	> 100.0
Other comprehensive income/loss	**173**	**–519**	**> 100.0**
Total comprehensive income/loss	**7,045**	**3,943**	**78.7**
Attributable to:			
Shareholders of the Cooperative Financial Network	6,706	3,941	70.2
Non-controlling interests	339	2	> 100.0

Balance sheet as of December 31, 2012

Assets

	Note no.	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Cash and cash equivalents	15.	14,277	17,958	–20.5
Loans and advances to banks	16.	41,785	44,589	–6.3
Loans and advances to customers	16.	632,448	606,820	4.2
Allowances for losses on loans and advances	17.	–9,785	–9,648	1.4
Derivatives used for hedging (positive fair values)	18.	1,388	1,468	–5.4
Financial assets held for trading	19.	72,205	74,392	–2.9
Investments	20.	242,161	235,266	2.9
Investments held by insurance companies	21.	64,100	56,934	12.6
Property, plant and equipment, and investment property	22.	10,444	10,668	–2.1
Income tax assets	23.	5,751	6,772	–15.1
Other assets	24.	15,562	13,260	17.4
Total assets		**1,090,336**	**1,058,479**	**3.0**

Equity and Liabilities

	Note no.	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Deposits from banks	25.	110,824	103,257	7.3
Deposits from customers	25.	664,839	646,760	2.8
Debt certificates including bonds	26.	83,259	87,539	–4.9
Derivatives used for hedging (negative fair values)	18.	10,352	7,520	37.7
Financial liabilities held for trading	27.	58,307	64,849	–10.1
Provisions	28.	11,808	9,935	18.9
Insurance liabilities	29.	63,260	57,437	10.1
Income tax liabilities	23.	1,248	1,629	–23.4
Other liabilities	30.	7,763	7,802	–0.5
Subordinated capital	31.	6,478	6,322	2.5
Cooperative Network's capital		72,198	65,429	10.3
Subscribed capital		*9,994*	*9,624*	*3.8*
Capital reserve		*703*	*700*	*0.4*
Retained earnings		*51,707*	*49,110*	*5.3*
Revaluation reserve		*104*	*–1,131*	*> 100.0*
Cash flow hedge reserve		*4*	*–25*	*> 100.0*
Currency translation reserve		*36*	*5*	*> 100.0*
Non-controlling interests		*2,943*	*2,770*	*6.2*
Unappropriated earnings		*6,707*	*4,376*	*53.3*
Total equity and liabilities		**1,090,336**	**1,058,479**	**3.0**

Changes in the Cooperative Network's capital

€ million	Subscribed capital	Capital reserve	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 of Jan. 1, 2011	**9,377**	**703**	**49,856**	**–674**	**–19**	**15**	**59,258**	**2,983**	**62,241**
Net profit/loss	–	–	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 the 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 of Dec. 31, 2011	**9,624**	**700**	**53,486**	**–1,131**	**–25**	**5**	**62,659**	**2,770**	**65,429**
Net profit/loss	–	–	6,707	–	–	–	6,707	165	6,872
Other comprehensive income/loss	–	–	–1,296	1,235	29	31	–1	174	173
Total comprehensive income/loss	**–**	**–**	**5,411**	**1,235**	**29**	**31**	**6,706**	**339**	**7,045**
Cooperative Network's capital issued and repaid	370	3	–	–	–	–	373	–85	288
Changes in the scope of consolidation	–	–	53	–	–	–	53	5	58
Acquisition/disposal of non-controlling interests	–	–	–30	–	–	–	–30	–12	–42
Dividends paid	–	–	–506	–	–	–	–506	–74	–580
Cooperative Network's capital as of Dec. 31, 2012	**9,994**	**703**	**58,414**	**104**	**4**	**36**	**69,255**	**2,943**	**72,198**

The table below gives a breakdown of subscribed capital.

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Cooperative shares	9,311	8,913	4.5
Share capital	173	173	–
Capital of silent partners	510	538	–5.2
Total	**9,994**	**9,624**	**3.8**

Statement of Cash Flows

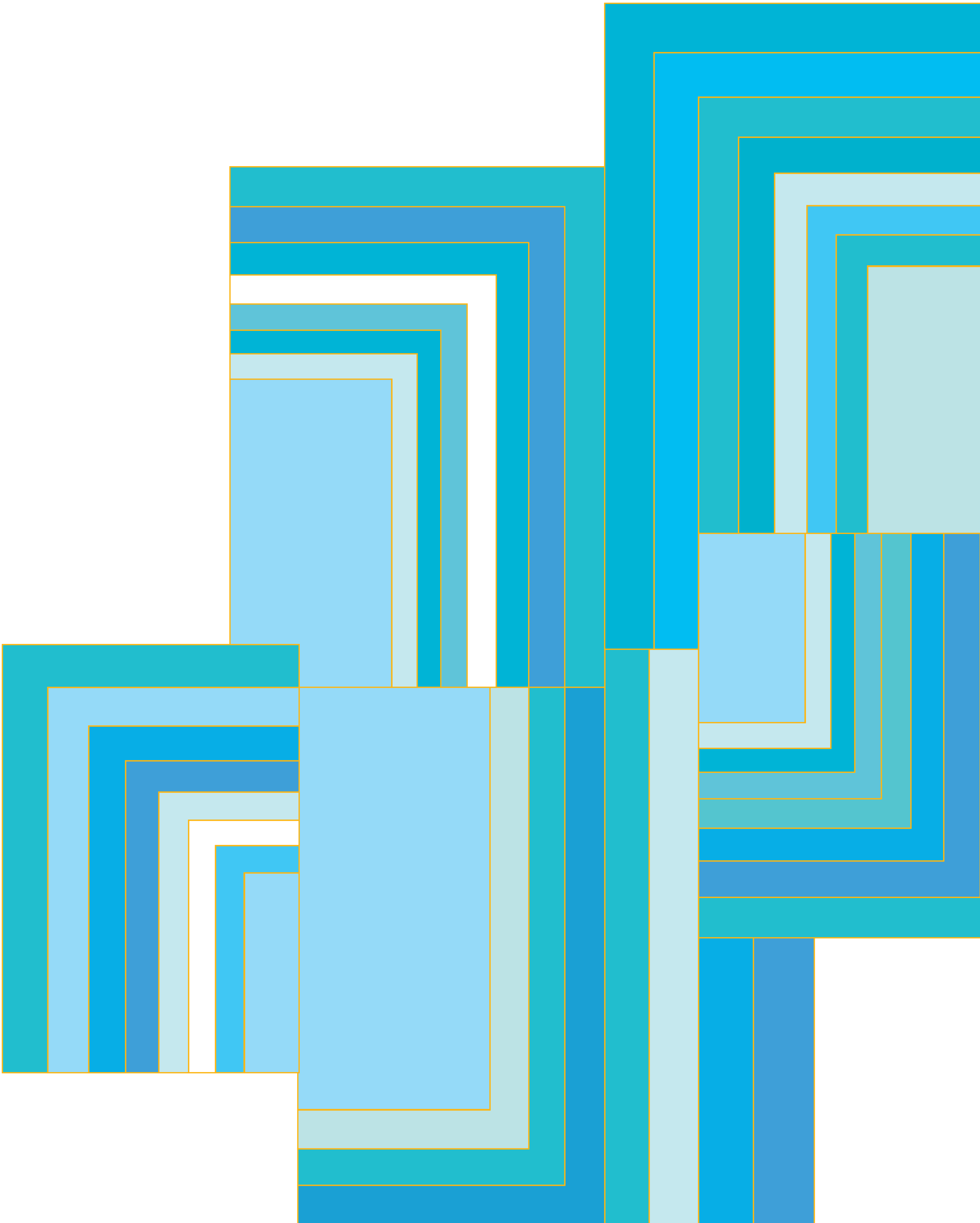
	2012 € million	2011 € million
Net profit/loss	**6,872**	**4,462**
Non-cash items included in net profit/loss and reconciliation to cash flows from operating activities		
Depreciation, amortization, impairment losses, and reversals of impairment losses on assets, and other non-cash changes in financial assets and liabilities	896	4,030
Non-cash changes in provisions	1,867	339
Changes in insurance liabilities	4,451	5,211
Other non-cash income and expenses	1,230	9
Gains and losses on the disposal of assets and liabilities	–386	1,499
Other adjustments (net)	–18,075	–18,486
Subtotal	**–3,145**	**–2,936**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	–23,046	–29,540
Other assets from operating activities	256	–367
Derivatives used for hedging (positive and negative fair values)	1,214	1,214
Financial assets and financial liabilities held for trading	–4,059	11,852
Deposits from banks and deposits from customers	24,701	20,076
Debt certificates including bonds	–4,248	–5,716
Other liabilities from operating activities	928	–4,177
Interest, dividends and operating lease payments received	34,762	36,096
Interest paid	–14,793	–15,851
Income taxes paid	–1,914	–1,946
Cash flows from operating activities	**10,656**	**8,705**

	2012 € million	2011 € million
Proceeds from the sale of investments	21,099	20,429
Proceeds from the sale of investments held by insurance companies	24,849	28,695
Payments for acquisitions of investments	–26,839	–22,168
Payments for acquisitions of investments held by insurance companies	–30,885	–30,909
Payments for acquisitions of property, plant and equipment, and investment property (excluding assets subject to operating leases)	–1,156	–1,201
Changes in the scope of consolidation	70	–4
Net change in cash and cash equivalents from other investing activities	47	–4
Cash flows from investing activities	**–12,815**	**–5,162**
Proceeds from increased Cooperative Network's capital	373	244
Dividends paid to shareholders of the Cooperative Financial Network and non-controlling interests	–580	–569
Other payments to shareholders of the Cooperative Financial Network and non-controlling interests	–85	–82
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	–1,230	–1,493
Cash flows from financing activities	**–1,522**	**–1,900**

Cash and cash equivalents as of January 1	**17,958**	**16,315**
Cash flows from operating activities	10,656	8,705
Cash flows from investing activities	–12,815	–5,162
Cash flows from financing activities	–1,522	–1,900
Cash and cash equivalents as of December 31	**14,277**	**17,958**

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. Cash and cash equivalents do not include any financial investments with a maturity of more than three months at the date of acquisition. Changes in cash and cash equivalents are broken down into operating, investing and financing activities.

Cash flows from operating activities comprise cash flows mainly arising in connection with the revenue-generating activities of the 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 HGB have been brought into line with IFRSs. Thus, using a simplified approach, assets, liabilities, equity, income and expenses are reconciled withthe 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.

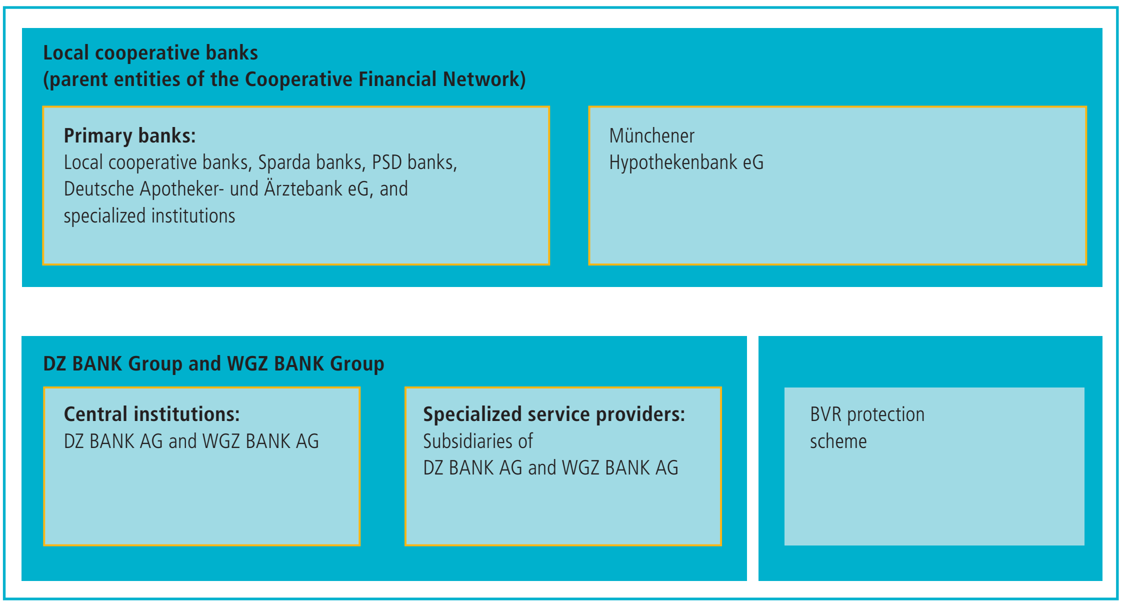
Scope of consolidation

The consolidated entities included in these consolidated financial statements are the 1,096 primary banks (2011: 1,115), 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 of the Cooperative Financial Network, whereas the other corporate groups and entities are consolidated as subsidiaries. The two cooperative central institutions and a total of 871 subsidiaries (2011: 941) have been consolidated in the DZ BANK Group and WGZ BANK Group.

The consolidated financial statements include 24 joint ventures between a consolidated entity and at least one other non-network entity (2011: 22) and 25 associates (2011: 15) over which a consolidated entity has significant influence, that are accounted for using the equity method.

Volksbanken Raiffeisenbanken Cooperative Financial Network



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 the financial year ended December 31, 2012. There are 2 subsidiaries (2011: 3 subsidiaries) included in the consolidated financial statements with different reporting dates for their annual financial statements. With 16 exceptions (2011: 5 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

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 the fair value option on the basis of all applications.

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

"Available-for-sale financial assets" are financial assets that cannot be classified in any other category. In principle, they are measured at fair value. Any changes in fair value occurring between 2 reporting dates are recognized in other comprehensive income. The fair value changes are reported in 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 face value or translated at the buying rate. Balances with central banks and other government institutions as well as public-sector debt instruments and bills of exchange eligible for refinancing by central banks are measured at amortized cost.

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

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

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

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

The allowance for losses on loans and advances to banks and to customers is reported as a separate line item on the assets side of the balance sheet. Additions to and reversals of allowances for losses on loans and advances to banks and to customers are recognized in the income statement under allowances for losses on loans and advances 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 within the meaning of IAS 39.

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

Financial assets and financial liabilities held for trading

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

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

Apart from derivative financial instruments with negative fair values, financial liabilities held for trading include delivery commitments arising from the short-selling of securities, bonds issued and other debt certificates entered into for trading purposes, liabilities and obligations from commodities transactions. Bonds issued and other debt certificates include share- and index-linked certificates as well as commercial 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 the balance sheet item "Income tax liabilities". Current income tax assets and liabilities are recognized in the amount of any expected refund or future payment.

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

Deferred tax assets and liabilities are not discounted. Where temporary differences arise in relation to items recognized 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 deposits from customers

All liabilities attributable to registered creditors and not classified as "financial liabilities held for trading" are recognized as deposits from banks and deposits from customers. 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 deposits from customers are measured at amortized cost. Where deposits from banks and deposits from customers 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 deposits from customers are recognized separately under net interest income. Interest expense also includes gains and losses on early repayment and on the amortization of hedge adjustments to carrying amounts due to fair value hedges. Hedge adjustments to the carrying amount due to fair value hedges are reported within other gains and losses on valuation of financial instruments under gains and losses arising on hedging transactions. Gains and losses on liabilities designated as at fair value through profit or loss are also recognized in other gains and losses on valuation of financial instruments.

Debt certificates 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 deposits from customers.

Provisions

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

Actuarial reports are used to calculate the carrying amounts of defined benefit obligations 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 deposits from customers.

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 and measured in accordance with the provisions of the HGB and other German accounting standards applicable to insurance companies. These financial assets and financial liabilities include deposits with ceding insurers, deposits received from reinsurers, receivables and payables arising out of direct insurance operations, and assets related to unit-linked contracts.

Insurance liabilities

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

Leases

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

Income Statement Disclosures

1. Information on operating segments

Financial year 2012 € million	Bank	Retail	Real Estate Finance	Insurance	Other/ Consoli-dation	Total
Net interest income	1,914	16,611	1,522	–	–403	19,644
Allowances for losses on loans and advances	–393	–510	–61	–	–70	–1,034
Net fee and commission income	564	5,058	–284	–	–478	4,860
Gains and losses on trading activities	637	213	10	–	–4	856
Gains and losses on investments	–340	860	–32	–	–98	390
Other gains and losses on valuation of financial instruments	–54	12	27	–	7	–8
Premiums earned	–	–	–	11,787	–	11,787
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	3,353	–157	3,196
Insurance benefit payments	–	–	–	–12,509	–	–12,509
Insurance business operating expenses	–	–	–	–2,145	488	–1,657
Administrative expenses	–1,608	–14,433	–669	–	362	–16,348
Other net operating income	–63	80	46	4	68	135
Profit/loss before taxes	**657**	**7,891**	**559**	**490**	**–285**	**9,312**
Cost/income ratio (percent)	60.5	63.2	51.9	–	–	61.2

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

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 capital markets businesses. The operating segment focuses on corporate customers. It essentially comprises DZ BANK, WGZ BANK, the VR LEASING Group, the DVB Bank Group, DZ BANK Ireland plc, 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

	2012 € million	2011 € million	Change (percent)
Interest income and current income and expense	**34,294**	**35,554**	**–3.5**
Interest income from	***32,892***	***34,197***	***–3.8***
Lending and money market business	28,128	28,774	–2.2
of which: building society operations	998	947	5.4
finance leases	386	392	–1.5
Fixed–income securities	5,211	5,690	–8.4
Other assets	–447	–267	67.4
Current income from	***1,210***	***1,171***	***3.3***
Shares and other variable-yield securities	1,066	1,018	4.7
Investments in subsidiaries and equity investments	67	56	19.6
Operating leases	77	97	–20.6
Income/loss from using the equity method for	***84***	***85***	***–1.2***
Interests in joint ventures	66	74	–10.8
Investments in associates	18	11	63.6
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***108***	***101***	***6.9***
Interest expense	**–14,650**	**–16,123**	**–9.1**
Interest expense on	***–13,772***	***–15,370***	***–10.4***
Deposits from banks and deposits from customers	–12,178	–13,159	–7.5
of which: building society operations	–727	–702	3.6
Debt certificates including bonds	–1,307	–1,840	–29.0
Subordinated capital	–346	–422	–18.0
Other liabilities	59	51	15.7
Other interest expense	***–878***	***–753***	***16.6***
Total	**19,644**	**19,431**	**1.1**

The interest income from other assets and the interest expense on other liabilities result from gains and losses on the amortization of fair value changes of the hedged items in portfolio hedges of interest-rate risk.

3. Allowances for losses on loans and advances

	2012 € million	2011 € million	Change (percent)
Additions	–2,959	–2,864	3.3
Reversals	1,926	2,349	–18.0
Directly recognized impairment losses	–232	–306	–24.2
Receipts from loans and advances previously impaired	239	216	10.6
Changes in the provisions for loans and advances as well as in the liabilities from financial guarantee contracts	–8	–133	–94.0
Total	**–1,034**	**–738**	**40.1**

4. Net fee and commission income

	2012 € million	2011 € million	Change (percent)
Fee and commission income	**6,237**	**6,107**	**2.1**
Securities business	2,666	2,644	0.8
Asset management	152	145	4.8
Payments processing including card processing	2,148	2,121	1.3
Lending business and trust activities	301	270	11.5
Financial guarantee contracts and loan commitments	191	175	9.1
International business	129	136	–5.1
Building society operations	325	309	5.2
Other	325	307	5.9
Fee and commission expense	**–1,377**	**–1,319**	**4.4**
Securities business	–513	–516	–0.6
Asset management	–9	–10	–10.0
Payments processing including card processing	–222	–221	0.5
Lending business and trust activities	–142	–104	36.5
Financial guarantee contracts and loan commitments	–10	–7	42.9
International business	–21	–20	5.0
Building society operations	–354	–357	–0.8
Other	–106	–84	26.2
Total	**4,860**	**4,788**	**1.5**

5. Gains and losses on trading activities

	2012 € million	2011 € million	Change (percent)
Gains and losses on trading in financial instruments	522	535	–2.4
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	141	–66	> 100.0
Gains and losses on commodities trading	193	196	–1.5
Total	**856**	**665**	**28.7**

6. Gains and losses on investments

	2012 € million	2011 € million	Change (percent)
Gains and losses from securities	450	–1,515	> 100.0
Gains and losses from investments in subsidiaries and equity investments	–60	19	> 100.0
Total	**390**	**–1,496**	**> 100.0**

7. Other gains and losses on valuation of financial instruments

	2012 € million	2011 € million	Change (percent)
Gains and losses arising on hedging transactions	**–24**	**19**	**> 100.0**
Fair value hedges	***–24***	***18***	***> 100.0***
Gains and losses on hedging instruments	–2,403	–3,536	–32.0
Gains and losses on hedged items	2,379	3,554	–33.1
Cash flow hedges	***–***	***1***	***–100.0***
Gains and losses on derivatives held for purposes other than trading	**–21**	**–1**	**> 100.0**
Gains and losses on financial instruments designated as at fair value through profit or loss	**37**	**–1,779**	**> 100.0**
Total	**–8**	**–1,761**	**–99.5**

8. Premiums earned

	2012 € million	2011 € million	Change (percent)
Net premiums written	**11,828**	**11,241**	**5.2**
Gross premiums written	11,875	11,332	4.8
Reinsurance premiums ceded	–47	–91	–48.4
Change in provision for unearned premiums	**–41**	**–48**	**–14.6**
Gross premiums	–14	–36	–61.1
Reinsurers' share	–27	–12	> 100.0
Total	**11,787**	**11,193**	**5.3**

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

	2012 € million	2011 € million	Change (percent)
Interest income and current income	2,489	2,442	1.9
Administrative expenses	–121	–121	–
Gains and losses on valuation and disposals	672	–545	> 100.0
Other gains and losses of insurance companies	156	207	–24.6
Total	**3,196**	**1,983**	**61.2**

10. Insurance benefit payments

	2012 € million	2011 € million	Change (percent)
Expenses for claims	**–8,301**	**–9,035**	**–8.1**
Gross expenses for claims	–8,342	–9,091	–8.2
Reinsurers' share	41	56	–26.8
Changes in benefit reserve, reserve for deferred policyholder participation, and in other insurance liabilities	**–4,208**	**–1,933**	**> 100.0**
Changes in gross liabilities	–4,181	–1,897	> 100.0
Reinsurers' share	–27	–36	–25.0
Total	**–12,509**	**–10,968**	**14.0**

11. Insurance business operating expenses

	2012 € million	2011 € million	Change (percent)
Gross expenses	–1,676	–1,624	3.2
Reinsurers' share	19	32	–40.6
Total	**–1,657**	**–1,592**	**4.1**

12. Administrative expenses

	2012 € million	2011 € million	Change (percent)
Staff expenses	–9,682	–9,486	2.1
General and administrative expenses	–5,717	–5,500	3.9
Depreciation/amortization and impairment losses	–949	–909	4.4
Total	**–16,348**	**–15,895**	**2.8**

13. Other net operating income

	2012 € million	2011 € million	Change (percent)
Gains and losses on non-current assets and disposal groups classified as held for sale	–2	–44	–95.5
Other operating income	1,131	1,094	3.4
Other operating expenses	–994	–972	2.3
Total	**135**	**78**	**73.1**

14. Income taxes

	2012 € million	2011 € million	Change (percent)
Current tax expense	–2,431	–2,013	20.8
Income from/expense on deferred taxes	–9	787	> 100.0
Total	**–2,440**	**–1,226**	**99.0**

Current taxes in relation to the German limited companies are calculated using an effective corporation tax rate of 15.825 percent based on a corporation tax rate of 15.0 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.

	2012 € million	2011 € million	Change (percent)
Profit/loss before taxes	**9,312**	**5,688**	**63.7**
Notional rate of income tax of the Cooperative Financial Network (percent)	29.825	29.825	
Income taxes based on notional rate of income tax	**–2,777**	**–1,696**	**63.7**
Tax effect	**337**	**470**	**–28.3**
Tax effects of tax-exempt income and non-tax deductible expenses	104	159	–34.6
Tax effects of different tax types, different trade tax multipliers, and changes in tax rates	18	–29	> 100.0
Tax effects of different tax rates in other countries	24	10	> 100.0
Current and deferred taxes relating to prior reporting periods	5	95	–94.7
Reversal of valuation adjustments of deferred tax assets	43	415	–89.6
Other tax effects	143	–180	> 100.0
Income taxes	**–2,440**	**–1,226**	**99.0**

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

Balance Sheet Disclosures

15. Cash and cash equivalents

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Cash on hand	5,795	5,223	11.0
Balances with central banks and other government institutions	8,358	12,652	–33.9
of which: with Deutsche Bundesbank	7,586	12,494	–39.3
Public-sector debt instruments and bills of exchange eligible for refinancing by central banks	124	83	49.4
Total	**14,277**	**17,958**	**–20.5**

16. Loans and advances to banks and customers

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Loans and advances to banks	**41,785**	**44,589**	**–6.3**
Repayable on demand	***15,102***	***15,459***	***–2.3***
Other loans and advances	***26,683***	***29,130***	***–8.4***
Mortgage loans	62	80	–22.5
Local authority loans	8,515	6,160	38.2
Loans secured by mortgages	45	45	–
Other loans and advances	18,061	22,845	–20.9
Loans and advances to customers	**632,448**	**606,820**	**4.2**
Mortgage loans	226,754	213,995	6.0
Local authority loans	45,401	46,231	–1.8
Building loans advanced by building society	25,447	23,975	6.1
of which: from allotment (home savings loans)	5,640	6,430	–12.3
for advance and interim financing	17,860	15,880	12.5
other building loans	1,947	1,665	16.9
Finance leases	5,519	5,590	–1.3
Other loans and advances	329,327	317,029	3.9

17. Allowances for losses on loans and advances

	Specific loan loss allowances € million	Portfolio loan loss allowances € million	Total € million
Balance as of Jan. 1, 2011	**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 the scope of consolidation	1	–	1
Other changes	–5	–15	–20
Balance as of Dec. 31, 2011	**8,350**	**1,298**	**9,648**
Additions	2,785	175	2,960
Utilizations	–962	–	–962
Reversals	–1,685	–285	–1,970
Changes in the scope of consolidation	59	2	61
Other changes	3	45	48
Balance as of Dec. 31, 2012	**8,550**	**1,235**	**9,785**

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

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Derivatives used for hedging (positive fair values)	**1,388**	**1,468**	**–5.4**
Fair value hedges	1,377	1,467	–6.1
Cash flow hedges	11	1	> 100.0
Derivatives used for hedging (negative fair values)	**10,352**	**7,520**	**37.7**
Fair value hedges	10,350	7,493	38.1
Cash flow hedges	1	27	–96.3
Hedges of net investments in foreign operations	1	–	–

19. Financial assets held for trading

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Derivatives (positive fair values)	**40,486**	**36,013**	**12.4**
Interest-linked contracts	37,265	30,364	22.7
Currency-linked contracts	992	1,459	–32.0
Share- and index-linked contracts	624	947	–34.1
Credit derivatives	727	2,234	–67.5
Other contracts	878	1,009	–13.0
Securities	**16,368**	**21,198**	**–22.8**
Bonds and other fixed-income securities	15,812	20,698	–23.6
Shares and other variable-yield securities	556	500	11.2
Loans and advances	**14,908**	**16,795**	**–11.2**
Inventories and trade receivables	**443**	**386**	**14.8**
Total	**72,205**	**74,392**	**–2.9**

20. Investments

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Securities	**238,103**	**231,113**	**3.0**
Bonds and other fixed-income securities	192,304	188,744	1.9
Shares and other variable-yield securities	45,799	42,369	8.1
Investments in subsidiaries	**1,929**	**1,913**	**0.8**
Equity investments	**2,129**	**2,240**	**-5.0**
Interests in joint ventures	611	634	-3.6
Investments in associates	338	222	52.3
Other shareholdings	1,180	1,384	-14.7
Total	**242,161**	**235,266**	**2.9**

21. Investments held by insurance companies

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Investment property	1,530	1,402	9.1
Investments in subsidiaries, joint ventures and associates	437	431	1.4
Mortgage loans	6,494	5,722	13.5
Promissory notes and loans	8,622	9,103	–5.3
Registered bonds	9,029	9,185	–1.7
Other loans	1,525	1,689	–9.7
Variable-yield securities	4,479	4,254	5.3
Fixed-income securities	26,032	19,883	30.9
Derivatives (positive fair values)	268	168	59.5
Deposits with ceding insurers	182	152	19.7
Assets related to unit-linked contracts	5,502	4,945	11.3
Total	**64,100**	**56,934**	**12.6**

22. Property, plant and equipment, and investment property

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Land and buildings	6,127	6,319	–3.0
Office furniture and equipment	1,415	1,401	1.0
Assets subject to operating leases	1,029	1,353	–23.9
Investment property	89	123	–27.6
Other fixed assets	1,784	1,472	21.2
Total	**10,444**	**10,668**	**–2.1**

23. Income tax assets and liabilities

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Income tax assets	**5,751**	**6,772**	**–15.1**
Current income tax assets	2,813	3,269	–13.9
Deferred tax assets	2,938	3,503	–16.1
Income tax liabilities	**1,248**	**1,629**	**–23.4**
Current income tax liabilities	984	843	16.7
Deferred tax liabilities	264	786	–66.4

	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Dec. 31, 2012 € million	Dec. 31, 2011 € million
Tax loss carryforwards	268	709		
Loans and advances to banks and customers (net)	288	249	850	1,014
Financial assets and liabilities held for trading, derivatives used for hedging (positive and negative fair values)	1,731	1,532	344	532
Investments	621	925	768	463
Investments held by insurance companies	24	158	305	237
Deposits from banks and deposits from customers	896	958	99	178
Debt certificates including bonds	250	197	27	48
Provisions	1,357	896	28	123
Insurance liabilities	80	328	249	534
Other balance sheet items	110	226	281	332
Total (gross)	**5,625**	**6,178**	**2,951**	**3,461**
Netting of deferred tax assets and deferred tax liabilities	–2,687	–2,675	–2,687	–2,675
Total (net)	**2,938**	**3,503**	**264**	**786**

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

24. Other assets

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Other assets held by insurance companies	3,553	3,433	3.5
Goodwill	180	189	–4.8
Other intangible assets	289	312	–7.4
Prepaid expenses	325	334	–2.7
Other receivables	2,555	2,406	6.2
Non-current assets and disposal groups classified as held for sale	199	138	44.2
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	6,905	5,098	35.4
Residual other assets	1,556	1,350	15.3
Total	**15,562**	**13,260**	**17.4**

25. Deposits from banks and deposits from customers

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Deposits from banks	**110,824**	**103,257**	**7.3**
Repayable on demand	13,254	11,274	17.6
With agreed maturity or notice period	97,570	91,983	6.1
Deposits from customers	**664,839**	**646,760**	**2.8**
Savings deposits and home savings deposits	***228,244***	***226,104***	***0.9***
Savings deposits with agreed notice period of three months	167,520	165,396	1.3
Savings deposits with agreed notice period of more than three months	19,789	21,963	–9.9
Home savings deposits	40,935	38,745	5.7
Deposits from customers	***436,595***	***420,656***	***3.8***
Repayable on demand	282,226	248,622	13.5
With agreed maturity or notice period	154,369	172,034	–10.3

26. Debt certificates including bonds

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Bonds issued	**71,314**	**79,710**	**–10.5**
Mortgage Pfandbriefe	23,263	22,128	5.1
Public-sector Pfandbriefe	19,700	24,821	–20.6
Other bonds	28,351	32,761	–13.5
Other debt certificates	**11,945**	**7,829**	**52.6**
Total	**83,259**	**87,539**	**–4.9**

27. Financial liabilities held for trading

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Derivatives (negative fair values)	**41,943**	**39,122**	**7.2**
Interest-linked contracts	38,188	31,856	19.9
Currency-linked contracts	1,041	1,489	–30.1
Share- and index-linked contracts	978	2,020	–51.6
Credit derivatives	648	2,328	–72.2
Other contracts	1,088	1,429	–23.9
Delivery commitments arising from short-selling of securities	**828**	**2,977**	**–72.2**
Bonds issued and other debt certificates	**9,435**	**12,817**	**–26.4**
Commercial paper	–	2,449	–100.0
Other bonds	9,435	10,368	–9.0
Liabilities	**6,053**	**9,888**	**–38.8**
Liabilities from commodities transactions and commodity lending	**48**	**45**	**6.7**
Total	**58,307**	**64,849**	**–10.1**

28. Provisions

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Provisions for defined benefit obligations	7,296	5,402	35.1
Provisions for loans and advances	454	534	–15.0
Provisions relating to building society operations	459	423	8.5
Residual provisions	3,599	3,576	0.6
Total	**11,808**	**9,935**	**18.9**

Breakdown of provisions for defined benefit obligations

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Present value of defined benefit obligations not funded by plan assets	7,058	5,377	31.3
Present value of defined benefit obligations funded by plan assets	1,332	1,042	27.8
Present value of defined benefit obligations	**8,390**	**6,419**	**30.7**
less fair value of plan assets	–1,096	–1,045	4.9
Defined benefit obligations (net)	**7,294**	**5,374**	**35.7**
Recognized surplus	2	27	–92.6
Unrecognized surplus	–	1	–100.0
Provisions for defined benefit obligations	**7,296**	**5,402**	**35.1**

Changes in the present value of the defined benefit obligations

	2012 € million	2011 € million	Changes (percent)
Present value of defined benefit obligations as of Jan. 1	**6,419**	**6,369**	**0.8**
Current service cost	91	105	–13.3
Interest expense	317	316	0.3
Pension benefits paid	–314	–309	1.6
Actuarial gains (–)/losses (+)	1,872	–78	> 100.0
Other changes	5	16	–68.8
Present value of defined benefit obligations as of Dec. 31	**8,390**	**6,419**	**30.7**

Changes in plan assets

	2012 € million	2011 € million	Changes (percent)
Fair value of plan assets as of Jan. 1	**1,045**	**1,042**	**0.3**
Expected return on plan assets	34	39	–12.8
Contributions to plan assets	15	13	15.4
Withdrawels from plan assets	–	–1	–100.0
Pension benefits paid	–46	–45	2.2
Actuarial gains (+)/losses (–)	47	–13	> 100.0
Other changes	1	10	–90.0
Fair value of plan assets as of Dec. 31	**1,096**	**1,045**	**4.9**

Actuarial assumptions used for defined benefit obligations and plan assets

	Dec. 31, 2012 (percent)	Dec. 31, 2011 (percent)
Discount rate	3.25 – 3.40	5.00 – 5.60
Expected rate of return on plan assets	3.12	3.74
Salary increases	1.50 – 3.50	1.50 – 3.50
Pension increases	0.00 – 3.50	0.00 – 3.00
Staff turnover	1.00 – 9.60	1.00 – 7.00

29. Insurance liabilities

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Provision for unearned premiums	1,069	1,053	1.5
Benefit reserve	43,440	40,344	7.7
Provision for claims outstanding	6,967	6,510	7.0
Reserve for deferred policyholder participation	6,601	4,871	35.5
Other insurance liabilities	39	34	14.7
Reserve for unit-linked insurance contracts	5,144	4,625	11.2
Total	**63,260**	**57,437**	**10.1**

30. Other liabilities

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Other liabilities of insurance companies	4,149	4,063	2.1
Other liabilities and accruals	2,410	2,621	–8.1
Liabilities included in disposal groups	14	9	55.6
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	630	451	39.7
Residual other liabilities	560	658	–14.9
Total	**7,763**	**7,802**	**–0.5**

31. Subordinated capital

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Subordinated liabilities	5,037	4,639	8.6
Profit-sharing rights	1,021	1,254	–18.6
Other hybrid capital	379	387	–2.1
Share capital repayable on demand	41	42	–2.4
Total	**6,478**	**6,322**	**2.5**

Financial Instruments Disclosures

32. Fair value of financial instruments

	Fair value Dec. 31, 2012 € million		Carrying amount Dec. 31, 2012 € million	
Assets				
Cash and cash equivalents	8,482	12,735	8,482	12,735
Loans and advances to banks[1]	44,371	45,604	41,638	44,386
Loans and advances to customers[1]	629,661	602,124	622,810	597,375
Derivatives used for hedging (positive fair values)	1,388	1,468	1,388	1,468
Financial assets held for trading[2]	71,762	74,006	71,762	74,006
Investments[3]	240,593	232,590	241,212	234,410
Investments held by insurance companies[2,3]	57,982	50,640	56,826	50,004
Other assets[2]	8,975	7,473	9,806	8,030
Equity and liabilities				
Deposits from banks	113,348	103,200	110,824	103,257
Deposits from customers	669,588	649,231	664,839	646,760
Debt certificates issued including bonds	84,916	88,073	83,259	87,539
Derivatives used for hedging (negative fair values)	10,352	7,520	10,352	7,520
Financial liabilities held for trading[2]	58,259	64,804	58,259	64,804
Other liabilities[2]	2,962	3,182	3,588	3,630
Subordinated capital	6,668	6,434	6,478	6,322

1 Carrying amounts less loan loss allowances
2 Fair value and carrying amount only include financial instruments
3 Excluding interests in joint ventures and investments in associates

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

33. Maturity analysis

Dec. 31, 2012 € million	≤ 3 month	> 3 month – 1 year	> 1 year	Indefinite
Loans and advances to banks	16,388	5,231	27,897	485
Loans and advances to customers	42,356	52,212	535,053	20,881
Deposits from banks	32,705	11,885	70,970	416
Deposits from customers	500,686	39,372	93,075	40,926
Debt certificates including bonds	10,989	15,901	61,107	–

Dec. 31, 2011 € million	≤ 3 month	> 3 month – 1 year	> 1 year	Indefinite
Loans and advances to banks	17,392	7,837	29,841	322
Loans and advances to customers	41,487	48,631	508,149	25,199
Deposits from banks	32,063	14,932	66,853	227
Deposits from customers	474,904	42,482	101,599	38,821
Debt certificates including bonds	11,149	13,236	70,441	–

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

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

	Dec. 31, 2012[1] € million	Dec. 31, 2011 € million
Portugal	902	899
Italy	5,852	4,873
Ireland	574	675
Greece	8	546
Spain	3,724	4,432
Total	**11,060**	**11,425**

1 Primary banks within the WGZ BANK business field: nominal and carrying amounts as of Feb. 28, 2013

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

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

Other Disclosures

35. Financial guarantee contracts and loan commitments

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Financial guarantee contracts	16,538	17,108	–3.3
Loan commitments	55,450	55,366	0.2
Total	**71,988**	**72,474**	**–0.7**

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

36. Trust activities

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Trust assets	5,449	4,409	23.6
of which: trustee loans	4,180	3,099	34.9
Trust liabilities	5,449	4,409	23.6
of which: trustee loans	4,180	3,099	34.9

37. Asset management by the Union Investment Group

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Fund assets	**173,663**	**156,341**	**11.1**
Other types of asset management	**26,023**	**20,303**	**28.2**
Unit-linked asset management	315	–	–
Institutional asset management	5,561	3,659	52.0
Advisory and outsourcing	20,147	16,644	21.0
Accounts managed by third parties	**–9,151**	**–6,368**	**43.7**
Total	**190,535**	**170,276**	**11.9**

As of the balance sheet date, the Union Investment Group (through Union Asset Management Holding) has total assets under management of Euro 190,535 million (December 31, 2011: Euro 170,276 million). The fund assets comprise equity funds, fixed-income funds, money market funds, mixed funds, other securities funds, capital preservation funds, real estate funds, alternative investment funds and hybrid funds issued by Union Investment Group.

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

38. Leases

Finance leases with the Cooperative Financial Network as lessor

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Gross investment	**6,452**	**6,700**	**–3.7**
Up to 1 year	1,745	1,787	–2.4
More than 1 year and up to 5 years	3,445	3,450	–0.1
More than 5 years	1,262	1,463	–13.7
less unearned finance income	**–934**	**–1,112**	**–16.0**
Net investment	**5,518**	**5,588**	**–1.3**
less present value of unguaranteed residual values	**–114**	**–107**	**6.5**
Present value of minimum lease payment receivables	**5,404**	**5,481**	**–1.4**
Up to 1 year	1,464	1,501	–2.5
More than 1 year and up to 5 years	2,902	2,913	–0.4
More than 5 years	1,038	1,067	–2.7

As at the balance sheet date, the accumulated allowance for uncollectable minimum lease payments at lessor companies amounted to Euro 92 million (December 31, 2011: Euro 49 million).

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

39. Capital requirements and capital ratios

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Total capital	**74,845**	**70,126**	**6.7**
Tier 1 capital	51,647	45,641	13.2
Tier 2 capital	23,194	27,037	–14.2
Capital requirements	**40,826**	**40,201**	**1.6**
Tier 1 capital ratio (percent)	**10.1**	**9.1**	
Total capital ratio (percent)	**14.7**	**14.0**	

40. 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 of Dec. 31, 2011	**6,372,802**	**208,806**	**1,055,814**	**28,091**	**7,428,616**	**236,897**
Additions in 2011 as a result of						
New contracts (redeemed contracts)[1]	953,101	30,978	–	–	953,101	30,978
Transfers	23,537	643	2,791	68	26,328	711
Allocation waivers and cancellations	8,180	276	–	–	8,180	276
Splitting	231,882	–	302	–	232,184	–
Allocations and acceptance of allocations	–	–	431,989	9,819	431,989	9,819
Other	92,300	3,057	83	5	92,383	3,062
Total	**1,309,000**	**34,954**	**435,165**	**9,892**	**1,744,165**	**44,846**
Disposal in 2012 as a result of						
Allocations and acceptance of allocations	–431,989	–9,819	–	–	–431,989	–9,819
Reductions	–	–972	–	–	–	–972
Termination	–348,056	–7,484	–281,704	–5,545	–629,760	–13,029
Transfers	–23,537	–643	–2,791	–68	–26,328	–711
Pooling[1]	–134,063	–	–2	–	–134,065	–
Expiration	–	–	–181,938	–5,307	–181,938	–5,307
Allocation waivers and cancellations	–	–	–8,180	–276	–8,180	–276
Other	–92,300	–3,057	–83	–5	–92,383	–3,062
Total	**–1,029,945**	**–21,975**	**–474,698**	**–11,201**	**–1,504,643**	**–33,176**
Net addition/disposal	279,055	12,979	–39,533	–1,309	239,522	11,670
Balance as of Dec. 31, 2012	**6,651,857**	**221,785**	**1,016,281**	**26,782**	**7,668,138**	**248,567**

1 Including increases

Volume of unredeemed contracts

	Number of contracts	Home savings sum € million
Contracts signed prior to Jan. 1, 2012	57,858	2,028
Contracts signed in 2012	252,601	9,574

41. Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2012 € million
Additions	
Amounts carried forward from 2011 (surplus)	
Amounts not yet disbursed	32,972
Additions in 2012	
Savings deposits (including credited residential construction bonuses)	8,792
Repayable amounts (including credited residential construction bonuses)[1]	2,490
Interest on home savings deposits	655
Total	**44,909**
Withdrawals	
Withdrawals in 2012	
Amounts allocated (if disbursed)	
Home savings deposits	5,642
Building loans	1,667
Repayment of deposits on non-allocated home savings contracts	1,259
Surplus of additions	
(Amounts not yet disbursed) at the end of 2012[2]	36,341
Total	**44,909**

1 Amounts repaid are the portion of the loan principal actually repaid.
2 The surplus amounts allocated include:
a) undisbursed home savings deposits from allocated home savings contracts Euro 119 million
b) undisbursed home savings loans from funds allocated Euro 3,379 million

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

	Mortgage Pfandbriefe			Public-sector Pfandbriefe		
	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Ordinary cover	**42,496**	**40,630**	**4.6**	**48,030**	**54,964**	**–12.6**
Loans and advances to banks	56	73	–23.3	5,020	5,563	–9.8
of which: mortgage loans	56	73	–23.3	–	–	–
local authority loans	–	–	–	5,020	5,563	–9.8
Loans and advances to customers	42,294	40,492	4.5	30,283	32,298	–6.2
of which: mortgage loans	42,294	40,492	4.5	641	699	–8.3
local authority loans	–	–	–	29,642	31,599	–6.2
Investments consisting of bonds and other fixed-income securities	–	–	–	9,466	11,956	–20.8
Property, plant and equipment[1]	146	65	> 100.0	3,261	5,147	–36.6
Extended cover	**3,751**	**2,939**	**27.6**	**1,170**	**3,501**	**–66.6**
Loans and advances to banks	100	1,166	–91.4	744	2,324	–68.0
Investments consisting of bonds and other fixed-income securities	3,651	1,773	> 100.0	426	1,177	–63.8
Bank buildings held as cover[1]	**–**	**85**	**–100.0**	**–**	**–**	**–**
Total cover	**46,247**	**43,654**	**5.9**	**49,200**	**58,465**	**–15.8**
Pfandbriefe requiring cover	**–38,573**	**–38,091**	**1.3**	**–44,095**	**–51,209**	**–13.9**
Nominal excess cover	**7,674**	**5,563**	**37.9**	**5,105**	**7,256**	**–29.6**
Present value of excess cover	**10,554**	**7,595**	**39.0**	**5,729**	**7,947**	**–27.9**
Risk-related present value of excess cover	**9,755**	**6,563**	**48.6**	**5,149**	**7,368**	**–30.1**

1 In contrast to the previous year, one bank building was allocated to ordinary cover.

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, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Mortgage Pfandbriefe	**38,573**	**38,091**	**1.3**
Up to 1 year	8,514	4,899	73.8
More than 1 year and up to 5 years	17,461	21,237	–17.8
More than 5 years and up to 10 years	8,931	8,202	8.9
More than 10 years	3,667	3,753	–2.3
Public-sector Pfandbriefe	**44,095**	**51,209**	**–13.9**
Up to 1 year	7,740	8,155	–5.1
More than 1 year and up to 5 years	18,750	23,249	–19.4
More than 5 years and up to 10 years	7,696	8,998	–14.5
More than 10 years	9,909	10,807	–8.3

Fixed-interest periods of cover assets

	Dec. 31, 2012 € million	Dec. 31, 2011 € million	Change (percent)
Mortgage Pfandbriefe	**46,247**	**43,654**	**5.9**
Up to 1 year	7,004	5,999	16.8
More than 1 year and up to 5 years	20,439	20,363	0.4
More than 5 years and up to 10 years	15,079	14,179	6.3
More than 10 years	3,725	3,113	19.7
Public-sector Pfandbriefe	**49,200**	**58,465**	**–15.8**
Up to 1 year	6,132	7,840	–21.8
More than 1 year and up to 5 years	21,070	25,971	–18.9
More than 5 years and up to 10 years	8,725	10,673	–18.3
More than 10 years	13,273	13,981	–5.1

285 properties were in forced administration at the balance sheet date (December 31, 2011: 387). The mortgage loans held as cover include past-due payments totaling Euro 53 million (December 31, 2011: Euro 46 million).

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

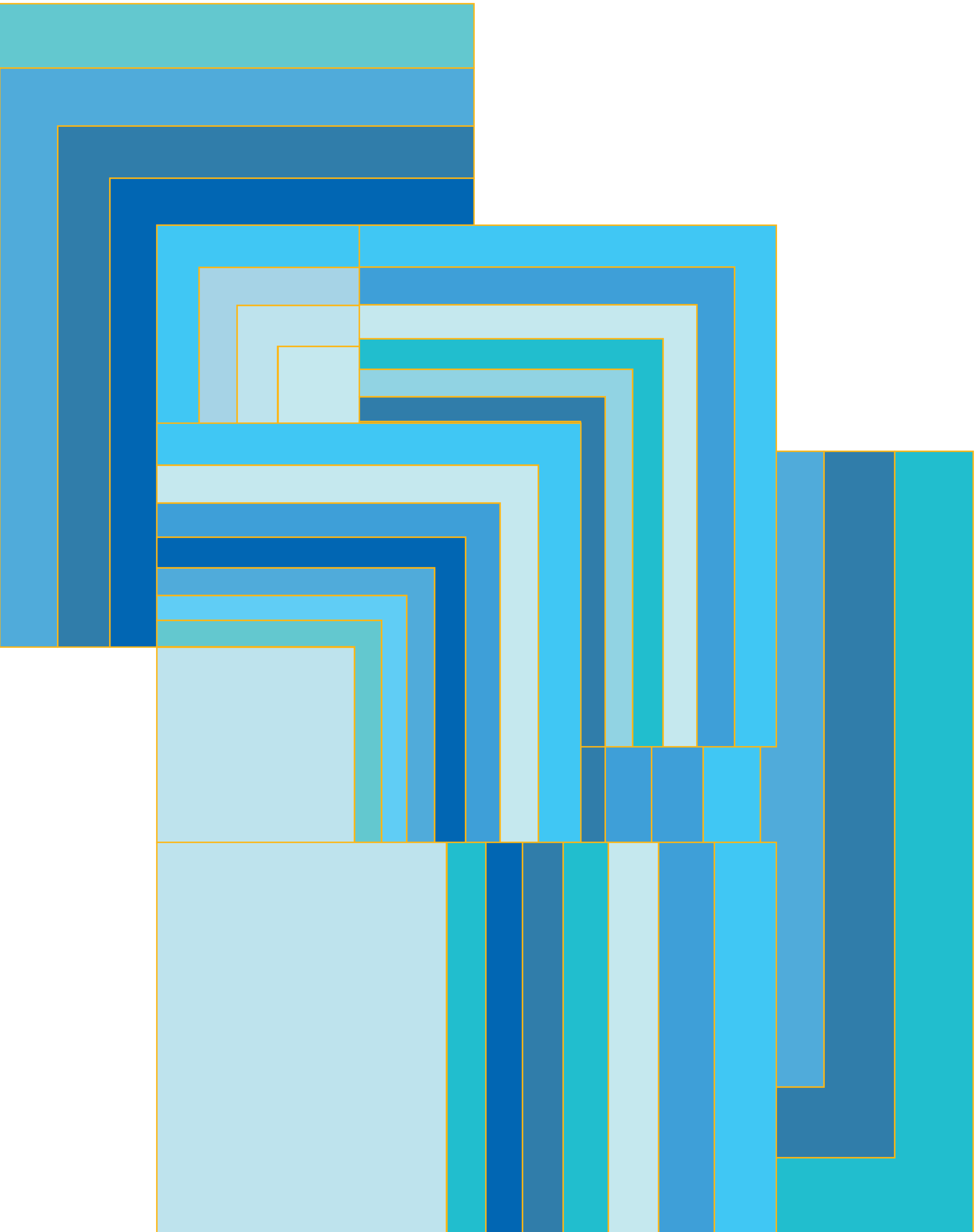
Uwe Fröhlich (President)
Gerhard P. Hofmann
Dr. Andreas Martin

Berlin, June 28, 2013

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, 2012, 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 1,096 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, 2012.

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 5, 2013

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