Consolidated Financial Statements

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

BVR

2019

Volksbanken Raiffeisenbanken Cooperative Financial Network

	2019 € million	2018 € million	Change (percent)
Financial performance			
Net interest income	18,185	18,368	−1.0
Net fee and commission income	7,092	6,816	4.0
Gains and losses on financial and commodities activities[1]	1,830	−574	>100.0
Net income from insurance business[2]	1,652	863	91.4
Loss allowances	−832	−151	>100.0
Profit before taxes	10,179	7,771	31.0
Net profit	7,046	5,402	30.4
Net assets			
Loans and advances to banks	22,439	18,800	19.4
Loans and advances to customers	844,552	794,916	6.2
Financial assets held for trading	44,335	37,500	18.2
Investments	248,509	239,083	3.9
Loss allowances	−9,119	−8,988	1.5
Investments held by insurance companies	112,554	99,855	12.7
Remaining assets	120,818	112,011	7.9
Financial position			
Deposits from banks	119,955	119,300	0.5
Deposits from customers	880,398	842,420	4.5
Debt certificates issued including bonds	79,610	56,111	41.9
Financial liabilities held for trading	49,202	42,451	15.9
Insurance liabilities	104,346	93,252	11.9
Remaining liabilities	34,564	31,939	8.2
Equity	116,013	107,704	7.7
Total assets/total equity and liabilities	**1,384,088**	**1,293,177**	**7.0**
Volume of business[3]	**1,870,742**	**1,724,917**	**8.5**
Profitability/efficiency			
Cost/income ratio (percent)	62.2	69.5	
Return on equity (percent)[4]	9.1	7.3	
Average equity	111,859	106,071	5.5
Return on capital employed (percent)[5]	0.5	0.4	
Regulatory capital ratios			
Tier 1 capital ratio (percent)	13.7	13.6	
Total capital ratio (percent)	15.6	15.8	
Common equity Tier 1 capital ratio incl. sec. 340f HGB reserves (percent)	15.5	15.5	
Employees as at reporting date	**174,314**	**176,583**	**−1.3**

See back inside cover for footnotes 1–5.

Consolidated Financial Statements 2019

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

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Annex: Significant Financial Reporting Principles

In brief

In 2019, the Volksbanken Raiffeisenbanken Cooperative Financial Network increased its consolidated profit after taxes to €7 billion. This strong growth compared with the prior-year figure, which had amounted to €5.4 billion, was primarily attributable to favorable capital markets effects and to the insurance business, whereas traditional banking business made a slightly smaller contribution to profit than in 2018.

Given the ongoing policy of low interest rates and the still substantial adverse impact of regulatory requirements, this represents a good result. The Cooperative Financial Network's loans and advances to retail and corporate customers went up by 6.2 percent to €844.6 billion. There was further growth in deposits from customers, which swelled by 4.5 percent to €880.4 billion. The Cooperative Financial Network significantly increased its equity by 7.7 percent to €116 billion. This level of capital ensures that it has the necessary resilience to deal with the challenges presented by the consequences of the coronavirus pandemic, which are still hard to predict.

The annual consolidated financial statements of the Cooperative Financial Network, prepared in accordance with International Financial Reporting Standards (IFRS), provide information on the 2019 financial year of the 841 local cooperative banks, Sparda banks, PSD banks, and other cooperative specialized institutions as well as the DZ BANK Group and Münchener Hypothekenbank. In 2019, the Cooperative Financial Network generated net interest income of €18.2 billion, which was down slightly compared with 2018. This decrease, which was primarily attributable to the European Central Bank's policy of low interest rates and the related deterioration of margins, was mitigated by the growth of lending. The net fee and commission income of the Cooperative Financial Network rose by 4 percent to €7.1 billion, the main sources of which were payments processing and the securities brokerage business. At €5.7 billion, the cooperative banks made the largest contribution to net fee and commission income. In absolute terms, the reduction in net interest income was more than offset by the increase in net fee and commission income. Loss allowances, which are determined in accordance with IFRS 9, amounted to a net addition of €832 million in 2019 owing to the change in the general level of risk and an adjustment to the method of calculation. In 2018, there had been a very small net addition to loss allowances of €151 million.

Administrative expenses were almost unchanged year on year at €18.1 billion. The cost/income ratio was much better, falling from 69.5 percent in 2018 to 62.2 percent in 2019. This was mainly due to the increase in profit in 2019. The improvement in business performance meant a high level of taxes, which are paid directly to the individual local governments due to our decentralized structure. Income taxes climbed by €764 million to €3.1 billion in 2019. Consolidated total assets increased by 7 percent to €1,384.1 billion as at December 31, 2019.

There was a healthy rise in equity to €116 billion, compared with €107.7 billion at the end of 2018. The increase in capital was again mainly due to the retention of profits by the cooperative banks, which hold around 85 percent of equity. This also includes newly issued cooperative bank shares to members, which created net capital of €549 million. From autumn 2020, the financial strength of the institutions in the Cooperative Financial Network will allow them to make a distribution to their members from the healthy level of earnings for 2019.

The Tier 1 capital ratio including the reserves in accordance with section 340f of the German Commercial Code (HGB) fell slightly, by 0.1 percent, over the course of the year to stand at 15.5 percent as at December 31, 2019. The leverage ratio, which is the ratio of Tier 1 capital to the total volume of business (again including the reserves in accordance with section 340f HGB), remained unchanged at 7.8 percent and thus continues to be higher than at many other banks. The financial strength of the Cooperative Financial Network has also been affirmed by external parties. Both Standard & Poor's and Fitch Ratings continue to rate the Cooperative Financial Network as AA–. This also compares very favorably with the credit ratings of European peers.

Management Report 2019

General Information about the Volksbanken Raiffeisenbanken Cooperative Financial Network

Structure, business model, and features of the IPS*

This management report supplements the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network.

The Volksbanken Raiffeisenbanken Cooperative Financial Network consists of 841 cooperative banks (2018: 875), the DZ BANK Group, Münchener Hypothekenbank eG, the BVR protection scheme, and BVR Institutssicherung GmbH as consolidated entities. The consolidated cooperative banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

The cooperative banks and Münchener Hypothekenbank eG are the legally independent, equally ranked parent entities of the Cooperative Financial Network, whereas the other banking groups and entities are consolidated as subsidiaries.

The Volksbanken Raiffeisenbanken Cooperative Financial Network's institutional protection scheme (IPS) is set up as a dual cooperative scheme that comprises the BVR protection scheme and BVR Institutssicherung GmbH.

The principles and methods of the institutional protection scheme are outlined in more detail in the combined opportunity and risk report starting on page 39.

* Institutional protection scheme.

Definition of the main operating segments

The definitions of the operating segments referred to in the Annual Report – Retail Customers and SMEs, Central Institution and Major Corporate Customers, Real Estate Finance, and Insurance – can be found in the notes to the consolidated financial statements starting on page 63.

Management Report 2019

Business Performance

Economic conditions

The pace of growth in the German economy slowed markedly in 2019. Adjusted for inflation, gross domestic product (GDP) rose by only 0.6 percent year on year, compared with 1.4 percent in 2018.

This slowdown was mainly attributable to the global economic environment. The ailing global economy, escalating trade disputes, geopolitical tensions in the Middle East, and uncertainty around the UK's departure from the European Union put pressure on business in industries focused on foreign trade. The manufacturing sector was affected not only by international pressures but also by domestic challenges, especially structural changes in the automotive industry regarding new low-emission drive systems. Industries with a domestic focus, on the other hand, mostly remained in good health.

Data for both the production approach and the expenditure approach to GDP calculation painted a mixed picture. Growth in consumer spending and investment in construction continued unabated, fueled by factors such as rising employment and healthy pay increases in many sectors. But imports and exports, as well as domestic spending on capital equipment, grew at a much lower rate than in 2018.

Consumer prices rose at a moderate pace in 2019. The average rate of inflation for the year based on the consumer price index (CPI) was 1.4 percent – slightly lower than in 2018 (1.8 percent). The fall in the overall rate was mainly attributable to energy prices, which lost significant momentum due to lower crude oil prices.

In the labor market, employment continued to rise, but at a more sluggish pace. The annual average number of persons in work in Germany increased by around 400,000 in 2019 to approximately 45.3 million, compared with an increase of nearly 610,000 in 2018. The downward trend in unemployment continued but flattened somewhat. The number of people out of work fell by around 73,000 to just under 2.3 million. The unemployment rate dropped by 0.2 percentage points to 5.0 percent.

The economic slowdown in 2019 prompted the European Central Bank (ECB) to shift to a much more expansionary approach. In March, the ECB announced that it would launch a new lending support scheme for banks (targeted longerterm refinancing operation, TLTRO) in September 2019. Alongside this measure, which had been announced well in advance, the ECB also lowered its deposit interest rate for banks keeping excess liquidity in custody at the ECB, from minus 0.4 percent to minus 0.5 percent. It also decided to resume its bond purchases with effect from November 2019 at a monthly volume of €20 billion.

The ECB's policy of zero and negative interest rates is making it harder for savers to build up capital and, therefore, to ensure they have adequate provision for old age. And although the weakness of the euro resulting from low interest rates is boosting companies' exports, it is also diminishing their efforts to lower costs and improve productivity. We therefore take the view that the ECB's policy of maintaining extremely low interest rates boosts the risk of a misallocation of resources and even the formation of bubbles in real estate and equities markets, which could jeopardize the stability of financial markets.

Volksbanken Raiffeisenbanken Cooperative Financial Network

Business situation

Despite the continuation of extremely low interest rates and thus challenging market conditions, the Volksbanken Raiffeisenbanken Cooperative Financial Network was able to increase its profit before taxes by a substantial 31.0 percent year on year in 2019. Profit before taxes was strongly influenced by capital market trends and amounted to €10,179 million in 2019, compared with €7,771 million in 2018.

The cooperative banks' lending to retail and corporate customers increased by 6.1 percent in 2019 and thus grew at a faster pace than in the previous year (2018: 5.5 percent). This upward trend is mainly attributable to demand for real estate loans. Market share in the retail and corporate customer segment increased again year on year to 17.2 percent (up by 0.3 percentage points).

The Cooperative Financial Network's deposit-taking business saw customer deposits grow by a further 4.5 percent to €880,398 million in 2019. These deposits played a crucial part in funding the Cooperative Financial Network's lending business.

Equity increased again and was up by 7.7 percent at the end of the reporting year, at €116,013 million (December 31, 2018: €107,704 million). The Cooperative Financial Network's capital resources provide it with a risk buffer and, at the same time, the foundations on which it can expand its lending business with retail and corporate customers. Credit rating agencies Standard & Poor's and FitchRatings have each given the Cooperative Financial Network a rating of AA–.

In the reporting year, the number of members of the Cooperative Financial Network remained stable year on year at a high level. As at the end of the financial year, the cooperative banks had 18.6 million members (individuals and companies) in total.

Financial performance

Net interest income decreased year on year to €18,185 million in 2019 (2018: €18,368 million). The cooperative banks' net interest income – the biggest source of income for the Cooperative Financial Network – declined by 1.1 percent, from €15,783 million in 2018 to €15,610 million in 2019. Margins continued to shrink in light of the ECB's low-interest-rate policy. However, this effect was partially offset by growth in lending.

Net fee and commission income improved by 4.0 percent, from €6,816 million in 2018 to €7,092 million in 2019. The main sources of income were payments processing and securities brokerage business with entities in the Cooperative Financial Network. With a contribution of €5,666 million, the cooperative banks accounted for most of the net fee and commission income (2018: €5,334 million).

The Cooperative Financial Network's **gains and losses on trading activities** rose from a net gain of €461 million in 2018 to a net gain of €643 million in 2019. Gains and losses on trading activities are largely influenced by the DZ BANK Group.

Gains and losses on investments improved, mainly as a result of reversals of impairment losses that offset negative effects from 2018. Securities price gains of €961 million were recorded in the reporting year (2018: loss of €913 million). As a result, gains and losses on investments exceeded the forecasts from the previous year by a significant margin.

Loss allowances determined in the reporting year amounted to a net addition of €832 million (2018: net addition of €151 million). The loss allowances are mainly influenced by the Retail Customers and SMEs and the Central Institution and Major Corporate Customers operating segments.

Other gains and losses on valuation of financial instruments improved from a net loss of €122 million in 2018 to a net gain of €226 million in the reporting year. The main cause of this increase was the narrowing of credit spreads on interest-bearing securities and specifically bonds from the peripheral countries of the eurozone. By contrast, the previous year had seen a widening of these credit spreads.

Net income from insurance business comprises 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. In 2019, this figure rose to €1,652 million (2018: €863 million).

Administrative expenses amounted to €18,142 million in the year under review (2018: €18,079 million). The bulk of the administrative expenses were attributable to staff expenses, which came to €10,100 million (2018: €10,076 million), and general and administrative expenses, which amounted to €6,976 million (2018: €7,011 million).

Income taxes amounted to €3,133 million (2018: €2,369 million), with most of this amount (€2,758 million; 2018: €2,731 million) attributable to current income taxes.

The **consolidated net profit** after taxes rose to €7,046 million in 2019 (2018: €5,402 million).

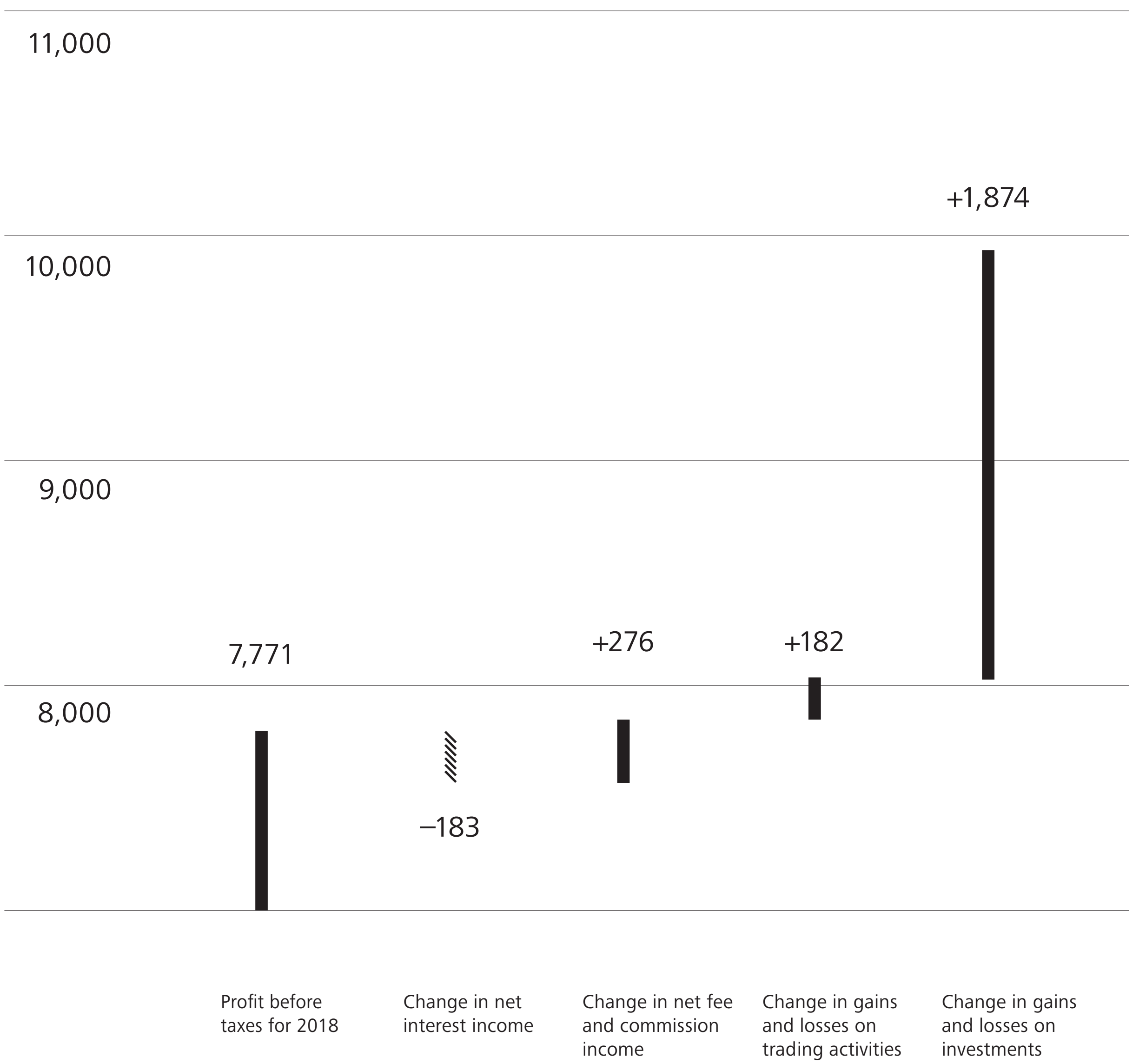
The Cooperative Financial Network's **cost/income ratio** came to 62.2 percent in 2019 (2018: 69.5 percent).

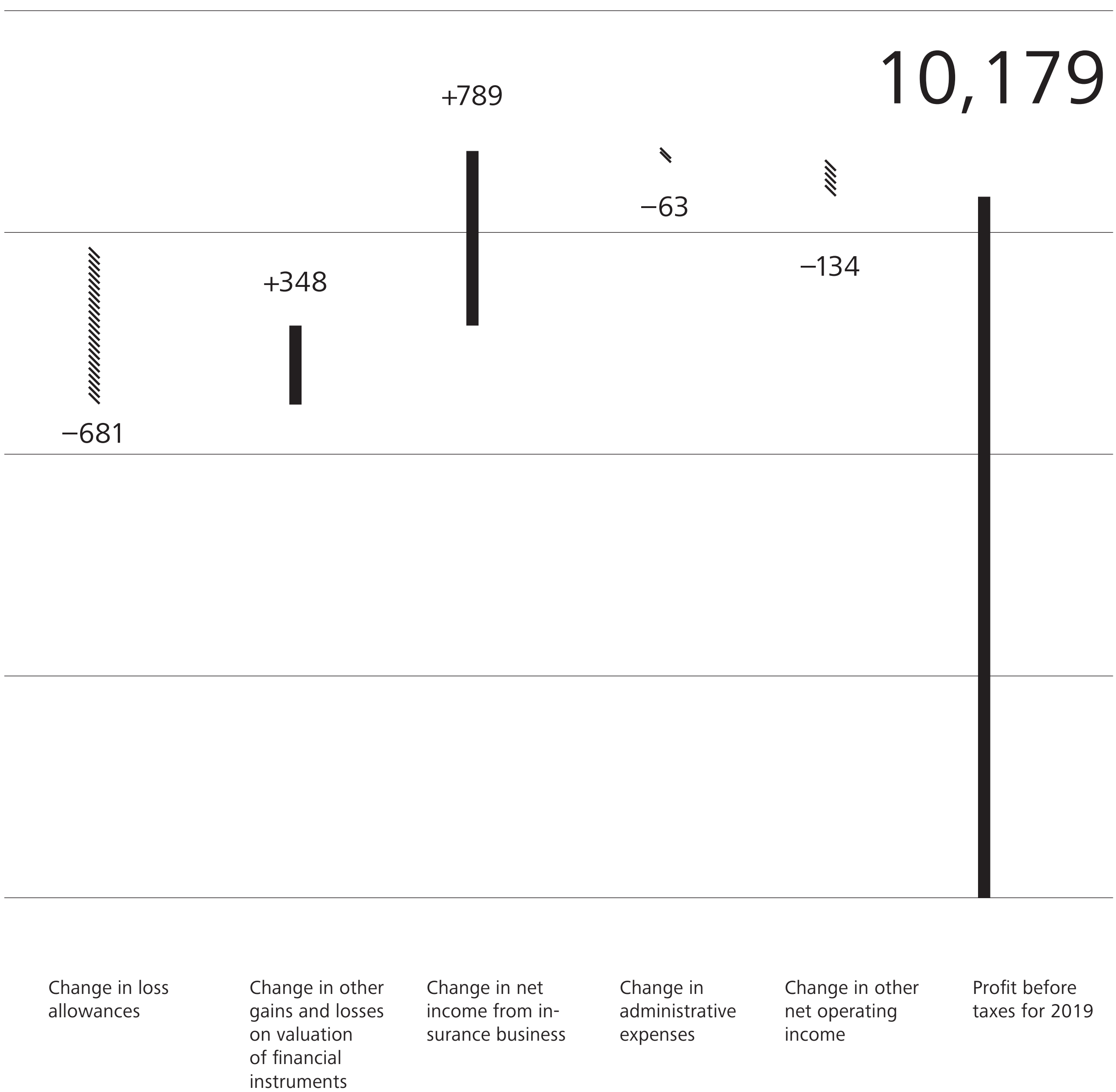
Financial performance

	2019 € million	2018 € million	Change (percent)
Net interest income	18,185	18,368	−1.0
Net fee and commission income	7,092	6,816	4.0
Gains and losses on trading activities	643	461	39.5
Gains and losses on investments	961	−913	> 100.0
Loss allowances	−832	−151	> 100.0
Other gains and losses on valuation of financial instruments	226	−122	> 100.0
Net income from insurance business	1,652	863	91.4
Administrative expenses	−18,142	−18,079	0.3
Other net operating income	394	528	−25.4
Profit before taxes	**10,179**	**7,771**	**31.0**
Income taxes	−3,133	−2,369	32.2
Net profit	**7,046**	**5,402**	**30.4**

Breakdown of change in profit before taxes by income statement item

€ million

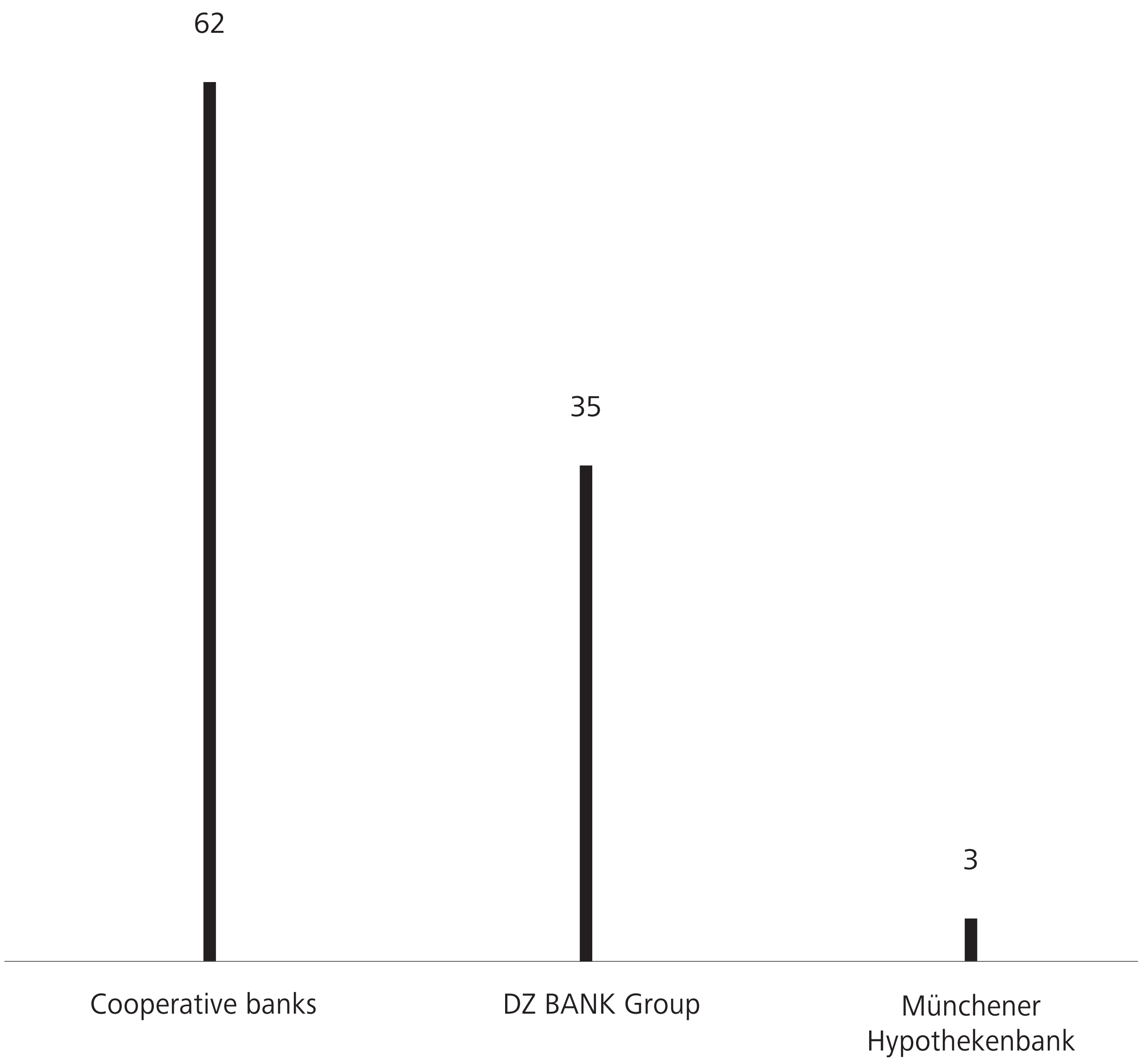




10,179
+789
−63
−134
+348
−681
Change in loss allowances
Change in other gains and losses on valuation of financial instruments
Change in net income from insurance business
Change in administrative expenses
Change in other net operating income
Profit before taxes for 2019

Breakdown of the total assets held in the Volksbanken Raiffeisenbanken Cooperative Financial Network as at December 31, 2019

(percent)



Financial position

The consolidated **total assets** of the Volksbanken Raiffeisenbanken Cooperative Financial Network had risen by €90,911 million to €1,384,088 million as at December 31, 2019 (December 31, 2018: €1,293,177 million). The **volume of business** increased from €1,724,917 million in 2018 to €1,870,742 million in the reporting year.

Of the total assets before consolidation, 61.6 percent was attributable to the cooperative banks (December 31, 2018: 62.1 percent) and 35.4 percent to the DZ BANK Group (December 31, 2018: 34.9 percent). As had also been the case at the end of 2018, the remaining 3.0 percent was attributable to Münchener Hypothekenbank, the BVR protection scheme, and BVR Institutssicherung GmbH.

On the **assets** side of the balance sheet, loans and advances to customers grew by €49,636 million or 6.2 percent to €844,552 million (December 31, 2018: €794,916 million). As in previous years, this upward trend was mainly driven by an increase in lending by the cooperative banks.

Financial assets held for trading increased by €6,835 million or 18.2 percent to €44,335 million as at December 31, 2019 (December 31, 2018: €37,500 million). This was mainly due to a rise in derivatives (positive fair values) to €19,291 million (December 31, 2018: €15,647 million), a rise in bonds and other fixed-income securities to €12,421 million (December 31, 2018: €10,788 million), a rise in shares and other variable-yield securities to €1,220 million (December 31, 2018: €1,002 million), and a rise in loans and advances to €11,080 million (December 31, 2018: €9,714 million).

Investments rose to €248,509 million as at December 31, 2019 (December 31, 2018: €239,083 million). The principal reasons were growth in the portfolio of bonds and other fixed-income securities to €177,788 million (December 31, 2018: €171,621 million) and a rise in the portfolio of shares and other variable-yield securities to €66,548 million (December 31, 2018: €63,192 million), although some of these increases were offset by a decrease in investments in joint ventures to €293 million (December 31, 2018: €462 million).

Investments held by insurance companies went up from €99,855 million as at December 31, 2018 to €112,554 million as at December 31, 2019. Variable-yield securities increased to €11,300 million (December 31, 2018: €9,186 million) and fixed-income securities to €55,551 million (December 31, 2018: €48,764 million). Assets related to unit-linked contracts rose to €14,368 million (December 31, 2018: €11,710 million).

On the **equity and liabilities** side of the balance sheet, deposits from banks increased from €119,300 million as at December 31, 2018, to €119,955 million at the end of 2019. Deposits from customers grew from €842,420 million as at December 31, 2018 to €880,398 million as at the end of the reporting year. Debt certificates issued including bonds rose to €79,610 million (December 31, 2018: €56,111 million).

Financial liabilities held for trading went up to €49,202 million (December 31, 2018: €42,451 million). This comprised a rise in derivatives (negative fair values) to €18,901 million (December 31, 2018: €16,080 million) and an increase in bonds issued including share certificates, index-linked certificates, and other debt certificates to €22,261 million (December 31, 2018: €20,250 million).

The Cooperative Financial Network's equity grew by 7.7 percent to €116,013 million in the reporting year (December 31, 2018: €107,704 million). The main reason for this rise was the appropriation of profits generated in 2019 to boost reserves. The cooperative banks account for 84.7 percent of the equity while the other entities in the Cooperative Financial Network account for 15.3 percent. This equity allocation highlights the local corporate responsibility and great significance of the cooperative banks for the Cooperative Financial Network.

Capital adequacy and regulatory ratios

The disclosures relating to own funds and capital requirements are based on the outcome of the extended aggregated calculation in accordance with article 49 (3) of the Capital Requirements Regulation (CRR) in conjunction with article 113 (7) CRR.

The consolidation carried out as part of the extended aggregated calculation demonstrates that by far the greatest proportion of the consolidated own funds consists of the own funds of the cooperative banks. The growth in own funds therefore arises primarily from the profits generated by the cooperative banks and network institutions. Rights issues by the network institutions are for the most part subscribed internally and consolidated within the Cooperative Financial Network.

Due to the exclusion of internal exposures within the network in accordance with article 113 (7) CRR, risk-weighted exposure amounts are generally not consolidated. Consolidation measures primarily include directly and indirectly held own funds instruments within the Cooperative Financial Network and therefore particularly affect equity investments of cooperative banks and subordinate receivables due to them from the network institutions, especially from DZ BANK AG. The amounts are consolidated in the relevant own funds categories.

The impact of consolidation on the level of the risk-weighted exposure amounts is therefore negligible, whereas own funds decrease. The method by which the consolidation is carried out results in a total capital ratio for the Cooperative Financial Network that is lower than the corresponding ratio for the sum of all cooperative banks.

The Cooperative Financial Network's Tier 1 capital ratio increased again to stand at 13.7 percent as at the end of 2019 (December 31, 2018: 13.6 percent). If the reserves pursuant to section 340f of the German Commercial Code (HGB) are classified as Tier 1 capital, the Tier 1 capital ratio is 15.5 percent (December 31, 2018: 15.6 percent). At 15.6 percent, the regulatory total capital ratio was down slightly compared with a year earlier (December 31, 2018: 15.8 percent), due in large part to the fact that certain Tier 2 capital instruments ceased to be eligible for regulatory purposes (members' commitments and phase-out of subordinated capital). Overall, the Cooperative Financial Network's own funds increased by €5.3 billion to €107.0 billion. The rise in own funds was largely attributable to the retention of profits from 2018 by the cooperative banks.

As at December 31, 2019, risk-weighted assets stood at €685.4 billion, which was up by €43.0 billion year on year (see table on page 21). This increase was predominantly due to the growth of loans and advances in customer-related business. In total, credit risk exposures made up 90.2 percent of risk-weighted assets (December 31, 2018: 89.6 percent). The banks in the Cooperative Financial Network primarily use the Standardized Approach to credit risk to determine their regulatory capital requirements. Some institutions also apply internal ratings-based (IRB) approaches, including the DZ BANK Group, Münchener Hypothekenbank eG, and Deutsche Apotheker- und Ärztebank eG.

Using Tier 1 capital (including reserves in accordance with section 340f HGB and applying the new CRR provisions in full) as the capital basis, the leverage ratio as at December 31, 2019 was unchanged year on year at 7.8 percent. This ratio underlines the sound capital adequacy of the Cooperative Financial Network.

Breakdown of risk-weighted assets

(percent)

	Dec. 31, 2019 (€ million)	Dec. 31, 2018 (€ million)	Change (percent)
Credit risk			
of which Standardized Approach to credit risk			
corporates	190,230	174,537	9.0
retail business	133,141	128,375	3.7
secured by mortgages on immovable property	88,448	83,224	6.3
Total under the Standardized Approach to credit risk	**503,638**	**473,191**	**6.4**
of which IRB approaches			
corporates	47,908	43,786	9.4
retail business	25,263	22,516	12.2
equity investments	26,813	22,368	19.9
Total under IRB approaches	**114,124**	**102,071**	**11.8**
Total credit risk	**617,954**	**575,454**	**7.4**
Total market risk	**12,707**	**12,927**	**−1.7**
Total operational risk	**50,198**	**50,884**	**−1.3**
Total other exposures (including CVAs*)	**4,542**	**3,087**	**47.1**
Total	**685,401**	**642,352**	**6.7**

* Total risk exposure based on the credit value adjustment (CVA).

Operating segments of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Retail Customers and SMEs operating segment

The **net interest income** generated by the Retail Customers and SMEs operating segment amounted to €16,197 million in the reporting year (2018: €16,321 million). This figure was primarily influenced by the low-interest-rate policy of the ECB and the resulting deterioration of margins. However, the decrease was partially offset by growth in lending. Net interest income from consumer finance business rose once again, mainly thanks to an increase in the consumer finance volume.

Net fee and commission income advanced from €6,918 million in 2018 to €7,281 million in the year under review. The main positive influences on net fee and commission income in the Retail Customers and SMEs operating segment in 2019 were once again income from payments processing and from the securities and funds business. The volume-related income contribution generated as a result of the increase in average assets under management from €330.7 billion in 2018 to €349.4 billion in 2019 was one of the key factors in the increase in net fee and commission income in the Retail Customers and SMEs operating segment. Income from real estate fund transaction fees was also up year on year at €36 million in 2019 (2018: €33 million). However, income from performance-related management fees came to just €9 million and thus fell short of the amount generated in 2018 (€16 million). The contribution to income from the fund services business also fell slightly year on year, whereas the volume of assets under management relating to high-net-worth clients rose from €16.7 billion as at December 31, 2018 to €18.8 billion as at December 31, 2019.

Gains and losses on trading activities in the Retail Customers and SMEs operating segment came to a net gain of €196 million (2018: net gain of €195 million). Gains and losses on trading activities are derived from trading in financial instruments, gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals business, and gains and losses on commodities trading.

Gains and losses on investments came to a net gain of €711 million (2018: net loss of €1,130 million). This improvement was mainly due to reversals of impairment losses as a result of higher prices for securities in the capital market despite a deterioration in the gains or losses realized on the sale of funds in own-account investing activities. The prior year loss was primarily attributable to write-downs prompted by widening credit spreads on interest-bearing securities.

At €628 million, additions to **loss allowances** in the reporting year were higher than in the previous year (addition of €232 million). The main reasons for this were growth in the lending portfolio and shifts in the parameters of existing portfolios (e.g. recent PD and LGD data, offsetting of collateral) for the calculation of the expected loss.

The Cooperative Financial Network's **administrative expenses** are subject to constant cost management. In the Retail Customers and SMEs operating segment, they amounted to €15,732 million in the reporting year (2018: €15,386 million). The main influences on this segment's administrative expenses were appointments to new and vacant positions and average pay rises, although there was a mitigating effect from people leaving – mainly due to retirement. Capital expenditure on the cooperative banks' digitalization initiative and spending on the standardization of IT banking processes also impacted on the Cooperative Financial Network's costs.

As a result of the factors described above, the **profit before taxes** of the Retail Customers and SMEs operating segment rose from €6,926 million in 2018 to €8,211 million in 2019. Accordingly, the cost/income ratio decreased by 4.2 percentage points to 64.0 percent (2018: 68.2 percent).

Central Institution and Major Corporate Customers operating segment

The **net interest income** of the Central Institution and Major Corporate Customers operating segment increased to €1,421 million in the year under review (2018: €1,371 million). In the Corporate Banking business line, the Cooperative Financial Network generated growth in net interest income. This was mainly driven by the increase in lending volume and loan drawdowns by domestic corporate customers. Net interest income from capital markets business went up to €230 million (2018: €188 million), primarily as a consequence of higher income from money market business and a greater level of early-redemption fees. Net interest income from transport financing activities declined due to a decrease in lending volume. The expansion of finance for small businesses, which involved a further rise in the volumes of the digital solutions 'VR Smart flexibel' and 'VR Smart express', had a positive impact on net interest income. The proportion of total new business (leasing and lending) accounted for by contracts entered into online increased from 81.8 percent in 2018 to 90.0 percent in the reporting year. Some of this impact was offset by a contraction in net interest income caused by the implementation of the strategy to scale back or dispose of non-core activities.

Net fee and commission income in the Central Institution and Major Corporate Customers operating segment came to €531 million in 2019 and was therefore slightly lower than in the previous year (2018: €550 million). The principal sources of income were service fees in the Corporate Banking business line (in particular, from lending business including guarantees and international business), in the Capital Markets business line (mainly from securities issuance and brokerage business, agents' fees, transactions on futures and options exchanges, financial services, and the provision of information), and in the Transaction Banking business line (primarily from payments processing including credit card processing, safe custody, and gains/losses from the currency service business). In the transport finance lending business, net fee and commission income declined. This was largely due to the absence of income following the sale of shares in LogPay Financial Services GmbH and the disposal of the land transport finance and aviation finance businesses, and to lower income caused by the fall in new lending business. Net fee and commission income from finance for small businesses was down year on year. The main reasons for this change were the level of trailer fees to be paid to the cooperative banks, which climbed in line with the volume of business, and the absence of income resulting from the disposal of the centralized settlement business.

Gains and losses on trading activities in the Central Institution and Major Corporate Customers operating segment came to a net gain of €450 million in 2019, up from a net gain of €267 million in the previous year. Gains and losses on trading activities relate to the business activities of the Capital Markets business line. This item also includes income from money market business entered into for trading purposes and all derivatives transactions. Gains and losses on trading activities in the Capital Markets business line amounted to a net gain of €430 million, up from a net gain of €315 million in 2018. One of the reasons for this was a higher level of sales with institutional and corporate customers and the associated boost to income. The rise in sales was evident in all asset classes, but the increase in derivatives business, the expansion of the structured products business, and the foreign-exchange business all made a particular contribution to the improvement in the net gains. On the other hand, the margins in fixed-income business declined because more deals were being entered into via electronic trading platforms. However, it was possible to offset the fall in margins with an increase in sales volume and sales in other asset classes. Further factors influencing the gains and losses on trading activities in the reporting year included interest-rate-related changes in the fair value of cross-currency basis swaps used for the hedging of financial instruments in the banking book denominated in foreign currency amounting to a loss of €13 million (2018: loss of €23 million).

The level of **gains and losses on investments** fell from a net gain of €195 million in 2018 to a net gain of €37 million in the reporting year. This change was attributable to losses arising from the termination of hedges in the context of portfolio fair value hedge accounting. In the transport finance business, the figure for the prior year had notably been affected by impairment losses recognized in respect of equity-accounted entities.

The net addition to **loss allowances** in the Central Institution and Major Corporate Customers segment amounted to €226 million in the reporting year (2018: net reversal of €70 million). The net reversal in the prior year was mainly due to improvements in borrowers' credit ratings and the successful restructuring of loans. The change compared with 2018 in the transport finance business was due, in particular, to the increased need for loss allowances in the shipping and offshore businesses. In finance for small businesses, additions to loss allowances were required primarily in connection with the rise in lending volume generated with the 'VR Smart flexibel' product.

Other gains and losses on valuation of financial instruments came to a net loss of €5 million in 2019 (2018: net loss of €79 million). This change was mainly attributable to IFRS-related measurement effects relating to hedge accounting and to interest-rate-related measurements of cross-currency swaps.

Administrative expenses rose to €1,971 million in 2019 (2018: €1,944 million). Staff expenses increased, largely due to higher expenses for remuneration, whereas consultancy expenses were lower than in 2018. IT expenses, on the other hand, also went up year on year.

Due to the factors described above, **profit before taxes** in the Central Institution and Major Corporate Customers operating segment declined to €352 million in the year under review (2018: €431 million). The cost/income ratio fell from 84.3 percent in 2018 to 77.3 percent in the reporting year.

Real Estate Finance operating segment

The **net interest income** of the Real Estate Finance operating segment of the Cooperative Financial Network amounted to €1,305 million in 2019 (2018: €1,423 million) On the one hand, portfolio growth generated from new business and effects from the early redemption of loans had a positive impact on net interest income.

But on the other hand, adverse effects arose in connection with the persistently low level of interest rates, which led to an additional charge of €280 million from the increase in interest bonus provisions for older rate scales in building society operations. Interest income arising on investments declined because capital market rates for investments remained low. Net interest income was also adversely impacted by an increase in fees and commissions directly assignable to the acquisition of home savings contracts and loan agreements and incorporated into the effective interest method applied to home savings deposits. With regard to loans issued under advance or interim financing arrangements, income from non-collective business in 2019 increased by €29 million to €940 million (2018: €911 million) on the back of the expansion in business over the last few years and despite a fall in average returns.

The net expense traditionally reported in the Real Estate Finance operating segment under **net fee and commission income** deteriorated to €121 million in the reporting year (2018: €110 million) due to a rise in fee and commission expense for loan brokerage. This was mitigated by a positive effect from the decrease in fees and commissions not directly attributable to the conclusion of a home savings contract.

Gains and losses on investments in the Real Estate Finance operating segment improved in 2019 to reach a net gain of €186 million (2018: net gain of €6 million). This change was mainly attributable to proceeds from the disposal of the shares in Czech building society ČMSS (€99 million) and the sale of securities (€64 million), especially Spanish government bonds, during the reporting year.

Loss allowances in the Real Estate Finance operating segment saw a net reversal of €26 million in the reporting year (2018: net reversal of €2 million). The level of loss allowances is influenced by the regular validation of credit risk parameters.

Other gains and losses on valuation of financial instruments in the Real Estate Finance operating segment improved year on year, amounting to a net gain of €287 million in 2019 (2018: net loss of €16 million). The main drivers behind this increase were narrowing credit spreads on bonds from the peripheral countries of the eurozone, particularly Italian and Spanish government bonds, and the early termination of interest-rate swaps.

Administrative expenses amounted to €875 million in 2019 (2018: €885 million). Staff expenses rose year on year as a result of an increase in headcount in connection with the expansion of the home finance business. But this rise was more than offset by a reduction in the bank levy, lower consultancy expenses, and a fall in expenses for regulatory projects.

Profit before taxes in the Real Estate Finance operating segment improved to €863 million in the year under review (2018: €477 million). The performance of the Real Estate Finance operating segment, as outlined above, meant that the cost/income ratio fell to 51.1 percent (2018: 65.1 percent).

Insurance operating segment

Premiums earned went up by €1,252 million to €17,249 million (2018: €15,997 million), reflecting the integral position held by the R+V subgroup within the Cooperative Financial Network.

Premium income in the life insurance and health insurance business grew by a total of €431 million to €8,299 million. Premiums earned from the life insurance business rose by €400 million to €7,673 million. Occupational pensions, traditional products, and new guarantees were the main areas of business contributing to these gains.

The credit insurance business also saw rising premiums compared with the previous year. In the health insurance business, net premiums earned rose by €31 million to €626 million. All business segments generated year-on-year increases, with notably strong growth in private supplementary health insurance.

In the non-life insurance business, premium income earned grew by €342 million to €6,130 million, with most of this growth being generated from vehicle insurance and corporate customer business.

Premium income earned from the inward reinsurance business rose by €479 million to €2,820 million. Business performed well in all regions, with Europe remaining the largest market. Growth was generated in all divisions.

Gains and losses on investments held by insurance companies and other insurance company gains and losses increased by €4,850 million to a net gain of €6,192 million (2018: net gain of €1,342 million). At the end of the year under review, the level of long-term interest rates was below the corresponding level at the end of 2018. At the same time, the narrowing of spreads on interest-bearing securities had a positive impact on this item. Over the course of 2019, equity markets relevant to R+V performed better than in 2018. For example, the EURO STOXX 50, a share index comprising 50 large, listed companies in the EMU, saw a rise of 744 points from the start of 2019, closing the year on 3,745 points. In 2018, this index had fallen by 503 points. In the reporting year, movements in exchange rates between the euro and various currencies were generally more favorable than in the previous year.

Overall, these trends in the reporting year essentially resulted in a €4,882 million improvement in unrealized gains and losses to a net gain of €3,585 million (2018: net loss of €1,297 million), a €256 million improvement in the contribution to earnings from the derecognition of investments to a gain of €237 million (2018: loss of €19 million), and an increase of €63 million in the net gains under foreign exchange gains and losses to €244 million (2018: net gain of €181 million). In addition, net income under current income and expense rose by €1 million to €2,347 million (2018: €2,346 million) and the balance of depreciation, amortization, impairment losses, and reversals of impairment losses deteriorated by €24 million to a net expense of €74 million (2018: net expense of €50 million). Owing to the inclusion of provisions for premium refunds (particularly in the life insurance and health insurance business) and claims by policyholders in the fund-linked life insurance business, the change in the level of gains and losses on investments held by insurance companies also affected the ‘insurance benefit payments’ line item presented below.

Insurance benefit payments went up by €5,132 million, from €14,208 million in 2018 to €19,340 million in the reporting year. The increase in insurance benefit payments reflected both the trend in net premiums earned and the policyholder participation in gains and losses on investments held by insurance companies. At the companies offering personal insurance, the changes in insurance benefit payments were in line with the change in premium income and in gains and losses on investments held by insurance companies and other insurance company gains and losses. An amount of €647 million (2018: €305 million) was added to the supplementary change-in-discount-rate reserve.

In the non-life insurance business, a decline in the claims rate trend was evident compared with the prior period. For example, the overall claims rate remained below the prior-year level. Claims expenses for natural disasters and major claim costs both declined year on year. However, the underlying cost of claims increased.

In the inward reinsurance business, the net claims ratio was up by 2.3 percentage points compared with the prior year. The ratios for major and medium claims were above those in 2018. Notably, typhoons Hagibis and Faxai, together with Hurricane Dorian, gave rise to claims of around €169 million, with a corresponding impact on earnings.

Insurance business operating expenses went up by €252 million to €2,973 million (2018: €2,721 million) in the course of ordinary business activities in all divisions, with a particularly sharp rise in the inward reinsurance and non-life insurance segments.

The factors described above meant that **profit before taxes** for the reporting year increased by €704 million to €1,117 million (2018: €413 million).

Management Report 2019

Human Resources Report and Sustainability Report

Human resources report

The cooperative banks are facing big challenges in light of far-reaching changes in society, politics, and the financial sector. Drivers such as demographic change and shifts in customer behavior, new technologies, and regulatory requirements have an impact on the cooperative banks and emphasize the need for transformation toward a digital world. To help them with the transformation, the cooperative banks are supported by a comprehensive range of products and services from the cooperative associations, academies, and service providers, for example through seminars, IT applications of the Fiducia & GAD cooperative computing center, and digital solutions of the network institutions.

For the digital transformation of the cooperative banks to be effective, the implementation of new technologies – which is already under way – needs to be accompanied by a fundamental cultural shift at the individual banks. This cultural evolution starts with the broad-based use of digital media and tools, but also encompasses internal communications and necessitates both a revised approach to management and increased flexibility in terms of working hours and location. From a human resources perspective, the future of banking at the cooperative banks will rest on the shoulders of employees and managers who are well-versed in the use of digital applications and tools, open to the opportunities of digitalization, and practice a measured risk culture when it comes to dealing with these new areas.

The requirements associated with the digital transformation also have an impact on the traditional training pathway into banking. At present, around 87 percent of all traineeships in the cooperative banks are banking traineeships. In view of the digital revolution, however, HR planning is increasingly focusing on other occupations too. This includes traineeships in dialog marketing, IT and, since August 2018, a newly created traineeship in e-commerce. In addition to traditional traineeships, degree apprenticeships also play an important part. Around one in nine trainees combine their practical training with part-time studies at a traditional university or university of cooperative education.

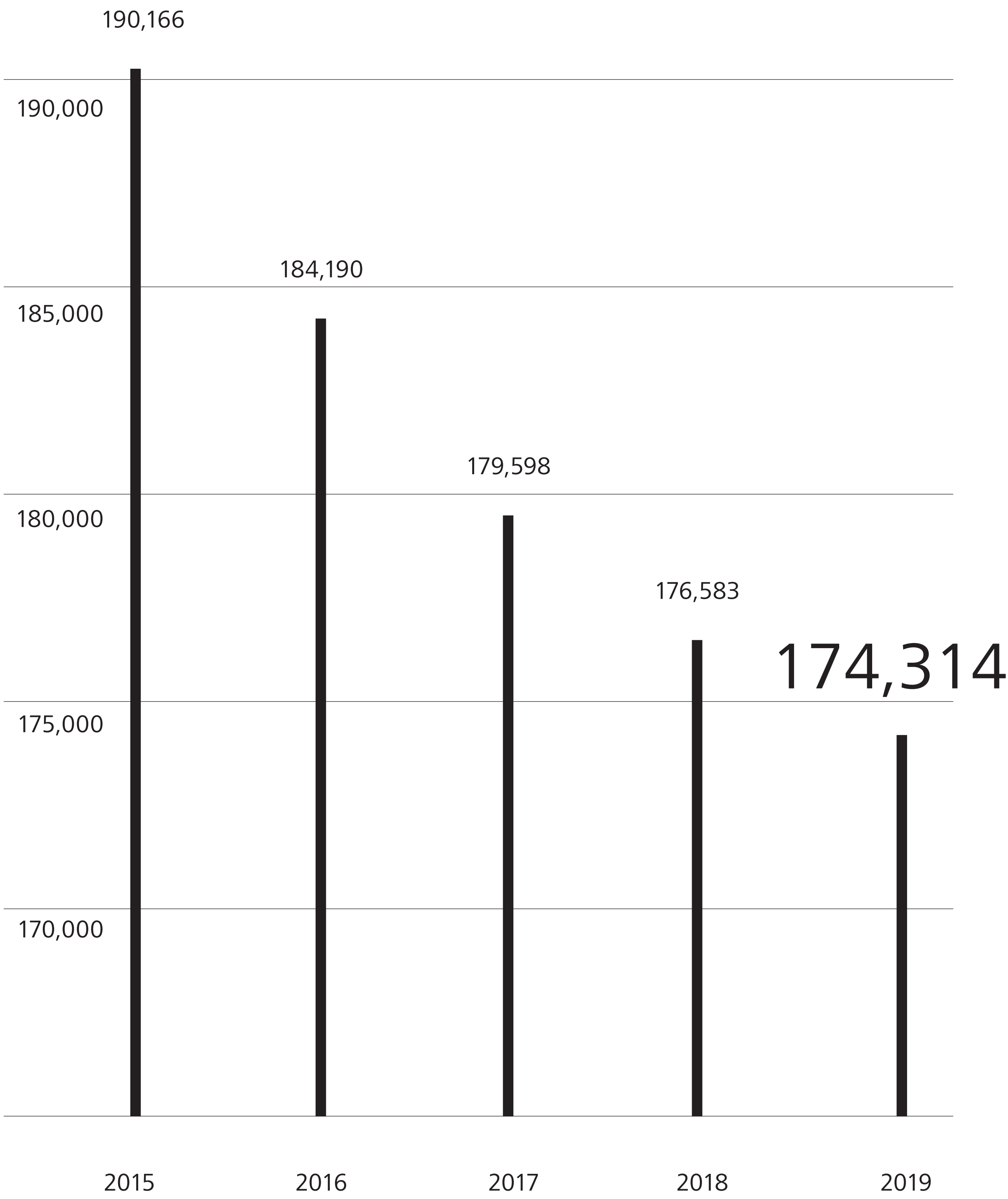
A vital factor for the future is the ability of individual cooperative banks to recruit and retain well qualified young people. When the ‘next’ training initiative was launched five years ago, many cooperative banks were already finding it difficult to attract career starters to the bank for a traineeship or degree apprenticeship. This challenge is still central to current recruitment efforts – and will probably remain relevant over the coming years. It is therefore all the more important to maintain a strong presence as an attractive training company and employer, especially in the current environment. In 2019, the social media channels of the ‘next’ initiative played a crucial role once again: Instagram, the new ‘next’ blog page wirsindnext.de, Facebook, and YouTube were used to share insights into life behind the bank counter. Participants in the training program are using the #wirsindnext hashtag to celebrate their diversity and trainees from all over Germany have been contributing to the blog.

The popularity of the local cooperative banks as a trainer and employer was confirmed when they were included in the trendence institute’s ranking of the most sought-after employers for school-leavers for the 14th year in succession in 2019/2020.

Although a traineeship in banking continues to be highly regarded as an entry-level qualification, changes are gradually emerging. The proportion of trainees in the workforce of the cooperative banks remained high compared with other industries and stood at 6.3 percent at the end of the reporting year – the same ratio as at the end of 2018 (see chart on page 34). But the reorganization of the workforce was also reflected in the number of employees. In the year under review, the number of employees of the Cooperative Financial Network decreased slightly from 176,583 to 174,314 (see chart on page 32).

Long periods of service reflect the loyalty and close bond between employees and their company. As at the end of 2019, about 71 percent of all cooperative bank employees had been with their bank for more than ten years and 35 percent for more than 25 years (see chart on page 33). The cooperative banks also continue to offer attractive career opportunities for university graduates, as evidenced by the fact that the proportion of employees with a degree remained almost unchanged at 8.3 percent in the reporting year (see chart on page 35).

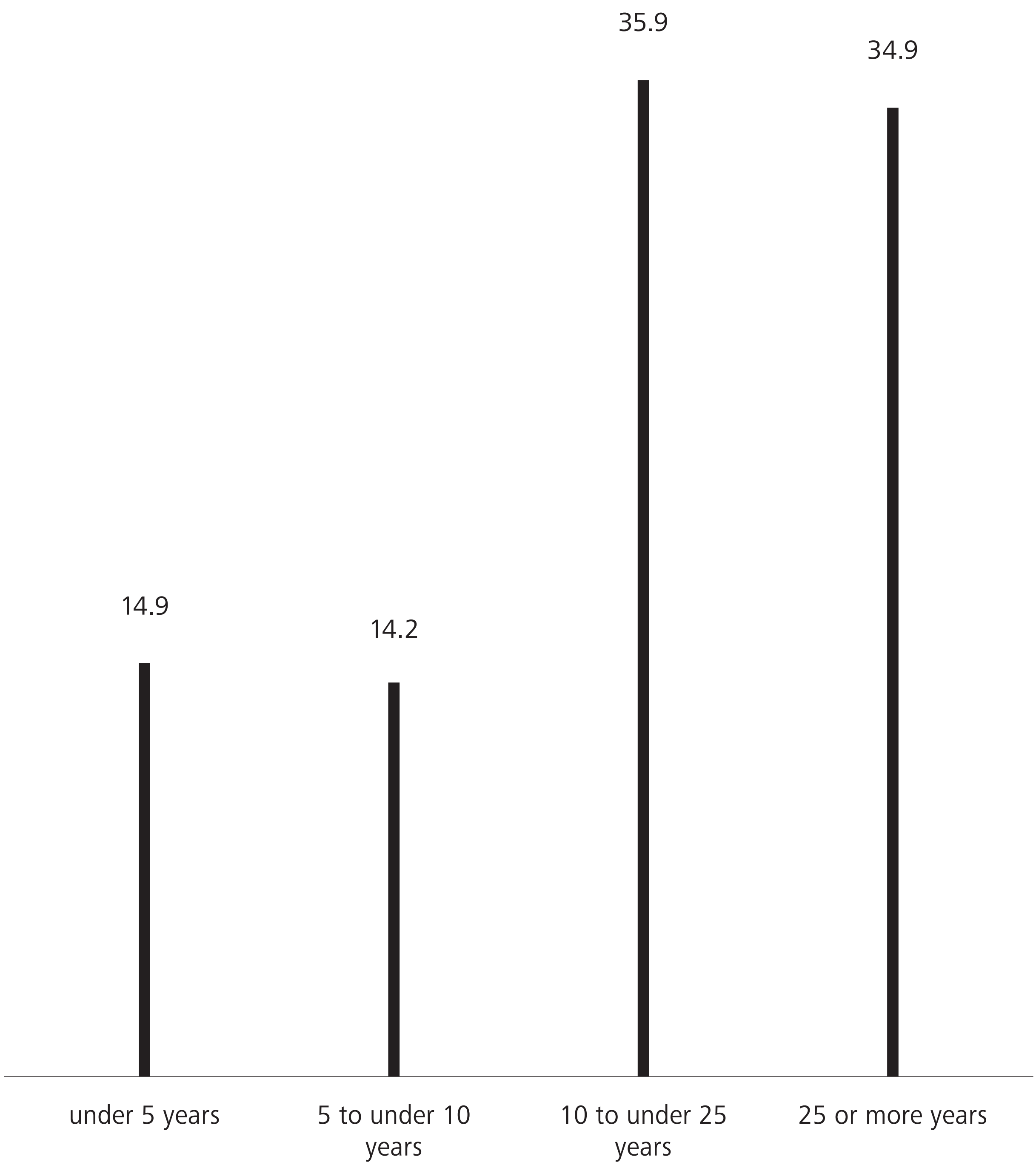
Number of employees*



* Volksbanken Raiffeisenbanken Cooperative Financial Network.

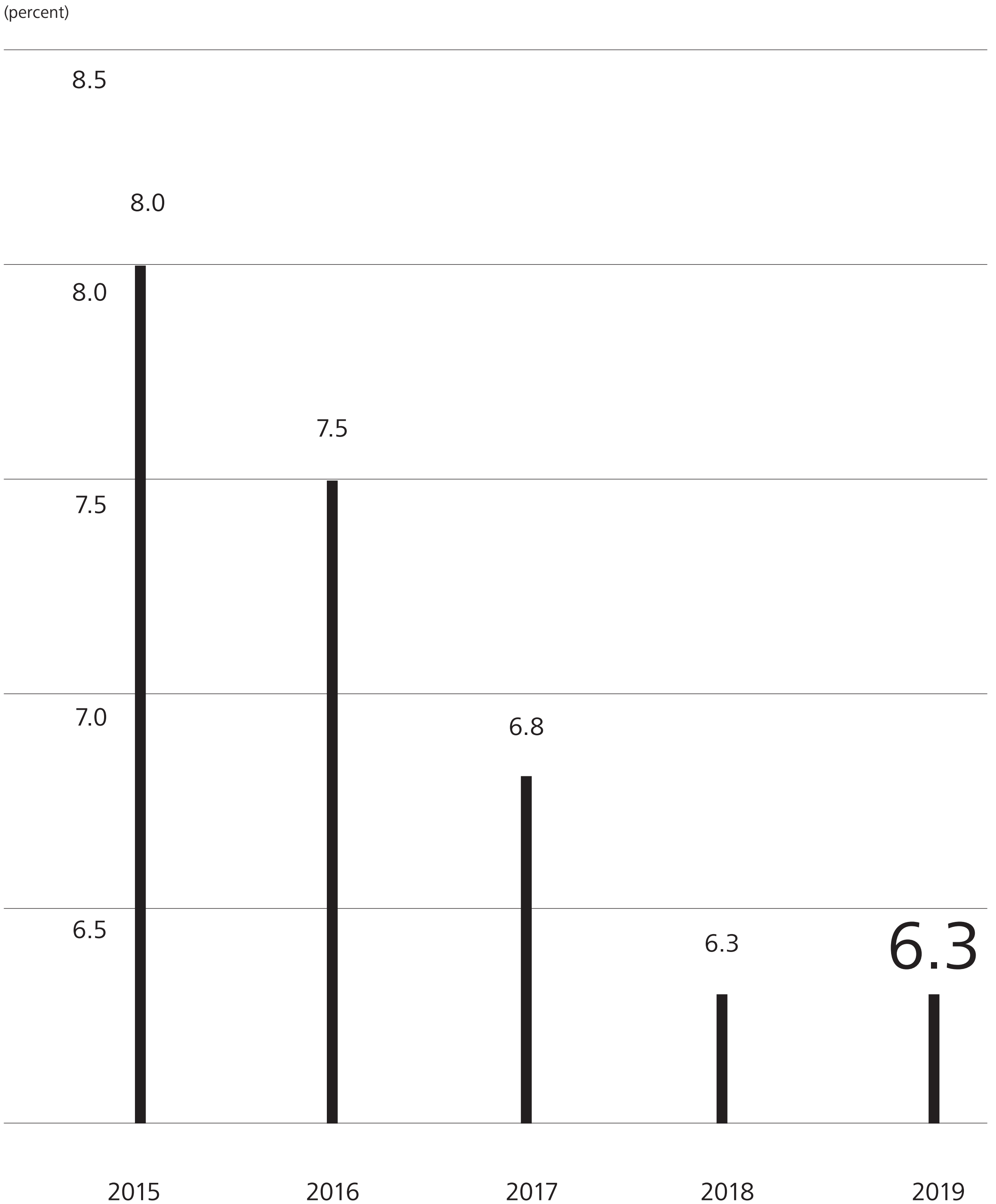
Staff members' years of service*

(percent)



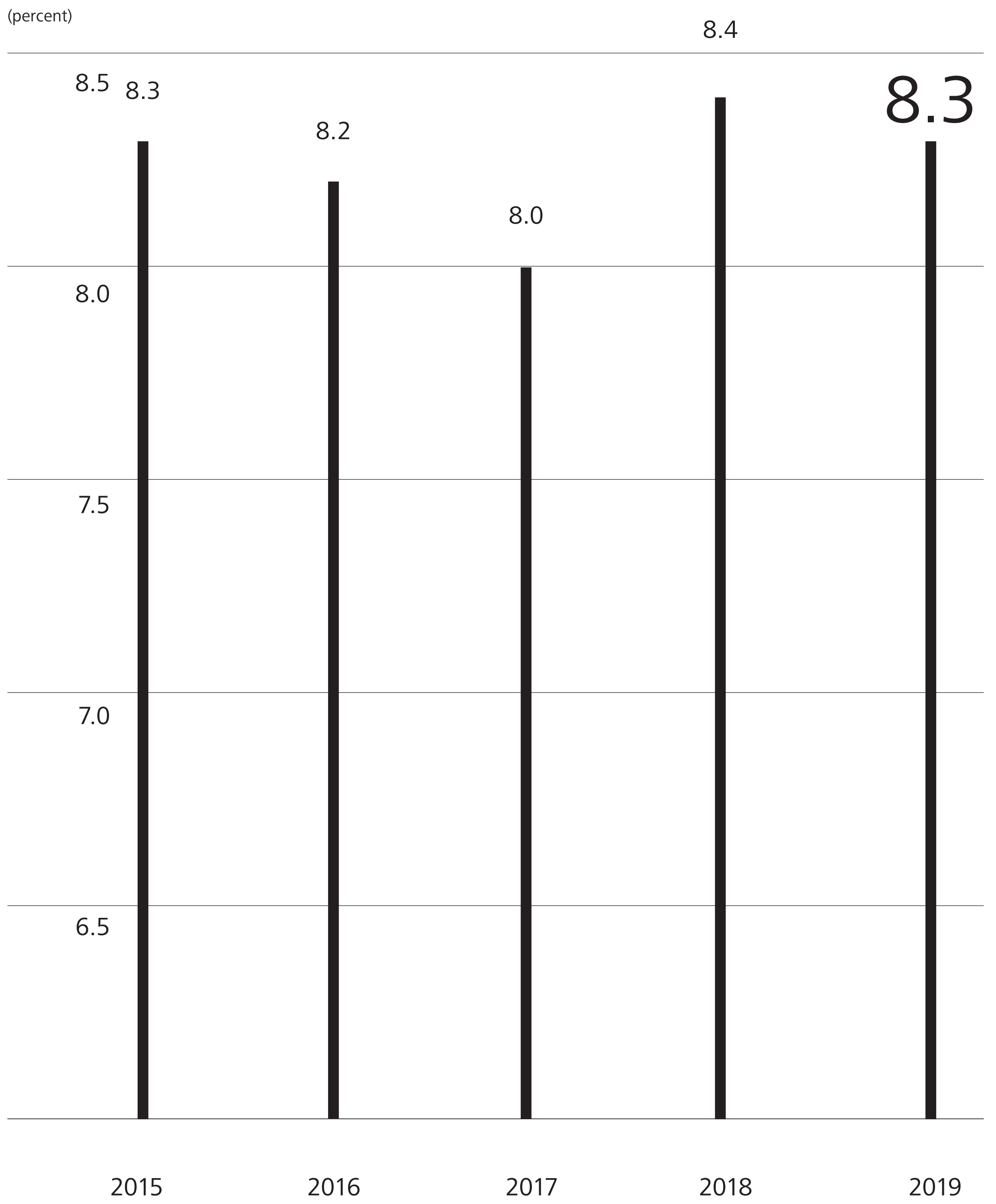
* Cooperative banks and DZ BANK AG.

Ratio of trainees to other employees*



* Cooperative banks and DZ BANK AG.

Proportion of employees with a degree*



* Cooperative banks and DZ BANK AG.

Sustainability report

For many years, the idea of sustainability has been a guiding light for politicians, businesspeople, and environmentalists. One of the most widely used definitions of the term sustainability is the one developed by the United Nations in 1987: "Sustainable development is development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs." This concept of intergenerational justice crucially depends on us ensuring that our business practices take appropriate account of socio-economic and environmental aspects. The international community has set itself ambitious goals for sustainable development and solving the climate crisis (limitation of global warming to 1.5 degrees). To achieve these goals, fast, determined, and concerted action is required by all parties and at all levels. The financial services industry is playing an important part in shaping this endeavor in its role as an intermediary. The Volksbanken Raiffeisenbanken Cooperative Financial Network also promotes sustainable development from an economic, social, and environmental perspective.

Owners: achieving more together

The identity principle is what makes the cooperative different from all other types of company structure. Like members of any cooperative, the members of the cooperative banks are its owners as well as its customers. More than half of their customers have decided to become a member. Across Germany, that makes for a total of around 18.6 million cooperative bank members. The cooperative banking remit to provide development finance entails collaboration in a spirit of partnership. It also defines the strategic focus and how it is underpinned by ethical business practices: According to section 1 of the German Cooperative Act (GenG), the nature of the business has to be oriented to the long-term success of its members. One factor in achieving this objective is to avoid sustainability-related risk and seize sustainability-related opportunities. The very essence of their 'DNA' (partnership, personal responsibility, helping people to help themselves) calls upon cooperatives and cooperative banks to support their members through sustainable transformation processes.

Cooperative advocacy, along with the annual general meeting or general assembly of representatives and the supervisory boards of the individual cooperative banks (whose members are mostly businesspeople and distinguished persons from the relevant region), underpins the regional control of the individual banks. It provides opportunities for involvement in the democratic process and encourages dialog within society on economic, social, and environmental issues. At the same time, the local cooperative banks learn from the collaboration with their cooperative governing bodies, adopt business innovations, and embrace changing requirements – including with regard to current sustainability-related challenges – in order to put their business models on an efficient footing for the future in line with market needs.

Regional responsibility

In accordance with their remit to provide development finance, the cooperative banks align the nature of their business to the long-term success of their members and customers. A responsible business policy with a strong focus on the common good is thus an integral element of their corporate strategy. For more than 170 years, they have been supporting, encouraging, and advising local people and companies through their financial services and playing a vital role for the real economy through responsible lending. They operate and do business on the basis of mutuality: Each cooperative bank belongs to its members, who benefit from the strength and solidarity of a powerful community. The practices of local cooperative banks are guided by the principle of sustainability. This is why they share their economic success with the region in which they operate. They play a proactive role in the economic, social, and cultural development of their local area. They expand their cooperative network structure through donations, sponsorship, and the voluntary activities of their employees in the community. At the same time, the remit to provide development finance defines the sustainable value creation process at the core of their day-to-day business. The combination of commercial viability and corporate responsibility underpins their regional strength, which they continually develop and expand.

The cooperative movement's strengths of customer proximity and regional roots are what is needed in these challenging times of digital transformation and social change. The cooperative banks are updating their values-based business model for the future, in dialog with their members and for their benefit.

Systematic integration of sustainability factors in the management of cooperative banks

The factors that are driving the member institutions of the Cooperative Financial Network to further enhance the integration of sustainability into their management processes are not purely of a regulatory nature. The focus is not only on sustainability risks that could have an impact on financial performance, but also on the sustainability implications of the banks' own operations and investment behavior. These complex matters require the banks to devote significant resources to transformation. The Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks] and the specialized service providers in the Cooperative Financial Network have therefore been stepping up their support services for cooperative banks. In December 2019, a network-wide project to address these issues was launched.

Cooperative banks exploit opportunities in the market by offering sustainability-oriented products

A growing portfolio of sustainability products is becoming established across the Cooperative Financial Network. These products are distributed by the cooperative banks. In addition to sustainable securities products (e.g. sustainability-oriented funds from Union Investment and GLS Gemeinschaftsbank eG), they also offer credit products (e.g. sustainable loans from Münchener Hypothekenbank eG).

Corporate social responsibility (CSR)

Every year, the BVR conducts a survey of all member institutions in order to record the Germany-wide CSR data of the Cooperative Financial Network. This provides tangible proof of how the many different engagement activities in the regions combine to create a force to be reckoned with at national level and highlights the particular contribution that the cooperative banks make to society (CSR reports of the local cooperative banks). The entities of the DZ BANK Group have also established various products, concepts, and processes that are based on environmental, social, and ethical criteria.

The latest figures, for 2019, show that the Volksbanken Raiffeisenbanken Cooperative Financial Network is constantly stepping up its activities as a corporate citizen. The local cooperative banks and their specialized institutions provided financial assistance totaling €158 million to people in Germany. Donations from the Volksbanken Raiffeisenbanken and other cooperative banks reached €106 million and local communities benefited from sponsorship worth €40 million; income from charitable foundations added a further €12 million. This ever stronger commitment, not just in 2019 but also in the years before, reflects the healthy financial results of the Cooperative Financial Network. This shows that good financial performance is not an end in itself but leads to more being done for local needs.

Furthermore, the foundation assets of the Volksbanken Raiffeisenbanken Cooperative Financial Network amounted to €345.7 million at the end of 2019. This sum has been rising steadily for years. To put that into context, the equivalent amount at the end of 2009 was only €125 million. Reflecting the sustainability and long-term orientation of the 841 cooperative banks' business philosophy, this commitment to charitable foundations represents a very durable way of backing local projects.

Management Report 2019

Combined Opportunity and Risk Report

Principles

The following description of the risk management system is based on the structure and functional principles of the Cooperative Financial Network's institutional protection scheme at a primary level, but also takes into account the risk management of the individual institutions as a secondary element. In this context, risk management at the level of the protection scheme is mainly focused on preventing individual institutions from getting into difficulties.

Risk reporting covers all entities in the scope of consolidation for the purposes of commercial law. The scope of consolidation for the consolidated financial statements therefore goes beyond the companies consolidated for regulatory purposes and is not limited to the members of the protection scheme.

Risk management in a decentralized organization

The BVR protection scheme and BVR Institutssicherung GmbH ensure the stability of the entire Cooperative Financial Network and confidence in the creditworthiness of all its members. Both schemes together, and each in its respective functions and area of responsibility, form the backbone of risk management in the Cooperative Financial Network.

Institutional protection scheme of the Cooperative Financial Network

BVR protection scheme (BVR-SE)
BVR-SE is Germany's and the world's oldest deposit guarantee fund for banks and is financed entirely without government support. Right from its inception, this system has always ensured that all banks covered by the scheme have been able to meet their financial obligations – especially toward retail customers holding deposits. BVR-SE is regulated and monitored by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [German Federal Financial Supervisory Authority].

Since the German Deposit Guarantee Act (EinSiG) came into effect on July 3, 2015, when it became necessary to establish a legally recognized deposit guarantee scheme, BVR-SE has been continued as an additional voluntary bank-protection scheme in accordance with section 2 (2) and section 61 EinSiG.

The main responsibilities of BVR-SE are to ensure stability 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 Financial Network. So that it can provide the necessary support in securing these aims, BVR-SE has access to a guarantee fund that is funded by contributions from the member banks. If necessary, the institutions will also support each other with additional funding (guarantee obligations).

In 2019, BVR-SE met, without qualification, all its responsibilities as a bank-protection scheme in accordance with the articles of association, as set out in the annual financial statements of BVR-SE. A total of 851 institutions of the Cooperative Financial Network belonged to BVR-SE as at December 31, 2019 (December 31, 2018: 885 members). The decrease stemmed solely from mergers within the Cooperative Financial Network.

BVR Institutssicherung GmbH (BVR-ISG)
BVR-ISG is an officially recognized deposit guarantee scheme and, since July 1, 2015, has been operating an institutional protection scheme within the meaning of article 113 (7) of Regulation (EU) No. 575/2013 for CRR credit institutions that has been approved by the regulator. By operating the institutional protection scheme, BVR-ISG satisfies its responsibility under its articles of association to avert or eliminate imminent or existing financial difficulties in its member institutions. To this end, BVR-ISG will initiate any preventive or restructuring action, as required. Where, in accordance with section 10 EinSiG, BaFin identifies a compensation event in relation to a CRR credit institution that is a member of the BVR-ISG protection scheme, BVR-ISG will compensate the customers of the credit institution

concerned in accordance with sections 5 to 16 EinSiG. BVR-ISG thus fulfills the statutory requirements regarding deposit protection for customers.

Together, BVR-ISG and BVR-SE form the Cooperative Financial Network's dual protection scheme. The members of the BVR-ISG protection scheme are those CRR credit institutions that also belong to the BVR and are affiliated to BVR-SE. As at December 31, 2019, the membership comprised 849 CRR credit institutions (December 31, 2018: 883), which is all of the banks in the Cooperative Financial Network that are authorized in Germany by BaFin.

Under section 50 (1) EinSiG, BVR-ISG is subject to supervision by BaFin and to monitoring by the Bundesrechnungshof [German Federal Court of Audit] with regard to its responsibilities to compensate depositors in accordance with sections 5 to 16 EinSiG and with regard to funding and target funding levels in accordance with sections 17 to 19 EinSiG.

To the extent possible under EinSiG, BVR-ISG's organizational and decision-making structures match the organizational and decision-making structures of BVR-SE. Dual employment contracts and a service agreement are in place so that BVR-ISG's day-to-day business operations can be carried out by the BVR employees who perform the corresponding functions for BVR-SE. BVR-ISG has also engaged a third-party service provider to carry out the processing of potential compensation procedures, although such procedures have as yet never been required, nor are any currently identifiable.

The focus of the activities of BVR-ISG in 2019 was on fulfilling its responsibilities as defined by law, the articles of association, and regulatory requirements. The activities centered on the risk-based collection of contributions, which is compliant with the relevant guidance of the European Banking Authority (EBA), the management of funds, extensive operational stress tests, and preparations for the IPS recovery plan in accordance with the Minimum Requirements for the Design of Recovery Plans (MaSan). BVR-ISG can look back on a highly successful year, having not had to take any action to protect depositors or banks or pay any compensation in accordance with section 145 of the German Bank Recovery and Resolution Act (SAG) at any time in 2019.

Risk identification and analysis

Basic structures

The Cooperative Financial Network is a decentralized organization made up of legally independent institutions that are linked – through BVR-SE – by their liability. This decentralized element is in contrast with banking groups that have a parent company at the top of a hierarchical structure. Consequently, the power to make business decisions lies with each individual institution and its independent Board of Managing Directors and Supervisory Board. This decentralized structure determines the focus of risk management for BVR-SE. The focus is above all on overall analysis of the financial risk carriers – i.e. the institutions – rather than on isolated analysis of individual risk types and their scope. 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.

BVR-SE has appropriate systems for identifying and classifying risks and for monitoring the risks of all its members and of the institutional protection scheme as a whole. Risks are rated on the basis of BVR-SE'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. Rating a bank in accordance with the classification system provides the basis for determining the risk-adjusted guarantee fund contributions of BVR-SE and is also the starting point for preventive management.

The results of the classification are supplemented by further analysis and data, in particular evaluations of the data collected as part of an annual comparative analysis. This is a data pool that the BVR compiles from data collected from its member institutions and is predominantly based on information from the institutions' accounting and reporting systems. 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, BVR-SE prepares special analyses on specific issues and specific risks, such as determining the impact of sustained low interest rates.

In accordance with its risk-oriented mode of operation, BVR-SE performs individual bank analyses on institutions of major financial significance to the protection scheme as a whole. In doing so, BVR-SE is applying the concept used to analyze large banks. It thus takes into account the risks resulting from the size category of the affiliated institutions.

To assess BVR-SE'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).

Classification process and contributions to the BVR protection scheme

The classification system uses eight key figures relating to financial position, financial performance, and risk position to assign the banks to one of the nine credit rating categories, which range 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. BVR-SE receives this data electronically from the regional auditing association responsible for the individual bank.

All institutions covered by BVR-SE are included in the classification system. Only a small number of institutions are not included, notably those that are rated separately by an external rating company, e.g. DZ BANK AG and its subsidiaries as well as Münchener Hypothekenbank eG.

The classification process in 2019 was based on an analysis of data from the 2018 financial statements. The evaluation of this data revealed that the profit and loss distribution deteriorated on average, but remains at a high level overall. Only a small portion of this deterioration was attributable to the core business of the cooperative banks. For the most part, it was caused by losses on securities in the wake of disruption in the market at the end of 2018. Over the course of the reporting year, significant amounts of impairment losses were reversed and the results of the classification are therefore expected to improve noticeably for the 2019 financial year. The decline in net interest income was more than offset by growth in net fee and commission income. The cost/income ratio rose due to higher general and administrative expenses and a slight fall in operating profit. Loss allowances for loans and advances remained at a historically low level in the 2018 financial year. The proportion of unsecured lending classed as loans with a high probability of default or as non-performing loans increased year on year but still remained well below the total volume of 2016.

Risk management and monitoring

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

The results of the classification process provide an important basis for BVR-SE's systematic preventive management. A bank is brought into the scope of this preventive management approach no later than the point at which it is classified as B– or lower on the basis of its annual financial statements. In addition, other key figures and comprehensive data (e.g. from the banks' reporting systems and the stress tests that the supervisory authority has started to conduct regularly even for domestic, not systemically important banks) have increasingly been used over the past few years so that any anomalies at institutions can be identified at an early stage. In 2019, this data included multi-year planning information from the banks' reporting systems, all of which was made available to BVR-SE.

Before the prevention phase, the monitoring of conspicuous institutions is playing an ever more significant role in the early analysis of institutions. In 2019, the monitoring program once again also reached out to institutions that were not showing any particular indications of risk but that could potentially represent a major risk simply because of the size of their balance sheet. This underpins the long-term trend of shifting the focus of BVR-SE's work away from restructuring and toward end-to-end preventive management that also includes monitoring.

Restructuring management
As before, the work of BVR-SE in restructuring member institutions is 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 the measures required in order to ensure that the bank's business regains its future viability while accommodating the interests of all members of the Cooperative Financial Network.

The 'Manual for future-proof bank management – guidelines for reorganizing and restructuring cooperative banks', which was revised in 2017, remains the basis for providing restructuring assistance and carrying out restructuring measures. The principles documented in the manual provide affected banks with guidance on re-establishing competitive structures, e.g. through recovery, and describe concepts for restoring their fundamental profitability. The aim is for the banks to complete this restructuring phase within no more than five years. BVR-SE's manual is also specifically aimed at banks undergoing preventive measures and any institutions that have themselves identified the need for reorganization. The manual also includes a dedicated section setting out detailed procedures for restructuring measures that need to be carried out in close consultation with the bank undergoing restructuring and the relevant statutory cooperative auditors' association. This section of the manual addresses different potential target institutions separately and can be applied specifically to each individual case.

BVR-SE largely continued to perform well in the year under review in terms of its restructuring activities. In 2019, supporting measures needed to be provided to two member banks for the first time, but the cost to the institutional protection scheme (a total figure in the single-digit millions of euros) was negligible relative to the scheme's net assets. Further very minor costs were once again incurred for legacy cases where risks already covered had become acute or loss allowances were recognized in BVR-SE's annual financial statements. These legacy cases are being progressively reduced. As BVR-SE also focused on dealing with and finalizing legacy cases in 2019, the level of restructuring activity fell to an almost immaterial level in the reporting year. The total restructuring amounts in need of protection were significantly lower than expected and there was only a small volume of repayments under debtor warrant obligations and other guarantee release obligations.

The overall performance meant that the capital base of the dual cooperative institutional protection scheme (comprising BVR-SE and BVR-ISG) was strengthened once again in 2019 and, as planned, the statutory guarantee fund resources at its disposal could be expanded yet again.

Outlook for the BVR protection scheme and BVR Institutssicherung GmbH

The dual institutional protection scheme will be no exception in that the economic fallout from the global coronavirus pandemic in 2020 will be the first and foremost challenge for it to deal with, although the extent of the challenge remains unknown. The possibility that the cooperative banks' envisaged results for the 2020 financial year and beyond might be severely affected by the further course of the pandemic cannot be ruled out. Against this backdrop, the BVR protection scheme anticipates an increase in support measures over the coming years.

In 2020, BVR-ISG continues to face the task of implementing regulatory requirements, such as preparing recovery plans within the meaning of sections 12 to 20 SAG. The Regulation on the Minimum Requirements for the Design of Recovery Plans for Institutions (MaSanV) was published at the end of March 2020, but in light of the coronavirus pandemic, no implementation measures of relevance to either BVR-ISG as an institutional protection scheme or the member banks have been adopted yet (expected for the autumn of 2020 at the earliest). It is also likely that new disclosure requirements will arise as a result of indirect and sectoral supervision by the ECB, in particular broader and stricter requirements at the level of the Cooperative Financial Network. BVR-SE expects yet more issues to emerge in this regard, involving international institutions such as the European Single Resolution Board (SRB), the EBA, and the European Commission. Such issues could affect BVR-SE and/or BVR-ISG. In addition, the EBA is due to carry out further activities in connection with the regular review of the EU Deposit Guarantee Schemes Directive (DGSD), which was scheduled for 2019 back in 2014. BVR-ISG will be supporting these activities by participating in a number of the EBA task force's working groups. The final report is scheduled to be completed by mid-2020.

Capital management

Regulatory capital management

The consolidated financial statements of the Cooperative Financial Network provide a comprehensive overview of the main capital ratios, particularly the consolidated regulatory capital ratios. These capital ratios are calculated in accordance with the provisions of the CRR using the extended aggregated calculation pursuant to article 49 (3) CRR in conjunction with article 113 (7) CRR. Information concerning the regulatory capital ratios relates to the reporting date of December 31, 2019 and does not include the retention of the profits reported in the 2019 annual financial statements. Profit is retained after the individual institution’s relevant committees have given their approval. This retention of profits will further strengthen the capital base in 2020.

The Tier 1 capital ratio improved to 13.7 percent (December 31, 2018: 13.6 percent). If the reserves pursuant to section 340f HGB are classified as Tier 1 capital, the Tier 1 capital ratio is 15.5 percent (December 31, 2018: 15.6 percent). The Cooperative Financial Network’s regulatory total capital ratio was 15.6 percent as at December 31, 2019 (December 31, 2018: 15.8 percent). Overall, regulatory own funds increased by €5.3 billion to €107.0 billion. The rise in own funds was largely attributable to the retention of profits from 2018 by the cooperative banks, which was reflected in the ratios as at December 31, 2019. The Cooperative Financial Network’s capital is predominantly held by the cooperative banks.

The total risk exposure as at December 31, 2019 amounted to €685.4 billion (December 31, 2018: €642.4 billion). This 6.7 percent increase was driven by growth in the customer lending business, in both the retail and the corporate banking segments.

BVR-SE analyzes the regulatory capital ratios of each member bank on an ongoing basis. The institutions themselves are responsible for fulfilling the regulatory requirements at all times, including in respect of bank-specific SREP surcharges (e.g. for interest-rate risk, other material risks, and/or stress test results). As shown by the chart on pages 48/49, the capital adequacy of the individual institutions in the Cooperative Financial Network was at a healthy level as at the reporting date of December 31, 2019. This had also been the case as at December 31, 2018.

The Cooperative Financial Network has healthy capital adequacy thanks to equity of €116.0 billion (December 31, 2018: €107.7 billion). It has continually boosted its level of capital in recent years by retaining profit. This trend substantiates the Cooperative Financial Network’s sustainable business model with its broad diversification of sources of risk and income.

The leverage ratio, which is calculated for the Cooperative Financial Network on a pro forma basis, came to 7.0 percent as at December 31, 2019 (December 31, 2018: 6.9 percent). This is further proof of the above-average capital adequacy of the Cooperative Financial Network. The ratio is calculated for the Cooperative Financial Network by applying the requirements (adjusted appropriately) of article 429 CRR. This was based on Tier 1 capital as determined in the extended aggregated calculation in accordance with article 49 (3) CRR, which is adjusted for all internal Tier 1 capital positions within the joint liability scheme of the Cooperative Financial Network. The risk exposures were determined by aggregating the individual leverage ratio submissions of all the member banks and adjusting them for material internal exposures within the joint liability scheme. This approach factors in the zero weighting given to internal exposures within the network, which will be implemented for the member institutions when CRR II is introduced. If the reserves pursuant to section 340f HGB are classified as Tier 1 capital and relevant CRR I requirements are fully applied, the Tier 1 capital ratio was unchanged year on year at 7.8 percent. The leverage ratio total exposure increased by 6.0 percent year on year, rising to €1,345.6 billion.

Economic capital management

Risk capital management is a core task at each individual institution. Pursuant to the Minimum Requirements for Risk Management (MaRisk), it must be structured according to the complexity, scope of business activities, and size of the bank. The banks receive procedural support through the VR Control processes and VR Control software.

Risk capital management is influenced by two factors: firstly the business necessity of optimally allocating risk capital to various risk categories while taking account of risk/reward considerations and, secondly, the requirements of the Internal Capital Adequacy Assessment Process (ICAAP). The BVR drew up the necessary integrated concept in the VR Control update project and made it available to the banks. parcIT has been handling the further development of the approach since April 2019 and made updated risk-bearing capacity guidelines available in the autumn of 2019.

At a business management level, the interest-rate and credit risk categories – usually the main risk categories for the cooperative banks – are included in the optimization calculation. According to the basic concept of capital market theory, where there are given risk/return figures in each class and each correlation, combinations can be found that ensure an optimum ratio in the overall portfolio at overall bank level.

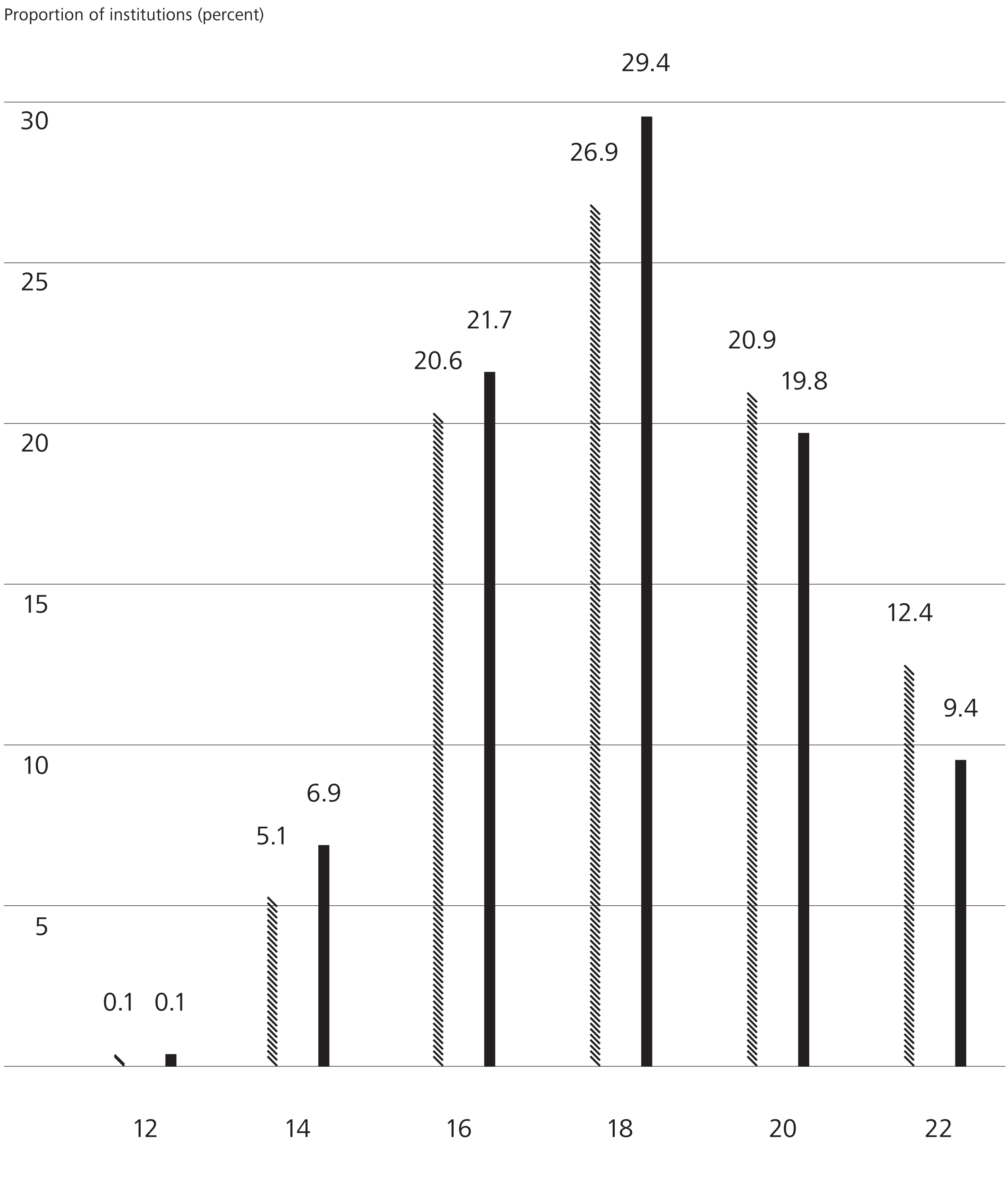
Alongside these business considerations, the banking regulator has supplemented risk measurement in Pillar I with its own Supervisory Review and Evaluation Process (SREP) and worked out a system of bank-specific surcharges for interest-rate risk and other material risks as well as a stress scenario surcharge. The surcharges for the individual cooperative banks were once again met in 2019 and the surcharges for other material risks fell sharply compared with 2018.

The proportionality of the individual institutions is taken into account when managing risk-bearing capacity in connection with risk capital management. The German banking regulator has comprehensively redrafted the 2011 prudential paper on the supervisory assessment of bank-internal capital adequacy concepts and, with the aim of harmonization, adapted it to the principle of significant institutions (SIs). The new concept for risk-bearing capacity consists of both a normative perspective (capital planning for a three-year period) and an economic perspective that is based on complete risk modelling from a value-based perspective.

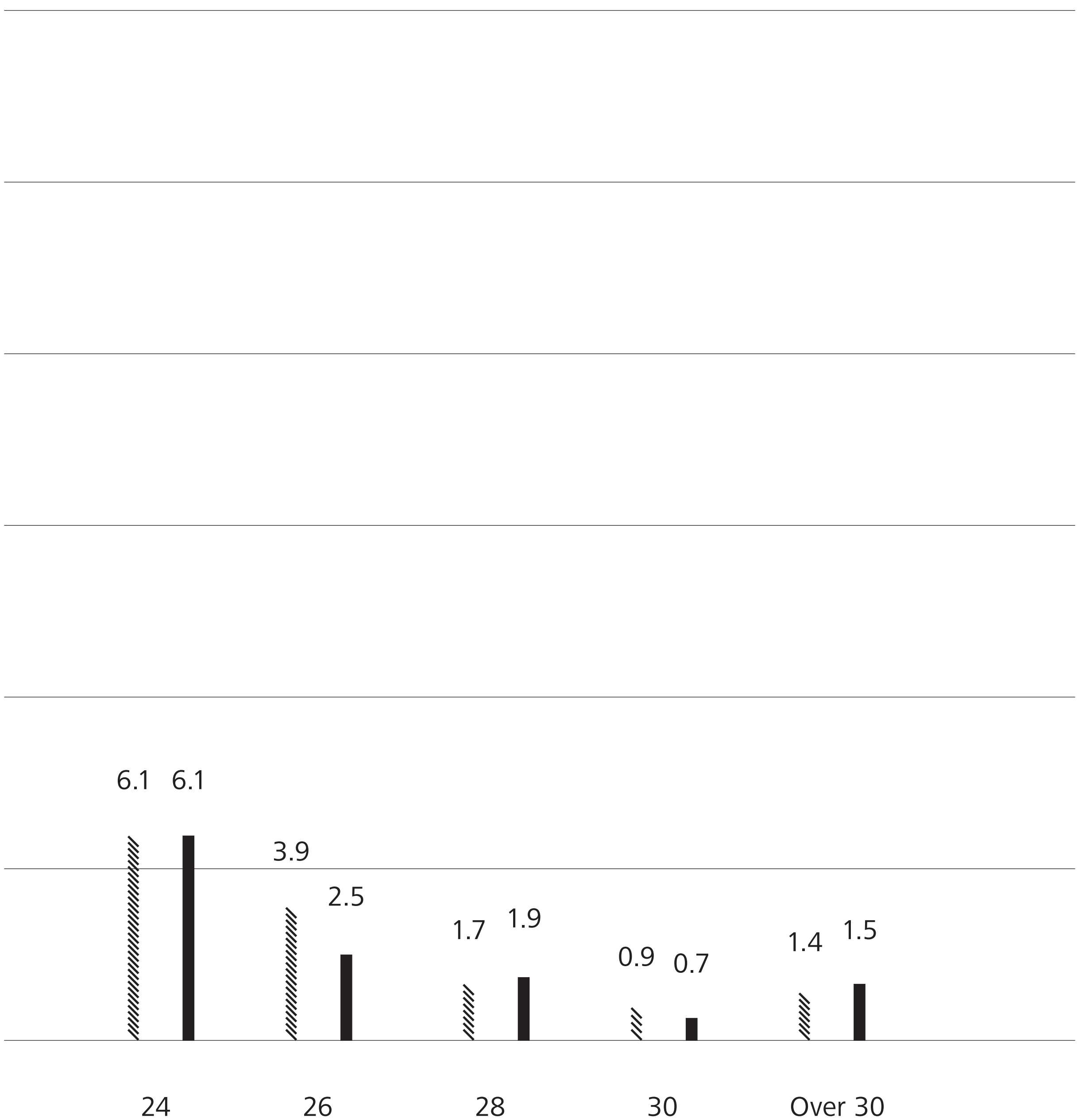
This new concept means a change of method for the institutions, because more than 99 percent of them previously applied a going-concern approach using HGB results. To help them with this change, the BVR has – as part of its remit to act as a catalyst and provide technical guidance – put in place various support services designed to equip the cooperative banks to tackle the challenges that they will face going forward. Cooperative banks, auditing associations, the computing center, and DZ BANK were involved in drawing up the concept. Alongside the project, an impact analysis was conducted at a number of banks. It confirmed their resilience, including under the new approach.

The new concept provides the basis for the necessary IT-based implementation support and should enable the banks to carry out the required calculations using their existing IT tools. Full implementation of the new guidelines will take some time and, after the banks' experts have studied them in detail, there will be an initial trial

Distribution of total capital ratios in the Cooperative Financial Network*



* As at December 31, 2019.


6.1
6.1
3.9
2.5
1.7
1.9
0.9
0.7
1.4
1.5
24
26
28
30
Over 30

phase before the banks switch to the new calculation. A solution that largely integrates the new risk-bearing capacity concept into the VR-Control software is scheduled to be made available in 2021. The banking regulator specifically stated in an annex to the guidelines that there is a time-limited option to continue with the old going concern model during transition to the new concept. A specific date on which this annex will cease to apply has not been announced yet.

Credit ratings of the Cooperative Financial Network

The credit ratings of the Cooperative Financial Network remained unchanged at AA- in 2019. However, Standard & Poor's changed its outlook assessment from 'stable' to 'negative' in September 2019 and Fitch Ratings did the same in March 2020. The agencies cited the downturn in the macroeconomic environment as the reason for their adjustment. The agencies' views on the rating drivers, the business model, and the economic strength of the Cooperative Financial Network have not changed. The credit ratings are based on the economic strength of the Cooperative Financial Network. This can be seen from the individual ratings, which are all at an identical level. The rating agencies point to the consistently successful business model focused on retail and corporate banking as the reason for their positive assessment. The funding of the business model is based on customer deposits, so it is structurally secured. Liquidity is ensured at all times by means of an extensive and highly diversified portfolio of marketable securities, combined with the cash pooling that takes place within the Cooperative Financial Network. Capital adequacy is also judged to be above average in terms of quantity and quality. The rating agencies recognize the ability and note the propensity of the Cooperative Financial Network to build up capital from its own resources by retaining profits. The granular credit structure and high proportion of mortgages in the retail business are the hallmarks of the overall high level of quality in the customer lending business. BVR-SE is seen by the rating agencies as an important connecting link and a crucial element of the risk management system of the Cooperative Financial Network.

Credit risk, market risk, liquidity risk, and operational risk

Credit risk

Credit risk is the risk of losses that may arise as a result of the default or a deterioration in the creditworthiness of a borrower, issuer, counterparty, or equity investment. As at December 31, 2019, the credit risk-weighted assets of the Cooperative Financial Network amounted to €618.0 billion (December 31, 2018: €575.5 billion) and accounted for 90.2 percent (December 31, 2018: 89.6 percent) of the total risk-weighted assets. This means that credit risk is the most significant risk category for the cooperative banks.

To assess the creditworthiness of individual borrowers in the customer business, the banks use segment-specific rating systems that are validated centrally on an ongoing basis in accordance with high market standards. These rating systems are also subject to continual further development in order to ensure that all relevant segments of the customer lending business are covered. The vast majority of the banks, particularly when analyzing risk-bearing capacity, use portfolio models to measure risk at portfolio level. These models are also constantly validated at both overall model level and parameter level.

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

The Cooperative Financial Network registered significant growth in its lending business in 2019. Loans and advances to customers increased by 6.2 percent year on year. Once again, long-term home finance was a key growth driver. Home finance lending by the cooperative banks benefited from the favorable economic conditions. The combination of low interest rates, a healthy level of employment, and rising household incomes fueled strong demand for real-estate loans. Residential real-estate prices in Germany continued to go up in 2019, but at a slightly slower rate. On average across all 401 municipal and rural administrative districts, prices for owner-occupied residential properties rose by 5.7 percent (2018: 5.9 percent). The price rises were geographically well distributed in 2019. The upward trend continued in both urban and rural areas, but the gap between the rate at which city and country price levels are increasing has narrowed.

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 postal code areas: BVR real-estate market monitoring. The measurements from BVR real-estate market monitoring provide additional regional information to complement the German Banking Industry Committee's market volatility concept. This enables the cooperative banks to determine the geographical areas forming their relevant markets and better comply with regulatory requirements.

The growth in corporate banking was predominantly driven by lending to service sector companies, the construction sector, and companies from the energy and mining industries. Because of their regional roots, the local cooperative banks have also established a strong foothold in the renewable energies market and provide financial support to companies in relation to projects for increased energy efficiency and for power generation from renewable sources.

Loss allowances rose to €0.8 billion in the reporting year (2018: €0.2 billion). This was mainly due to the increase in lending business and a greater requirement for loss allowances on exposures in ship and offshore financing. Loss allowances remained low at 0.1 percent (December 31, 2018: 0.02 percent) of the volume of loans and advances to customers and banks (total volume: €867.0 billion). As at December 31, 2019, the Cooperative Financial Network's NPL ratio (non-performing loans as a proportion of the total lending volume) stood at 1.4 percent (December 31, 2018: 1.7 percent). This encouraging decrease in the NPL ratio was attributable to contraction of the volume of NPLs and a rise in the total lending volume. In summary, the cooperative banks operate a healthy lending business overall.

Market risk

Market risk is the risk of losses that could arise from adverse changes in market prices or in factors that influence prices. Market risks are generally grouped into the following categories: equity risk, interest-rate risk, and currency/commodity risk. As at December 31, 2019, the market risk-weighted assets of the Cooperative Financial Network amounted to €12.7 billion (December 31, 2018: €12.9 billion) – equivalent to a proportion of 1.9 percent of the total risk-weighted assets (December 31, 2018: 2.0 percent).

Along with credit risk, interest-rate risk – a category of market risk – plays an important role for most of the cooperative banks. The cooperative banks regularly measure and limit this risk with regard to their risk-bearing capacity. A distinction is made between interest-margin risk and valuation risk. Interest-margin risk is the risk of net interest income falling short of the expected or budgeted figure. Valuation risk is influenced by unexpected price volatility during the holding period. For the purposes of determining and managing periodic interest-rate risks, parcIT regularly provides non-portfolio-specific interest-rate scenarios (VR interest-rate scenarios), which contain not only upward and downward shifts but also rotations of the yield curve. The moderate interest-rate movements in 2019 were adequately covered by the VR interest-rate scenarios used to manage interest-rate risk in the reporting year. In addition, the regulatory interest-rate scenarios specified in the BaFin Circular 06/2019 (BA) for the currencies CHF, DKK, EUR, GBP, JPY, and USD were provided centrally by parcIT.

Interest-rate risk has a significant influence on the banks' financial performance. Due to the persistently low interest rates, the Cooperative Financial Network's net interest income in 2019 reduced by 1.0 percent compared with the previous year. As in prior years, the largest proportion of net interest income was generated from the net interest margin contribution in the customer business. Given the persistently low level of interest rates and growing competition for deposits, the banks expect interest margins to be narrower in the future. There is also still the risk that funding costs will rise when interest rates in the financial markets start to climb again. Supervisory authorities are factoring this problem into appropriate regulatory activities. For example, the Basel Committee on Banking Supervision published its new 'Interest-rate risk in the banking book' standard in 2016, which came into force in 2018. The EBA published its new 'Guidelines on the management of interest-rate risk arising from non-trading book activities' in 2018, which came into force on June 30, 2019. They introduce an early-warning indicator, for which there is a six-month transitional period. One aspect common to both the Basel standard and the EBA guidelines is that, although they continue to provide for the modeling of interest-rate risk in the banking book in Pillar II, they place greater emphasis on the quality and consistency of the management of interest-rate risk in institutions.

If the internal management does not satisfy the requirements of supervisors, they can require an institution to use a standard model as described in the new Basel standard. The aforementioned new requirements under EBA guidelines were taken into account in the BaFin Circular 06/2019.

BVR-SE monitors the appropriateness of the member institutions' level of interest-rate risk, for example by using simulations to calculate net interest income. These simulations show that the local cooperative banks will continue to generate an adequate level of income going forward, not least as a result of the control mechanisms that they have in place.

Liquidity risk

Liquidity risk refers to the risk of the bank becoming unable to meet its payment obligations. In accordance with the cooperative principle of subsidiarity, each cooperative bank is in charge of its own liquidity and risk management. Compliance with the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) – regulatory Pillar 1 key figures – is mandatory in this context. In addition, a range of business management tools are available that enable individual cooperative banks to define and manage a bank-specific internal liquidity adequacy assessment process (ILAAP). The relevant concepts, which were developed in 2018 with the BVR taking a leading role, are being rolled out across the system in several stages.

The degree to which a bank is able to guarantee its ability to meet its payment obligations in the short term is measured using the LCR. Banks are required to maintain a sufficiently high level of liquidity as measured by this key figure. As at December 31, 2019, the median LCR of all cooperative institutions was 174.3 percent (December 31, 2018: 165.7 percent).

For many years, the Cooperative Financial Network has had a reliable liquidity structure that is deemed crisis-resistant. The loan to deposit ratio of the Cooperative Financial Network is 95.9 percent (December 31, 2018: 94.4 percent). The basis for this lies in the diversifying, risk-mitigating effect created by the stable business structure of the banks, which tends to be divided into small units, and, in particular, in the institutions' traditional method of obtaining funding through customer deposits. Customers therefore recognize and reward the effectiveness of the institutional protection provided by BVR-SE and BVR-ISG, which particularly aim to safeguard deposits.

The liquidity system of the Cooperative Financial Network is characterized by the strong portfolio of deposits from retail and corporate customers. This deposit portfolio has a highly granular structure and is growing steadily. The liquidity is invested by DZ BANK AG. As the central institution, it is responsible for offsetting liquidity peaks across the cooperative banks by pooling excess liquidity from individual institutions and balancing out differences in the liquidity levels of individual cooperative banks. Information about the liquidity situation of the individual banks is shared with DZ BANK on an ongoing basis, ensuring that the central institution is in possession of a complete picture at all times.

Operational risk

Based on the definition used by the banking regulator, operational risk is the risk of losses arising from inadequate or failed internal processes, personnel, or systems, or from external events. As at December 31, 2019, the risk-weighted assets of the Cooperative Financial Network attributable to operational risk amounted to €50.2 billion (December 31, 2018: €50.9 billion) – equivalent to a proportion of 7.3 percent of the total risk-weighted assets (December 31, 2018: 7.9 percent).

The systems and internal processes implemented by the cooperative banks aim to reduce operational risks. A variety of measures are taken to address operational risk, including clear procedural instructions, separation of functions, the use of standardized contract templates that have been reviewed by a legal expert, and the appointment of security, compliance, data protection, and anti-money-laundering officers. In addition, business continuity plans for failure of technical equipment and unexpected staff absences are in place.

Internal control processes ensure that material operational risks are identified, analyzed, and assessed on a regular basis. The institutions can use guidelines to conduct a systematic risk assessment in keeping with market standards. Any loss event is recorded in a database. Based on the outcome of the loss event analysis, internal procedures are adjusted and preventive safeguards implemented as necessary.

Operational risk is measured in consideration of the business model of the individual institution. The dominant methods are quantification by means of a plausible lump sum or based on historical loss event data, sometimes supplemented by value-at-risk (VaR) approaches.

Opportunities and opportunity management

Customer membership is a distinctive feature of the cooperative banks' business model and one that is ideally suited to conveying the values of the cooperative idea. It offers the cooperative banks the opportunity to distinguish themselves from rival banking groups. The cooperative banks' distinctive characteristics are reflected in their continued ability to reach a wide range of customers. Strong customer retention results in measurable economic benefits, e.g. income growth for the cooperative banks and the protection of their market share.

Even in the digital age, the business model of the cooperative banks puts people and their wishes and objectives first. In the years ahead, the digitalization initiative launched by the Cooperative Financial Network in the retail and corporate banking businesses will enable it to proactively adapt to the changes in the competitive environment resulting from the digital revolution. The aim is to forge ahead with digitalizing the cooperative banks' products and services and offer all of the touchpoints that customers want (local branches as well as online and mobile banking).

The implementation of measures derived from the KundenFokus (customer focus) project continued and there has been capital expenditure in connection with the digitalization initiative. This allows the Cooperative Financial Network to take account of the changes in customer behavior and to adjust and strengthen the overall business model accordingly. The focus is on the comprehensive omnichannel presence and thus the implementation of efficient processes at all levels. Nonetheless, personal contact remains a key component of the customer relationship, alongside high-quality advice and the possibility for customers to choose how they would like to communicate with their bank. The Cooperative Financial Network is therefore establishing a variety of different customer touchpoints and giving its members integrated access to all information and services through all the relevant channels – whether in branch or via digital media.

Digitalization, with its increasing influence on members' behavior, also offers the banks potential to improve their cost structure in the medium term. By marketing new digital payment services, such as contactless payments, paydirekt, and Kwitt, and implementing an online inquiry process for all of the main products, banks are able to address customer needs and attract new customers. This also enables them to target young, tech-savvy customers and members.

Consumer spending is expected to be boosted further by the positive trends in employment and disposable income. This will stabilize demand for banking products and services. Given the current low level of interest rates, the cooperative banks will continue tapping into potential in the real estate business. Should there be a sustained rise in interest rates, opportunities will open up in connection with the sale of interest-bearing financial products.

Management Report 2019

Outlook

Real economy and banking industry

In the spring of 2020, virtually all areas of economic activity and everyday life were affected by the novel coronavirus pandemic. In an effort to contain the spread of the virus and avoid healthcare systems becoming overwhelmed, the governments of many countries implemented measures that severely restricted personal contact. This caused disruption in production and supply chains and diminished opportunities for consumers to spend money. Just like many other countries, Germany has adopted extensive support measures to mitigate the economic fallout from this crisis, such as the fiscal stimulus package announced by the German government at the start of June, which comprises a total volume of €130 billion.

Nonetheless, a significant decline in Germany's economic output for 2020 as a whole seems inevitable. Among the indicators pointing in this direction is industrial output, which – adjusted for inflation and seasonal and calendar factors – recorded an exceptionally sharp month-on-month decline in April 2020 (down by 22.1 percent). However, it can be assumed that this marked the low point of the economic slump. In light of steps implemented in the meantime to gradually ease containment measures and the resumption of production in the all-important automotive industry, the German economy should begin to recover in the second half of the year. For a variety of reasons, it is difficult to quantify the impact of the coronavirus crisis on Germany's overall economic performance in 2020. For example, consumer freedoms and production might have to be restricted again in the future depending on how the pandemic unfolds. This would severely affect the economy.

Taking account of the extreme level of uncertainty, the Deutsche Bundesbank (Germany's central bank) presented a variety of economic outlook scenarios as part of its projection published at the start of June. However, these scenarios did not account for any effects of the fiscal stimulus package that was adopted in early June. According to the projections of the Bundesbank, the coronavirus pandemic is triggering a deep recession in the country. The baseline scenario, which is regarded as the most likely case, assumes that the recovery will be slow at first, as the negative effects caused by the pandemic will diminish only gradually. Adjusted for inflation, Germany's gross domestic product (GDP) for 2020 is expected to shrink by 6.8 percent year on year in this scenario. The recession will also leave its mark on the job market and consumer prices. In the baseline scenario, the unemployment rate would rise to 6.1 percent on average for 2020 as a whole. The rate of inflation, based on the Harmonized Index of Consumer Prices, is expected to fall to 0.8 percent due to the coronavirus-induced oil price crash. The baseline scenario also assumes that an effective medical solution to the pandemic will become available in mid-2021. This would provide a fresh boost for the recovery, resulting in predicted GDP growth of around 3.2 percent in 2021.

As the likely economic impact of the pandemic became clearer, the ECB responded by adopting a comprehensive quantitative easing program. At its meeting on March 12, the ECB Governing Council announced the expansion of its targeted longer-term refinancing operations for banks and the expansion of its existing asset purchase program by €120 billion until the end of 2020. On March 18, the ECB also announced an additional asset purchase program with a volume of €750 billion. This second program was increased by a further €600 billion on June 4 and is scheduled to run at least until the end of June 2021. In light of the crisis, German government bonds remain in demand as a safe haven. Consequently, yields on Bunds with long maturities will probably remain in negative territory.

The aforementioned negative influences on the overall economy will also have an impact on the banking sector. The financial situation of most companies and their employees, who form the customer base of the banking industry, is going to deteriorate – in some cases significantly. In all probability, this will be reflected in a rising number of insolvencies in 2020. The institutions will thus have to be prepared for a marked increase in risk costs and a migration in the ratings of many borrowers. In addition to the increase in counterparty risk, it is also likely that consumer demand for long-term investments will diminish. This would have an adverse impact on banks' net fee and commission income. Growth in demand for lending is going to be affected by the deterioration in economic circumstances of many consumers who have been placed on short-time working or become unemployed. On the other hand, demand from corporate customers for loans is expected to increase in the wake of the coronavirus crisis and demand for real estate loans should remain stable. This should more than offset the aforementioned negative effect.

Efforts to address the challenges described above will be made more difficult in 2020 by what is expected, from the current perspective, to remain a comparatively low level of nominal interest rates. This will be accompanied by a relatively flat yield curve and will prevent any significant increase in margins in interest-related business. The statements are based on a current assessment of the ECB's monetary policy, which will remain expansionary because of low inflation rates in the eurozone. Interest rates are not expected to return to normal levels in the medium term.

In 2020, banks are continuing to address the persistently high pressure on earnings by taking steps to improve their efficiency with the aim of reducing costs. There will continue to be mergers for economic reasons, and reviews of the appropriateness of the branch networks remain on the agenda. The trend toward greater digitalization can be expected to accelerate, especially in light of the reduction in personal contact due to the pandemic. Customers are also pushing for progress in this respect. The increase in the online use and electronic purchase of banking products probably also means that the number of employees required in the financial sector is going to continue to fall.

In addition, the financial sector continues to face the now even more pressing challenge of having to defend existing business models against those of technology-driven competitors and adjust to new customer needs. Substantially improving efficiency by digitalizing business processes and IT processes will be a crucial lever. The corresponding capital investment is initially likely to push up costs in the industry before the anticipated profitability gains can be realized.

In addition, risks arising from events with an impact on the global economy that were already known before the coronavirus crisis continue to apply and intensify the threat to the economic health of the banking sector. More specifically, this includes persistent uncertainty about Brexit, the continued lack of any prospect of interest-rate rises, Italy's increasingly precarious economic situation and its potential implications for the eurozone, and uncertainty in connection with the trade dispute between the US and China.

Volksbanken Raiffeisenbanken Cooperative Financial Network

The fallout from the pandemic will also be reflected in the Cooperative Financial Network's earnings for 2020. Based on current estimates, the network is still expected to generate a profit before taxes. But in light of the economic downturn triggered by the coronavirus pandemic, it will likely be significantly lower than the excellent result achieved in 2019.

Higher impairment losses for loans in the service sector and in manufacturing will be required and loss allowances generally will increase noticeably compared with the previous year. In addition, the capital markets have been extremely volatile since the spring of 2020. This will result in a substantial capital market-induced rise in fair value losses. However, the actual level of fair value gains and losses will depend to a very large extent on how the pandemic continues to unfold and what condition the capital markets will be in at the end of the year.

The coronavirus crisis will also affect other key components of the Cooperative Financial Network's earnings in general terms, but the further course of the pandemic will have a strong influence on the scale of the impact:

Net interest income will decline again slightly in 2020, above all as a consequence of the persistently low interest rates. This will particularly affect the interest-rate-sensitive business models within the Cooperative Financial Network. On the other hand, persistently high levels of demand for credit and the beginnings of a normalization of margins in some parts of the customer business will have a positive effect.

The Cooperative Financial Network anticipates that net fee and commission income in 2020 will remain on a par with or drop slightly below the 2019 level. However, this too will depend to a large extent on changes in customer behavior (purchases through digital channels, the extent to which branches are open) and the ability of individual institutions to adapt to the challenges of the coronavirus pandemic.

Gains and losses on trading activities, which are particularly influenced by those of the Central Institution and Major Corporate Customers operating segment, will also be influenced strongly by volatility levels in the capital markets going forward. Customer-driven capital markets business may again provide impetus in 2020.

Net income from insurance business in 2020 is expected to be noticeably below the 2019 figure and, due to the nature of the business model, will be highly dependent on capital market trends over the further course of the year. From the current perspective, gross premiums in the various divisions are predicted to rise, whereas net gains under gains and losses on investments held by insurance companies are expected to fall in 2020.

Administrative expenses will probably remain at a steady level overall in 2020. While staff expenses are expected to decline slightly according to current predictions, general and administrative expenses are likely to rise in view of the planned growth and capital spending requirements. Protective measures required in connection with the coronavirus pandemic will also contribute to an increase in general and administrative expenses.

The cost/income ratio for the Cooperative Financial Network is likely to rise significantly in 2020 based on the expected year-on-year decrease in income and the projected level of expenses.

Consolidated Financial Statements 2019

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Income statement for the period January 1 to December 31, 2019

	(Note no.)	2019 € million	2018 € million
Net interest income	2.	18,185	18,368
Interest income and current income and expense		*23,951*	*23,659*
Interest expense		*–5,766*	*–5,291*
Net fee and commission income	3.	7,092	6,816
Fee and commission income		*8,445*	*7,989*
Fee and commission expenses		*–1,353*	*–1,173*
Gains and losses on trading activities	4.	643	461
Gains and losses on investments	5.	961	–913
Loss allowances	6.	–832	–151
Other gains and losses on valuation of financial instruments	7.	226	–122
Premiums earned	8.	17,249	15,997
Gains and losses on investments held by insurance companies and other insurance company gains and losses	9.	6,113	1,246
Insurance benefit payments	10.	–19,340	–14,208
Insurance business operating expenses	11.	–2,370	–2,172
Administrative expenses	12.	–18,142	–18,079
Other net operating income	13.	394	528
Profit before taxes		**10,179**	**7,771**
Income taxes	14.	–3,133	–2,369
Net profit		**7,046**	**5,402**

Attributable to:		
Shareholders of the Cooperative Financial Network	6,876	5,305
Non-controlling interests	170	97

Statement of comprehensive income for the period January 1 to December 31, 2019

	2019 € million	2018 € million
Net profit	**7,046**	**5,402**
Other comprehensive income/loss	**1,055**	**–453**
Items that may be reclassified to the income statement	***1,174***	***–444***
Gains and losses on debt instruments measured at fair value through other comprehensive income	1,668	–655
Gains and losses on cash flow hedges	–	–5
Exchange differences on currency translation of foreign operations	–1	25
Gains and losses on hedges of net investments in foreign operations	4	–6
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	1	–
Income taxes	–498	197
Items that will not be reclassified to the income statement	***–119***	***–9***
Gains and losses on equity instruments for which the fair value OCI option has been exercised	453	–8
Gains and losses in relation to financial liabilities for which the fair value option has been exercised, attributable to changes in own credit risk	–96	35
Gains and losses arising from remeasurements of defined benefit plans	–740	–42
Income taxes	264	6
Total comprehensive income	**8,101**	**4,949**

Attributable to:		
Shareholders of the Cooperative Financial Network	7,803	4,915
Non-controlling interests	298	34

Balance sheet as at December 31, 2019

Assets

	(Note no.)	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Cash and cash equivalents	15.	87,421	75,169
Loans and advances to banks	16.	22,439	18,800
Loans and advances to customers	16.	844,552	794,916
Hedging instruments (positive fair values)	17.	201	883
Financial assets held for trading	18.	44,335	37,500
Investments	19.	248,509	239,083
Loss allowances	20.	–9,119	–8,988
Investments held by insurance companies	21.	112,554	99,855
Property, plant and equipment, investment property, and right-of-use assets	22.	13,233	12,241
Income tax assets	23.	3,972	4,359
Other assets	24.	15,991	19,359
Total assets		**1,384,088**	**1,293,177**

Equity and liabilities

	(Note no.)	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Deposits from banks	25.	119,955	119,300
Deposits from customers	25.	880,398	842,420
Debt certificates issued including bonds	26.	79,610	56,111
Hedging instruments (negative fair values)	17.	5,383	5,962
Financial liabilities held for trading	27.	49,202	42,451
Provisions	28.	13,304	12,365
Insurance liabilities	29.	104,346	93,252
Income tax liabilities	23.	1,511	1,408
Other liabilities	30.	10,675	9,464
Subordinated capital	31.	3,691	2,740
Equity	32.	116,013	107,704
Equity of the Cooperative Financial Network		113,394	105,176
Subscribed capital		*12,919*	*12,332*
Capital reserves		*766*	*722*
Retained earnings		*90,735*	*85,954*
Reserve from other comprehensive income		*1,984*	*863*
Additional equity components		*114*	*–*
Unappropriated earnings		*6,876*	*5,305*
Non-controlling interests		2,619	2,528
Total equity and liabilities		**1,384,088**	**1,293,177**

Statement of changes in equity

€ million	Subscribed capital	Capital reserves	Equity earned by the Cooperative Financial Network	Reserve from other comprehensive income	Additional equity components
Equity as at Jan. 1, 2018	**11,930**	**722**	**86,413**	**1,240**	**–**
Net profit	–	–	5,305	–	–
Other comprehensive income/loss	–	–	–23	–367	–
Total comprehensive income	**–**	**–**	**5,282**	**–367**	**–**
Issue and repayment of equity	402	–	–	–	–
Changes in the scope of consolidation	–	–	–11	12	–
Acquisition/disposal of non-controlling interests	–	–	–16	11	–
Reclassifications within equity	–	–	33	–33	–
Dividends paid	–	–	–442	–	–
Equity as at Dec. 31, 2018	**12,332**	**722**	**91,259**	**863**	**–**
Net profit	–	–	6,876	–	–
Other comprehensive income/loss	–	–	–486	1,413	–
Total comprehensive income	**–**	**–**	**6,390**	**1,413**	**–**
Issue and repayment of equity	587	44	–	–	114
Changes in the scope of consolidation	–	–	3	–7	–
Acquisition/disposal of non-controlling interests	–	–	28	–	–
Reclassifications within equity	–	–	285	–285	–
Dividends paid	–	–	–354	–	–
Equity as at Dec. 31, 2019	**12,919**	**766**	**97,611**	**1,984**	**114**

€ million	Equity of the Cooperative Financial Network	Non-controlling interests	Total equity
Equity as at Jan. 1, 2018	**100,305**	**2,637**	**102,942**
Net profit	5,305	97	5,402
Other comprehensive income/loss	–390	–63	–453
Total comprehensive income	**4,915**	**34**	**4,949**
Issue and repayment of equity	402	–9	393
Changes in the scope of consolidation	1	4	5
Acquisition/disposal of non-controlling interests	–5	–92	–97
Reclassifications within equity	–	–	–
Dividends paid	–442	–46	–488
Equity as at Dec. 31, 2018	**105,176**	**2,528**	**107,704**
Net profit	6,876	170	7,046
Other comprehensive income/loss	927	128	1,055
Total comprehensive income	**7,803**	**298**	**8,101**
Issue and repayment of equity	745	8	753
Changes in the scope of consolidation	–4	–	–4
Acquisition/disposal of non-controlling interests	28	–166	–138
Reclassifications within equity	–	–	–
Dividends paid	–354	–49	–403
Equity as at Dec. 31, 2019	**113,394**	**2,619**	**116,013**

In the previous year, a restatement of equity was made in the amount of minus €1,496 million as a result of the first-time application of IFRS 9. The composition of equity is detailed in Note 32.

Statement of cash flows

	2019 € million	2018 € million
Net profit	**7,046**	**5,402**
Non-cash items included in net profit and reconciliation to cash flows from operating activities		
Depreciation, amortization, impairment losses, and reversal of impairment losses on assets, and other non-cash changes in financial assets and liabilities	–3,604	3,637
Non-cash changes in provisions	1,289	92
Changes in insurance liabilities	11,093	3,928
Other non-cash income and expenses	3,720	1,581
Gains and losses on the disposal of assets and liabilities	–273	38
Other adjustments (net)	–18,431	–18,641
Subtotal	**840**	**–3,963**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	–48,226	–38,380
Other assets from operating activities	–1,655	–1,338
Hedging instruments (positive and negative fair values)	–1,548	–1,070
Financial assets and financial liabilities held for trading	571	6,792
Deposits from banks and customers	39,530	48,128
Debt certificates issued including bonds	23,300	–8,597
Other liabilities from operating activities	1,121	28
Interest, dividends and operating lease payments received	24,593	25,778
Interest paid	–5,793	–5,979
Income taxes paid	–2,758	–2,735
Cash flows from operating activities	**29,975**	**18,664**

	2019 € million	2018 € million
Cash flows from operating activities	**29,975**	**18,664**
Proceeds from the sale of investments	12,303	18,920
Proceeds from the sale of investments held by insurance companies	19,181	23,658
Payments for acquisitions of investments	–20,881	–15,671
Payments for acquisitions of investments held by insurance companies	–27,523	–30,488
Net payments for acquisitions of property, plant and equipment, and investment property (excl. assets subject to operating leases)	–1,617	–1,141
Net payments for acquisitions of intangible non-current assets	–279	–245
Changes in the scope of consolidation	131	2
of which: proceeds from the disposal of consolidated subsidiaries net of cash divested	128	–
Cash flows from investing activities	**–18,685**	**–4,965**
Proceeds from capital increases by shareholders of the Cooperative Financial Network	745	402
Proceeds from capital increases by non-controlling interests	8	–
Dividends paid to shareholders of the Cooperative Financial Network	–354	–442
Dividends paid to non-controlling interests	–49	–46
Other payments to non-controlling interests	–	–9
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	612	–2,104
Cash flows from financing activities	**962**	**–2,199**

	2019 € million	2018 € million
Cash and cash equivalents as at January 1	**75,169**	**63,669**
Cash flows from operating activities	29,975	18,664
Cash flows from investing activities	–18,685	–4,965
Cash flows from financing activities	962	–2,199
Cash and cash equivalents as at December 31	**87,421**	**75,169**

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

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

Notes to the consolidated financial statements

A General information

Explanatory information on the consolidated financial statements

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network prepared by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks] are based on the significant financial reporting principles set out in the annex. 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 institution 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 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. In addition, the financial statements were prepared in compliance with the provisions set out in article 113(7)(e) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (Capital Requirements Regulation – CRR). These consolidated financial statements are not a substitute for analysis of the consolidated entities' financial statements.

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

The financial year corresponds to the calendar year. The consolidated subsidiaries have generally prepared their financial statements on the basis of the financial year ended December 31, 2019. There is one subsidiary (2018: 1 subsidiary) included in the consolidated financial statements with a different reporting date for its annual financial statements. With 21 exceptions (2018: 47 exceptions), the separate financial statements of the entities accounted for using the equity method are prepared using the same balance sheet date as that of the consolidated financial statements.

In the interest of clarity, some items on the face of the income statement and the balance sheet have been aggregated and are explained by additional disclosures.

Information as regards the significant financial reporting principles can be found in the annex to the consolidated financial statements.

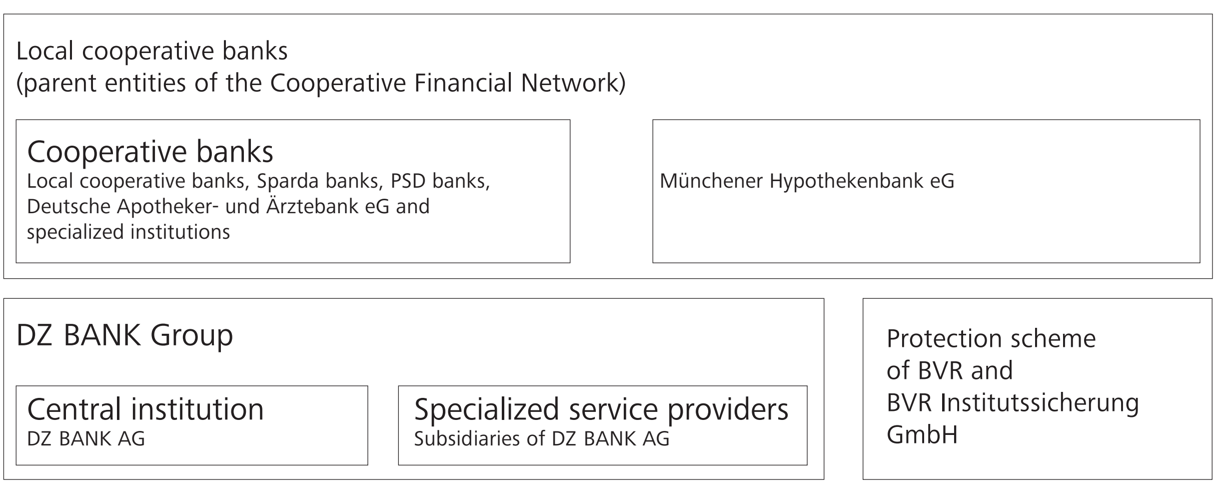
Scope of consolidation

The consolidated financial statements comprise, as consolidated entities, 851 cooperative banks (2018: 875) as well as all companies included in the consolidated financial statements of DZ BANK, Münchener Hypothekenbank eG (MHB), the BVR protection scheme, and BVR Institutssicherung GmbH. The consolidated cooperative banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

The cooperative banks and MHB are the legally independent, horizontally structured parent entities of the Cooperative Financial Network, whereas the other companies and the DZ BANK Group are consolidated as subsidiaries. The cooperative central institution and a total of 190 subsidiaries (2018: 390) have been consolidated in the DZ BANK Group. In the year under review, the scope of consolidation of the DZ BANK Group changed primarily due to the disposal of 179 fully-consolidated subsidiaries of the VR Smart Finanz sub-group. Further information on the shareholdings can be found in the list of shareholdings included in the annual report of the DZ BANK Group.

The consolidated financial statements include 12 joint ventures between a consolidated entity and at least one other non-network entity (2018: 20) and 29 associates (2018: 44) over which a consolidated entity has significant influence, that are accounted for using the equity method.

Volksbanken Raiffeisenbanken Cooperative Financial Network



B Selected disclosures of interests in other entities

Investments in subsidiaries

Share in the business operations of the Cooperative Financial Network attributable to non-controlling interests
DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK) is included in the consolidated financial statements together with their respective subsidiaries as a subgroup. DZ BANK is focused on its customers and owners, the local cooperative banks, as central institution, commercial bank and holding company. The objective of this focus is to sustainably expand the position of the Cooperative Financial Network as one of the leading bancassurance groups in Germany.

The shares of DZ BANK, with its headquarters in Frankfurt/Main, Germany, are held by the cooperative banks and by MHB, with ownership interests amounting to 95.0 percent (2018: 94.6 percent). The remaining shares of 5.0 percent (2018: 5.4 percent) are attributable to shareholders that are not part of the Cooperative Financial Network. The prorata share in net profit attributable to non-controlling interests amounted to €170 million (2018: €97 million). The carrying amount of non-controlling interests amounted to €2,619 million (2018: €2,528 million). In the financial year under review, the dividend payment made to non-controlling interests amounts to €49 million (2018: €46 million).

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

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Assets	**89,997**	**85,850**
Loans and advances to customers	2,699	2,689
Investments	5	5
Investments held by insurance companies	87,290	83,152
Other assets	3	4
Liabilities	**148,690**	**140,359**
Deposits from banks	1,788	1,793
Deposits from customers	63,226	59,996
Provisions	1,406	1,072
Insurance liabilities	82,270	77,498

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

Interests in joint arrangements and associates

Nature, extent and financial effects of interests in joint arrangements
The carrying amount of individually immaterial joint ventures accounted for using the equity method totaled €293 million as at the balance sheet date (2018: €462 million).

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

	2019 € million	2018 € million
Share of profit/loss from continuing operations	31	76
Share of other comprehensive income/loss	3	–8
Share of total comprehensive income	34	68

Nature, extent and financial effects of interests in associates
The carrying amount of individually immaterial associates accounted for using the equity method totaled €201 million as at the balance sheet date (2018: €288 million). Aggregated financial information for associates accounted for using the equity method that individually are not material:

	2019 € million	2018 € million
Share of profit/loss from continuing operations	21	5
Share of other comprehensive income/loss	7	–
Share of total comprehensive income	28	5

Interests in unconsolidated structured entities

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

- Interests in investment funds issued by the Cooperative Financial Network,
- Interests in investment funds not issued by the Cooperative Financial Network,
- Interests in securitization vehicles,
- Interests in asset-leasing vehicles

Interests in investment funds issued by the Cooperative Financial Network

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

The maximum exposure of the investment funds issued and managed by the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €9,352 million as at the reporting date (2018: €8,855 million). These investment fund assets resulted in losses of €13 million (2018: losses of €85 million) as well as income of €2,421 million (2018: €2,192 million).

Interests in investment funds not issued by the Cooperative Financial Network

The interests in the investment funds not issued by the Cooperative Financial Network above all comprise investment funds managed by entities in the Union Investment Group within the scope of their own decision-making powers that have been issued by entities outside the Cooperative Financial Network and parts of such investment funds. Their total volume amounted to €40,256 million (2018: €37,405 million). Moreover, loans to investment funds are extended in order to generate interest income. In addition, there are investment funds issued by entities outside the Cooperative Financial Network in connection with unit-linked life insurance of the R+V Group (R+V) amounting to €8,837 million (2018: €7,244 million) that, however, do not result in a maximum exposure.

The maximum exposure arising of the investment funds not issued by the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €7,000 million as at the reporting date (2018: €4,493 million). Income generated from these investment fund assets in the financial year 2019 amounted to €165 million (2018: €154 million).

Interests in securitization vehicles

The interests in securitization vehicles are interests in vehicles where the Cooperative Financial Network involvement goes beyond that of an investor.

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

The maximum exposure of the interests in securitization vehicles in the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €4,004 million as at the reporting date (2018: €3,895 million). Income generated from these interests in the financial year 2019 amounted to €63 million (2018: €48 million).

Interests in asset-leasing vehicles
In the previous year, the interests in asset-leasing vehicles comprised shares in limited partnerships and voting rights, other than the shares in limited partnerships, in partnerships established by the VR Smart Finanz sub-group for the purpose of real estate leasing (asset-leasing vehicles), in which the asset, and the funding occasionally provided by the DZ BANK Group, were placed.

As a result of the disposals of the asset-leasing vehicles on the part of VR Smart Finanz, the balance sheet of the Cooperative Financial Network does not include any associated assets and liabilities in the financial year under review. Moreover, there was no other exposure resulting from contingent liabilities as well as financial guarantee contracts, loan commitments or other obligations. The actual maximum exposure of the interests in asset-leasing vehicles in the Cooperative Financial Network was determined as a gross value, excluding deduction of available collateral, and amounted to minus €4 million in the previous year.

Interest income and current income and expense generated from asset-leasing vehicles amounted to €1 million (2018: €5 million), while other net operating income amounted to €2 million. No other net operating income was generated in the previous year.

C Income statement disclosures

1. Information on operating segments

Financial year 2019

€ million	Retail Customers and SMEs	Central Institution and Major Corporate Customers	Real Estate Finance	Insurance	Other/ Consolidation	Total
Net interest income	16,197	1,421	1,305	–	–738	18,185
Net fee and commission income	7,281	531	–121	–	–599	7,092
Gains and losses on trading activities	196	450	–2	–	–1	643
Gains and losses on investments	711	37	186	–	27	961
Loss allowances	–628	–226	26	–	–4	–832
Other gains and losses on valuation of financial instruments	–56	–5	287	–	–	226
Premiums earned	–	–	–	17,249	–	17,249
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	6,192	–79	6,113
Insurance benefit payments	–	–	–	–19,340	–	–19,340
Insurance business operating expenses	–	–	–	–2,973	603	–2,370
Administrative expenses	–15,732	–1,971	–875	–	436	–18,142
Other net operating income	242	115	57	–11	–9	394
Profit/loss before taxes	**8,211**	**352**	**863**	**1,117**	**–364**	**10,179**
Cost/income ratio (percent)	64.0	77.3	51.1	–	–	62.2

Financial year 2018

€ million	Retail Customers and SMEs	Central Institution and Major Corporate Customers	Real Estate Finance	Insurance	Other/ Consolidation	Total
Net interest income	16,321	1,371	1,423	–	–747	18,368
Net fee and commission income	6,918	550	–110	–	–542	6,816
Gains and losses on trading activities	195	267	1	–	–2	461
Gains and losses on investments	–1,130	195	6	–	16	–913
Loss allowances	–232	70	2	–	9	–151
Other gains and losses on valuation of financial instruments	–34	–79	–16	–	7	–122
Premiums earned	–	–	–	15,997	–	15,997
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	1,342	–96	1,246
Insurance benefit payments	–	–	–	–14,208	–	–14,208
Insurance business operating expenses	–	–	–	–2,721	549	–2,172
Administrative expenses	–15,386	–1,944	–885	–	136	–18,079
Other net operating income	274	1	56	3	194	528
Profit/loss before taxes	**6,926**	**431**	**477**	**413**	**–476**	**7,771**
Cost/income ratio (percent)	68.2	84.3	65.1	–	–	69.5

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

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

The operating segment “Central Institution and Major Corporate Customers” 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, the VR Smart Finanz sub-group and DVB Bank Group.

The Real Estate Finance operating segment encompasses the buildings society operations, mortgage banking, and real estate business. The entities allocated to this operating segment include the Bausparkasse Schwäbisch Hall Group (BSH), DZ HYP AG, and MHB.

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

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

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

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

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

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

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

2. Net interest income

	2019 € million	2018 € million
Interest income and current income and expense	**23,951**	**23,659**
Interest income from	***22,628***	***22,463***
Lending and money market business	21,021	21,222
of which: Building society operations	1,073	1,044
Finance leases	76	113
Fixed-income securities	2,088	2,080
Other assets	–163	–541
Financial assets with a negative effective interest rate	–318	–298
Current income from	***1,223***	***1,113***
Shares and other variable-yield securities	1,058	973
Investments in subsidiaries and equity investments	152	141
Operating leases	13	–1
Income/loss from using the equity method for	***35***	***38***
Investments in joint ventures	7	24
Investments in associates	28	14
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***65***	***45***
Interest expense	**–5,766**	**–5,291**
Interest expense on	***–5,559***	***–5,058***
Deposits from banks and customers	–4,706	–4,530
of which: Building society operations	–1,111	–828
Debt certificates issued including bonds	–1,069	–820
Subordinated capital	–134	–172
Other liabilities	33	130
Financial liabilities with a positive effective interest rate	317	334
Other interest expense	***–207***	***–233***
Total	**18,185**	**18,368**

Continued from 2. Net interest income
The interest income from other assets and the interest expense on other liabilities result from gains and losses on the amortization of fair value changes of the hedged items in portfolio hedges of interest-rate risk. Owing to the current low level of interest rates in the money markets and capital markets, there may be a negative effective interest rate for financial assets and a positive effective interest rate for financial liabilities.

3. Net fee and commission income

	2019 € million	2018 € million
Fee and commission income	**8,445**	**7,989**
Securities business	3,811	3,499
Asset management	489	423
Payments processing including card processing	2,858	2,746
Lending business and trust activities	167	174
Financial guarantee contracts and loan commitments	175	171
International business	138	132
Building society operations	34	31
Other	773	813
Fee and commission expenses	**–1,353**	**–1,173**
Securities business	–439	–342
Asset management	–134	–121
Payments processing including card processing	–223	–215
Lending business	–66	–55
Financial guarantee contracts and loan commitments	–25	–22
International business	–28	–24
Building society operations	–61	–69
Other	–377	–325
Total	**7,092**	**6,816**

4. Gains and losses on trading activities

	2019 € million	2018 € million
Gains and losses on trading in financial instruments	411	179
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	55	104
Gains and losses on commodities trading	177	178
Total	**643**	**461**

5. Gains and losses on investments

	2019 € million	2018 € million
Gains and losses on securities	749	–1,034
Gains and losses on investments in subsidiaries and equity investments	212	121
Total	**961**	**–913**

6. Loss allowances

	2019 € million	2018 € million
Additions	–3,991	–3,453
Reversals	3,074	3,061
Directly recognized impairment losses	–97	–110
Recoveries on loans and advances previously impaired	214	232
Other	27	18
Changes in the provisions for loan commitments, provisions for financial guarantee contracts and other provisions for loans and advances	–59	101
Total	**–832**	**–151**

7. Other gains and losses on valuation of financial instruments

	2019 € million	2018 € million
Gains and losses from hedge accounting	**–2**	**–21**
Fair value hedges	–2	–22
Ineffectiveness of hedges of net investments in foreign operations	–	1
Gains and losses on derivatives held for purposes other than trading	**–45**	**–53**
Gains and losses on financial instruments designated as at fair value through profit or loss	**273**	**–37**
Gains and losses from contingent consideration in business combinations	**–**	**–11**
Total	**226**	**–122**

8. Premiums earned

	2019 € million	2018 € million
Net premiums written	**17,255**	**16,009**
Gross premiums written	17,398	16,133
Reinsurance premiums ceded	–143	–124
Change in provision for unearned premiums	**–6**	**–12**
Gross premiums	–10	–7
Reinsurers’ share	4	–5
Total	**17,249**	**15,997**

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

	2019 € million	2018 € million
Interest income and current income	2,447	2,411
Administrative expenses	–171	–150
Gains and losses on valuation and disposals as well as from additions to and reversals of loss allowances	3,947	–1,187
Other gains and losses of insurance companies	–110	172
Total	**6,113**	**1,246**

The net amount of additions to and reversals of loss allowances as well as directly recognized impairment losses recorded in the financial year was €2 million (2018: €1 million).

10. Insurance benefit payments

	2019 € million	2018 € million
Expenses for claims	**–11,953**	**–10,742**
Gross expenses for claims	–11,981	–10,786
Reinsurers' share	28	44
Changes in benefit reserve, reserve for premium refunds, and in other insurance liabilities	**–7,387**	**–3,466**
Changes in gross provisions	–7,402	–3,483
Reinsurers' share	15	17
Total	**–19,340**	**–14,208**

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

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

€ million	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
At the end of the year	4,716	4,551	4,276	4,173	3,856	3,634	3,901	3,345	3,341	3,324	2,953
1 year later	–	4,471	4,142	4,103	3,767	3,523	3,847	3,336	3,359	3,135	2,901
2 years later	–	–	4,067	4,046	3,682	3,457	3,769	3,247	3,279	3,160	2,763
3 years later	–	–	–	4,020	3,647	3,389	3,731	3,220	3,254	3,139	2,756
4 years later	–	–	–	–	3,625	3,382	3,696	3,189	3,241	3,122	2,756
5 years later	–	–	–	–	–	3,389	3,691	3,198	3,250	3,139	2,768
6 years later	–	–	–	–	–	–	3,626	3,126	3,183	3,080	2,710
7 years later	–	–	–	–	–	–	–	3,118	3,172	3,065	2,685
8 years later	–	–	–	–	–	–	–	–	3,165	3,060	2,680
9 years later	–	–	–	–	–	–	–	–	–	3,059	2,680
10 years later	–	–	–	–	–	–	–	–	–	–	2,674
Settlements	**–**	**80**	**209**	**153**	**231**	**245**	**275**	**227**	**176**	**265**	**279**

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

€ million	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
At the end of the year	4,702	4,518	4,255	4,110	3,827	3,574	3,669	3,313	3,298	3,254
1 year later	–	4,438	4,118	4,050	3,736	3,460	3,613	3,300	3,317	3,056
2 years later	–	–	4,044	3,994	3,655	3,393	3,533	3,211	3,236	3,077
3 years later	–	–	–	3,965	3,624	3,331	3,490	3,180	3,208	3,057
4 years later	–	–	–	–	3,601	3,361	3,465	3,139	3,194	2,939
5 years later	–	–	–	–	–	3,369	3,670	3,166	3,191	3,049
6 years later	–	–	–	–	–	–	3,605	3,095	3,144	2,957
7 years later	–	–	–	–	–	–	–	3,087	3,134	2,981
8 years later	–	–	–	–	–	–	–	–	3,127	2,977
9 years later	–	–	–	–	–	–	–	–	–	2,977
Settlements	–	80	211	145	226	205	64	226	171	277

Claims rate trend for inward reinsurance business

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

€ million	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Gross provisions for claims outstanding	**4,411**	**3,642**	**3,197**	**2,718**	**2,433**	**1,976**	**1,710**	**1,506**	**1,409**	**1,190**	**892**
Cumulative payments for the year concerned and prior years											
1 year later	–	955	852	569	622	464	481	385	463	437	282
2 years later	–	–	1,237	852	867	783	685	630	640	632	399
3 years later	–	–	–	1,062	1,022	919	897	764	345	739	468
4 years later	–	–	–	–	1,154	1,026	987	930	891	856	516
5 years later	–	–	–	–	–	1,117	1,051	996	1,029	922	588
6 years later	–	–	–	–	–	–	1,114	1,035	1,072	1,043	626
7 years later	–	–	–	–	–	–	–	1,085	1,103	1,067	652
8 years later	–	–	–	–	–	–	–	–	1,140	1,090	658
9 years later	–	–	–	–	–	–	–	–	–	1,106	684
10 years later	–	–	–	–	–	–	–	–	–	–	696
Gross provisions for claims outstanding and payments made against the original provision											
At the end of the year	4,411	3,642	3,197	2,718	2,433	1,976	1,710	1,506	1,409	1,190	892
1 year later	–	3,951	3,392	2,654	2,434	2,157	1,840	1,593	1,536	1,401	1,026
2 years later	–	–	3,315	2,561	2,271	2,004	1,859	1,569	1,472	1,343	872
3 years later	–	–	–	2,486	2,224	1,915	1,779	1,628	1,014	1,338	826
4 years later	–	–	–	–	2,179	1,887	1,720	1,580	1,528	1,360	837
5 years later	–	–	–	–	–	1,848	1,699	1,550	1,501	1,396	858
6 years later	–	–	–	–	–	–	1,677	1,536	1,486	1,379	870
7 years later	–	–	–	–	–	–	–	1,526	1,481	1,368	876
8 years later	–	–	–	–	–	–	–	–	1,468	1,354	873
9 years later	–	–	–	–	–	–	–	–	–	1,337	864
10 years later	–	–	–	–	–	–	–	–	–	–	856
Settlements	**–**	**–309**	**–118**	**232**	**254**	**128**	**33**	**–20**	**–59**	**–147**	**36**

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

€ million	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Net provisions for claims outstanding	**4,408**	**3,639**	**3,193**	**2,710**	**2,428**	**1,970**	**1,695**	**1,491**	**1,389**	**1,164**
Cumulative payments for the year concerned and prior years										
1 year later	–	955	851	567	622	464	473	383	461	432
2 years later	–	–	1,236	849	866	782	677	620	636	625
3 years later	–	–	–	1,058	1,020	918	888	754	333	729
4 years later	–	–	–	–	1,153	1,025	978	919	878	839
5 years later	–	–	–	–	–	1,115	1,042	985	1,016	904
6 years later	–	–	–	–	–	–	1,105	1,024	1,059	1,025
7 years later	–	–	–	–	–	–	–	1,074	1,090	1,049
8 years later	–	–	–	–	–	–	–	–	1,126	1,071
9 years later	–	–	–	–	–	–	–	–	–	1,086
Net provisions for claims outstanding and payments made against the original provision										
At the end of the year	4,408	3,639	3,193	2,710	2,428	1,970	1,695	1,491	1,389	1,164
1 year later	–	3,950	3,388	2,648	2,429	2,152	1,827	1,576	1,519	1,377
2 years later	–	–	3,312	2,555	2,267	1,999	1,845	1,554	1,454	1,321
3 years later	–	–	–	2,482	2,219	1,911	1,766	1,612	997	1,314
4 years later	–	–	–	–	2,176	1,883	1,708	1,566	1,510	1,337
5 years later	–	–	–	–	–	1,845	1,687	1,536	1,484	1,372
6 years later	–	–	–	–	–	–	1,666	1,522	1,470	1,357
7 years later	–	–	–	–	–	–	–	1,513	1,464	1,346
8 years later	–	–	–	–	–	–	–	–	1,453	1,332
9 years later	–	–	–	–	–	–	–	–	–	1,317
Settlements	**–**	**–311**	**–119**	**228**	**252**	**125**	**29**	**–22**	**–64**	**–153**

11. Insurance business operating expenses

	2019 € million	2018 € million
Gross expenses	–2,389	–2,193
Reinsurers’ share	19	21
Total	**–2,370**	**–2,172**

12. Administrative expenses

	2019 € million	2018 € million
Staff expenses	–10,100	–10,076
General and administrative expenses	–6,976	–7,011
Depreciation/amortization and impairment losses	–1,066	–992
Total	**–18,142**	**–18,079**

13. Other net operating income

	2019 € million	2018 € million
Gains and losses on non-current assets classified as held for sale and disposal groups	211	2
Other operating income	983	1,266
Other operating expenses	–800	–740
Total	**394**	**528**

14. Income taxes

	2019 € million	2018 € million
Current tax expense	–2,758	–2,731
Expense on/income from deferred taxes	–375	362
Total	**–3,133**	**–2,369**

As in the prior year, current taxes in relation to the German limited companies are calculated using an effective corporation tax rate of 15.825 percent based on a corporation tax rate of 15 percent plus the solidarity surcharge. The effective rate for trade tax is 15.26 percent (2018: 14.35 percent) based on an average trade tax multiplier of 436 percent (2018: 410 percent).

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.

	2019 € million	2018 € million
Profit before taxes	**10,179**	**7,771**
Notional rate of income tax of the Cooperative Financial Network (percent)	31.085	30.175
Income taxes based on notional rate of income tax	**–3,164**	**–2,345**
Tax effects	**31**	**–24**
Tax effects of tax-exempt income and non-tax deductible expenses	171	22
Tax effects of different tax types, different trade tax multipliers, and changes in tax rates	12	14
Tax effects of different tax rates in other countries	10	–20
Current and deferred taxes relating to prior reporting periods	–12	32
Change in deferred tax assets due to valuation adjustments	–37	3
Other tax effects	–113	–75
Total	**–3,133**	**–2,369**

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

D Balance sheet disclosures

15. Cash and cash equivalents

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Cash on hand	8,674	8,102
Balances with central banks	78,747	67,067
Total	**87,421**	**75,169**

16. Loans and advances to banks and customers

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Loans and advances to banks	**22,439**	**18,800**
Repayable on demand	***10,696***	***8,419***
Other loans and advances	***11,743***	***10,381***
Mortgage loans and other loans secured by mortgages on real estate	45	60
Local authority loans	5,671	5,814
Other loans and advances	6,027	4,507
Loans and advances to customers	**844,552**	**794,916**
Mortgage loans and other loans secured by mortgages on real estate	338,172	325,468
Local authority loans	31,319	31,699
Home savings loans advanced by building society	50,372	45,454
Finance leases	1,548	2,017
Other loans and advances	423,141	390,278

17. Hedging instruments (positive and negative fair values)

The positive fair values of hedging instruments amount to €201 million (2018: €883 million), the negative fair values of hedging instruments amount to €5,383 million (2018: €5,962 million). Both positive and negative fair values of hedging instruments exclusively result from derivative hedging instruments for fair value hedges.

18. Financial assets held for trading

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Derivatives (positive fair values)	**19,291**	**15,647**
Interest-linked contracts	17,063	13,773
Currency-linked contracts	1,270	1,194
Share- and index-linked contracts	554	403
Credit derivatives	374	225
Other contracts	30	52
Securities	**13,641**	**11,790**
Bonds and other fixed-income securities	12,421	10,788
Shares and other variable-yield securities	1,220	1,002
Loans and advances	**11,080**	**9,714**
Inventories and trade receivables	**322**	**349**
Other assets held for trading	**1**	**–**
Total	**44,335**	**37,500**

19. Investments

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Securities	**244,336**	**234,813**
Bonds and other fixed-income securities	177,788	171,621
Shares and other variable-yield securities	66,548	63,192
Investments in subsidiaries	**1,882**	**1,618**
Equity investments	**2,291**	**2,652**
Investments in joint ventures	293	462
Investments in associates	201	289
Other shareholdings	1,797	1,901
Total	**248,509**	**239,083**

20. Loss allowances

Loss allowances for cash and cash equivalents

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2019	**–**	**–**	**–**	**–**	**–**
Additions	3	–	–	–	3
Reversals	–2	–	–	–	–2
Balance as at Dec. 31, 2019	**1**	**–**	**–**	**–**	**1**

Loss allowances for loans and advances to banks

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2018	**202**	**16**	**22**	**–**	**240**
Additions	15	12	3	–	30
Reversals	–17	–14	–22	–	–53
Balance as at Jan. 1, 2019	**200**	**14**	**3**	**–**	**217**
Additions	80	2	4	–	86
Reversals	–23	–1	–3	–	–27
Balance as at Dec. 31, 2019	**257**	**15**	**4**	**–**	**276**

Loss allowances for loans and advances to customers

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2018	**955**	**1,903**	**6,389**	**11**	**9,258**
Additions	310	798	2,159	18	3,285
Utilizations	–	–1	–1,129	–	–1,130
Reversals	–461	–337	–2,024	–25	–2,847
Other changes	149	–211	74	–1	11
Balance as at Jan. 1, 2019	**953**	**2,152**	**5,469**	**3**	**8,577**
Additions	527	967	2,263	12	3,769
Utilizations	–	–1	–940	–1	–942
Reversals	–485	–571	–1,850	–12	–2,918
Other changes	128	–215	245	–	158
Balance as at Dec. 31, 2019	**1,123**	**2,332**	**5,187**	**2**	**8,644**

Loss allowances for investments

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2018	**57**	**125**	**24**	**–**	**206**
Additions	41	86	1	–	128
Utilizations	–	–	–1	–	–1
Reversals	–31	–102	–8	–	–141
Other changes	–1	2	1	–	2
Balance as at Jan. 1, 2019	**66**	**111**	**17**	**–**	**194**
Additions	26	96	1	–	123
Reversals	–7	–113	–	–	–120
Other changes	5	–5	–	–	–
Balance as at Dec. 31, 2019	**90**	**89**	**18**	**–**	**197**

Loss allowances for other assets

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2019	**–**	**–**	**–**	**–**	**–**
Additions	1	–	–	–	1
Balance as at Dec. 31, 2019	**1**	**–**	**–**	**–**	**1**

21. Investments held by insurance companies

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Investment property	3,558	2,842
Investments in subsidiaries, joint ventures and associates	803	776
Mortgage loans	9,749	9,307
Promissory notes and loans	7,003	7,083
Registered bonds	8,643	9,076
Other loans	716	653
Variable-yield securities	11,300	9,186
Fixed-income securities	55,551	48,764
Derivatives (positive fair values)	417	168
Loss allowances	–3	–4
Deposits with ceding insurers and other investments	449	294
Assets related to unit-linked contracts	14,368	11,710
Total	**112,554**	**99,855**

22. Property, plant and equipment, investment property, and right-of-use assets

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Land and buildings	6,681	6,693
Office furniture and equipment	1,341	1,361
Assets subject to operating leases	17	72
Investment property	238	258
Other fixed assets	4,679	3,857
Right-of-use assets	277	–
Total	**13,233**	**12,241**

23. Income tax assets and liabilities

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Income tax assets	**3,972**	**4,359**
Current income tax assets	835	909
Deferred tax assets	3,137	3,450
Income tax liabilities	**1,511**	**1,408**
Current income tax liabilities	735	856
Deferred tax liabilities	776	552

	Deferred tax assets		Deferred tax liabilities	
€ million	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Tax loss carryforwards	43	39		
Loans and advances to banks and customers	51	130	1,115	1,125[1]
Financial assets and liabilities held for trading, and hedging instruments (positive and negative fair values)	837	764[1]	169	197
Investments	19	318[1]	840	400[1]
Loss allowances	1,095	900	5	2
Investments held by insurance companies	115	123	1,150	641
Deposits from banks and customers	1,021	1,053[1]	174	239
Debt certificates issued including bonds	177	151	–	4
Provisions	2,489	2,176[1]	89	75[1]
Insurance liabilities	77	78	115	195
Other balance sheet items	271	192	177	148
Total (gross)	**6,195**	**5,924**	**3,834**	**3,026**
Netting of deferred tax assets and deferred tax liabilities	–3,058	–2,474[1]	–3,058	–2,474[1]
Total (net)	**3,137**	**3,450**	**776**	**552**

1 Amount adjusted.

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, 2019 € million	Dec. 31, 2018 € million
Other assets held by insurance companies	3,759	3,372
Goodwill	69	59
Other intangible assets	672	551
Prepaid expenses	209	184
Other receivables	4,194	3,560
Non-current assets and disposal groups classified as held for sale	517	7,133
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	5,740	4,000
Residual other assets	831	500
Total	**15,991**	**19,359**

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

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Intangible assets	**157**	**140**
Reinsurers' share of insurance liabilities	**130**	**139**
Provision for unearned premiums	11	6
Benefit reserves	38	36
Provisions for claims outstanding	81	97
Receivables	**1,593**	**1,650**
Receivables arising out of direct insurance operations	422	450
Receivables arising out of reinsurance operations	282	271
Other receivables	889	929
Credit balances with banks, checks and cash on hand	**826**	**409**
Residual other assets	**1,055**	**1,036**
Property, plant and equipment	425	379
Prepaid expenses	67	34
Remaining assets held by insurance companies	563	623
Loss allowances	**–2**	**–2**
Total	**3,759**	**3,372**

Property, plant and equipment includes right-of-use assets in the amount of €56 million.

25. Deposits from banks and customers

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Deposits from banks	**119,955**	**119,300**
Repayable on demand	10,123	10,733
With agreed maturity or notice period	109,832	108,567
Deposits from customers	**880,398**	**842,420**
Savings deposits and home savings deposits	***250,503***	***246,029***
Savings deposits with agreed notice period of three months	179,856	177,790
Savings deposits with agreed notice period of more than three months	7,421	8,242
Home savings deposits	63,226	59,997
Other deposits from customers	**629,895**	**596,391**
Repayable on demand	527,650	488,884
With agreed maturity or notice period	102,245	107,507

26. Debt certificates issued including bonds

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Bonds issued	**43,249**	**43,110**
Mortgage Pfandbriefe	38,542	33,737
Public sector Pfandbriefe	2,358	2,683
Other bonds	2,349	6,690
Other debt certificates issued	**36,361**	**13,001**
Total	**79,610**	**56,111**

27. Financial liabilities held for trading

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Derivatives (negative fair values)	**18,901**	**16,080**
Interest-linked contracts	15,768	12,100
Currency-linked contracts	1,772	1,975
Share- and index-linked contracts	1,181	1,853
Credit derivatives	75	74
Other contracts	105	78
Short positions	**1,128**	**1,102**
Bonds issued including share- and index- and other debt certificates	**22,261**	**20,250**
Liabilities	**6,866**	**4,966**
Liabilities from commodities transactions and commodity lending	**46**	**53**
Total	**49,202**	**42,451**

28. Provisions

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Provisions for defined benefit plans	7,934	7,407
Provisions for loan commitments	240	222
Provisions for financial guarantee contracts	151	137
Other provisions for loans and advances	33	39
Provisions relating to building society operations	1,406	1,072
Residual provisions	3,540	3,488
Total	**13,304**	**12,365**

Funding status of defined benefit obligations

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Present value of defined benefit obligations not funded by plan assets	7,374	6,831
Present value of defined benefit obligations funded by plan assets	3,025	2,732
Present value of defined benefit obligations	**10,399**	**9,563**
Less fair value of plan assets	–2,466	–2,158
Defined benefit obligations (net)	**7,933**	**7,405**
Recognized surplus	1	2
Provisions for defined benefit plans	**7,934**	**7,407**

Changes in the present value of the defined benefit obligations

	2019 € million	2018 € million
Present value of defined benefit obligations as at Jan. 1	**9,563**	**9,646**
Current service cost	110	109
Interest expense	168	169
Pension benefits paid including plan settlements	–357	–354
Actuarial gains (–)/losses (+)	906	–34
Other changes	9	27
Present value of defined benefit obligations as at Dec. 31	**10,399**	**9,563**

Changes in plan assets

	2019 € million	2018 € million
Fair value of plan assets as at Jan. 1	**2,158**	**2,016**
Interest income	38	37
Contributions to plan assets	139	231
Pension benefits paid	–70	–69
Return on plan assets (excluding interest income)	196	–65
Other changes	5	8
Fair value of plan assets as at Dec. 31	**2,466**	**2,158**

Actuarial assumptions used for defined benefit obligations

	Dec. 31, 2019 (percent)	Dec. 31, 2018 (percent)
Weighted discount rate	1.00	1.75
Weighted salary increase	1.99	1.98
Weighted pension increase	1.88	1.92

29. Insurance liabilities

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Provision for unearned premiums	1,188	1,171
Benefit reserve	65,502	61,709
Provision for claims outstanding	13,415	12,079
Provision for premium refunds	12,149	8,283
Other insurance liabilities	59	64
Reserve for unit-linked insurance contracts	12,033	9,946
Total	**104,346**	**93,252**

Change in provision for unearned premiums

	2019 € million	2018 € million
Balance as at Jan. 1	**1,171**	**1,169**
Additions	1,252	1,235
Utilizations/reversals	–1,241	–1,228
Changes attributable to currency translation	6	–5
Balance as at Dec. 31	**1,188**	**1,171**

Change in benefit reserve

	2019 € million	2018 € million
Balance as at Jan. 1	**61,709**	**58,670**
Additions	7,095	5,876
Interest component	1,015	1,045
Utilizations/reversals	–4,318	–3,882
Changes attributable to currency translation	1	–
Balance as at Dec. 31	**65,502**	**61,709**

Supplementary change-in-discount-rate reserves totaling €3,957 million have been recognized for policies with a discount rate in excess of the reference rate specified in the German Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) (December 31, 2018: €3,306 million).

Change in the provision for claims outstanding

	2019 € million	2018 € million
Balance as at Jan. 1	**12,079**	**11,064**
Claims expenses	7,504	6,650
Less payments	–6,276	–5,630
Changes attributable to currency translation	108	–5
Balance as at Dec. 31	**13,415**	**12,079**

Change in the provision for premium refunds

	2019 € million	2018 € million
Balance as at Jan. 1	**8,283**	**10,140**
Additions	689	878
Utilizations/reversals	–794	–705
Changes resulting from unrealized gains and losses on investments (through other comprehensive income)	2,850	–1,488
Changes resulting from other remeasurements (through profit or loss)	1,116	–542
Changes attributable to currency translation	5	–
Balance as at Dec. 31	**12,149**	**8,283**

The breakdown of maturities for insurance liabilities is shown in the following tables:

Balance as at Dec. 31, 2019

€ million	≤ 1 year	> 1 year – 5 years	> 5 years	Indefinite
Provision for unearned premiums	983	168	37	–
Benefit reserve	1,749	5,998	13,181	44,574
Provision for claims outstanding	4,868	4,918	3,629	–
Provision for premium refunds	843	685	734	9,887
Other insurance liabilities	37	10	8	4
Total	**8,480**	**11,779**	**17,589**	**54,465**

Balance as at Dec. 31, 2018

€ million	≤ 1 year	> 1 year – 5 years	> 5 years	Indefinite
Provision for unearned premiums	950	166	55	–
Benefit reserve	1,810	6,178	13,050	40,671
Provision for claims outstanding	4,388	4,301	3,390	–
Provision for premium refunds	833	644	713	6,093
Other insurance liabilities	41	13	7	3
Total	**8,022**	**11,302**	**17,215**	**46,767**

30. Other liabilities

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Other liabilities of insurance companies	6,780	5,806
Other liabilities and accruals	2,589	2,462
Liabilities included in disposal groups	1	281
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	311	329
Lease liabilities	277	
Residual other liabilities	717	586
Total	**10,675**	**9,464**

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

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Residual provisions	**428**	**373**
Provisions for employee benefits	389	336
Provisions for share-based payment transactions	3	2
Other provisions	36	35
Payables and residual other liabilities	**6,352**	**5,433**
Subordinated capital	89	87
Deposits received from reinsurers	41	43
Payables arising out of direct insurance operations	1,464	1,500
Payables arising out of reinsurance operations	442	342
Debt certificates issued including bonds	31	30
Deposits from banks	581	580
Derivatives (negative fair values)	20	11
Liabilities from capitalization transactions	2,751	2,086
Lease liabilities from insurance business	63	
Other liabilities	284	120
Residual other liabilities	586	634
Total	**6,780**	**5,806**

31. Subordinated capital

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Subordinated liabilities	3,544	2,566
Profit-sharing rights	134	161
Share capital repayable on demand	13	13
Total	**3,691**	**2,740**

32. Equity

Breakdown of subscribed capital:

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Cooperative shares	12,695	12,085
Share capital	167	178
Capital of silent partners	57	69
Total	**12,919**	**12,332**

The capital reserves comprise the amounts by which the notional value of the shares of the corporations included in the consolidated financial statements was exceeded upon the issuance of the shares.

Retained earnings contain the undistributed equity earned by the companies included in the consolidated financial statements as well as the gains and losses arising on remeasurements of defined benefit plans after taking into account deferred taxes.

Reserve from other comprehensive income consists of the following items:

€ million	No reclassification to the income statement		Reclassification to the income statement		
	Reserve from equity instruments for which the fair value OCI option has been exercised	Reserve from gains and losses on financial liabilities for which the fair value option has been exercised, attributable to changes in own credit risk	Reserve from debt instruments measured at fair value through other comprehensive income	Cash flow hedge reserve	Currency translation reserve
Equity as at Jan. 1, 2018	**465**	**–**	**724**	**5**	**46**
Other comprehensive income/loss	1	22	–413	–5	28
Total comprehensive income	**1**	**22**	**–413**	**–5**	**28**
Changes in the scope of consolidation	–	–	–	1	11
Acquisition/disposal of non-controlling interests	5	–	6	–	–
Reclassifications within equity	–33	–	–	–	–
Equity as at Dec. 31, 2018	**438**	**22**	**317**	**1**	**85**
Other comprehensive income/loss	406	–62	1.061	–	8
Total comprehensive income	**406**	**–62**	**1.061**	**–**	**8**
Changes in the scope of consolidation	–	–	–	–	–7
Acquisition/disposal of non-controlling interests	–285	–	–	–	–
Reclassifications within equity	–	–	–	–	–
Equity as at Dec. 31, 2019	**559**	**–40**	**1.378**	**1**	**86**

E Financial instruments disclosures

33. Fair value of financial instruments

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

	Dec. 31, 2019 € million		Dec. 31, 2018 € million	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	78,746	78,747	67,067	67,067
Loans and advances to banks[1]	22,163	24,780	18,583	20,471
Loans and advances to customers[1]	835,907	839,246	786,339	788,727
Hedging instruments (positive fair values)	201	201	883	883
Financial assets held for trading[2]	44,013	44,013	37,151	37,151
Investments[1,3]	247,819	248,721	238,138	239,950
Investments held by insurance companies[1,2,3]	108,547	109,125	96,719[4]	97,272[4]
Other assets[2]	11,647	10,372	8,897	8,366
Equity and liabilities				
Deposits from banks	119,955	122,922	119,300	121,346
Deposits from customers	880,398	882,341	842,420	843,600
Debt certificates issued including bonds	79,610	80,271	56,111	56,264
Hedging instruments (negative fair values)	5,383	5,383	5,962	5,962
Financial liabilities held for trading[2]	49,156	49,156	42,398	42,398
Other liabilities[2]	3,502	3,357	2,878	2,745
Subordinated capital	3,691	3,812	2,740	2,839

1 Carrying amounts less loss allowances.
2 Fair values and carrying amounts are only disclosed for financial instruments.
3 Excluding investments in joint ventures and in associates.
4 Amount adjusted.

34. Maturity analysis

Balance as at Dec. 31, 2019

€ million	≤ 3 months	> 3 months – 1 year	> 1 year	Indefinite
Loans and advances to banks	9,476	2,427	14,355	290
Loans and advances to customers	41,781	64,242	736,589	20,878
Deposits from banks	33,059	12,751	76,466	774
Deposits from customers	742,368	18,975	61,172	63,680
Debt certificates issued including bonds	21,313	11,052	50,734	–

Balance as at Dec. 31, 2018

€ million	≤ 3 months	> 3 months – 1 year	> 1 year	Indefinite
Loans and advances to banks	8,314	1,821	12,959	270
Loans and advances to customers	39,739	60,927	688,932	20,658
Deposits from banks	34,241	10,278	80,128	790
Deposits from customers	701,225	20,448	64,861	60,400
Debt certificates issued including bonds	9,240	5,843	44,407	–

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

F Other disclosures

35. Capital requirements and regulatory indicators

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Total capital	**106,967**	**101,671**
Tier 1 capital	93,565	87,272
of which: Common Equity Tier 1	93,172	86,746
Additional Tier 1 capital	393	526
Tier 2 capital	13,402	14,399
Total risk exposure	**685,401**	**642,352**

Common Equity Tier 1 capital ratio (percent)	13.6	13.5
Tier 1 capital ratio (percent)	13.7	13.6
Total capital ratio (percent)	15.6	15.8
Common Equity Tier 1 capital ratio incl. reserves pursuant to Section 340f HGB (percent)[1]	15.5	15.5
Tier 1 capital ratio incl. reserves pursuant to Section 340f HGB (percent)[1]	15.5	15.6

Leverage ratio (percent)[2]	7.0	6.9
Leverage ratio incl. reserves pursuant to Section 340f HGB (percent)[1, 3]	7.8	7.8

1 The balance of reserves pursuant to Section 340f HGB is based on the financial statements data of the institutions included as at the balance sheet date before additions and reversals within the scope of the 2019 and 2018 financial statements.
2 Disclosure of the leverage ratio of the bank-specific protection system using the transitional definition for Tier 1 capital pursuant to article 429 (2) CRR in conjunction with article 499 (1) CRR.
3 Disclosure of ratio after full introduction of the new CRR provisions, subject to the assumption of full reclassification and inclusion of reserves pursuant to Section 340f HGB as Tier 1 capital from a business point of view.

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

36. Financial guarantee contracts and loan commitments

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Financial guarantee contracts	20,568	19,636
Loan commitments	97,117	87,811
Total	**117,685**	**107,447**

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

37. Trust activities

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Trust assets	**761**	**923**
of which: trust loans	52	52
Trust liabilities	**761**	**923**
of which: trust loans	52	52

38. Asset management by the Union Investment Group

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Fund assets	**327,830**	**284,649**
Other types of asset management	**54,606**	**50,083**
Unit-linked asset management	2,206	1,687
Institutional asset management	10,350	9,961
Advisory and outsourcing	42,050	38,435
Accounts managed by third parties	**–14,228**	**–11,362**
Total	**368,208**	**323,370**

As at the balance sheet date, the Union Investment Group (through Union Asset Management Holding AG) had total assets under management of €368,208 million (December 31, 2018: €323,370 million). The fund assets comprise equity funds, fixed-income funds, money market funds, mixed funds, other securities funds, capital preservation funds, real estate funds, alternative investment funds and hybrid funds issued by Union Investment Group.

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

Finance leases with the Cooperative Financial Network as lessor

	Dec. 31, 2019 € million
Gross investment	**1,641**
Up to 1 year	576
More than 1 year and up to 2 years	420
More than 2 year and up to 3 years	295
More than 3 year and up to 4 years	177
More than 4 year and up to 5 years	91
More than 5 years	82
Lless unearned finance income	**–94**
Net investment	**1,547**
Less present value of unguaranteed residual values	**–9**
Present value of minimum lease payment receivables	**1,538**

Comparative information in accordance with IAS 17

	Dec. 31, 2018 € million
Gross investment	**2,164**
Up to 1 year	711
More than 1 year and up to 5 years	1,330
More than 5 years	123
Less unearned finance income	**–144**
Net investment	**2,020**
Less present value of unguaranteed residual values	**–42**
Present value of minimum lease payment receivables	**1,978**
Up to 1 year	642
More than 1 year and up to 5 years	1,225
More than 5 years	111

The VR Smart Finanz subgroup as well as DVB Bank Group are active as finance lessors in the Cooperative Financial Network. The entities of the VR Smart Finanz subgroup enter into leases primarily for machinery used in production as well as photovoltaics and solar thermal energy. Apart from office equipment, leases also refer to medical technology, motor vehicles and software. The entities in the DVB Bank Group primarily enter into leases for ships.

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

	Not allocated		Allocated		Total	
Home savings sum (€ million)	Number of contracts	Home savings sum	Number of contracts	Home savings sum	Number of contracts	Home savings sum
Balance as at Dec. 31, 2018	7,753,588	290,052	582,374	15,645	8,335,962	305,697
Additions in 2019 as a result of						
New contracts (redeemed contracts)[1]	502,482	26,590	–	–	502,482	26,590
Transfers	20,090	632	536	14	20,626	646
Allocation waivers and cancellations	6,984	270	–	–	6,984	270
Splitting	141,357	–	33	–	141,390	–
Allocations and acceptance of allocations	–	–	384,354	9,800	384,354	9,800
Other	77,076	3,066	15	1	77,091	3,067
Total	**747,989**	**30,558**	**384,938**	**9,815**	**1,132,927**	**40,373**
Disposals in 2019 as a result of						
Allocations and acceptance of allocations	–384,354	–9,800	–	–	–384,354	–9,800
Reductions	–	–881	–	–	–	–881
Termination	–272,687	–7,625	–301,184	–7,600	–573,871	–15,225
Transfers	–20,090	–632	–536	–14	–20,626	–646
Pooling[1]	–57,979	–	–	–	–57,979	–
Expiration	–	–	–109,324	–2,802	–109,324	–2,802
Allocation waivers and cancellations	–	–	–6,984	–270	–6,984	–270
Other	–77,076	–3,066	–15	–1	–77,091	–3,067
Total	**–812,186**	**–22,004**	**–418,043**	**–10,687**	**–1,230,229**	**–32,691**
Net addition/disposal	–64,197	8,554	–33,105	–872	–97,302	7,682
Balance as at Dec. 31, 2019	**7,689,391**	**298,606**	**549,269**	**14,773**	**8,238,660**	**313,379**

1 Including increases.

Volume of unredeemed contracts

Home savings sum (€ million)	Number of contracts	Home savings sum
Contracts signed prior to Jan. 1, 2019	45,323	2,933
Contracts signed in 2019	167,824	11,733

41. Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2019 € million
Additions	
Amounts carried forward from 2018 (surplus)	
Amounts not yet disbursed	58,513
Additions in 2019	
Savings deposits (including credited residential construction bonuses)	9,513
Repayable amounts (including credited residential construction bonuses)[1]	1,139
Interest on home savings deposits	718
Total	**69,883**
Withdrawals	
Withdrawals in 2019	
Amounts allocated (if disbursed)	
Home savings deposits	5,708
Home savings loans	1,151
Repayment of deposits on non-allocated home savings contracts	1,431
Surplus of additions	
(Amounts not yet disbursed) at the end of 2019[2]	61,593
Total	**69,883**

1 Repayable amounts 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: €90 million.
b) undisbursed home savings loans from funds allocated: €2,955 million.

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

	Mortgage Pfandbriefe		Public-sector Pfandbriefe	
	Dec. 31, 2019 € million	Dec. 31, 2018 € million	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Ordinary cover	**61,846**	**57,419**	**18,587**	**20,810**
Loans and advances to banks	23	25	354	214
of which: Mortgage loans	23	25	–	–
Local authority loans	–	–	354	214
Loans and advances to customers	61,676	57,248	15,442	16,962
of which: Mortgage loans	61,676	57,248	42	53
Local authority loans	–	–	15,400	16,909
Investments consisting of bonds and other fixed-income securities	–	–	2,791	3,634
Property, plant and equipment	147	146	–	–
Extended cover	**1,472**	**1,687**	**135**	**106**
Loans and advances to banks	–	–	65	36
Investments consisting of bonds and other fixed-income securities	1,472	1,687	70	70
Total cover	**63,318**	**59,106**[1]	**18,722**	**20,916**
Pfandbriefe requiring cover	**–57,314**	**–53,839**	**–15,862**	**–17,578**
Nominal excess cover	**6,004**	**5,267**	**2,860**	**3,338**
Present value of excess cover	**10,334**	**9,098**	**3,819**	**4,039**
Risk-related present value of excess cover	**10,058**	**8,544**	**3,208**	**3,529**

1 Amount adjusted.

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, 2019 € million	Dec. 31, 2018 € million
Mortgage Pfandbriefe	**57,314**	**53,839**
≤ 6 months	2,214	2,549
> 6 months und ≤ 12 months	2,089	2,692
> 12 months und ≤ 18 months	2,391	2,173
> 18 months und ≤ 2 years	2,642	2,086
> 2 years und ≤ 3 years	4,872	3,463
> 3 years und ≤ 4 years	4,992	4,457
> 4 years und ≤ 5 years	3,805	4,390
> 5 years und ≤ 10 years	19,789	17,863
> 10 years	14,520	14,166
Public-sector Pfandbriefe	**15,862**	**17,578**
≤ 6 months	951	690
> 6 months und ≤ 12 months	1,054	1,322
> 12 months und ≤ 18 months	755	1,005
> 18 months und ≤ 2 years	442	1,023
> 2 years und ≤ 3 years	728	1,265
> 3 years und ≤ 4 years	995	753
> 4 years und ≤ 5 years	1,048	992
> 5 years und ≤ 10 years	4,008	4,769
> 10 years	5,881	5,759

Fixed-interest periods of cover assets

	Dec. 31, 2019 € million	Dec. 31, 2018 € million
Mortgage Pfandbriefe	**63,318**	**59,106[1]**
≤ 6 months	2,348	2,186
> 6 months und ≤ 12 months	2,463	2,320
> 12 months und ≤ 18 months	2,247	2,208
> 18 months und ≤ 2 years	2,647	2,549
> 2 years und ≤ 3 years	5,393	4,967
> 3 years und ≤ 4 years	5,662	5,446
> 4 years und ≤ 5 years	5,560	5,121
> 5 years und ≤ 10 years	21,766	20,537
> 10 years	15,232	13,772
Public-sector Pfandbriefe	**18,722**	**20,916**
≤ 6 months	1,017	1,054
> 6 months und ≤ 12 months	619	1,114
> 12 months und ≤ 18 months	657	970
> 18 months und ≤ 2 years	669	654
> 2 years und ≤ 3 years	1,166	1,358
> 3 years und ≤ 4 years	1,135	1,173
> 4 years und ≤ 5 years	1,359	1,117
> 5 years und ≤ 10 years	4,644	5,093
> 10 years	7,456	8,383

1 Amount adjusted.

45 properties were in forced administration as at the reporting date (December 31, 2018: 57). The mortgage loans held as cover include past-due payments for interests to be paid in the amount of €1 million (December 31, 2018: €1 million).

Marija Kolak (President)

Gerhard Hofmann

Dr. Andreas Martin

Berlin, July 1, 2020

National Association of German Cooperative Banks
BVR

Board of Managing Directors

Marija Kolak Gerhard Hofmann Dr. Andreas Martin

Annex: Significant Financial Reporting Principles

Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network for the period from January 1 to December 31, 2019, prepared by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR), has to be prepared for a specific purpose pursuant to the financial reporting principles set out below. They have been prepared 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. In addition, the financial statements were prepared in compliance with the provisions set out in article 113(7)(e) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (Capital Requirements Regulation – CRR).

The consolidated financial statements have to include the following components:

- Income statement for the period from January 1 to December 31, 2019 (pursuant to IAS 1.81 A, IAS 1.81 B and IAS 1.82 (b) to IAS 1.105)
- Statement of comprehensive income for the period from January 1 to December 31, 2019 (pursuant to IAS 1.81 A, IAS 1.81 B and IAS 1.82 (b) to IAS 1.105)
- Balance sheet as at December 31, 2019 (pursuant to IAS 1.54 to IAS 1.80A)
- Statement of changes in equity for the period from January 1 to December 31, 2019 (pursuant to IAS 1.106 to IAS 1.110)
- Statement of cash flows for the period from January 1 to December 31, 2019 (pursuant to IAS 7.1 to IAS 7.47)
- Explanatory information on the consolidated financial statements
- Management report including risk report for the period from January 1 to December 31, 2019

The consolidated financial statements have to include prior year comparatives. The consolidated financial statements have to be prepared in euro. Unless stated otherwise, all amounts have to be shown in millions of euros (€ million). All figures have to be rounded to the nearest whole number.

Scope of consolidation

Regardless of whether consolidation criteria are met under other national or international financial reporting principles, the consolidated financial statements have to include as consolidated entities all cooperative banks existing as at the reporting date (the local cooperative banks, Sparda banks, PSD banks, Deutsche Apotheker- und Ärztebank eG as well as specialized institutions) as well as all companies included in the IFRS consolidated financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/Main (DZ BANK), Münchener Hypothekenbank eG (MHB), the BVR protection scheme, and BVR Institutssicherung GmbH.

Procedures of consolidation

The consolidated subsidiaries generally have to prepare their financial statements on the basis of a financial year ended December 31.

Similar to IFRS 3.4 et seq. in conjunction with IFRS 10, business combinations have to be accounted for using the purchase method by offsetting the acquisition cost of a subsidiary against the share of the equity that is attributable to the parent entities and remeasured at fair value on the relevant date when control is acquired. This eliminates the multiple gearing of eligible own funds and any inappropriate creation of own funds for regulatory purposes between the consolidated entities listed above. Any positive difference has to be recognized as goodwill under other assets and is subject to an annual impairment test in accordance with IAS 36.80–108. Any negative goodwill has to be recognized immediately in profit or loss. Any share of subsidiaries' net assets not attributable to the parent entities has to be reported as non-controlling interests within equity.

Interests in joint ventures and investments in associates in accordance with IFRS 11.4–19 are accounted for using the equity method pursuant to IAS 28.3 and reported under investments.

Assets and liabilities as well as income and expenses arising within the Cooperative Financial Network have to be offset against each other. Gains and losses arising from transactions between entities within the Cooperative Financial Network have to be eliminated.

Hedge accounting

Fair value hedges
A fair value hedge is intended to ensure that changes in the fair value of the hedged item are offset by countervailing changes in the fair value of the hedging instrument. Changes in the fair value of the hedged item attributable to the hedged risk and changes in the fair value of the hedging instrument have to be recognized in profit or loss. Risks must be hedged by designating hedges either on an individual or on a portfolio basis.

Hedged items categorized as "financial assets measured at amortized cost" and "financial liabilities measured at amortized cost" have to be measured in accordance with the general measurement principles for these financial instruments. The values have to be adjusted for the change in fair value attributable to the hedged risk. Hedged items categorized as "financial assets at fair value through other comprehensive income" have to be measured at fair value, although only changes not attributable to the hedged changes in fair value have to be recognized in other comprehensive income. Interest income and interest expense arising from hedged items or hedging instruments have to be recognized under net interest income.

If the fair value is hedged against interest-rate risks on a portfolio basis, the cumulative changes in fair value attributable to the hedged risk have to be reported on the balance sheet under fair value changes of the hedged items in portfolio hedges of interest-rate risk, either under other assets or other liabilities depending on whether the portfolio comprises financial assets or financial liabilities.

In fully effective hedges, the changes in fair value attributable to the hedged risk offset each other over the lifetime of the hedging relationship. Any changes in fair value recognized in the carrying amount of the hedged items have to be amortized through profit or loss not later than by the time the hedge has been terminated.

Cooperative banks may only designate hedging relationships on a portfolio basis.

Cash flow hedges
Hedging instruments have to be measured at fair value. Changes in fair value attributable to the effective portion of the hedge have to be recognized in other comprehensive income. Changes in fair value attributable to the ineffective portion of the hedge have to be recognized in profit or loss. Hedged items have to be recognized and measured in accordance with the general principles for the relevant measurement category. At the end of a hedging relationship, any changes in fair value recognized in other comprehensive income

must be reclassified to profit or loss on the date on which the hedged items or transactions are also recognized in profit or loss.

Hedges of net investments in foreign operations
Hedges of net investments in foreign operations have to be accounted for in the same way as cash flow hedges.

Currency translation

All monetary assets and liabilities, together with unsettled spot transactions, have to be translated at the closing rate into the relevant functional currency of the consolidated entities. Cash in foreign currency has to be translated using the buying rate for cash on the balance sheet date. The translation of non-monetary assets and liabilities has to be based on the way in which these assets and liabilities are measured. If non-monetary assets are measured at amortized cost, they have to be translated using the historical exchange rate. Non-monetary assets measured at fair value have to be translated at the closing rate. Income, expenses, gains, and losses have to be translated on the date they are recognized either in profit or loss or in other comprehensive income.

If the functional currency of companies included in the consolidated financial statements is different from the reporting currency (euros), all assets and liabilities have to be translated at the exchange rate at the reporting date. Equity has to be translated at the historical rate. Income and expenses have to be translated at the relevant spot rate on the date of the transaction or, for simplification, at average rates. To the extent that there are not material effects compared with the application of average rates, the rate on the reporting date can be used. Any differences arising from currency translation have to be reported in the currency translation reserve.

Insurance business

General information on the accounting treatment of insurance business
Insurance contracts have to be recognized in accordance with the requirements of IFRS 4.13–35. Capitalization transactions have to be classified as financial instruments and are recognized in accordance with the mentioned principles. Service contracts are subject to the revenue recognition requirements specified in IFRS 15.31–45.

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 have to be accounted for and measured in accordance with the financial reporting principles for financial instruments. Financial assets and financial liabilities have to be reported under investments held by insurance companies, other assets held by insurance companies, and other liabilities of insurance companies. Loss allowances on financial assets recognized under investments and other assets held by insurance companies have to be deducted from the assets' carrying amounts. The net presentation method applies for the items "Investments held by insurance companies" and "Other assets held by insurance companies," while the gross presentation method applies for loss allowances in the notes to the balance sheet items.

Other liabilities of insurance companies include the benefit obligations under capitalization transactions for which no material insurance risk is assumed when the policy is concluded. They have to be reported under liabilities from capitalization transactions. The underlying financial instruments in these transactions have to be reported as part of assets related to unit-linked contracts under investments held by insurance companies.

Investment property
The investment property included in the investments held by insurance companies has to be measured at amortized cost in accordance with the cost model. In the following financial years, investment property has to be depreciated on a straight-line basis over the useful life on the basis of the cost.

Any expenditure that increases value and extends the useful life of real estate or results in a significant improvement in the fabric of a building has to be capitalized. Maintenance and repair costs have to be expensed as incurred.

Recoverable amounts of real estate have to be determined in the context of impairment tests pursuant to the provisions of IFRS 13.27–33. For this purpose, standard valuation methods have to be used that are based on the requirements of the German Real Estate Valuation Regulation (ImmoWertV), the German Real Estate Valuation Guidelines (WertR 2006), and the German Building Code (BauGB). Accordingly, the current value of real estate has to be determined by using the sales comparison approach, income approach, or cost approach and taking into account the provisions of any relevant contracts.

Non-interest-bearing, low-interest or forgivable loans have to be recognized in the same way as government grants. The amount of financial assistance as well as any government grants have to be deducted when the carrying amount of the asset is identified and then have to be recognized in profit or loss over the period covered by the assistance or grant by means of a reduced depreciation charge.

Insurance liabilities
Insurance liabilities have to be recognized and measured in accordance with the provisions of the German Commercial Code (HGB) and other German accounting rules applicable to insurance companies. Insurance liabilities have to be shown before the deduction of the share of reinsurers, which is reported as an asset.

<u>Provision for unearned premiums</u>
The provision for unearned premiums has to cover premiums that have already been collected but that relate to future periods.

The provision for unearned premiums from direct non-life insurance operations has to be calculated from the gross premiums using the 360-day system. Calculation of non-transferable income components has to be based on the letter from the Bundesministerium der Finanzen (BMF) [German Federal Ministry of Finance], dated April 30, 1974.

Unearned premiums from life insurance have to be calculated taking into account the starting date and maturity date of each individual policy after deduction of non-transferable premium components.

The proportion of the provision for unearned premiums relating to ceded insurance business has to be calculated as specified in the individual reinsurance contracts.

<u>Benefit reserve</u>
The purpose of the benefit reserve is to ensure that guaranteed entitlements to future insurance benefits can be satisfied on a permanent basis. Guaranteed entitlements for insured persons in respect of life insurance and casualty insurance with premium refund as well as the provision for increasing age in health insurance have to be reported under the benefit reserve.

The benefit reserve for life insurance and casualty insurance with premium refund has to be generally calculated on the basis of individual policies taking into account starting dates in accordance with approved business plans and the principles declared to the relevant regulatory authorities. The prospective method has to be used for life insurance (except for unit-linked insurance products and account management arrangements) and for casualty insurance (with the exception of premium-based policies that started prior to 1982). The retrospective method has to be used for other types of insurance. Negative benefit reserves on an individual policy basis have to be recognized with an amount of zero.

The assumptions used in calculations are determined in accordance with current recommendations issued by the Deutsche Aktuarvereinigung e. V., Cologne, (DAV) [German Actuarial Association] and the regulator and in accordance with other national statutory provisions and regulations. The interest rates are generally determined by the legally prescribed maximum discount rates. The calculation assumptions apply from the date on which the policy is written until the policy expires.

For policies entered into before or in 2014, calculation of the benefit reserve had to be based on the Zillmer method. Following the introduction of the German Life Insurance Reform Act (LVRG), zillmerizing does not have to be applied to most new business entered into since 2015. In particular, zillmerizing does not have to be applied to subsidized pension insurance policies under the German Personal Pension Plan Act (AVmG) or to pension insurance policies under reinsured pension plans.

The benefit reserve implicitly has to include administrative expenses for contracts with ongoing payment of premiums. A provision for administrative costs has to be recognized to cover premium-free years under insurance policies, fully paid-up insurance, and some legacy insurance commitments.

In health insurance, benefit reserves have to be computed prospectively on an individual policy basis using the technical parameters for calculating rates. Negative benefit reserves have to be offset against positive benefit reserves. The parameters for the computation of the reserves involve, in particular, assumptions regarding rates of return on investment, mortality, cancellations, and costs. The reference rate that has to be used for health insurance is the actuarial corporate rate which has to be calculated in accordance with the procedure developed by the DAV. An applicable reference rate has to be derived from this basis; the procedure used has to rely on a principle established by the DAV to determine an appropriate interest rate. The mortality tables of the Verband der Privaten Krankenversicherung e. V., Cologne (PKV) [German Association of Private Health Insurance] as well as company-specific cancellation probabilities and estimated average claim per capita profiles (Kopfschadenprofile) have to be used. These assumptions have to be reviewed and, if necessary, updated regularly based on actuarial principles.

When the benefit reserves are prospectively calculated, the parameters used have to be generally retained throughout the term of the policy. If the actuarial analyses conducted once a year reveal that the level of cover offered is inadequate in terms of either biometric parameters or discount rate, appropriate adjustments have to be made. The biometric parameters used in such computations are based primarily on the mortality and invalidity tables published by the DAV.

Since 2011, supplementary change-in-discount-rate reserves have had to be recognized for policies with a discount rate in excess of the reference rate. For new policies, this requirement results from the provisions of the German Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV). A supplementary change-in-discount-rate reserve has to be recognized for policies with a discount rate in excess of the reference rate specified in the DeckRV. In 2018, the German Federal Ministry of Finance [Bundesministerium der Finanzen, (BMF)] modified the procedure for determining this reference rate to soften an overly strong dynamic of the previous arrangements. This results in a modest increase in the supplementary change-in-discount-rate reserves for new business compared with previous years. Subject to the approval of BaFin, the supplementary change-in-discount-rate reserve has to be increased for existing policies. Entity-specific probabilities for cancellation and lumpsum payments have had to be used since 2016.

Provision for claims outstanding
The provision for claims outstanding has to include benefit obligations arising from claims in which it is not yet possible to reliably determine the amount and/or the timing of the payment. The provision has to be recognized for claims that have already been reported and also for insured events that have occurred but have not yet been reported. It has to include both internal and external expenses as well as the cost of settling claims.

The provision for claims outstanding in direct non-life insurance business has to be determined on a case-by-case basis for all known claims. Recourse claims, excess proceeds, and claims under loss sharing agreements have to be netted. Based on claims reports in previous years, an additional claims provision has to be recognized for claims that occur or are caused before the balance sheet date but have not yet been reported by this date. Statistical estimates have to be used in this measurement. The provision for claims outstanding may not be discounted, except in the case of the pension benefits reserve. The provisions for claims settlement expenses, which are also included in this item, have to be calculated in accordance with the requirements set out in the coordinated regulations issued by the German federal states on February 2, 1973 and in accordance with the flatrate calculation method (including claims incurred but not reported, IBNR) developed by the Gesamtverband der Deutschen Versicherungswirtschaft e. V., Berlin, (GDV) [German Insurance Association].

The provision for claims outstanding as regards life insurance and pension funds has to be determined on a case-by-case basis. The provision has to be recognized for claims that have already been incurred and reported by the balance sheet date, but have not yet been settled.

A provision for settlement expenses has to be recognized in an amount equivalent to 1 percent of the claims provision to cover claims incurred and reported by the balance sheet date (excluding maturing policies) and also IBNR losses.

In health insurance, the provision for claims outstanding has to be determined on the basis of the costs paid out in the financial year in connection with claims during the year. The calculation has to be based on claims experience over the previous three financial years. Recourse claims have to be deducted from the provision for claims outstanding, as are reimbursements due under the German Act on the Reform of the Pharmaceuticals Market (AMNOG). The recognized provision includes the costs of settling claims, calculated in accordance with tax rules. The reinsurers' share of the provision has to be determined in accordance with reinsurance agreements. Where appropriate, provisions for claims outstanding have to be recognized on a case-by-case basis for claims relevant to reinsurance.

Provision for premium refunds
The provision for premium refunds has to include obligations not yet due for settlement on the balance sheet date relating to premium refunds to insured parties. It has to include amounts allocated to policyholders under statutory or contractual arrangements for bonuses and rebates. In addition, the provision for premium refunds has to include provisions resulting from time-restricted cumulative recognition and measurement differences between items in the financial statements prepared in accordance with these significant financial reporting principles and those prepared in accordance with HGB. In the case of measurement differences recognized in other comprehensive income, such as unrealized gains and losses on financial assets measured at fair value through other comprehensive income, corresponding expenses for deferred premium refunds have to be recognized in other comprehensive income; otherwise, changes in the provision are recognized in profit or loss.

The expenses for deferred premium refunds in the non-life insurance business have to be recognized in an amount equivalent to 90 percent of the difference between the carrying amounts for items in the financial statements prepared in accordance with HGB and those in the financial statements prepared in accordance with the significant financial reporting principles, net of deferred taxes.

The provision for premium refunds related to life insurance policies and pension funds has to be recognized to cover the entitlement of policyholders to profit-related premium refunds. Funds earmarked in this way are therefore made available for future allocation of bonuses to policyholders on an individual policy basis. Within the overall provision for premium refunds, a distinction has to be made between provisions attributable to bonuses already declared but not yet allocated (including participation in valuation reserves in accordance with HGB), the funding used to finance future terminal bonuses, and the free provision for premium refunds. The expenses for deferred premium refunds have to be recognized in an amount equivalent to 90 percent of the difference between the carrying amounts for items in the financial statements prepared in accordance with HGB and those in the financial statements prepared in accordance with the significant financial reporting principles, net of deferred taxes.

The provision for premium refunds related to health insurance has to include amounts allocated to policyholders under statutory or contractual arrangements for bonuses and rebates. The expenses for deferred premium refunds have to be recognized in an amount equivalent to 80 percent of the difference between the carrying amounts for items in the financial statements prepared in accordance with HGB and those in the financial statements prepared in accordance with the significant financial reporting principles, net of deferred taxes.

<u>Other insurance liabilities</u>
Other insurance liabilities relating to non-life insurance have to include obligations arising from membership of the Verein Verkehrsopferhilfe e. V. [road casualty support organization], Berlin, in line with the object of this organization and the provision for unearned premiums under dormant vehicle insurance policies, the provision being determined on an individual policy basis.

The cancellation provision has to be calculated on the basis of past experience. The provision for onerous contracts has to be calculated on the basis of prior-year figures and a forecast of other insurance gains and losses, taking into account interest income and residual maturities.

Other insurance liabilities for life insurance have to be computed on the basis of individual policies from premiums that are already due but have yet to be paid and have not yet been included in the life insurance liabilities to the extent that the investment risk is borne by the policyholders.

Other insurance liabilities for health insurance have to contain a cancellation provision. The cancellation provision has to be recognized to take account of expected losses and was calculated on the basis of empirical values relating to the premature loss, not previously accounted for, of the negative portions of the provision for increasing age in health insurance.

<u>Reinsurance business</u>
In the case of reinsurance business, the insurance liabilities have to be recognized in accordance with the requirements specified by the ceding insurers. If no such details are available as at the reporting date, the provision for the financial year has to be estimated. The critical factors in estimating the provision are the contractual terms and conditions and the pattern of this business to date. In a few instances, loss provision details provided by ceding insurers are deemed to be too low based on experience; in such cases, appropriate increases have to be applied, the increases having been determined in accordance with prudent business practice, actuarial calculation methods, and past experience.

<u>Reserve for unit-linked insurance contracts</u>
The reserve for unit-linked insurance contracts is an item largely corresponding to assets related to unit-linked contracts. This item has to be used to report policyholders' entitlements to their individual investment fund units where the related investments arise out of contracts to be reported in accordance with IFRS 4. The reserve has to be

measured at fair value on the basis of the underlying investments. Gains and losses on the fund assets have to result in corresponding changes on the equity and liabilities side of the balance sheet.

Adequacy test for insurance liabilities
Insurance liabilities must be regularly reviewed and subjected to an adequacy test. The adequacy test determines, on the basis of a comparison with estimated future cash flows, whether the carrying amount of insurance liabilities needs to be increased.

To review the insurance liabilities in the health insurance companies, a regular comparison has to be made between the present values of estimated future insurance benefits and costs, on the one hand, and the present values of estimated future premium payments on the other.

Leases

Cooperative Financial Network as lessor
A lease has to be 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 the risks and rewards remain substantially with the lessor, the lease is an operating lease.

If a lease is classified as a finance lease, a receivable due from the lessee must be recognized. The receivable has to be measured at an amount equal to the net investment in the lease at the inception of the lease. Lease payments have to be apportioned into payment of interest and repayment of principal. The interest portion has to be recognized as interest income on an accrual basis.

If a lease is classified as an operating lease, the lessor retains beneficial ownership of the leased asset. These leased assets have to be reported as assets. The leased assets have to be measured at cost less depreciation and any impairment losses. Unless another systematic basis is more representative of the pattern of income over time, lease income has to be recognized in profit or loss on a straight-line basis over the term of the lease and has to be included in the current income from operating leases reported under net interest income.

Cooperative Financial Network as lessee
The lessee has to recognize a right-of-use asset in a leased asset as well as a corresponding lease liability for all leases. Exceptions exist as regards short-term leases as well as leases for low-value assets, in which case the lease payments have to be recorded as administrative expenses in the respective periods over the term of the leases.

In principle, the amount of the right-of-use asset has to correspond to the amount of the lease liability at the time of initial recognition. In subsequent periods, the right-of-use asset has to be measured at amortized cost. As a rule, the depreciation has to be made on a straight-line basis over the entire lease term and has to be recognized as administrative expenses.

The lease liability has to be measured as the present value of the future lease payments and has to be reported as other liabilities. Lease payments have to be apportioned into payment of interest and repayment of principal. While the interest portion is recorded on the basis of the interest rate implicit in the lease or the lessee's incremental borrowing rate, the principal portion reduces the liability.

Income

Interest and dividends received

Interest income has to be accrued and recognized in the relevant period.

Premiums and discounts have to be allocated over the expected life of financial instruments. Any additional directly attributable transaction costs also have to be recorded on an accrual basis and amortized over the term when these are directly connected with the acquisition or sale of a financial asset or a financial liability. Such costs include sales charges directly associated with the origination of home savings contracts.

Interest income and interest expense arising in connection with derivatives that were not entered into for trading purposes or are used to hedge financial instruments for which the fair value option was exercised, have to be reported under net interest income. Interest income and interest expense on overnight money and fixed-term deposits arranged between different organizational units for economic management purposes and timing effects from currency swaps used for economic management of net interest income have to be recognized under net interest income and under gains and losses on trading activities, depending on their economic classification.

In contrast to interest income, current income does not have to be recorded on an accrual basis but has to be recognized in its full amount at the date of realization. Dividends have to be recognized as soon as a legal entitlement to the payment of such a dividend is established.

Revenue from contracts with customers

Revenue from contracts with customers has to be recognized when the underlying services have been performed, it is probable that the economic benefits will flow to the group, and the amount of revenue can be reliably measured. Performance obligations have to be satisfied either at a point in time when the services are provided or over time. In the property development business, performance obligations are satisfied gradually upon the completion of the individual construction phases.

Fee and commission income from the securities business, from payments processing including card processing as well as fee and commission income from the lending business and trust activities have to be recognized immediately after the provision of the service.

In the case of performance-related management fees, income has to be recognized when the contractually agreed performance criteria have been satisfied.

The distinction of fee and commission income between IFRS 9 and IFRS 15 is based on whether fees and commissions are a material part of the effective interest rate. Fees and commissions that represent an integral component of the effective interest rate do not fall within the scope of IFRS 15 and are therefore accounted for in accordance with IFRS 9.

Insurance business

For each insurance contract, gross premiums written have to be calculated pro rata temporis for an exact number of days based on the actual start date of the insurance. These premiums have to comprise all amounts that become due in the financial year in connection with insurance premiums, premium installments, and one-off premiums for direct insurance and reinsurance business. Premiums for unit-linked life insurance, except capitalization transactions without policyholder participation, also have to be recognized as gross premiums written.

The components of premiums covering administration fees have to be reported pro rata temporis as income in the income statement. In the case of index-linked policies and service contracts, additional administration charges, fees, and commissions have to be deferred and apportioned over the relevant periods in line with the service performed.

Cash and cash equivalents

Cash on hand and balances with central banks have to be recognized as cash and cash equivalents.

Cash on hand has to comprise euros and other currencies measured at face value or translated at the buying rate. Balances with central banks also comprise deposit facilities payable on demand. Balances with central banks have to be assigned to the "Financial assets measured at amortized cost" category. Interest income on cash and cash equivalents has to be recognized as interest income from lending and money market business.

Loans and advances to banks and customers

All receivables attributable to registered debtors that are categorized as "financial assets measured at amortized cost," "financial assets measured at fair value through profit or loss," or "financial assets measured at fair value through other comprehensive income" or for which the fair value option is exercised have to be 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 have to include promissory notes and registered bonds.

Loans and advances to banks and customers have to be measured at amortized cost. In fair value hedges, the carrying amounts of hedged receivables have to be adjusted by the change in the fair value attributable to the hedged risk. The resulting hedge adjustments to the carrying amount have to be recognized within other gains and losses on valuation of financial instruments under gains and losses from hedge accounting. To avoid or significantly reduce accounting mismatches, certain loans and advances have to be designated as "financial assets measured at fair value through profit or loss." Finance lease receivables have to be recognized and measured in accordance with the requirements for the accounting treatment of leases.

Interest income on loans and advances to banks and customers has to be recognized as interest income from lending and money market business. This also includes gains and losses on the sale of loans and advances to banks and customers classified as "financial assets measured at amortized cost" and the amortization of hedge adjustments to the carrying amounts arising on the accounting for fair value hedges. Gains and losses on the valuation of loans and advances designated as at fair value through profit or loss have to be shown under the same item as part of other gains and losses on valuation of financial instruments.

Hedging instruments (positive and negative fair values)

The carrying amounts of financial instruments designated as hedging instruments in effective and documented hedging relationships have to be reported under either “Hedging instruments (positive fair values)” or “Hedging instruments (negative fair values).”

These financial instruments have to be measured at fair value. Changes in the fair value of hedging instruments of the category “Financial assets measured at fair value through profit or loss” used in fair value hedges have to be recognized in the income statement as an element of other gains and losses on valuation of financial instruments under gains and losses from hedge accounting. If the hedged item is an equity instrument in which changes in fair value are recognized in other comprehensive income, the changes in the fair value of the hedging instruments also have to be recognized in other comprehensive income.

In the case of financial instruments used for cash flow hedges or hedges of net investments in foreign operations, changes in fair value attributable to the effective portion of the hedges must be recognized in other comprehensive income, and reported in equity in the reserve from other comprehensive income. Changes in fair value attributable to the ineffective portion of hedges have to be included in other gains and losses on valuation of financial instruments under gains and losses from hedge accounting.

Financial assets and financial liabilities held for trading

Financial assets and financial liabilities held for trading have to comprise solely financial assets and financial liabilities that are held for trading.

Derivatives with positive fair values have to be classified as financial assets held for trading if they were entered into for trading purposes or, despite being intended to be used as hedges, do not meet the requirements for an accounting treatment as hedging instruments.

The procedure for classifying derivatives with negative fair values as financial liabilities held for trading has to be the same as that used for financial assets held for trading.

Financial instruments reported as financial assets or financial liabilities held for trading always have to be measured at fair value through profit or loss. Gains and losses on valuation, interest income and expense, and dividends arising from financial assets and financial liabilities held for trading have to be recognized under gains and losses on trading activities, provided that there is an actual intent to trade the instruments concerned.

Gains and losses on the valuation of derivative financial instruments entered into for hedging purposes, but not recognized under hedge accounting criteria, have to be 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 hedging purposes are recognized under gains and losses on financial instruments designated as at fair value through profit or loss. Interest income and interest expense arising in connection with derivatives that were not entered into for trading purposes or are used to hedge financial instruments designated as at fair value through profit or loss have to be reported under net interest income.

Investments

The following have to be recognized as investments: bearer bonds and other fixed-income securities, shares and other variable-yield securities, and other bearer or registered shareholdings in entities where there is no significant influence, provided that these securities or shares are not held for trading purposes. Investments also have to include investments in non-consolidated subsidiaries as well as investments in joint ventures and associates.

Investments have to be recognized initially at fair value. Joint ventures and associates accounted for using the equity method in accordance with IAS 28.10–19 have to be recorded at cost upon initial recognition. These investments have to be subsequently measured in accordance with the principles applicable to the relevant measurement category. In the case of investments in joint ventures and associates, the equity method has to be used generally for subsequent measurement.

Loss allowances on investments have to be reported either as a separate line item on the assets side of the balance sheet or in reserve from other comprehensive income.

Interest and any investment premiums or discounts amortized over the maturity of the investment have to be recognized under net interest income. Dividends derived from equity instruments have to be recognized as current income under net interest income. Gains or losses on investments accounted for using the equity method also have to be reported under net interest income. Loss allowances and reversals of allowances as well as gains and losses realized on the sale of investments in associates and in joint ventures accounted for using the equity method have to be included in gains and losses on investments.

Loss allowances

Loss allowances for cash and cash equivalents, loans and advances to banks and customers and investments measured at amortized cost or designated as finance leases have to be reported as a separate line item on the assets side of the balance sheet. Additions to loss allowances for these balance sheet items, and any reversals of such allowances, have to be recognized under loss allowances in the income statement.

Loss allowances for investments held by insurance companies and other assets held by insurance companies measured at amortized cost have to be netted with the carrying amounts of these assets. Additions to loss allowances for these balance sheet items, and any reversals of such allowances, have to be recognized under gains and losses on investments held by insurance companies and other insurance company gains and losses in the income statement.

Loss allowances for loans and advances to banks and customers, for investments, and for investments held by insurance companies that are measured at fair value through other comprehensive income do not have to be reported on the assets side of the balance sheet but instead in reserve from other comprehensive income. Additions and reversals of loss allowances have to be recognized in the income statement under loss allowances and gains and losses on investments held by insurance companies and other insurance company gains and losses.

The recognition of loss allowances also covers changes in the provisions for loan commitments, provisions for financial guarantee contracts, and other provisions for loans and advances. Any additions to, or reversals of, provisions for loan commitments and financial guarantee contracts and other provisions for loans and advances are also recognized in profit or loss under loss allowances.

Property, plant and equipment, investment property, and right-of-use assets

Property, plant and equipment, investment property, and right-of-use assets have to comprise land and buildings, office furniture and equipment with an estimated useful life of more than one year used by the Cooperative Financial Network. This item also has to include assets subject to operating leases as well as right-of-use assets from leases. Investment property has to include real estate held for the purposes of generating rental income or capital appreciation.

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

Right-of-use assets from leases have to be recognized in accordance with lease accounting rules and have to be reduced in subsequent financial years by cumulative depreciation and impairment losses.

Depreciation on property, plant and equipment, investment property, and right-of-use assets have to be recognized as administrative expenses. Impairment losses and reversals of impairment losses are reported under other net operating income.

Income tax assets and liabilities

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

Deferred tax assets and liabilities have to be 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 also have to be recognized in respect of as yet unused tax loss carryforwards, provided that utilization of these loss carryforwards is sufficiently probable. Deferred tax assets have to be measured using the national and company-specific tax rates expected to apply at the time of realization.

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

Other assets

Other assets comprise intangible assets and assets held for sale.

Intangible assets have to be recognized at cost. In the subsequent measurement of software, acquired customer relationships, and other intangible assets with a finite useful life, carrying amounts have to be reduced by cumulative amortization and cumulative impairment losses. Goodwill and other intangible assets with an indefinite useful life do not have to be amortized, but are subject to an impairment test at least once during the financial year in accordance with IAS 36.7–57.

Non-current assets held for sale have to include assets or groups of assets and liabilities for which a sale is planned and where the carrying amount is recovered principally through a sale transaction rather than through their continuing use. Therefore, they need to be classified as held for sale if the criteria set out below are satisfied.

To be classified as held for sale, the assets or disposal groups must be available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets or disposal groups, and it must be highly probable that a sale will take place. A sale is deemed to be highly probable if there is a commitment to a plan to sell the asset or disposal group, an active program to locate a buyer and complete the plan has been initiated, the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to the current fair value, and a sale is expected to be completed within one year of the date on which the asset or disposal group is classified as held for sale.

Assets classified as held for sale have to be measured at the lower of carrying amount and fair value less costs to sell. The assets do no longer have to be depreciated from the date on which they are classified as held for sale.

Assets and disposal groups classified as held for sale have to be shown on the balance sheet under other assets as assets and disposal groups classified as held for sale and in other liabilities as liabilities included in disposal groups classified as held for sale. Gains and losses arising on measurement as well as gains and losses on the sale of these assets or disposal groups that do not belong to a discontinued operation have to be recognized in the income statement under other net operating income. If the assets or disposal groups belong to discontinued operations, all gains and losses arising from these assets and disposal groups must be shown separately as profit/loss from discontinued operations.

Deposits from banks and customers

All liabilities attributable to registered creditors not classified as “financial liabilities mandatorily measured at fair value through profit or loss” have to be recognized as deposits from banks and customers.

Deposits from banks and customers have to be measured at amortized cost. Where deposits from banks and customers are designated as a hedged item in an effective fair value hedge, the carrying amount has to be adjusted for any change in the fair value attributable to the hedged risk. If, to avoid or significantly reduce accounting mismatches, the fair value option is applied for deposits from banks and customers, the liabilities have to be measured at fair value as at the balance sheet date.

Interest expense on deposits from banks and customers have to be 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 have to be reported within other gains and losses on valuation of financial instruments under gains and losses from hedge accounting. If the fair value option has been exercised for liabilities, the gains and losses on valuation have to be recognized under gains or losses from non-derivative and embedded derivative financial instruments as part of other gains and losses on valuation of financial instruments.

Debt certificates issued including bonds

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

Debt certificates issued including bonds and gains and losses on these certificates have to be measured and recognized in the same way as deposits from banks and customers.

Provisions

Provisions are liabilities in which the amounts or due dates are uncertain. Provisions have to be recognized for present obligations arising out of past events, in which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

The provisions have to be recognized and 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.

Provisions for defined benefit plans
Where a commitment is made to defined contribution plans, fixed contributions have to be paid to external pension providers. The amount of the contributions and the income earned from the pension assets determine the amount of future pension benefits. The risks arising from the obligation to pay such benefits in the future lie with the pension provider. No provisions have to be recognized for these indirect pension commitments. The contributions paid have to be recognized as pension and other post-employment benefit expenses under administrative expenses.

Under a defined benefit plan, the employer promises a specific benefit and bears all the risks arising from this commitment. Defined benefit obligations have to be measured on the basis of the projected unit credit method. The measurement depends on various actuarial assumptions. These have to include, in particular, assumptions about long-term salary and pension trends and average life expectancy. Assumptions about salary and pension trends have to be based on past trends and take account of expectations about future labor market trends. Generally accepted biometric tables (2018 G mortality tables published by Professor Dr. Klaus Heubeck) have to be used to estimate average life expectancy. The discount rate used to discount future payment obligations must correspond to an appropriate market interest rate for high-quality fixed-income corporate bonds with a maturity equivalent to that of the defined benefit obligations. The discount rate depends on the obligation structure (duration) and must be determined using a portfolio of high-quality corporate bonds that must satisfy certain criteria in terms of quality and volume (outstanding face value). One of the notable quality criteria is an average AA rating from Moody's Investors Service, New York, Standard & Poor's, New York, Fitch Ratings, New York/London, and DBRS, Toronto. Bonds with existing call options in the form of embedded derivatives do not have to be included in this process. The defined benefit obligations of the cooperative banks and of MHB have to be based on the principles set out above, applying a typical underlying benefit commitment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions regarding the defined benefit obligations, and gains and losses arising from the remeasurement of plan assets and reimbursement rights have to be recognized in other comprehensive income in the reporting period in which they occur.

Provisions for loan commitments and provisions for financial guarantee contracts
Provisions for loan commitments and provisions for financial guarantee contracts are recognized at the amount of the loss allowance for expected credit losses on the basis of the same model used for financial assets.

Other provisions for loans and advances
Other provisions for loans and advances have to factor in the usual sector-specific level of uncertainty. The underlying assumptions and estimates used have to include figures based on past experience as well as expectations and forecasts relating to future trends and developments.

Provisions relating to building society operations
Provisions relating to building society operations have to be recognized to cover the payment of any bonuses that may have been agreed in the terms and conditions of home savings contracts. These bonuses may take the form of a reimbursement of some of the sales charges or interest bonuses on deposits.

Residual provisions
The residual provisions have to include, among others, additional provisions for employee benefits, such as provisions for other long-term employee benefits (e.g. for semi-retirement arrangements, Altersteilzeit), provisions for termination benefits (e.g. early retirement arrangements) and provisions for short-term employee benefits.

Residual provisions also have to include provisions for restructuring measures as well as provisions for risks arising from ongoing legal disputes. Provisions for risks arising from ongoing legal disputes have to be recognized when it is more likely than not that the relevant legal dispute will result in a payment obligation. The recognized amount is based on the potential resulting losses.

Subordinated capital

Subordinated capital has to comprise 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 and gains and losses on this capital have to be measured and recognized in the same way as deposits from banks and customers.

Equity

Equity has to represent the residual value of the Cooperative Financial Network's assets minus its liabilities. Cooperative shares of the independent local cooperative banks and capital of silent partners have to be treated as economic equity in the consolidated financial statements and have to be recognized as equity. Equity thus has to comprise subscribed capital – consisting of cooperative shares or share capital and capital of silent partners – plus capital reserves of the local cooperative banks. In addition, equity earned by the Cooperative Financial Network, reserve from other comprehensive income, additional equity components as well as non-controlling interests in the equity of consolidated companies also have to be included.

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 have to be 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 have to be netted and have to be included in the fee and commission income earned from lending and trust activities.

Explanatory information on the consolidated financial statements

The consolidated financial statements must include explanatory information in accordance with the following prerequisites:

- The disclosures required in accordance with IFRS 12 "Disclosure of Interests in Other Entities" have to be made;
- Disclosure of a segment report in accordance with IFRS 8.5–19 "Operating Segments";
- Further explanations and breakdowns of the material components of income statement and balance sheet items;
- Presentation of the changes in the development of loss allowances (balance sheet and income statement; reconciliation of opening balance to closing balance);
- Reconciliation in accordance with IAS 12.81(c) to present the relationship between notional income taxes and recognized income taxes, based on application of the current tax law in Germany;
- Changes in the present value of defined benefit obligations as well as changes in plan assets in accordance with IAS 19.140;
- Disclosures on financial instruments in accordance with IFRS 7.25 and IFRS 7.39(a);
- Disclosures on capital requirements and regulatory indicators:
  - The disclosures have to refer to the institutional protection system (cooperative joint liability scheme). The disclosures in relation to own funds and capital requirements have to be based on the information of the extended aggregated calculation in accordance with article 49 (3) CRR in conjunction with article 113 (7) CRR ("EZR").
  - As at December 31, 2019, the presentation of the leverage ratio of the bank-specific

protection system of the Cooperative Financial Network has to comply with the requirements set out in article 429 CRR. Tier 1 capital has to be used as the capital measure pursuant to the extended aggregated calculation in accordance with article 49 (3) CRR, adjusted by any Tier 1 capital items of the members of the bank-specific protection system held internally within the Cooperative Financial Network. The exposure values have to be determined by aggregating the individual figures reported for the leverage ratio of all member institutions and adjusted by material items held internally within the Cooperative Financial Network.
  - The cooperative banks and Münchener Hypothekenbank have to be included on an individual basis using the respective reports. DZ BANK has to be taken into account based on its own reporting on a consolidated basis. The report submitted by the DZ BANK Group has to be based on the regulatory scope of consolidation.
  - The underlying report forms of the members of the Institutional Protection Scheme (IPS) as at December 31, 2019 have to comply with the Commission Implementing Regulation (EU) No. 680/2014, which was amended by Commission Implementing Regulation (EU) No. 2016/428 to the amendments of Delegated Regulation (EU) No. 2015/62 dated October 10, 2014.
- Breakdowns of the composition of financial guarantee contracts and loan commitments, trust activities, asset management of Union Investment Group, changes in the contract portfolios as well as changes in the allocation assets of Bausparkasse Schwäbisch Hall, cover statement for the mortgages and local authority loans extended by the mortgage banks;
- Disclosures on leases in accordance with IFRS 16.94 and IAS 17.47 for prior-year comparatives;
- A list of the members of BVR's Board of Managing Directors;
- The signing of the consolidated financial statements by the Board of Managing Directors, including the signature date.

Management report including risk report

The principles set out in section 315 (1) sentences 1 to 4 HGB have to be complied with in the preparation of the management report including risk report. Non-financial performance indicators within the meaning of section 315 (3) HGB have to be disclosed accordingly. The relevant non-financial indicators concerning employee matters such as training quota, the number of employees, the length of employee service and the academics quota have to be presented in the section "Human resources report". The relevant non-financial performance indicators regarding corporate social responsibility and financial assistance such as sponsoring have to be presented in the section "Sustainability report". The risk report has to present the disclosures pursuant to section 315 (2) sentence 1 No. 1 HGB, based on a corresponding application for the Volksbanken Raiffeisenbanken Cooperative Financial Network taken as a whole and has to fulfill the purpose of a bank-specific protection system. In addition, a presentation has to be made in relation to the material opportunities and of the risk management in the Cooperative Financial Network and, in connection with the report on expected developments, an outlook has to be provided about the development of major elements of the income statement.

Ratings	Fitch Ratings (network rating)	Standard & Poor’s
Long-term issuer default rating	AA–	AA–
Short-term issuer default rating	F1+	A–1+
Support rating	5	*
Outlook	Negative**	Negative***
Individual Rating	aa–	aa–

* Standard & Poor’s does not provide this kind of rating.
** March 27, 2020.
*** September 18, 2019.

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

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