Consolidated Financial Statements 2016

of the Volksbanken Raiffeisenbanken
Cooperative Financial Network

Volksbanken Raiffeisenbanken Cooperative Financial Network

Facts and Figures at a Glance

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

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

Volksbanken Raiffeisenbanken Cooperative Financial Network	2016 € million	2015 € million	Change (percent)
Financial performance			
Net interest income	18,826	20,021	–6.0
Allowances for losses on loans and advances	–522	–74	>100.0
Net fee and commission income	5,963	5,798	2.8
Gains and losses on financial and commodities activities[1]	942	409	>100.0
Net income from insurance business[2]	1,119	993	12.7
Profit before taxes	8,308	9,787	–15.1
Net profit	5,898	6,967	–15.3
Net assets			
Loans and advances to banks	41,433	32,988	25.6
Loans and advances to customers	733,155	700,608	4.6
Allowances for losses on loans and advances	–7,520	–7,631	–1.5
Financial assets held for trading	48,270	53,570	–9.9
Investments	251,965	249,960	0.8
Investments held by insurance companies	89,435	82,766	8.1
Remaining assets	59,042	50,258	17.5
Financial position			
Deposits from banks	103,282	99,505	3.8
Deposits from customers	774,302	739,218	4.7
Debt certificates issued including bonds	71,122	70,248	1.2
Financial liabilities held for trading	44,139	45,397	–2.8
Insurance liabilities	84,125	78,929	6.6
Remaining liabilities	40,241	36,215	11.1
Equity	98,569	93,007	6.0
Total assets / total equities and liabilities	**1,215,780**	**1,162,519**	**4.6**
Volume of business[3]	**1,599,431**	**1,510,001**	**5.9**
Profitability/efficiency			
Cost/income ratio (percent)	67.0	63.6	
Return on equity (percent)[4]	8.7	7.8	
Average equity	95.788	89.754	
Return on capital employed (percent)[5]	0.5	0.6	
Regulatory capital ratios			
Tier 1 capital ratio (percent)	13.1	12.4	
Total capital ratio (percent)	16.1	15.8	
Employees as at reporting date	**181,740**	**187,616**	**–3.1**

(See back inside cover for footnotes 1–5)

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In Brief

In 2016, the Volksbanken Raiffeisenbanken Cooperative Financial Network generated a profit before taxes calculated in accordance with International Financial Reporting Standards (IFRS) of €8.3 billion. The Cooperative Financial Network's annual consolidated financial statements include all 972 cooperative banks in Germany, along with DZ BANK and the specialized service providers in the Cooperative Financial Network, such as Bausparkasse Schwäbisch Hall, Union Investment, and R+V Versicherung. The strong growth of the customer business had a significant influence on profit before taxes but was able to only partly offset the decline in interest income. Although this meant that the Cooperative Financial Network was unable to match the exceptionally good profit before taxes of €9.8 billion reported for 2015, it can look back on another successful financial year, remaining one of the most profitable banking groups in Europe.

The Cooperative Financial Network is successful in the market, enjoys high customer approval, has a healthy balance sheet with strong capital adequacy, and has the resources to bear the risks arising from the low-interest-rate environment even over the longer term. The Cooperative Financial Network is helping to shape the future with large-scale projects in the areas of sales and digitalization. It is accompanying its customers as they enter the world of digital banking while retaining personal contact and high-quality advice as core elements of its cooperative business model.

The strength of the customer business was reflected in the 2.8 percent rise in net fee and commission income to €6.0 billion. Net interest income, which was affected by the ongoing period of low interest rates, amounted to €18.8 billion, compared with €20.0 billion in 2015. Last year, the Cooperative Financial Network was able to use its own resources to achieve a further substantial increase in its equity to €98.6 billion.

In 2016, the Cooperative Financial Network's net profit after taxes came to €5.9 billion (2015: €7.0 billion). There was steady growth in the Cooperative Financial Network's total assets, which were up by 4.6 percent to more than €1.2 trillion. In absolute terms, the customer lending business was the biggest driver of the increase in the assets on the consolidated balance sheet. Demand for long-term consumer home finance remained high in 2016. Loans to customers rose by a total of 4.6 percent to €733.2 billion in the reporting year. The increase in lending to corporate customers (loans to non-financial companies and self-employed people) by the local cooperative banks was mainly attributable to lending to service providers. The Cooperative Financial Network's deposits from customers were up by 4.7 percent to €774.3 billion, ensuring that the funding structure remains robust.

Management Report 2016

General Information about the Volksbanken Raiffeisenbanken Cooperative Financial Network

Structure, business model, and features of the IPS*

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

The Volksbanken Raiffeisenbanken Cooperative Financial Network consists of 972 primary banks (2015: 1,018), the DZ BANK Group, Münchener Hypothekenbank eG (MHB), the BVR protection scheme, and BVR Institutssicherung GmbH as consolidated entities. The consolidated primary banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

The primary banks and MHB are the legally independent, equally ranked parent entities of the Cooperative Financial Network, whereas the other entities and corporate groups 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 the BVR-ISG protection scheme. The two institutional protection schemes are mutually complementary.

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

Definition of the main operating segments

The definitions of the operating segments Bank, Retail, Real Estate Finance, and Insurance, which are covered by the section on business performance, can be found in the notes to the annual consolidated financial statements starting on page 65.

*Institutional Protection Scheme

Management Report 2016

Business Performance

Economic conditions

The German economy again recorded solid growth in the financial year 2016. It was the third consecutive year in which the growth rate was higher than that of the previous year. Adjusted for inflation, gross domestic product (GDP) grew by 1.9 percent compared with 2015, following a growth rate of 1.7 percent in 2015 relative to 2014. The upward trend has therefore gained further momentum.

The positive trend was mostly fueled by impetus from within Germany. At a rate of 2.1 percent, growth in consumer spending accelerated slightly compared with the 2015 rate of 2.0 percent. Consumer spending was bolstered by stability in the labor market and favorable financing conditions resulting from the ultra-expansionary monetary policy of the European Central Bank (ECB). In particular, the 4.0 percent rise in government spending was much bigger than the increase in 2015 (2.7 percent). This increase was closely connected to measures taken by the government to manage the influx of refugees and cover integration-related costs.

Capital expenditure growth, on the other hand, remained moderate. So far, the current economic upturn has seen only below-average capital investment activity compared to past periods of economic recovery. In addition, capital spending was also spread unevenly across different sectors of the economy. Although gross investment in plant and equipment recorded moderate growth of 2.2 percent, this increase was mostly attributable to a strong pick-up in investment in house-building. Companies in the commercial construction and equipment sector enjoyed a healthy order book situation in 2016, but only showed limited propensity to invest.

Due to global economic uncertainties, there was only slight growth in German exports. Emerging economies such as China and Brazil had to weather a weak period in 2016 but managed to overcome this at the end of the year, although the underlying problems were only resolved superficially (e.g. China's debt-driven construction boom, or the high level of dependency of oil-exporting countries on income from commodities). In addition, global trade grew less dynamically than in previous economic cycles, despite the recent emergence of an upturn. However, the German economy's import growth declined as well, keeping the export surplus for 2016 unchanged at the high level of 7.6 percent of GDP.

One noticeably beneficial factor for the German economy was the low oil price, which temporarily dropped below US$ 30 at the start of 2016. Over the course of the year, prices stabilized just below US$ 50 per barrel after the members of the Organization of the Petroleum Exporting Countries (OPEC) reached agreement about binding production volumes and largely adhered to them. The drop in the price of crude oil led to low inflation in Germany in 2016, with an average for the year of 0.4 percent. The ECB's efforts to boost inflation in the eurozone did not achieve a sustained rise in inflation rates, despite zero interest rates and extensive intervention in the financial markets.

The stated aim of the ECB is to guide inflation in the eurozone back to a level close to, but below, 2 percent in order to secure sustained support for growth in the eurozone through increased lending by banks. In early March 2016, the ECB therefore decided to lower the key interest rate by a further 5 basis points (from 0.05 percent to 0.00 percent) and to reduce the deposit facility for banks even further (from -0.2 percent to -0.4 percent). In addition, the ECB decided to step up its monthly bond purchases from €60 billion to €80 billion for the period from April 2016 until the end of March 2017. At its meeting on December 8, 2016, the ECB decided to continue the monthly bond purchases at a reduced volume of €60 billion until the end of 2017.

At the end of 2016, the German labor market recorded its highest level of employment since the country's reunification. On average, 43.59 million people were employed or self-employed in 2016 (up by 530,000 compared with 2015). The unemployment rate averaged 6.1 percent (2015: 6.4 percent), coming close to the threshold for full employment. Moreover, the rising number of vacant positions indicates a pressing shortage of skilled labor in Germany.

Volksbanken Raiffeisenbanken Cooperative Financial Network

Business situation

In a difficult market environment that was predominantly characterized by extremely low interest rates, the Volksbanken Raiffeisenbanken Cooperative Financial Network successfully stood its ground once again in 2016 and managed to sustain the excellent performance achieved in previous years. With a profit before taxes of €8,308 million (2015: €9,787 million), the Cooperative Financial Network reasserted its claim to a place among the most profitable banking groups in Europe and underpinned its impressive market positioning.

In 2016, the cooperative banks' volume of lending to retail and corporate customers reached a record high, aided by robust economic conditions in general and strong domestic demand in particular. Overall, lending to retail and corporate customers increased by 4.6 percent, which is only marginally below the 2015 growth rate. Real-estate finance was once again the key driver for growth in lending to retail customers. The market share of retail customer business again increased slightly year on year. The primary banks' lending to corporate customers again expanded significantly, recording a growth rate of 4.7 percent. The market share of corporate customer business also increased again slightly. Lending to service providers was particularly strong. This segment accounted for more than half of all corporate customer loans in the primary bank business and achieved above-average growth rates. The deposit-taking business of the Cooperative Financial Network also saw steady growth, allowing the strong increase in lending to be funded in full by the sharp rise in deposits from customers.

Equity advanced again, from €93.0 billion in 2015 to €98.6 billion in 2016. This represented a further substantial year-on-year increase in equity of €5.6 billion (2015: increase of €6.5 billion) and was achieved despite the persistently difficult operating conditions, thereby underlining the sustainability of the Cooperative Financial Network's successful business model and strengthening its future viability. The sound level of capital adequacy provides the Cooperative Financial Network with a sufficient risk buffer while at the same time enabling it to expand its lending business with retail and corporate customers. The network also meets the standards it has set itself for satisfying the growing number of regulatory requirements.

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

The popularity of the Cooperative Financial Network in the market was once again clearly demonstrated in 2016 by the further sustained growth in its membership. Since 2006, the membership base of the local cooperative banks has grown by more than 2.5 million members. In 2016, the German cooperative banks gained 152,000 members, bringing the total to 18.4 million as at December 31, 2016. The average number of members per local cooperative bank increased to nearly 19,000.

Financial performance

Net interest income for 2016 decreased slightly year on year to €18,826 million (2015: €20,021 million). This figure was primarily influenced by the ECB's low-interest-rate policy and the resulting deterioration of margins. The local cooperative banks' net interest income, the biggest source of income for the Cooperative Financial Network, also declined year on year, from €16,569 million in 2015 to €16,052 million in 2016.

Allowances for losses on loans and advances increased from €74 million in 2015 to €522 million in 2016. This was mainly due to a greater requirement for loss allowances on legacy exposures in ship and offshore financing against a backdrop of tough market conditions.

Net fee and commission income improved again slightly, by 2.8 percent, from €5,798 million in 2015 to €5,963 million in 2016. The increase primarily resulted from improved contributions to income from the lending and securities business.

The Bank operating segment accounts for most of the **gains and losses on trading activities** of the Cooperative Financial Network. In 2016, this figure increased by €492 million to a net gain of €1,099 million, compared with a net gain of €607 million in 2015. The noticeable improvement in gains and losses on trading activities resulted primarily from positive measurement effects for own issues and a larger contribution from trading income in the operating business.

Gains and losses on investments recovered from a net loss of €561 million in 2015 to a net gain of €33 million in 2016. This improvement was mainly attributable to the fact that the prior-year figure had been impacted by negative effects from the measurement of securities.

Other gains and losses on valuation of financial instruments declined from a net gain of €363 million in 2015 to a net loss of €190 million in the reporting year. The main cause of this decrease was a market-related widening of credit spreads on bonds from the peripheral countries of the eurozone. By contrast, the previous year had seen a narrowing of these credit spreads.

Net income from insurance business climbed by 12.7 percent to €1,119 million in 2016 (2015: €993 million). The main reason for this change was a marked improvement in gains and losses on investments held by insurance companies and other insurance company gains and losses with a slight increase in premium income, although some of the gains were offset by higher insurance benefit payments.

Administrative expenses increased by €710 million, from €17,234 million in 2015 to €17,944 million in the reporting period. The bulk of the administrative expenses were attributable to staff expenses, which came to €10,318 million in 2016 (2015: €10,160 million).

Income taxes amounted to €2,410 million in 2016 (2015: €2,820 million), with most of this amount (€2,497 million) attributable to current income taxes. This once again underlines the particular importance of the Cooperative Financial Network for Germany’s regional authorities by virtue of it being one of the largest municipal tax payers.

The net profit for 2016 after tax amounted to €5,898 million, compared with €6,967 million in 2015.

The Cooperative Financial Network’s **cost/income ratio** amounted to 67.0 percent in 2016 (2015: 63.6 percent).

Financial position

Total assets of the Volksbanken Raiffeisenbanken Cooperative Financial Network had risen by €53.3 billion to €1,215.8 billion as at December 31, 2016 (December 31, 2015: €1,162.5 billion). **The volume of business** increased from €1,510.0 billion in 2015 to €1,599.4 billion in 2016.

Of the total assets before consolidation, 60.6 percent was attributable to the primary banks (December 31, 2015: 60.0 percent) and 36.4 percent to the DZ BANK Group (December 31, 2015: 30.2 percent). As at December 31, 2015, the WGZ BANK Group had accounted for 6.7 percent of the Cooperative Financial Network’s total assets.

On the **assets** side of the balance sheet, loans and advances to customers grew by 4.6 percent to €733.2 billion (December 31, 2015: €700.6 billion). In 2016 again, this rise was primarily attributable to the primary banks, which achieved a gain of 4.5 percent and thus stayed close to the 2015 growth rate of 4.7 percent. As anticipated, long-term home finance was the main growth driver in the retail customer business. The increase in lending to corporate customers (loans to non-financial companies and self-employed people) by the local cooperative banks was mainly attributable to lending to service providers.

Financial performance

	2016 € million	2015 € million	Change (percent)
Net interest income	18,826	20,021	–6.0
Allowances for losses on loans and advances	–522	–74	>100.0
Net fee and commission income	5,963	5,798	2.8
Gains and losses on trading activities	1,099	607	81.1
Gains and losses on investments	33	–561	>100.0
Other gains and losses on valuation of financial instruments	–190	363	>100.0
Net income from insurance business	1,119	993	12.7
Administrative expenses	–17,944	–17,234	4.1
Other net operating expense income	–76	–126	–39.7
Profit before taxes	**8,308**	**9,787**	**–15.1**
Income taxes	–2,410	–2,820	–14.5
Net profit	**5,898**	**6,967**	**–15.3**

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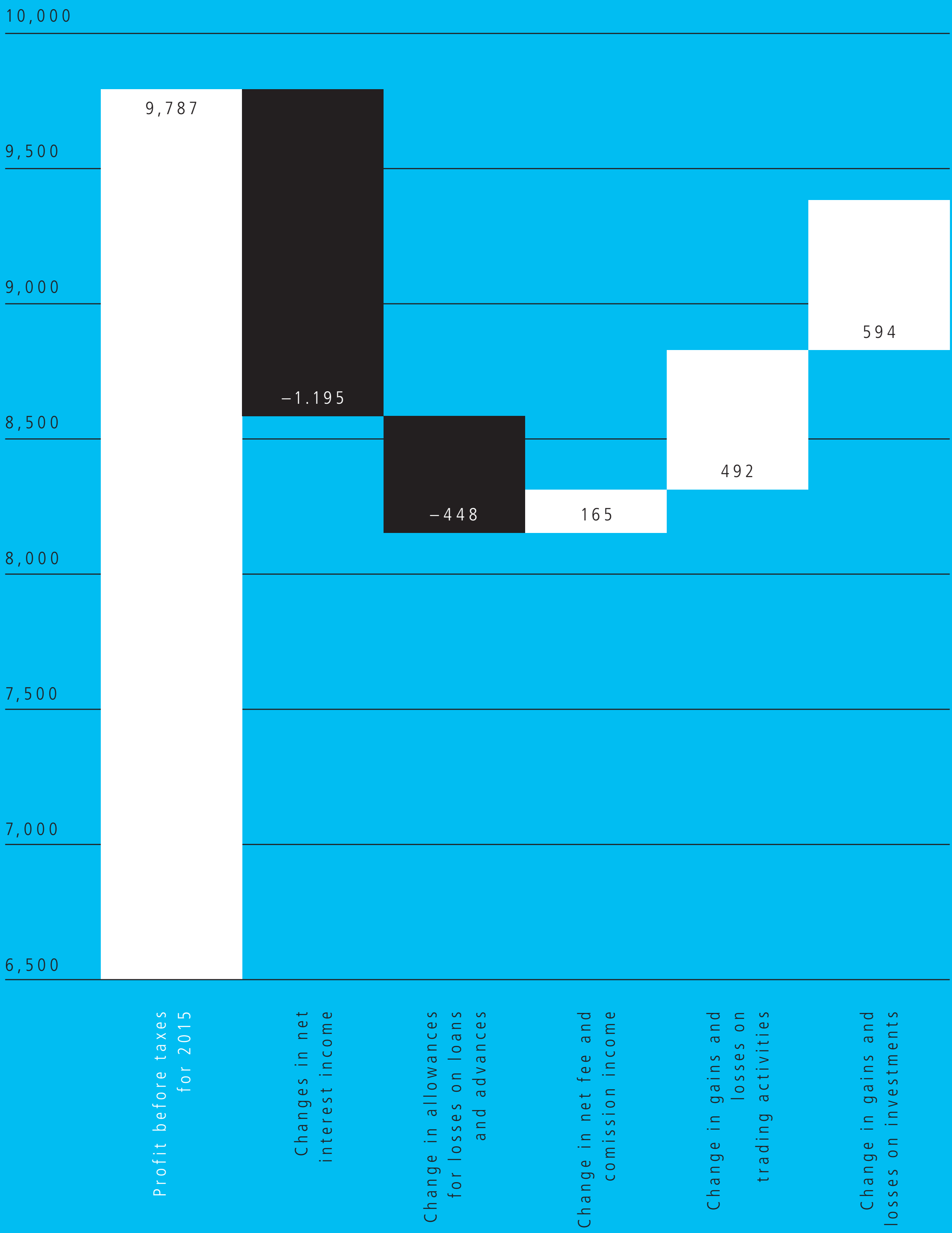
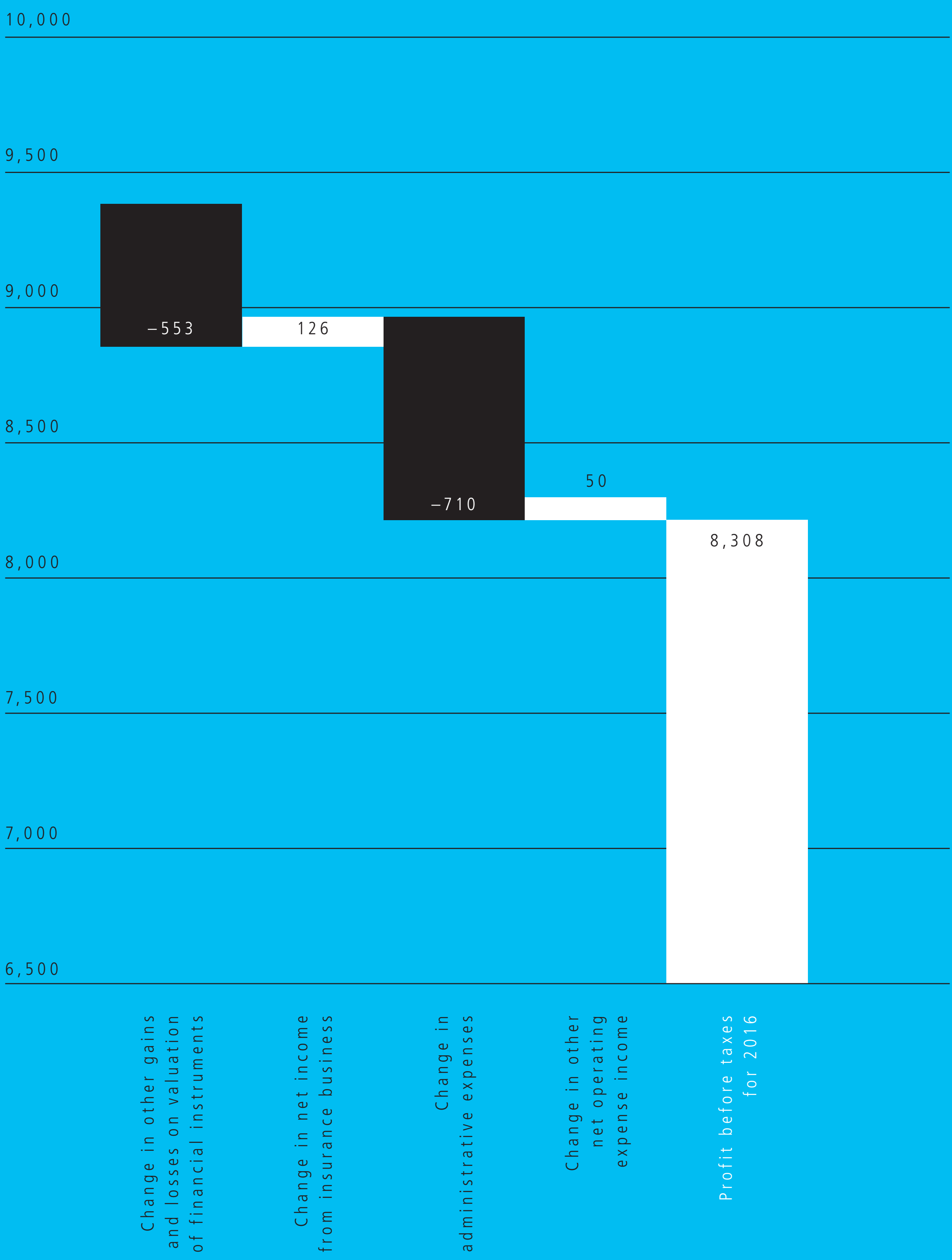
Breakdown of change in profit before taxes by income statement items

€ million




10,000
9,500
9,000
8,500
8,000
7,500
7,000
6,500
–553
126
–710
50
8,308
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 expense income
Profit before taxes for 2016

Financial assets held for trading contracted by €5.3 billion or 9.9 percent to €48.3 billion as at December 31, 2016 (December 31, 2015: 53.6 billion). This decline in financial assets held for trading resulted largely from a decrease in derivatives used for hedging (positive fair values) of 4.4 percent to €23.6 billion as well as a decrease in bonds and other fixed-income securities of €4.1 billion to €9.3 billion.

On the **equity and liabilities** side of the balance sheet, deposits from customers grew again, from €739.2 billion as at December 31, 2015 to €774.3 billion as at December 31, 2016. Deposits from banks also increased slightly, climbing by 3.8 percent to reach €103.3 billion at the end of the year (December 31, 2015: €99.5 billion).

Corresponding to the change in financial assets held for trading, financial liabilities held for trading fell by €1.3 billion or 2.8 percent to €44.1 billion (December 31, 2015: €45.4 billion). This fall was due, in particular, to a €2.7 billion decline in derivatives used for hedging (negative fair values) to €25.1 billion.

The equity attributable to the Cooperative Financial Network remained at a robust level, increasing by 6.0 percent to €98.6 billion as at December 31, 2016 (December 31, 2015: €93.0 billion). The main reason for this rise was the appropriation of profits generated in 2016 to boost reserves.

Capital adequacy and regulatory ratios

The disclosures relate to the institutional protection scheme (cooperative joint liability scheme) and the respective reporting date. 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) in conjunction with article 113 (7) of the Capital Requirements Regulation (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 primary institutions. From the perspective of the institutional protection scheme, the growth in own funds therefore arises primarily from the profits generated by the primary banks and network institutions. Rights issues by the network institutions are for the most part subscribed internally and consolidated within the Cooperative Financial Network (scope of consolidation based on institutional protection scheme).

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 equity investments within the institutional protection scheme and therefore particularly affect equity investments of primary institutions and subordinate receivables due to them from network institutions, especially from DZ BANK AG. Consolidation measures are based on the corresponding own funds categories (corresponding approach).

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 institutional protection scheme that is lower than the corresponding ratio for the sum of all primary institutions.

As at December 31, 2016, the own funds of the Cooperative Financial Network amounted to €92.1 billion. The corresponding Tier 1 capital ratio including reserves in accordance with section 340f of the German Commercial Code (HGB) was 15.4 percent. Given the high quality of the capital, the equivalent fully loaded ratio was only slightly below this percentage, at 15.2 percent. The bulk (89.1 percent) of the total risk exposure of €572.5 billion subject to capital charges (see table on page 19) was attributable to counterparty risk.

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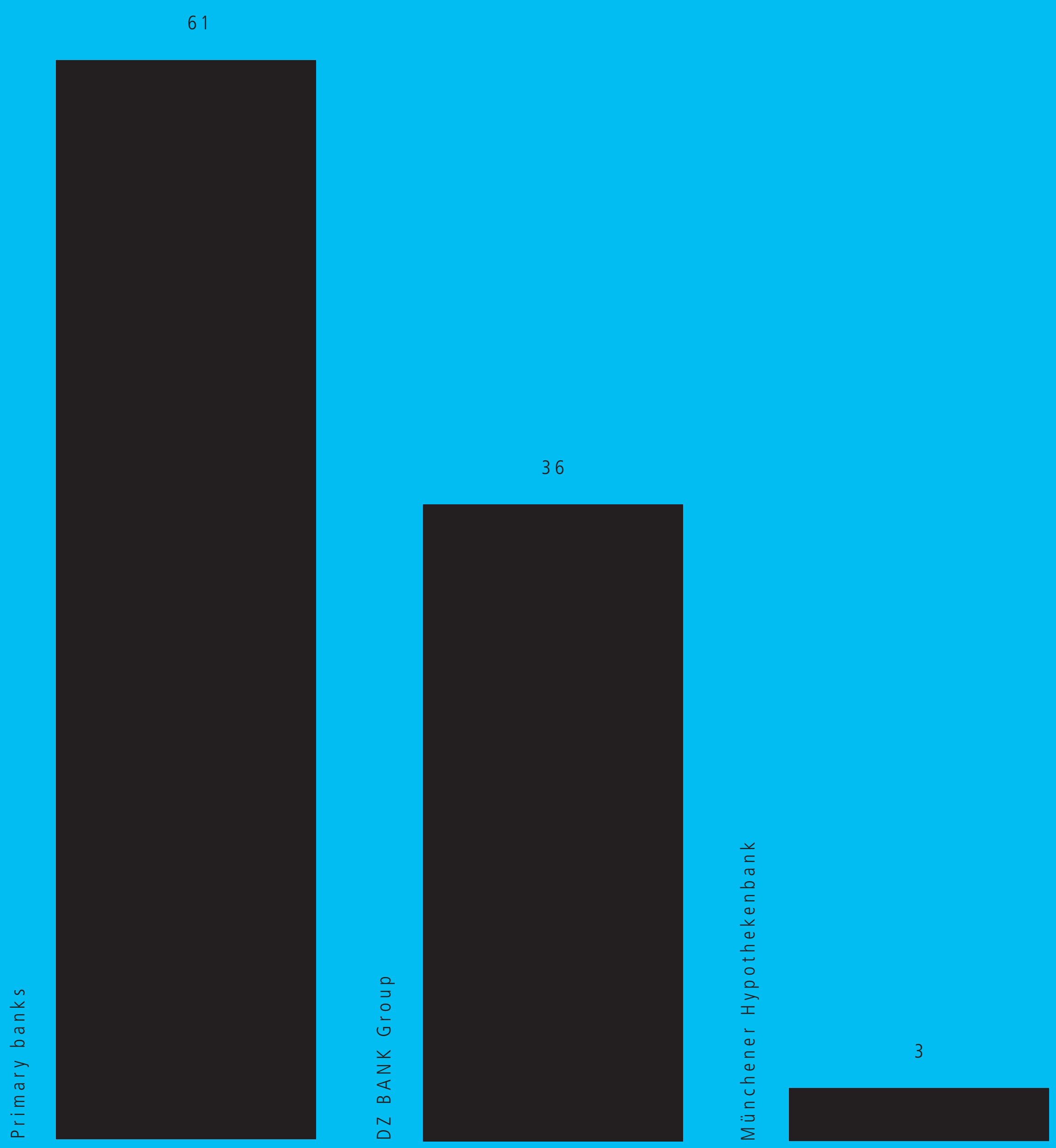
Breakdown of the total assets held in the Volksbanken Raiffeisenbanken Cooperative Financial Network as at December 31, 2016

(percent)



Breakdown of the total risk exposure

The leverage ratio for the institutional protection scheme of the Cooperative Financial Network as at December 31, 2016 was reported for informational purposes using the methodology specified in article 429 CRR. The capital measure was based on Tier 1 capital as determined in the extended aggregated calculation in accordance with article 49 (3) CRR, which is adjusted for all internal Tier 1 capital positions within the joint liability scheme of the members of the institutional protection scheme. The risk exposures were determined by aggregating the individual leverage ratio submissions by all the member banks and adjusting them for material internal exposures within the institutional protection scheme.

Using Tier 1 capital including reserves in accordance with section 340f HGB (fully loaded) as the capital basis, the leverage ratio was 7.3 percent. This ratio underlines the sound capital adequacy of the Cooperative Financial Network.

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Breakdown of the total risk exposure

€ million

	2016	2015
Risk-weighted exposure amounts for credit, counterparty, and dilution risk, and for free deliveries	510,093	488,513
Risk exposure amount for settlement and delivery risk	2,655	–
Total exposure amount for position, foreign-exchange, and commodities risk	10,193	15,521
Total amount of risk exposures arising from operational risk (OpR)	49,707	49,244
Additional risk exposure amount relating to overheads		–
Total amount of risk exposures for credit valuation adjustment (CVA)	2,463	2,674
Total amount of risk exposures relating to large exposures in the trading book	–	–
Other exposure amounts	–	–
Total risk exposure after adjustment	**572,458**	**555,952**

Operating segments of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Bank operating segment

The **net interest income** of the Bank operating segment declined by €394 million to €1,623 million in 2016 (2015: €2,017 million).

The net interest margin contribution in the corporate banking business increased against a backdrop of improving margins. With regard to the funding of small and medium-sized enterprises (SMEs), it can be noted that companies generally seem to be in crisis-resistant shape and show a strong propensity to invest. However, the corporate customer business in 2016 was adversely affected by general economic uncertainty in the eurozone and slowing economic growth in some of the larger emerging markets.

The net interest margin contribution from the development lending business in the Investment Promotion division increased year on year, despite a further contraction in margins. Performance in the main areas of development activity within traditional investment finance, which primarily include business start-ups and financing of innovation projects, remained steady in this highly competitive area of business. However, some growth was achieved in the development lending portfolios within the private house-building business and commercial environmental finance.

In the syndicated business/renewable energies product field, another small rise in the net interest margin contribution from finance connected with renewable energies was achieved in an increasingly competitive environment. In acquisition finance, large numbers of customers once again made use of the high degree of liquidity in bond markets to redeem their loans. This, in combination with a selective approach to the granting of new loans, led to a year-on-year contraction in the net interest margin contribution. The net interest margin contributions from international trade and export finance business and from project finance business both increased year on year.

In transport finance, net operating interest income (excluding income from long-term equity investments) improved, principally because of lower special accelerated depreciation allowances on assets subject to operating leases in 2016. In addition, net interest income continued to be adversely affected by significant pressure on interest margins as a consequence of the global increase in financing competition in the transport markets. Global freight and passenger transport was influenced by a modest economic upward trend in the eurozone, moderate growth in the US economy, and a slowdown of economic expansion in emerging markets, particularly China. At the same time, the pace of growth in global trade remained sluggish. In addition, individual segments of the international shipping market suffered from an excess supply of transport capacity. The persistently low oil price had a negative impact on offshore markets.

The leasing business saw a decrease in net operating interest income (excluding income from long-term equity investments) in 2016. This year-on-year fall was largely attributable to a decline in net operating interest income in the real-estate leasing, automotive trade, and vehicle fleet businesses, which, together with international business, have been defined as non-core business and are being scaled back. Against a backdrop of continuing low levels of interest rates and a further small reduction in the volume of finance leases, interest income sank as existing leases with higher rates of interest were progressively replaced by new leases with lower rates of interest.

Allowances for losses on loans and advances in the Bank operating segment increased from €94 million in 2015 to €523 million in 2016. This was mainly due to a greater requirement for loss allowances on legacy exposures in ship and offshore financing against a backdrop of tough market conditions.

Net fee and commission income came to €603 million in 2016 and was therefore once again slightly higher than in the previous year (2015: €586 million). The service contribution from the corporate banking business went up slightly. The service contributions improved in the product fields of syndicated business/renewable energies and project finance. The international trade and export finance product field also generated a higher service contribution year on year, while service contribution levels in the product fields of acquisition finance and asset securitization declined compared to 2015. The service contribution generated by the Operations/Services division in 2016 was also higher than the equivalent figure reported for 2015 as a result of a rise in the income from securities custody business. Net fee and commission income from lending in the transport finance business grew in 2016, most noticeably because of an increase in such income from new transport finance business.

The Bank operating segment's **gains and losses on trading activities** in 2016 came to a net gain of €851 million, up by €393 million compared with the 2015 figure of €458 million. Trends in capital markets were shaped by the ECB's decision in spring 2016 to step up its monetary policy measures while, at the same time, lowering the benchmark rate and taking the interest rate for central bank deposits further into negative territory. At the start of December 2016, the ECB extended its bond-buying program until the end of 2017 and reduced the monthly purchasing volume.

The contribution from trading income improved considerably in the year under review. The liabilities recognized at fair value gave rise to a positive contribution to income. In addition, the Bank operating segment's gains and losses on trading activities included a net gain from realized and unrealized gains and losses in connection with asset-backed securities (ABS).

The level of **gains and losses on investments** decreased from a net gain of €110 million in 2015 to a net gain of €77 million in the reporting year. The positive contribution to earnings in 2016 is primarily the result of a gain from the disposal of the long-term equity investment in VISA Europe Ltd., London. The ABS business in the Bank operating segment also generated a positive contribution to earnings, largely from disposals of ABSs that had been impaired in previous periods.

Other gains and losses on valuation of financial instruments deteriorated by €113 million to a net loss of €106 million (2015: net gain of €7 million) as a result of market conditions.

Administrative expenses went up by €229 million to €2,059 million (2015: €1,830 million) in the period under review. An addition to provisions and increased project-related management consultancy fees were the main reason for the rise in other administrative expenses. Higher staff expenses resulted primarily from a larger workforce and salary adjustments.

The Bank operating segment's **profit before taxes** fell by €732 million year on year to €424 million (2015: €1,156 million). The cost/income ratio rose from 59.4 percent in 2015 to 68.5 percent in the reporting year.

Retail operating segment

The **net interest income** generated by the Retail operating segment in 2016 amounted to €16,618 million and was therefore slightly lower than the corresponding 2015 amount of €17,260 million. In the Retail operating segment, volume growth offset the sustained negative effects of the ECB's low-interest-rate policy almost entirely. Net interest income from consumer finance business rose as well, thanks to buoyant consumer demand throughout the year. However, this market is generally characterized by a fierce price war and predatory competition. Historically low interest rates also make this area a very challenging one for the Cooperative Financial Network. Higher market requirements arising from the advances in digitalization are creating difficulties for the consumer finance business. The decline in net interest income is a result of shrinking contributions to income from LuxCredit foreign currency lending.

Allowances for losses on loans and advances grew from €7 million in 2015 to €51 million in 2016. The risk situation in the Retail operating segment remained stable, primarily because the age structure of outstanding receivables was favorable and the volume of terminations was low.

Net fee and commission income in the Retail operating segment advanced once again, rising from €5,911 million in 2015 to €6,034 million in the year under review. The main sources of income under net fee and commission income in this segment in 2016 were payments processing and substantial customer demand in the securities and funds business. The volume-related income contribution generated with the average assets under management was one of the key drivers for net fee and commission income in the Retail operating segment. In 2016, this contribution was slightly above the level of 2015. The contribution to income in the fund services business also improved slightly year on year.

Gains and losses on trading activities once again improved slightly year on year, rising by €22 million to a net gain of €211 million (2015: net gain of €189 million). This trend can mainly be attributed to the fact that gains and losses on exchange differences benefited from the greater volume of customer-initiated transactions after the unpegging of the Swiss franc exchange rate by the Swiss National Bank.

The level of **gains and losses on investments** recovered by a significant €517 million, resulting in a net loss of €94 million in the reporting year (2015: net loss of €611 million). The previous year had seen an increased requirement for the recognition of impairment losses on bonds.

In terms of costs, further efforts were made to become more efficient. Nevertheless, **administrative expenses** went up again by a total of 1.0 percent to €15,276 million in the year under review (2015: €15,119 million), the main reasons being average pay rises and appointments to new and vacant positions. An increase in regulatory requirements and charges and, in particular, higher costs for public relations/marketing, IT, and consulting pushed up administrative expenses in the Retail operating segment.

Given the factors described above, the Retail operating segment's **profit before taxes** declined from €7,549 million in 2015 to €7,197 million in the reporting year. The cost/income ratio for 2016 came to 67.8 percent (2015: 66.7 percent).

Real Estate Finance operating segment

The **net interest income** of the Real Estate Finance operating segment amounted to €1,322 million in 2016 (2015: €1,593 million) and was once again adversely impacted by the low interest rates. Considerably stronger demand for advance and interim financing led to an increase in interest income in the non-collective home finance business and compensated for the lower average interest rates. In addition, the interest income generated by home savings loans business declined, mainly because of a reduction in the size of the portfolio and falling average interest rates. The increased customer demand for home savings highlights the preference for investing in tangible assets with a sound financing base.

The mortgage lending business was not quite able to maintain its prior-year level of net interest income in 2016. Economic circumstances have led to substantial interest from German and international investors looking to invest in commercial real estate in a challenging competitive environment. However, there is an increasingly limited supply available to meet this demand. In the year under review, the transaction volume generated in the German market for commercial real estate (excluding housing) amounted to €52.9 billion (2015: €55.1 billion).

The net reversal posted under **allowances for losses on loans and advances** in the Real Estate Finance operating segment increased from €27 million in 2015 to a net reversal of €45 million in the year under review.

The net expense traditionally reported for this operating segment under **net fee and commission income** dropped by €41 million to a net expense of €152 million in 2016 (2015: expense of €193 million), largely as a result of reduced fee and commission expenses incurred in line with a decline in the volume of new business.

Gains and losses on investments improved by €89 million, recovering from a net loss of €53 million in 2015 to a net gain of €36 million in the reporting year. In 2016, this figure included the reversal of an impairment loss on a bond that had been recognized in 2015. The prior-year figure had primarily included gains and losses from mortgage-backed securities, including the provision for latent risk, and the recognition of a loss effect arising from the disposal of a bond classified as an available-for-sale financial asset.

Other gains and losses on valuation of financial instruments in the Real Estate Finance operating segment fell from a net gain of €364 million in 2015 to a net loss of €46 million in the reporting year. The main cause of the decline in other gains and losses on valuation of financial instruments was a widening of credit spreads on bonds from the peripheral countries of the eurozone in the mortgage lending business, whereas spreads on these bonds had narrowed significantly in 2015.

Administrative expenses rose to €754 million in 2016 (2015: €700 million). This increase was primarily caused by higher staff expenses due to additions to personnel provisions and by additional expenses relating to increased regulatory requirements and strategic projects.

Profit before taxes in the Real Estate Finance operating segment fell by €558 million to €492 million in the reporting year (2015: €1,050 million). The cost/income ratio for the Real Estate Finance operating segment increased to 62.8 percent (2015: 40.6 percent).

Insurance operating segment

Premiums earned went up by €240 million to €14,658 million (2015: €14,418 million), reflecting the integral position held by R+V within the Cooperative Financial Network. This exceeded the impressive level of premiums earned in 2015 by 1.7 percent. Gross premiums written increased to €14,767 million in 2016, up by 1.6 percent on the impressive level of premiums generated in 2015 of €14,536 million.

Premium income in the life insurance and health insurance business of R+V decreased by a total of 3.5 percent. In the life insurance business, premium income was down by 4.2 percent. Although premium income declined in the bAV and pV Fonds businesses, premium income from pV Klassisch went up. Premium income from health insurance rose by 8.4 percent, largely due to the encouraging uptrend in regular and one-off premiums. Premium income from non-life insurance advanced by 5.3 percent. This growth was predominantly generated from vehicle insurance and from corporate customers. Premium income also rose in the inward reinsurance business, in this case by 16.1 percent. The reasons for this increase were mainly the upward trends in the vehicle and fire/non-life insurance sectors.

Gains and losses on investments held by insurance companies and other insurance company gains and losses improved by 24.0 percent to a net gain of €3,885 million (2015: net gain of €3,132 million). Long-term interest rates fell sharply from the beginning of the year under review, whereas they had risen in the prior year. Equity markets relevant to R+V did not do as well over the course of the reporting year as they had in 2015 and exchange rate movements were less favorable to R+V during 2016 than in the previous year. Overall, these trends resulted in a year-on-year increase in net gains under gains and losses on investments held by insurance companies accompanied by an improvement in realized and unrealized gains and losses, although net foreign exchange gains were lower than in 2015. Owing to the countervailing effects from the recognition of provisions for premium refunds (particularly in the life insurance and health insurance business) and claims by policyholders in the unit-linked life insurance business in the 'insurance benefit payments' line item presented below, however, the change in the level of gains on investments held by insurance companies only partially affected the level of net income from insurance business before taxes in 2016.

Insurance benefit payments went up by 5.0 percent to €15,400 million (2015: €14,664 million). In line with the increase in premium income and higher gains on investments held by insurance companies, higher additions were made to insurance liabilities at companies offering personal insurance. Furthermore, an amount of €626 million was added to the supplementary change-in-discount-rate reserve (2015: €559 million). Both in non-life insurance and in inward reinsurance, claims losses were within expectations for the year under review.

Insurance business operating expenses went up by a total of 7.3 percent to €2,454 million (2015: €2,287 million) in the course of ordinary business activities in all three divisions. Other net operating income amounted to a net expense of €8 million (2015: net income of €26 million) and in 2015 had included a gain of €39 million on the disposal of shares in an associate held for sale.

The factors described above meant that **profit before taxes** for the reporting year increased by €56 million to €681 million (2015: €625 million).

Management Report 2016

Human Resources Report

Human resources report

The sustained low level of interest rates and the ever advancing digitalization in the banking sector have a direct impact on human resources management in cooperative banks. Although the qualitative and quantitative changes to the workforce that will need to be made to adapt to new challenges are only starting to become clear, a variety of staff restructuring measures were initiated in 2016. In the primary banks and central institution, the number of employees fell by roughly 2.7 percent to 159,200 in 2016, achieved through natural wastage whereby retiring employees were deliberately not replaced. The number of people employed by the entities in the Cooperative Financial Network totaled 181,740 as at December 31, 2016.

Managerial staff and employees need to prepare for the new skill set required in an omnichannel banking environment. In light of this, it will be necessary to develop suitable continuing professional development (CPD) activities that address the changes to employees' tasks and areas of responsibility. New processes and technologies make it more pressing than ever to devise a concept for lifelong, self-organized learning at cooperative banks. Therefore, it will become one of the key concerns of human resources work to ensure that employees identify with the modernized, digital-based business model of 'their' cooperative bank. Another crucial factor for a successful digital revolution at the cooperative banks will be to attract the next generation, i.e. school leavers with an affinity for digital technology and media, to join the banks' vocational training programs. The ratio of trainees to other employees at the primary banks and central institution was 7.4 percent in 2016 (see chart 'Ratio of trainees to other employees', p. 28), which is high compared with the rest of the sector. The proportion of vocational trainees offered a full employment contract at the end of training is 80.9 percent, which also underlines the contribution made by the cooperative banks as employers in their respective regions.

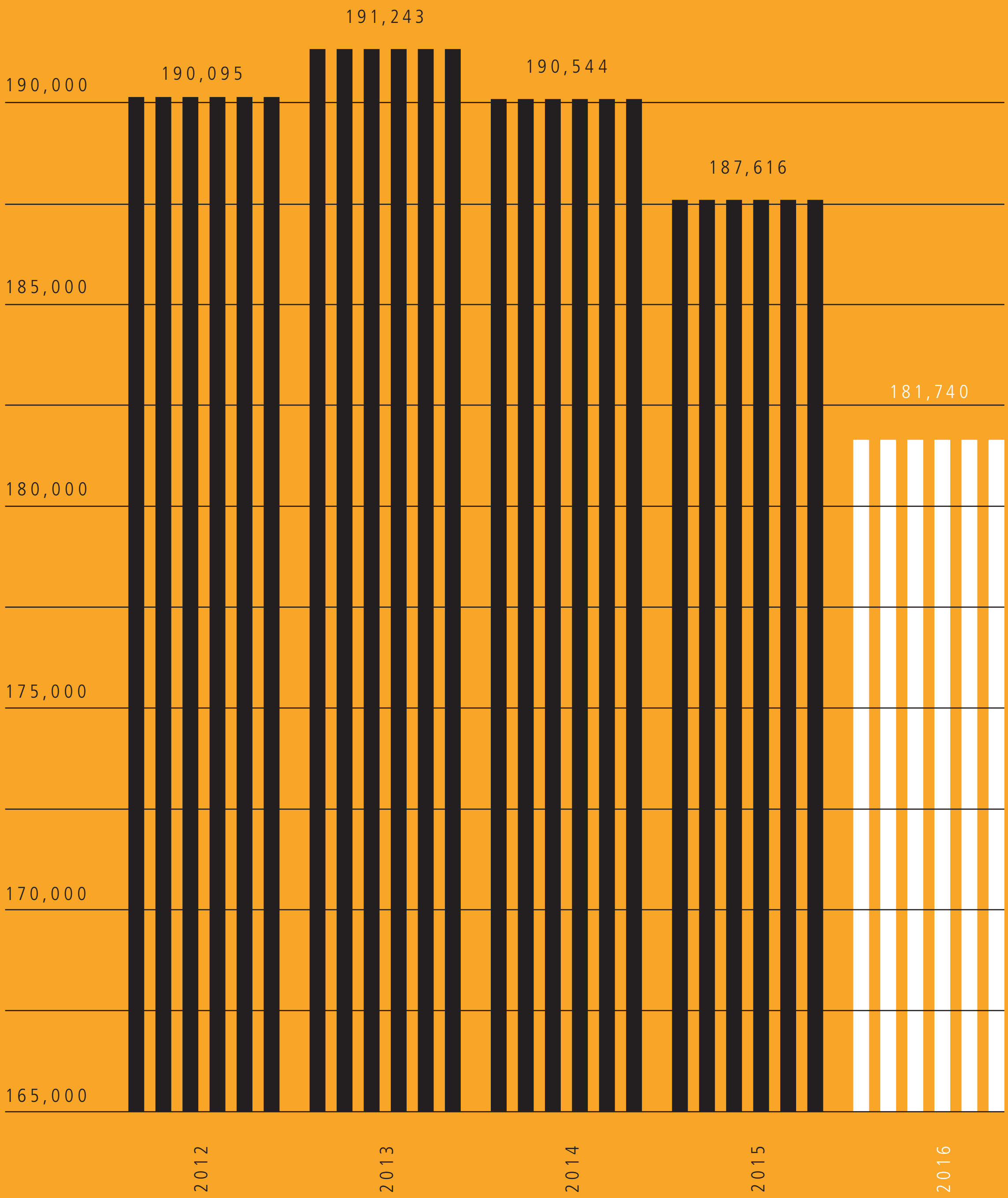
In addition, a trainee initiative entitled 'next – become more than a banker' was launched in 2016. This initiative aims to create a network for the approximately 10,750 trainees working at the primary banks and central institution, while also serving to recruit new trainees. For many years, the local cooperative banks have been awarded the 'Germany's top 100 employers' seal of approval – proof that school leavers consider them one of the most desirable training providers in Germany. With around 17,000 respondents, the 2016/2017 School Leavers Barometer, a representative survey carried out throughout Germany by the Berlin-based trendence Institute, is the biggest and most comprehensive study of school leavers' career goals and preferred employers.

The local cooperative banks and the central institution also offer university graduates attractive roles and career opportunities. This is evidenced by the growth in the proportion of employees with a degree in past years, which was at 8.2 percent in 2016 (see chart 'Proportion of employees with a degree' on p. 29). Many young people see the possibility of obtaining a degree after or alongside their vocational training as an important factor in their choice of employer. For interested young employees, the bachelor degree programs offered through the training providers in the Cooperative Financial Network are a particularly attractive way of gaining further qualifications.

Cooperative banks are aware of how important targeted skills training for their workforce is for the future success of the business, not least when it comes to implementing the results of future-oriented projects that are currently under way. In view of the new tasks and functions in an omnichannel bank, and also the need to optimize the branch network, an important role for HR is the systematic reorganization of the workforce within the individual cooperative bank that respects the bank's perception of itself as a regional employer and that ensures the bank is focusing on the future. This puts in place the prerequisites that will enable the banks to make the most of opportunities presented by change. The local cooperative banks are supported with a wide range of training and development activities offered for employees by regional associations and academies. Going forward, the network will continue to pursue the objective of increasing the local cooperative banks' appeal as modern, forward-looking local employers so that they can attract the committed, performance-oriented, and motivated employees needed for the digital transformation.

trendence SCHÜLERBAROMETER TOP 100 ARBEITGEBER DEUTSCHLAND 2016/17

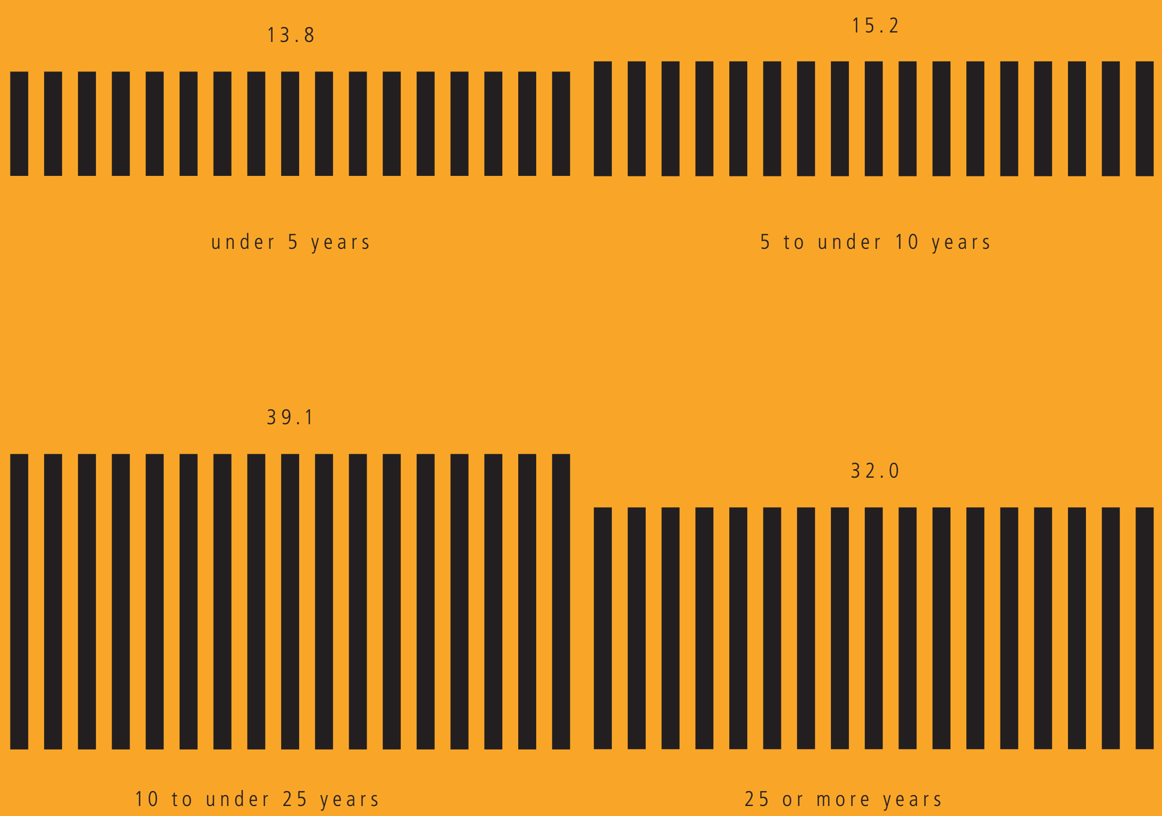
Number of employees*



* Volksbanken Raiffeisenbanken Cooperative Financial Network

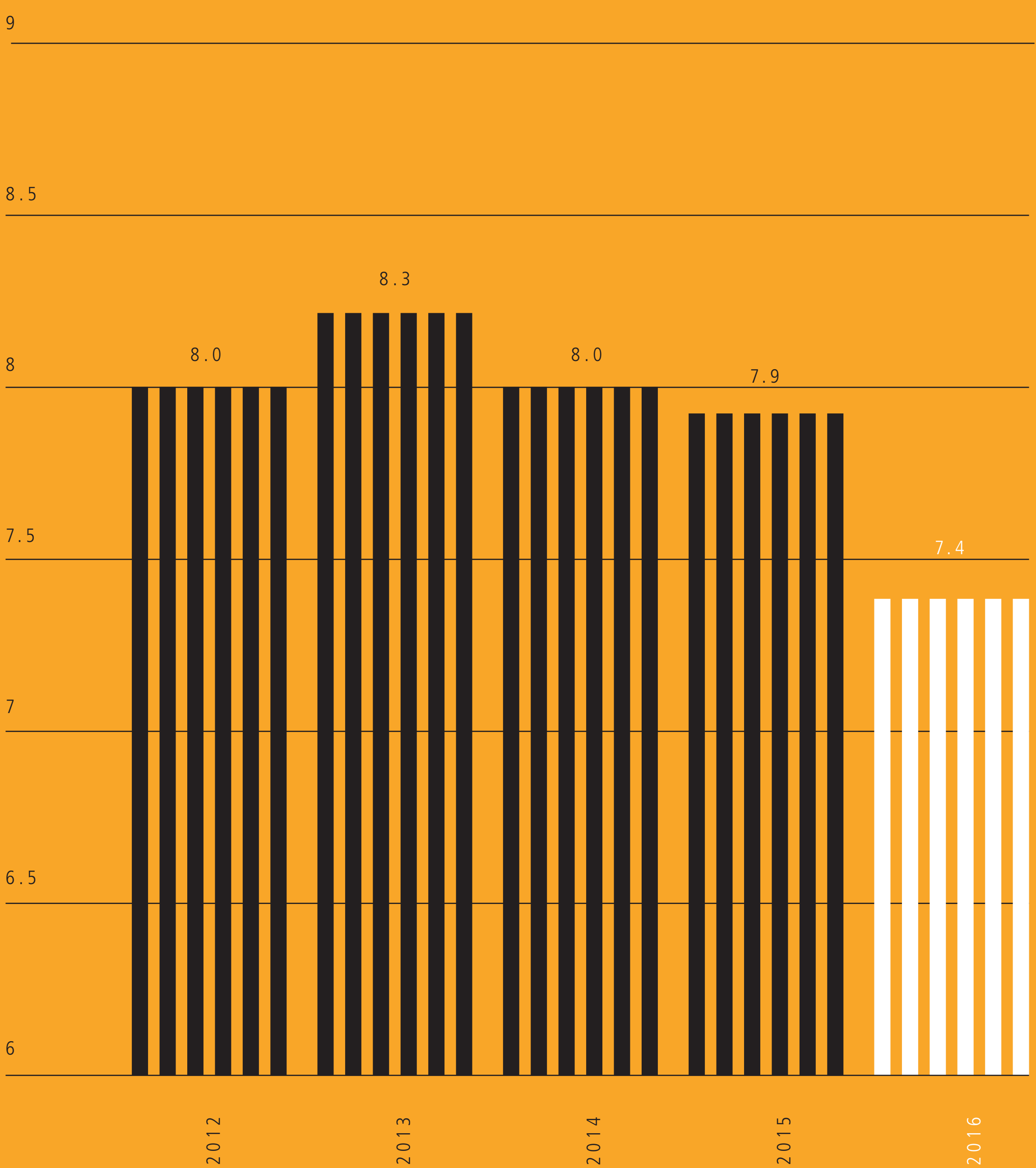
Years of service*

(percent)



Ratio of trainees to other employees*

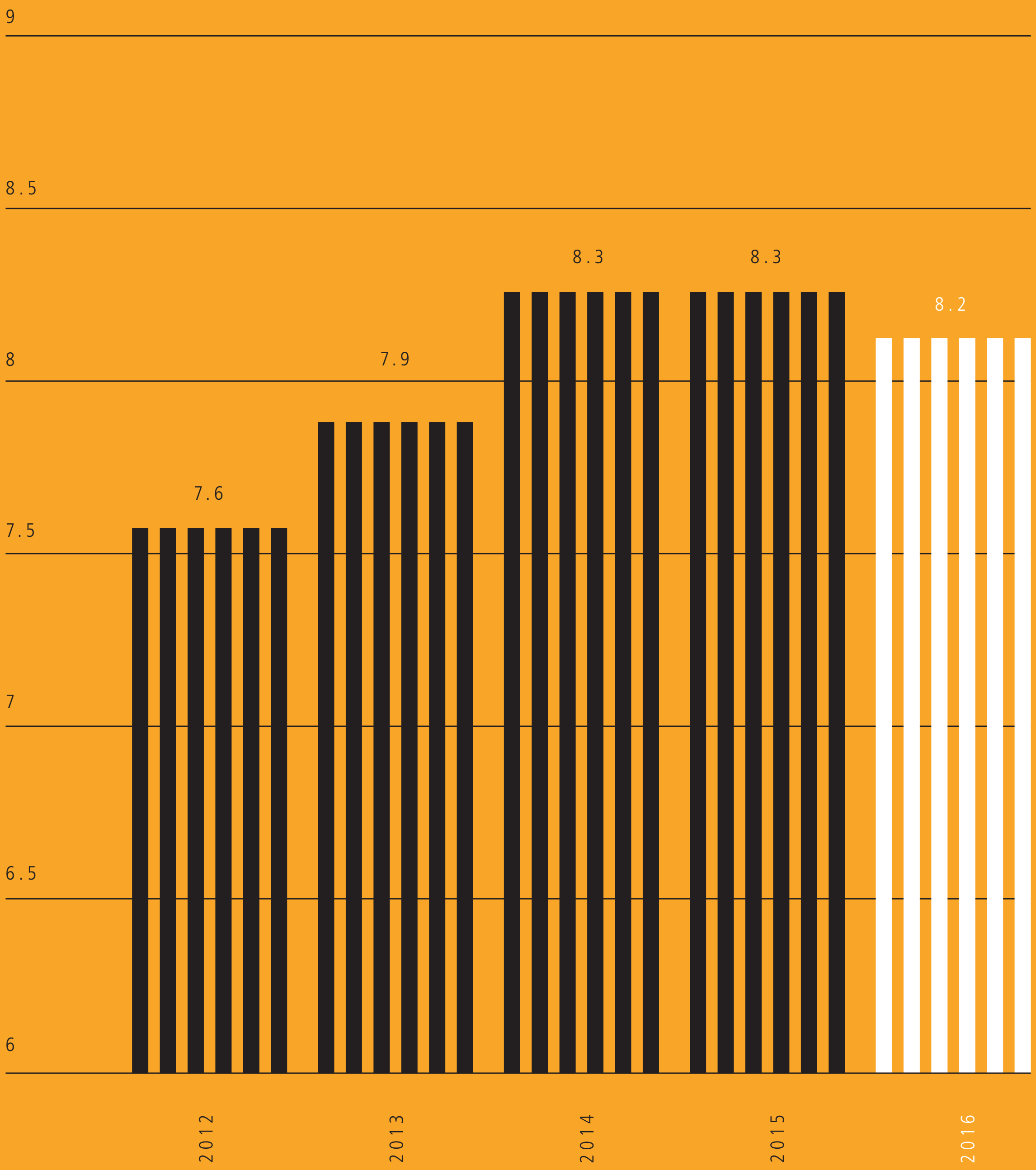
(percent)



* Local cooperative banks, central institutions, Sparda, PSD

Proportion of employees with a degree*

(percent)



* Local cooperative banks, central institutions, Sparda, PSD

Sustainability report

The cooperative principle and self-image

In December 2016, UNESCO added the cooperative principle to the Representative List of the Intangible Cultural Heritage of Humanity. This is Germany's first ever contribution to the list. The United Nations Educational, Scientific and Cultural Organization thereby acknowledged a strong and vivid ideal that has spread far beyond Germany's borders. In doing so, it also endorsed the proven approach of collective self-organization, which is based on the cooperative principles of self-help, self-management, and self-responsibility. The cooperative banks were founded around 170 years ago on the basis of these principles, which were devised by Hermann Schulze-Delitzsch and Friedrich Wilhelm Raiffeisen. To the present day, the cooperative banks have continued to pursue their founding fathers' principles as widely engaged sponsors and promoters of their regions with utmost commitment and a close connection to their local communities. In memory of their distinguished founder Friedrich Wilhelm Raiffeisen and to honor the values that he promoted, all cooperative banks will commemorate the 200th anniversary of his birth next year, celebrating 2018 as Raiffeisen Year. After all, Raiffeisen's ideas are now more alive and relevant than ever before.

For many customers, a responsible approach to environmental, economic, and social topics has become an important factor when choosing service providers. Responsible practices, the integration of sustainability criteria into transparent and efficient business processes and IT systems, and optimum efficiency in the use of scarce resources are key success factors for the cooperative banks.

As part of a regular review of sustainability criteria, product requirements are double-checked and added to as necessary. Unlocking the potential offered by digitalization, which is increasingly influencing members' behavior, is helping to create more efficient business processes. The change processes that banks will be facing in the context of digitalization require adequate preparation and involvement of the workforce. It is vital to raise employees' awareness of the necessary changes and equip them with the new skills that they will need. The launch of new high-quality and sustainable products and services is therefore accompanied by appropriate CPD programs.

Social integration

The cooperative banks have seen their membership base grow steadily for many years. At present, they can count approximately 18.4 million members in total, having gained more than 2 million new members in the past ten years. The concept of being not only a customer but also a shareholder of their bank is becoming increasingly popular with individuals and companies alike. As a result, the cooperative banks in Germany operate on a very broad membership base, maintaining close links with the local communities in their region.

The cooperative business model continues to be based primarily on a network of local bank branches and proximity to customers and members, combined with a comprehensive, high-performance internet presence. This commitment to accessibility is reflected in the nationwide branch network, which extends to almost every corner of Germany. The 972 primary banks operate 11,787 branches across the country. There are also 3,467 self-service branches. Customers can visit their local primary bank when they need to, where they will be offered direct and personal support – not just where finances are concerned.

Social responsibility

The large number of cooperative members in Germany shows that the model of cooperative self-help and personal responsibility brings people together, promotes individual commitment, and enables them to get involved in social, cultural, and economic issues and thereby contribute something themselves. The core of the cooperative idea is to generate value for members, provide comprehensive support for associations and foundations, and provide funding for small and medium-sized regional businesses. In addition to support for members and regional business, Germany's local cooperative banks are also strongly committed to the things that matter to their respective regions. Every year, the cooperative banks give financial aid of around €140 million back to their regional communities, e.g. by way of donations and sponsorship. The lion's share of these funds goes toward projects for children and young people and to local clubs and associations. The total foundation assets raised by the cooperative banks amount to around €300 million. Of these funds, €30 million is invested in community and citizens' foundations. The establishment and promotion of foundations enable the local cooperative banks to create reliable and sustainable funding structures. This commitment fits in seamlessly with the self-image of the network. Nearly half of all local cooperative banks encourage and support projects that their employees engage in during their working hours. Well over a third of all employees of the Volksbanken Raiffeisenbanken Cooperative Financial Network are actively involved in community life on a voluntary basis in their free time.

In the field of loans in the agricultural and forestry sectors, the Cooperative Financial Network is by far the market leader. Renewable energies were one of the main drivers of demand for credit. Cooperative banks contribute to local employment and social integration and provide support for the specific causes and concerns of their respective regions. They are local employers for local people and thereby create career opportunities for many people, including in rural areas.

Management Report 2016

Combined Opportunity and Risk Report

The Volksbanken Raiffeisenbanken Cooperative Financial Network again enjoyed a successful year overall in 2016, enabling it to continue carrying out its consistent and stabilizing role in the German financial sector. This positive impact is attributable to its sustainable business model. The protection scheme run by the BVR (BVR-SE) and BVR Institutssicherung GmbH (BVR-ISG), a scheme established in 2015, ensure the stability of the entire Cooperative Financial Network and confidence in the creditworthiness of all its members. Both schemes together, and each in its respective functions and area of responsibility, guarantee institutional protection and form the backbone of the cooperative risk management system.

The credit ratings of the Cooperative Financial Network remained stable and unchanged as year 2016. Credit rating agencies Standard & Poor’s and Fitch have each given the Cooperative Financial Network a rating of AA-. The soundness of these ratings is corroborated by the calculation method used by the rating agencies. Each rating is based solely on the economic strength of the Cooperative Financial Network: The capital market ratings correspond to the individual ratings. The rating agencies point to the consistently successful business model focused on retail banking as the reason for their positive assessment. Thanks to the business model, funding is structurally secured by the retail deposits. Liquidity is ensured 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. The rating agencies emphasize the ability and propensity of the Cooperative Financial Network to build up capital from its own resources by retaining profits. The granular credit structure and proportion of mortgages in the retail business are the hallmarks of the overall high level of quality in the customer lending business. The BVR protection scheme is seen by the rating agencies as an important connecting link and a crucial element of the risk management system within the Cooperative Financial Network.

Principles

The 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 affiliated individual institutions and banking groups as a secondary element.

Risk reporting covers all entities in the scope of consolidation. The scope of consolidation for the consolidated financial statements therefore goes beyond the companies consolidated for regulatory purposes and is not limited to those required to be members of the joint liability scheme by law.

In this context, risk management at the level of the bank-protection scheme refers to management in the narrower sense and therefore primarily involves preventing individual institutions from getting into difficulties.

Opportunities and opportunity management

Membership is a distinctive feature of the cooperative banks' business model and one that is ideally suited to conveying and imparting the values and characteristics of the cooperative idea. It offers the cooperative banks the opportunity to distinguish themselves from rival banking groups. Being able to stand out clearly and positively from competitors typically results in a high level of customer acquisition. Customer loyalty is measured by means of an index that includes aspects of customer satisfaction, customers' readiness to recommend their bank, and the continuation of the customer relationship. Strong customer retention results in measurable economic benefits, e.g. income growth for the cooperative banks and the protection of their market share. Differentiating themselves from competitors requires the banks to implement an adequate quality management system that defines standards for processing times and encourages employee feedback.

Even in the digital sphere, the business model of the cooperative banks puts people and their wishes and objectives first. Measures derived from the KundenFokus 2020 (customer focus 2020) project have been implemented in order to take account of the changes in customer behavior and to adjust and strengthen the business model accordingly. Personal contact will remain a key component of the customer relationship, alongside high-quality advisory services and the possibility for customers to choose how they would like to communicate with their branch. The Cooperative Financial Network is therefore establishing efficient customer touchpoints and enabling its members to access all information and services through all the relevant channels – whether in branch or via digital media.

Digitalization and its increasing influence on members' behavior also offer the banks potential to improve their cost situation. A stronger focus on offering and promoting new digital payment methods such as paydirekt, expansion of the network of merchants that accept paydirekt, and implementation of an online inquiry process for financing, leasing, and investment plans will address customer needs and attract new customers. To this end, banks are specifically targeting young, technology-savvy members with their digital products and services.

The cooperative banks are very conscious of the effects of demographic change. Around half of the cooperative banks are taking action in this respect by regularly reviewing demographic trends, ensuring that their customer contact points are accessible for everyone, and providing products and services that take the increasing life expectancy of customers and members into account.

Consumer spending is expected to be boosted further by the positive trends in employment and wages. It is realistic to assume that this will lead to higher demand for banking products and services. Given the current low level of interest rates, a sustained rise in interest rates may open up substantial opportunities.

Risk management in a decentralized organization

Institutional protection scheme of the Cooperative Financial Network

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

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

In 2016, the protection scheme met, without qualification, all its responsibilities as a bank-protection scheme in accordance with the articles of association. A total of 983 institutions of the Cooperative Financial Network belonged to the BVR protection scheme as at December 31, 2016 (December 31, 2015: 1,033 members). The decrease in membership stemmed solely from mergers.

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

Together with the BVR protection scheme, BVR-ISG forms the Cooperative Financial Network's protection scheme, which has been subject to further development to create this dual approach. The members of the BVR-ISG protection scheme are those CRR credit institutions that belong to the BVR, are affiliated to the BVR protection scheme, and that have joined the BVR-ISG scheme by giving an appropriate undertaking regarding participation and commitment. As at December 31, 2016, the membership comprised 981 CRR credit institutions (December 31, 2015: 1,031 institutions) and therefore all the cooperative banks authorized in Germany by BaFin.

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

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

In 2016, the focus of the activities of BVR-ISG was on fulfilling its responsibilities as defined by law, the articles of association, and regulatory requirements. The activities centered mostly on the risk-based collection of contributions, which is compliant with the relevant guidance of the European Banking Authority (EBA), and on the management of funds. With no action required to be taken to protect depositors or banks at any time in 2016, BVR-ISG can look back on a highly successful year.

Risk identification and analysis

Basic structures

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

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

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

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

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

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

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

Classification process and contributions to the protection scheme

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

All banks covered by the protection scheme are included in the classification system, apart from institutions in the Cooperative Financial Network that are rated by an external rating company. In 2016, the most notable exceptions are the central institution, the mortgage banks, and Bausparkasse Schwäbisch Hall AG.

The classification process in 2016 was based on an analysis of data from the 2015 financial statements. There was a moderate year-on-year deterioration in the class distribution based on the 2015 financial statements, reflecting the banks' slightly weaker financial performance. Despite continued pressure on margins, the primary banks managed to maintain their net interest income at a nearly unchanged level thanks to volume increases. Net fee and commission income went up slightly, whereas fair value gains and losses on securities declined year on year. With negative effects from the lending business remaining at an unusually low level, sufficient net profit was generated to strengthen the financial position further by retaining profits.

In light of the fact that an additional contribution to the guarantee fund of BVR-Institutssicherung GmbH is payable from 2016, the rate for contributions to the guarantee fund of the protection scheme was lowered to the basic contribution rate of 0.04 percent (2015: 0.12 percent) of the assessment basis for those institutions that are also members of BVR-Institutssicherung GmbH. For the other member institutions, the contribution rate was set at 0.088 percent of the assessment basis or 2.2 times the basic contribution rate, in each case in consideration of any individual discounts or surcharges resulting from the classification.

Risk management and monitoring

Preventive management

The results of the BVR's classification process also provide a basis for the BVR protection scheme's systematic preventive management. Preventive management continues to be used when a bank is classified as B- or lower on the basis of its annual financial statements, but sometimes earlier. In addition, other key figures and data have increasingly been used over the past few years so that any abnormalities at institutions can be identified at an early stage. In 2016, this data included information on the banks from a survey on the effect of the low-interest-rate environment carried out by Deutsche Bundesbank, which was made available to the BVR protection scheme in full, and from the extended statutory reporting for banks to which the protection scheme has access.

Before the prevention phase, the monitoring of conspicuous institutions is playing an ever more significant role in the early analysis of institutions. In 2016, the monitoring once again also included 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 the protection scheme's work away from restructuring and toward end-to-end preventive management that now also includes monitoring. Significantly more institutions are now in the preventive phase of restructuring rather than the support phase.

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

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

Restructuring management

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

The Manual for Reorganizing and Restructuring Cooperative Banks forms the basis for providing restructuring assistance and carrying out restructuring measures. The principles documented in the manual provide affected banks with guidance on restructuring and describe concepts for re-establishing their fundamental profitability. The aim is for the banks to enter this restructuring phase within no more than five years. The protection scheme's manual also specifically targets banks undergoing preventive measures and institutions that have identified the need for reorganization by themselves (either entirely or partly). BVR-SE began to revise this manual in the second half of 2016, completing the task in mid-2017.

The BVR protection scheme continued to perform well in the year under review in terms of its restructuring activities. Once again, no new first-time support measures were required in 2016. Costs were therefore incurred solely in connection with legacy cases, where risks already covered had become acute or loss allowances were recognized in the protection scheme's annual financial statements. The total restructuring amounts in need of protection were not only significantly lower than expected, they were also – on a net basis – again smaller than the repayments under debtor warrant obligations and other guarantee release obligations. This once more meant that the capital base of the cooperative institutional protection scheme (comprising the BVR protection scheme and the BVR-ISG protection scheme) was further strengthened in 2016 and the guarantee fund resources and statutory funds at its disposal could be expanded yet again.

Outlook for the BVR protection scheme

In financial terms, the protection scheme expects to maintain its positive performance in 2017. At present, there is no sign of any scenarios resulting from the BVR protection scheme's remit – as defined in its statutes – that might present a material threat to the stability of the scheme. Given the robust state of the German economy, the level of support and assistance provided by the protection scheme is not expected to increase in 2017. For this reason, the BVR protection scheme is also not planning to make any significant changes to its guarantee fund capital in 2017, especially as the accumulation of funds in the dual cooperative protection scheme will be focused for the time being primarily on the BVR-ISG protection scheme in order to achieve the required target funding level in accordance with section 17 (2) EinSiG.

At its meeting on November 24, 2016, the BVR Association Council approved a resolution to set the rate for contributions to the guarantee fund of the protection scheme in 2017 at 0.036 percent of the assessment basis for those institutions that are also members of the BVR-ISG protection scheme in order to prevent these institutions incurring a double charge. For the other member institutions, the contribution rate was set at 0.0828 percent of the assessment basis or 2.07 times the basic contribution rate of 0.04 percent.

Following a successful first full financial year after implementation of the EinSiG in the dual system, the BVR protection scheme faces new tasks in 2017 in connection with implementing requirements to prepare recovery plans within the meaning of sections 12 to 20 of the German Bank Recovery and Resolution Act (SAG). It is also likely that new challenges will arise as a result of the indirect and sectoral supervision responsibilities of the ECB (primarily increased reporting requirements). The BVR protection scheme expects yet more issues to emerge in this regard, involving national and international institutions such as the Bundesanstalt für Finanzmarktstabilisierung (FMSA) [German Federal Agency for Financial Market Stabilization], the European Single Resolution Board (SRB), the EBA, and the European Commission. Such issues could affect the BVR protection scheme and/or BVR-ISG.

Tools and methods for identifying and measuring risk

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

Historical simulations are used to calculate market risk. Credit risk from the customer lending business is determined using a variant of the Credit Suisse model (Credit Risk+), which focuses on industries as the main risk drivers and has Value-at-risk (VaR) as the main indicator. Besides calculating the VaR, the banks can develop stress scenarios for the specified risks.

An integrated approach is available to the institutions for measuring credit risk in own-account investing activities. It takes full account of the securities' risk drivers by simulating spread risk, migration risk, and credit risk in the securities portfolio. Furthermore, the risk arising from securities of the issuers in the Cooperative Financial Network is determined using simplified spread shifts. The end result is that the bank receives an expected portfolio value and a corresponding risk value in the form of an unexpected loss. For a periodic management analysis, expected and unexpected fair value gains and losses can also be determined. In addition, it is possible to calculate stress scenarios. The portfolio model and its parameters are regularly refined and validated by the relevant unit at parcIT GmbH, a subsidiary of the computing center Fiducia & GAD IT AG.

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

Risk capital management

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

The BVR protection scheme supports the consistent use of tools for measuring and managing risk capital. The risk-bearing-capacity calculation carried out by each of the institutions forms the basis for the management of risk capital. According to the data collected by the BVR protection scheme, the going concern approach is the predominant approach used by the banks. The main risks are interest-rate risk and credit risk. The former is generally determined by simulating the effects of interest-rate scenarios on a bank's planned net interest income, whereas portfolio models are used to determine credit risk. As per the analysis for 2015, pillar 2 risk-bearing capacity is satisfied in the form of its utilization, even in the conservative approaches used by the banks. The protection scheme analyzes risk-bearing capacity once a year and aggregates the main results. These are then made available to the banks for information purposes.

In 2016, BaFin carried out the first-ever calculation of bank-specific surcharges for interest-rate risk and other material risks, and of a stress scenario surcharge in accordance with the survey on the situation of German banks in the low-interest-rate environment (NZU survey) for the purposes of pillar 1 requirements, as per EBA guidance on the Supervisory Review and Evaluation Process (SREP). These surcharges are intended to complete the pillar 1 capital requirement for individual banks.

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

Capital adequacy

The consolidated capital ratios for 2016 were calculated using the extended aggregated calculation pursuant to article 49 (3) CRR in conjunction with article 113 (7) CRR.

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

The Cooperative Financial Network's regulatory total capital ratio was 16.1 percent as at December 31, 2016 (December 31, 2015: 15.8 percent). Overall, regulatory own funds increased by €4.5 billion to €92.1 billion. The increase was largely attributable to the retention of profits.

The Tier 1 capital ratio improved significantly to 13.1 percent (December 31, 2015: 12.4 percent). For information only, the material Tier 1 capital ratio – i.e. classifying the reserves pursuant to section 340f HGB as Tier 1 capital – was 15.4 percent (December 31, 2015: 14.8 percent). The Cooperative Financial Network's capital is predominantly held by the primary institutions.

Information concerning the regulatory capital ratios relates to the reporting date of December 31, 2016 and does not include the retention of the profits reported in the 2016 annual financial statements. It is expected that this retention of profits will further strengthen the capital basis.

The total risk exposure as at December 31, 2016 amounted to €572.5 billion (December 31, 2015:

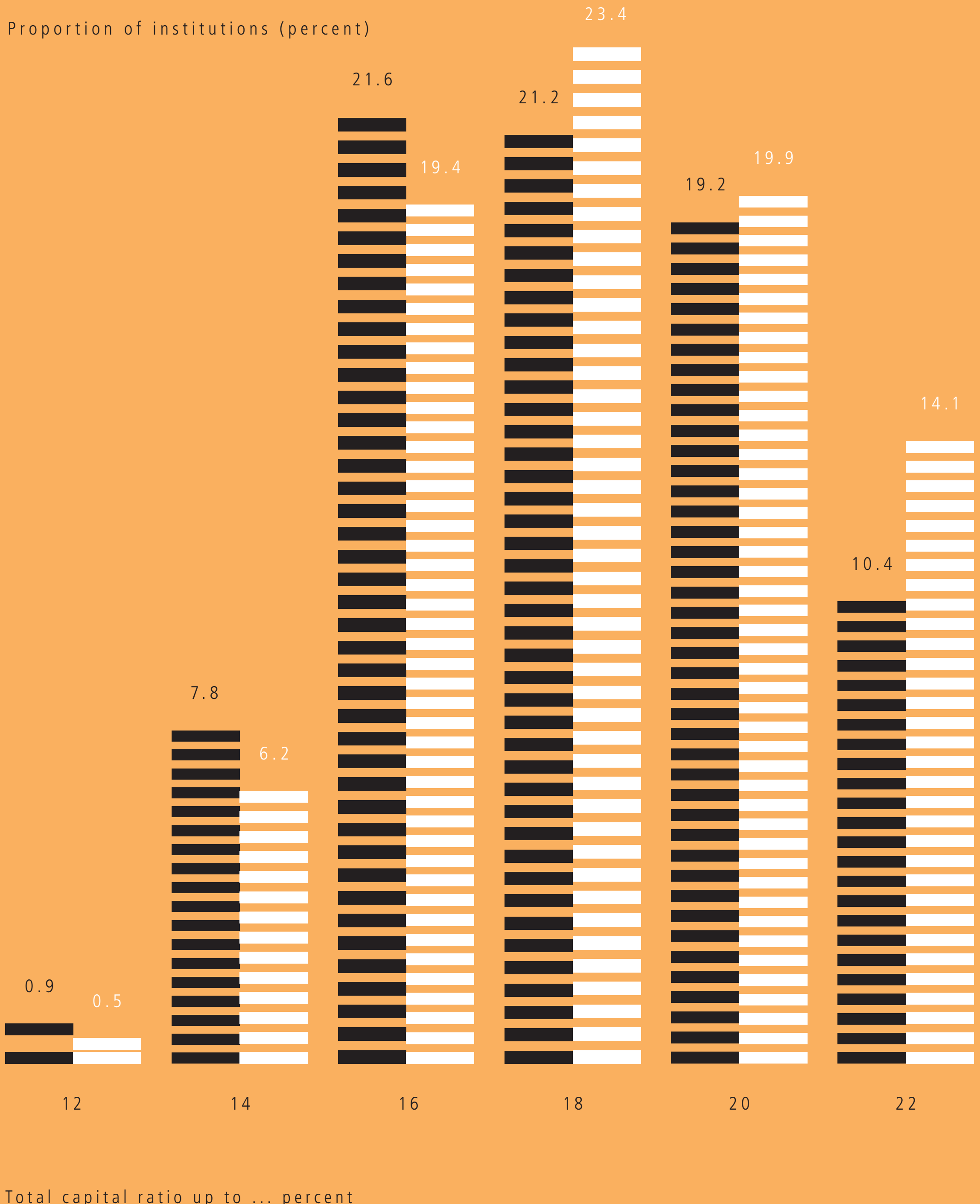
€556.0 billion). This 3 percent increase was driven by growth in the customer lending business.

The protection scheme analyzes the regulatory capital ratios of each member bank. The following chart shows the distribution of total capital ratios in the Cooperative Financial Network as at the reporting date of December 31, 2016 and as at December 31, 2015. It highlights the continuing healthy level of capital adequacy of the individual banks.

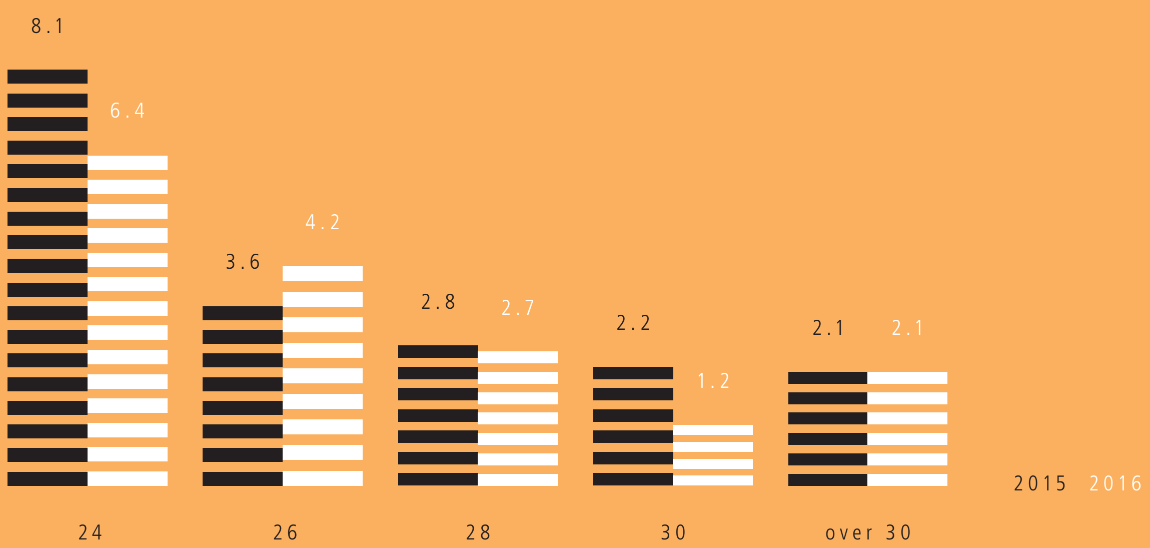
The Cooperative Financial Network has healthy capital adequacy thanks to equity of €98.6 billion (December 31, 2015: 93.0 billion). It has continually boosted its level of capital in recent years by retaining profit. This trend substantiates the Cooperative Financial Network's sustainable business model with its broad diversification of sources of risk and income.

The leverage ratio, which is determined independently of risk and calculated at the level of the institutional protection scheme, came to 6.3 percent as at December 31, 2016 (December 31, 2015: 6.0 percent). This is further proof of the above-average capital adequacy within the Cooperative Financial Network. In the calculation conducted on a material basis, i.e. including the reserves in accordance with section 340f HGB and taking into account full application of the relevant CRR provisions, the leverage ratio was 7.3 percent (December 31, 2015: 6.9 percent).

Distribution of total capital ratios in the Cooperative Financial Network*



* As at December 31, 2016


8.1
6.4
3.6
4.2
2.8
2.7
2.2
1.2
2.1
2.1
2015
2016
24
26
28
30
over 30

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

Credit risk

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

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

The Cooperative Financial Network registered further significant growth in its lending business in 2016. Loans and advances to customers increased by a substantial 4.6 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. However, residential real-estate prices in Germany continued to go up in 2016. On average across all 402 municipal and rural administrative districts, prices for residential properties rose by 4.8 percent (2015: 3.1 percent). At national level, it was the sixth consecutive increase. The strongest price surges were recorded in urban centers, but there are currently no signs of excessive price inflation on a broader scale or even a real-estate price bubble.

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, agriculture and forestry, and companies from the energy and mining industries. Because of their regional roots, the local cooperative banks have established a strong foothold in the renewable energies market and provide financial support to companies in relation to projects for increased energy efficiency and for power generation from renewable sources.

Allowances for losses on loans and advances rose to €522 million in 2016 (2015: €74 million). This increase was primarily due to the recognition of additional allowances for legacy exposures in ship and offshore financing in view of the continuing downturn in many shipping industry segments, and to strained economic conditions in offshore markets caused by the weak oil price. Despite these adverse effects, allowances for losses on loans and advances remained low at 0.07 percent of the volume of loans and advances to customers and banks (total volume: €774,588 million). In summary, the cooperative banks operate a healthy lending business overall.

Market risk

Interest-rate risk has a significant influence on the banks' financial performance. Due to the low interest rates in 2016, the Cooperative Financial Network's net interest income reduced by 6.0 percent. According to analysis, the largest proportion of net interest income was generated from the net interest margin contribution in the customer business, as was the case in prior years. Given the persistently low level of interest rates and growing competition for deposits, the banks expect interest margins to be narrower in the future. Moreover, a reversal of interest rates in financial markets poses certain risks because the funding costs of the loans extended in the current environment of low interest rates will go up in the event of an interest-rate hike.

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

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

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

Liquidity risk

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 percent. The basis for this lies in the diversifying, risk-mitigating effect created by the stable business structure of the banks, which tends to be divided into small units, and, in particular, in the institutions' traditional method of obtaining funding through customer deposits. Customers therefore recognize and reward the effectiveness of the institutional protection provided by the BVR protection scheme, which particularly aims to safeguard deposits but extends beyond the statutory deposit protection requirements.

The cooperative central institution collects the liquidity surpluses of the individual institutions, enabling cash pooling within the network of primary banks and specialized service providers. Analysis shows that all member institutions of the BVR protection scheme complied with the requirements relating to the liquidity coverage ratio (LCR). As at December 31, 2016, the median LCR of all cooperative institutions was 156 percent.

Operational risk

The systems and internal processes implemented by the cooperative banks aim to reduce operational risks that can lead to losses resulting from the inadequacy or failure of internal processes, people, or systems or as a consequence of external events.

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 approaches. Based on the analysis, the limits set by the institutions as part of their individual risk management are regularly met.

Management Report 2016

Outlook

Real economy and banking industry

At the start of 2017, the economy gained some momentum. According to estimates by the Statistisches Bundesamt (StaBA) [German Federal Statistical Office], GDP growth at the start of the year (after adjustment for inflation, calendar, and seasonal effects) was at 0.6 percent compared with the previous quarter, following 0.2 percent in the third quarter and 0.4 percent in the fourth quarter of 2016. For the remainder of the year, economic indicators point to further steady growth, although growth rates might be slightly lower in the quarters to come.

Based on data from the first quarter of 2017, the BVR expects German GDP to grow at a rate of 1.7 percent in real terms. This figure is slightly below the 2016 growth rate of 1.9 percent, but the difference can mostly be attributed to the fact that 2017 is a year with fewer working days.

The positive economic conditions are largely the result of a domestic economy that remains buoyant and is being boosted by increasing household incomes and a healthy labor market, combined with low interest rates. Growth in consumer spending is projected to continue in 2017, but at a lower rate due to factors such as rising inflation, which curbs households' purchasing power. In addition, government spending should only increase moderately, as the influx of refugees is expected to reduce.

Investment in residential construction is likely to continue its recovery. And in view of high overall economic demand, there should be incentives for companies to increase their production capacity. However, capital expenditure growth will remain moderate compared with previous economic cycles, despite the projected upturn.

Foreign trade is expected to gain further momentum in 2017, backed by solid economic growth in emerging markets as well as in the eurozone. The euro's current weakness is also contributing to the upturn in foreign trade. However, as imports will probably rise at a similar rate to exports, foreign trade is unlikely to generate impetus for growth overall.

The labor market is expected to remain robust in 2017. In the early months of the year, unemployment continued to fall and reached a rate of 5.6 percent in May. At the same time, the number of vacancies increased. So far, growing numbers of refugees entering the labor market do not seem to have pushed up unemployment, although it can be expected that the integration of these migrants into the labor market will take some time. Employment is expected to continue rising this year and may even cross the threshold of 44 million people in employment.

Monetary policy is likely to remain extremely expansionary, following the ECB's decision to extend its bond-buying program until December 2017, albeit at a reduced level. No significant changes to yields on government bonds are on the horizon for the rest of the year. Despite a noticeable rise in inflation at the start of the year, which was closely connected with the year-on-year effect of a low oil price in early 2016, inflation should remain well below 2 percent over the further course of the year, as rates are expected to fall slightly in the second half of 2017.

It is now apparent that, in essence, the forecasts for the banking industry have barely changed in recent years, and the familiar adverse conditions of low interest rates and increasing regulatory requirements continue to apply this year. The outlook for 2017 therefore remains cautiously optimistic. As a result, small and medium-sized banks in particular still face major challenges because they are disproportionately affected by regulation. The capacity of banks to accumulate capital by retaining profits is also being further reduced, which in some cases might create an incentive to assume excessive risk in order to generate income and stabilize profits.

This year, banks are continuing to address the ever-increasing pressure on earnings and the strict regulatory requirements with intensive efforts to increase their cost efficiency and review their value chains, including optimizing processes and products. The number of mergers for economic reasons should remain high, while employee numbers are likely to decrease further. As before, the banks will attempt to hold their position against competitors by aiming for an even greater focus on customer requirements, for example by expanding digital products and services in the context of omnichannel banking. Competition will become fiercer as fintechs try to gain more market share.

Despite the significant adverse effects of the sustained period of low interest rates on the banking industry, an interest-rate hike – particularly a very swift one – poses a genuine threat in these circumstances. Improvements to the capital adequacy of banks in recent years do not change this fact. In addition, negative effects may arise from the continuing sovereign debt crisis in Europe, from the consequences of the Brexit vote, and uncertainties in foreign policy and foreign trade.

Volksbanken Raiffeisenbanken Cooperative Financial Network

Since the financial crisis, the financial sector has faced considerable pressure in terms of both adjustment and costs caused by the need to comply with regulatory reforms, involving greater capital requirements and changes to regulatory systems. Moreover, the outlook for the business performance of the Cooperative Financial Network shows that 2017 will also be influenced by the low absolute level of interest rates. It is expected that the adverse impact of these influencing factors on the financial performance of the Cooperative Financial Network will persist in 2017. The future financial performance of the Cooperative Financial Network could be subject to risks arising from the political and general economic environment, particularly in the eurozone, the US, and Germany. From today's perspective, it is not possible to gauge the potential risks that may result from the Brexit negotiations between the EU and the UK, the future financial situation of some banks, particularly in Italy, and future political developments in individual eurozone countries. For 2017 as a whole, the Cooperative Financial Network expects to generate a satisfactory profit before taxes that should enable it to strengthen its reserves.

Net interest income will decline, e.g. in the Retail operating segment, above all as a consequence of the persistently low interest rates. In particular, income from interest-rate-dependent business models within the Cooperative Financial Network could be subject to volatility in 2017. Moreover, the rather modest economic growth in the eurozone may adversely affect net interest income.

Following the recognition of some negative non-recurring items in 2016, allowances for losses on loans and advances will return to their normal level in 2017 and should be in line with the lending portfolio, the envisaged volume of new business, and long-term standard risk costs. The potential effects of uncertain political developments on capital markets could have a detrimental impact on allowances for losses on loans and advances.

The Cooperative Financial Network expects net fee and commission income to be just as good as in 2016. Any lasting uncertainty in capital and financial markets could have a negative impact on confidence among retail and institutional investors, thereby depressing net fee and commission income.

In all probability, net gains under gains and losses on trading activities will decline in 2017, because the net gains in 2016, particularly in the Bank operating segment, were influenced by positive one-off items in connection with the remeasurement of financial instruments. Customer-driven capital markets business may well provide some impetus in 2017. The positive income forecast particularly reflects the continuing systematic implementation of strategic measures, especially in connection with institutional customers (but with retail customers too). The primary prerequisite for a steady level of net gains under gains and losses on trading activities will be a stable capital markets environment.

Net gains under gains and losses on investments are predicted to remain at a level similar to that in 2016 in view of plans to sell some long-term equity investments in 2017.

Other gains and losses on valuation of financial instruments are expected to follow a positive trend, mainly due to the potential that exists to reverse impairment losses in the portfolios of instruments from public issuers in the Real Estate Finance segment. Volatility in capital markets and the widening of credit spreads on securities from government issuers could have an adverse impact on the forecast improvement in these gains and losses.

Net income from insurance business is expected to contract in 2017. Assuming growth in the net premiums from the different divisions, the decline in net income is expected to be caused by a deterioration in gains and losses on investments held by insurance companies, reflecting the current environment of low interest rates. Exceptional events in financial and capital markets, changes in underwriting practices, or potential changes in the regulatory requirements faced by insurers (Solvency II) may adversely affect the level of net income expected to be earned from insurance business.

A further substantial rise in administrative expenses is predicted for 2017. Strategy-related investment in innovation management and digitalization has also been factored in for 2017.

As a result of the higher expenses coupled with lower income forecasts, the cost/income ratio for the Cooperative Financial Network is likely to rise in 2017.

A compelling business model, supported by sound risk-bearing capacity, is one of the stand-out features of the Cooperative Financial Network. The strong support from members and customers, combined with strong capital ratios, enables the Cooperative Financial Network to seize any opportunities for growth that present themselves and thus to successfully maintain its outstanding market position in a challenging regulatory environment.

Consolidated Financial Statements 2016

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Income statement for the period January 1 to December 31, 2016

	Note no.	2016 € million	2015 € million	Change (percent)
Net interest income	2.	18,826	20,021	−6.0
Interest income and current income and expense		*26,926*	*28,792*	*−6.5*
Interest expense		*−8,100*	*−8,771*	*−7.7*
Allowances for losses on loans and advances	3.	−522	−74	>100.0
Net fee and commission income	4.	5,963	5,798	2.8
Fee and commission income		*7,313*	*7,292*	*0.3*
Fee and commission expense		*−1,350*	*−1,494*	*−9.6*
Gains and losses on trading activities	5.	1,099	607	81.1
Gains and losses on investments	6.	33	−561	>100.0
Other gains and losses on valuation of financial instruments	7.	−190	363	>100.0
Premiums earned	8.	14,658	14,418	1.7
Gains and losses on investments held by insurance companies and other insurance company gains and losses	9.	3,783	3,013	25.6
Insurance benefit payments	10.	−15,400	−14,664	5.0
Insurance business operating expenses	11.	−1,922	−1,774	8.3
Administrative expenses	12.	−17,944	−17,234	4.1
Other net operating expense/income	13.	−76	−126	−39.7
Profit before taxes		**8,308**	**9,787**	**−15.1**
Income taxes	14.	−2,410	−2,820	−14.5
Net profit		**5,898**	**6,967**	**−15.3**
Attributable to:				
Shareholders of the Cooperative Financial Network		5,748	6,761	−15.0
Non-controlling interests		150	206	−27.2

Statement of comprehensive income for the period January 1 to December 31, 2016

	2016 € million	2015 € million	Change (percent)
Net profit	**5,898**	**6,967**	**–15.3**
Other comprehensive income/loss	**296**	**854**	**–65.3**
Items that may be reclassified to the income statement	***313***	***219***	***42.9***
Gains and losses on available-for-sale financial assets	336	103	>100.0
Gains and losses on cash flow hedges	–5	14	>100.0
Exchange differences on currency translation of foreign operations	17	44	–61.4
Gains and losses on hedges of net investments in foreign operations	–1	–24	–95.8
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	–14	17	>100.0
Income taxes relating to components of other comprehensive income/loss	–20	65	>100.0
Items that will not be reclassified to the income statement	***–17***	***635***	***>100.0***
Gains and losses arising on remeasurements of defined benefit plans	–30	905	>100.0
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	–	–1	100.0
Income taxes relating to components of other comprehensive income/loss	13	–269	>100.0
Total comprehensive income	**6,194**	**7,821**	**–20.8**
Attributable to:			
Shareholders of the Cooperative Financial Network	6,027	7,589	–20.6
Non-controlling interests	167	232	–28.0

Balance sheet as at December 31, 2016

Assets	Note no.	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Cash and cash equivalents	15.	25,421	20,536	23.8
Loans and advances to banks	16.	41,433	32,988	25.6
Loans and advances to customers	16.	733,155	700,608	4.6
Allowances for losses on loans and advances	17.	−7,520	−7,631	−1.5
Derivatives used for hedging (positive fair values)	18.	1,549	1,050	47.5
Financial assets held for trading	19.	48,270	53,570	−9.9
Investments	20.	251,965	249,960	0.8
Investments held by insurance companies	21.	89,435	82,766	8.1
Property, plant and equipment, and investment property	22.	11,385	11,168	1.9
Income tax assets	23.	3,480	3,772	−7.7
Other assets	24.	17,207	13,732	25.3
Total assets		**1,215,780**	**1,162,519**	**4.6**

Equity and liabilities	Note no.	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Deposits from banks	25.	103,282	99,505	3.8
Deposits from customers	25.	774,302	739,218	4.7
Debt certificates issued including bonds	26.	71,122	70,248	1.2
Derivatives used for hedging (negative fair values)	18.	12,956	9,453	37.1
Financial liabilities held for trading	27.	44,139	45,397	−2.8
Provisions	28.	13,109	12,563	4.3
Insurance liabilities	29.	84,125	78,929	6.6
Income tax liabilities	23.	1,056	1,263	−16.4
Other liabilities	30.	8,140	7,569	7.5
Subordinated capital	31.	4,980	5,367	−7.2
Equity		98,569	93,007	6.0
Equity of the Cooperative Financial Network		95,886	90,088	6.4
Subscribed capital		*11,443*	*10,922*	*4.8*
Capital reserves		*696*	*784*	*−11.2*
Retained earnings		*76,215*	*70,122*	*8.7*
Revaluation reserve		*1,720*	*1,444*	*19.1*
Cash flow hedge reserve		*−10*	*−7*	*42.9*
Currency translation reserve		*74*	*62*	*19.4*
Unappropriated earnings		*5,748*	*6,761*	*−15.0*
Non-controlling interests		2,683	2,919	−8.1
Total equity and liabilities		**1,215,780**	**1,162,519**	**4.6**

Statement of changes in equity

€ million

	Subscribed capital	Capital reserves	Equity earned by the Cooperative Financial Network	Revaluation reserve	Cash flow hedge reserve	Currency translation reserve	Equity of the Cooperative Financial Network	Non-controlling interests	Total equity
Equity as at Jan. 1, 2015	**10,762**	**754**	**70,362**	**1,258**	**–15**	**32**	**83,153**	**3,348**	**86,501**
Net profit	–	–	6,761	–	–	–	6,761	206	6,967
Other comprehensive income/loss	–	–	627	163	8	30	828	26	854
Total comprehensive income	**–**	**–**	**7,388**	**163**	**8**	**30**	**7,589**	**232**	**7,821**
Issue and repayment of equity	160	30	–	–	–	–	190	–248	–58
Changes in the scope of consolidation	–	–	4	–	–	–	4	1	5
Acquisition/disposal of non-controlling interests	–	–	–304	23	–	–	–281	–351	–632
Dividends paid	–	–	–567	–	–	–	–567	–63	–630
Equity as at Dec. 31, 2015	**10,922**	**784**	**76,883**	**1,444**	**–7**	**62**	**90,088**	**2,919**	**93,007**
Net profit	–	–	5,748	–	–	–	5,748	150	5,898
Other comprehensive income/loss	–	–	–10	279	–3	13	279	17	296
Total comprehensive income	**–**	**–**	**5,738**	**279**	**–3**	**13**	**6,027**	**167**	**6,194**
Issue and repayment of equity	521	–88	–	–	–	–	433	226	659
Changes in the scope of consolidation	–	–	–2	1	–	–	–1	–2	–3
Acquisition/disposal of non-controlling interests	–	–	–127	–4	–	–1	–132	–579	–711
Dividends paid	–	–	–529	–	–	–	–529	–48	–577
Equity as at Dec. 31, 2016	**11,443**	**696**	**81,963**	**1,720**	**–10**	**74**	**95,886**	**2,683**	**98,569**

Breakdown of subscribed capital	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Cooperative shares	11,220	10,673	5.1
Share capital	138	144	–4.2
Capital of silent partners	85	105	–19.0
Total	**11,443**	**10,922**	**4.8**

Statement of cash flows

	2016 € million	2015 € million
Net profit	**5,898**	**6,967**
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	–1,747	451
Non-cash changes in provisions	546	–1,102
Changes in insurance liabilities	8,493	7,262
Other non-cash income and expenses	66	366
Gains and losses on the disposal of assets and liabilities	–78	476
Other adjustments (net)	–16,614	–18,213
Subtotal	**–3,436**	**–3,793**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	–41,478	–26,402
Other assets from operating activities	–863	350
Derivatives used for hedging (positive and negative fair values)	441	–835
Financial assets and financial liabilities held for trading	5,159	–748
Deposits from banks and customers	39,260	21,475
Debt certificates including bonds	753	3,132
Other liabilities from operating activities	–2,611	–3,145
Interest, dividends and operating lease payments received	27,825	31,997
Interest paid	–8,500	–7,153
Income taxes paid	–1,642	–1,897
Cash flows from operating activities	**14,908**	**12,981**
Proceeds from the sale of investments	34,670	6,742
Proceeds from the sale of investments held by insurance companies	20,330	18,764
Payments for acquisitions of investments	–37,296	–8,625
Payments for acquisitions of investments held by insurance companies	–25,613	–23,673
Net payments for acquisitions of property, plant and equipment, and investment property (excl. assets subject to operating leases)	–1,222	–1,433
Net payments for acquisitions of intangible non-current assets	–73	–15
Changes in the scope of consolidation	21	–13
Cash flows from investing activities	**–9,183**	**–8,253**

	2016 € million	2015 € million
Proceeds from capital increases by shareholders of the Cooperative Financial Network	433	190
Proceeds from capital increases by non-controlling interests	226	–
Dividends paid to shareholders of the Cooperative Financial Network	–529	–567
Dividends paid to non-controlling interests	–48	–63
Other payments to non-controlling interests	–	–248
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	–922	840
Cash flows from financing activities	**–840**	**152**
Cash and cash equivalents as at January 1	**20,536**	**15,656**
Cash flows from operating activities	14,908	12,981
Cash flows from investing activities	–9,183	–8,253
Cash flows from financing activities	–840	152
Cash and cash equivalents as at December 31	**25,421**	**20,536**

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

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

Notes to the consolidated financial statements

A General information

Explanatory information on the consolidated financial statements

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network prepared by the National Association of German Cooperative Banks (BVR) are based on the 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 June 26, 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, 2016. There is one subsidiary (2015: 1 subsidiary) included in the consolidated financial statements with a different reporting date for its annual financial statements. With 42 exceptions (2015: 25 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 balance sheet and the income statement have been aggregated and are explained by additional disclosures.

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

Scope of consolidation

The consolidated entities included in these consolidated financial statements are 972 primary banks (2015: 1,018), the DZ BANK Group, Münchener Hypothekenbank eG (MHB), the BVR protection scheme, and BVR Institutssicherung GmbH. The consolidated primary banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft. In the previous year as well as until the merger date, the WGZ BANK Group was included in the consolidated financial statements. As a result of the business combination of DZ BANK AG and WGZ BANK AG, the WGZ BANK Group was merged into the DZ BANK Group. This business combination had no impact on the scope of consolidation in the consolidated financial statements.

The primary 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 476 subsidiaries (2015: 570, together with the WGZ BANK Group) have been consolidated in the DZ BANK 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 22 joint ventures between a consolidated entity and at least one other non-network entity (2015: 24) and 37 associates (2015: 31) over which a consolidated entity has significant influence, which are accounted for using the equity method.

Volksbanken Raiffeisenbanken
Cooperative Financial Network

Local cooperative banks
(parent entities of the Cooperative Financial Network)

Primary banks:
Local cooperative banks, Sparda banks,
PSD banks, Deutsche Apotheker- und Ärztebank eG
and specialized institutions

Münchener Hypothekenbank eG

DZ BANK Group

Central institution
DZ BANK AG

Specialized service providers:
Subsidiaries of DZ BANK AG

Protection scheme
of BVR and BVR
Institutssicherung
GmbH

B Selected disclosures of interests in other entities

Investments in subsidaries

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 its respective subsidiaries as a subgroup. In the prior year, Westdeutsche Genossenschafts-Zentralbank AG (WGZ BANK) was also included in the consolidated financial statements together with its subsidiaries as a subgroup. In the year under review, WGZ BANK was merged with DZ BANK. 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.

The shares of DZ BANK, with its headquarters in Frankfurt/Main, Germany, are held by the primary banks and by MHB, with ownership interests amounting to 94.6 percent (2015: 86.2 percent). Another 6.7 percent of the shares were held by WGZ BANK in the previous year. The remaining shares of 5.4 percent (2015: 7.1 percent) are attributable to shareholders that are not part of the Cooperative Financial Network. The pro-rata share in net profit attributable to non-controlling interests amounts to €150 million (2015: €191 million). The carrying amount of non-controlling interests amounts to €2,683 million (2015: €2,836 million). In the financial year under review, the dividend payment made to non-controlling interests amounts to €48 million (2015: €62 million).

In the prior year, the shares of WGZ BANK, with its headquarters in Düsseldorf, Germany, were held by the primary banks with ownership interests amounting to 98.1 percent. The remaining shares of 1.9 percent were attributable to shareholders that were not part of the Cooperative Financial Network. The pro-rata share in net profit attributable to non-controlling interests amounted to €15 million. The carrying amount of non-controlling interests amounted to €83 million. In the prior year, the dividend payment made to non-controlling interests amounted to €1 million.

Nature and extent of significant limitations

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 subject to restrictions on the balance sheet date are shown in the following table:

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Assets	**78,322**	**74,732**	**4.8**
Loans and advances to customers	3,345	4,174	−19.9
Investments	308	–	–
Investments held by insurance companies	74,665	70,552	5.8
Other assets	4	6	−33.3
Liabilities	**126,234**	**119,148**	**5.9**
Deposits from banks	1,903	1,690	12.6
Deposits from customers	53,771	50,926	5.6
Provisions	915	653	40.1
Insurance liabilities	69,645	65,879	5.7

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

Interests in joint arrangements and Investments in associates

Nature, extent and financial effects of interests in joint arrangements
The carrying amount of individually immaterial joint ventures accounted for using the equity method totaled €540 million as at the balance sheet date (2015: €564 million).

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

	2016 € million	2015 € million	Change (percent)
Share of profit from continuing operations	109	110	−0.9
Share of other comprehensive income/loss	−14	24	>100.0
Share of total comprehensive income	95	134	−29.1

Nature, extent and financial effects of interests in associates
The carrying amount of individually immaterial associates accounted for using the equity method totaled €349 million as at the balance sheet date (2015: €410 million).

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

	2016 € million	2015 € million	Change (percent)
Share of profit from continuing operations	18	17	5.9
Share of profit/loss from discontinued operations	–	1	−100.0
Share of other comprehensive income/loss	–	22	−100.0
Share of total comprehensive income	18	40	−55.0

Interests in unconsolidated structured entities

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

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

Interests in investment funds issued by the Cooperative Financial Network

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

The maximum exposure of the investment funds issued and managed by the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €10,628 million as at the reporting date (2015: €10,331 million). These investment fund assets resulted in losses of €22 million (2015: losses of €15 million) as well as income of €1,670 million (2015: €1,636 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 €32,059 million (2015: €27,269 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 €7,031 million (2015: €7,351 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 €2,511 million as at the reporting date (2015: €2,095 million). Income generated from these investment fund assets in the financial year 2016 amounted to €111 million (2015: €108 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 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 €4,380 million as at the reporting date (2015: €3,459 million). Income generated from these interests in the financial year 2016 amounted to €64 million (2015: €84 million).

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

The actual maximum exposure of the interests in asset-leasing vehicles in the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €-12 million (2015: €1 million) as at the reporting date. Interest income and current income and expense generated from these interests in the financial year 2016 amounted to €4 million (2015: €5 million).

C Income statement disclosures

1. Information on operating segments

Financial year 2016 € million	Bank	Retail	Real Estate Finance	Insurance	Other/ Consolidation	Total
Net interest income	1,623	16,618	1,322	–	–737	18,826
Allowances for losses on loans and advances	–523	–51	45	–	7	–522
Net fee and commission income	603	6,034	–152	–	–522	5,963
Gains and losses on trading activities	851	211	–	–	37	1,099
Gains and losses on investments	77	–94	36	–	14	33
Other gains and losses on valuation of financial instruments	–106	–10	–46	–	–28	–190
Premiums earned	–	–	–	14,658	–	14,658
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	3,885	–102	3,783
Insurance benefit payments	–	–	–	–15,400	–	–15,400
Insurance business operating expenses	–	–	–	–2,454	532	–1,922
Administrative expenses	–2,059	–15,276	–754	–	145	–17,944
Other net operating expense/income	–42	–235	41	–8	168	–76
Profit/loss before taxes	**424**	**7,197**	**492**	**681**	**–486**	**8,308**
Cost/income ratio (percent)	68.5	67.8	62.8	–	–	67.0

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

Definition of operating segments
The Volksbanken Raiffeisenbanken Cooperative Financial Network is founded on the underlying principle of decentralization. It is based on the local primary banks, whose business activities are supported by the 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 primary 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 Bank operating segment combines the activities of the Cooperative Financial Network in the corporate customers, institutional customers and capital markets businesses. The operating segment focuses on corporate customers. It essentially comprises DZ BANK, the VR LEASING Group and DVB Bank Group.

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

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

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

Other/Consolidation contains the BVR protection scheme 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

	2016 € million	2015 € million	Change (percent)
Interest income and current income and expense	**26,926**	**28,792**	**–6.5**
Interest income from	***25,752***	***27,396***	***–6.0***
Lending and money market business	23,253	24,307	–4.3
of which: Building society operations	1,036	1,031	0.5
Finance leases	150	184	–18.5
Fixed-income securities	3,139	3,646	–13.9
Other assets	–566	–538	5.2
Financial assets with a negative effective interest rate	–74	–19	>100.0
Current income from	***1,061***	***1,267***	***–16.3***
Shares and other variable-yield securities	947	1,023	–7.4
Investments in subsidiaries and equity investments	135	264	–48.9
Operating leases	–21	–20	5.0
Income / loss from using the equity method for	***31***	***48***	***–35.4***
Investments in joint ventures	17	41	–58.5
Investments in associates	14	7	100.0
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***82***	***81***	***1.2***
Interest expense	**–8,100**	**–8,771**	**–7.7**
Interest expense on	***–7,811***	***–8,506***	***–8.2***
Deposits from banks and customers	–6,258	–6,424	–2.6
of which: building society operations	–959	–820	17.0
Debt certificates issued including bonds	–1,384	–1,887	–26.7
Subordinated capital	–254	–241	5.4
Other liabilities	12	19	–36.8
Financial liabilities with a positive effective interest rate	73	27	>100.0
Other interest expense	***–289***	***–265***	***9.1***
Total	**18,826**	**20,021**	**–6.0**

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. Allowances for losses on loans and advances

	2016 € million	2015 € million	Change (percent)
Additions	–2,337	–2,143	9.1
Reversals	1,747	1,906	–8.3
Directly recognized impairment losses	–148	–167	–11.4
Recoveries from loans and advances previously impaired	277	318	–12.9
Changes in the provisions for loans and advances as well as in the liabilities from financial guarantee contracts	–54	12	>100.0
Impairment losses on loans and advances available for sale	–7	–	–
Total	**–522**	**–74**	**>100.0**

4. Net fee and commission income

	2016 € million	2015 € million	Change (percent)
Fee and commission income	**7,313**	**7,292**	**0.3**
Securities business	3,203	3,278	–2.3
Asset management	332	346	–4.0
Payments processing including card processing	2,481	2,398	3.5
Lending business and trust activities	246	262	–6.1
Financial guarantee contracts and loan commitments	182	181	0.6
Foreign commercial business	125	134	–6.7
Building society operations	11	5	>100.0
Other	733	688	6.5
Fee and commission expense	**–1,350**	**–1,494**	**–9.6**
Securities business	–499	–491	–8.6
Asset management	–104	–116	–10.3
Payments processing including card processing	–285	–284	0.4
Lending business and trust activities	–80	–165	–51.5
Financial guarantee contracts and loan commitments	–13	51	>100.0
Foreign commercial business	–25	–28	–10.7
Building society operations	–81	–103	–21.4
Other	–313	–358	–12.6
Total	**5,963**	**5,798**	**2.8**

5. Gains and losses on trading activities

	2016 € million	2015 € million	Change (percent)
Gains and losses on trading in financial instruments	528	287	84.0
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	385	135	>100.0
Gains and losses on commodities trading	186	185	0.5
Total	**1,099**	**607**	**81.1**

6. Gains and losses on investments

	2016 € million	2015 € million	Change (percent)
Gains and losses from securities	–61	–636	–90.4
Gains and losses from investments in subsidiaries and equity investments	94	75	25.3
Total	**33**	**–561**	**>100.0**

7. Other gains and losses on valuation of financial instruments

	2016 € million	2015 € million	Change (percent)
Gains and losses from hedge accounting	**–42**	**31**	**>100.0**
Fair value hedges	***–42***	***31***	***>100.0***
Gains and losses on hedging instruments	–2,856	1,895	>100.0
Gains and losses on hedged items	2,814	–1,864	>100.0
Gains and losses on derivatives held for purposes other than trading	**18**	**–86**	**>100.0**
Gains and losses on financial instruments designated as at fair value through profit or loss	**–166**	**418**	**>100.0**
Total	**–190**	**363**	**>100.0**

8. Premiums earned

	2016 € million	2015 € million	Change (percent)
Net premiums written	**14,668**	**14,442**	**1.6**
Gross premiums written	14,767	14,536	1.6
Reinsurance premiums ceded	−99	−94	5.3
Change in provision for unearned premiums	**−10**	**−24**	**−58.3**
Gross premiums	−8	−26	−69.2
Reinsurers' share	−2	2	>100.0
Total	**14,658**	**14,418**	**1.7**

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

	2016 € million	2015 € million	Change (percent)
Interest income and current income	2,534	2,575	−1.6
Administrative expenses	−132	−115	14.8
Gains and losses on valuation and disposals	1,244	478	>100.0
Other gains and losses of insurance companies	137	75	82.7
Total	**3,783**	**3,013**	**25.6**

10. Insurance benefit payments

	2016 € million	2015 € million	Change (percent)
Expenses for claims	**−10,601**	**−9,850**	**7.6**
Gross expenses for claims	−10,670	−9,890	7.9
Reinsurers' share	69	40	72.5
Changes in benefit reserve, reserve for premium refunds, and in other insurance liabilities	**−4,799**	**−4,814**	**−0.3**
Changes in gross provisions	−4,796	−4,808	−0.2
Reinsurers' share	−3	−6	−50.0
Total	**−15,400**	**−14,664**	**5.0**

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	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
At the end of the year	4,173	3,856	3,634	3,901	3,345	3,341	3,324	2,953	2,704	2,672	2,509
1 year later	–	3,767	3,523	3,847	3,336	3,359	3,135	2,901	2,623	2,601	2,414
2 years later	–	–	3,457	3,769	3,247	3,279	3,160	2,763	2,527	2,531	2,306
3 years later	–	–	–	3,731	3,220	3,254	3,139	2,756	2,533	2,472	2,268
4 years later	–	–	–	–	3,189	3,241	3,122	2,756	2,505	2,487	2,230
5 years later	–	–	–	–	–	3,250	3,139	2,768	2,513	2,478	2,245
6 years later	–	–	–	–	–	–	3,080	2,710	2,469	2,434	2,214
7 years later	–	–	–	–	–	–	–	2,685	2,466	2,422	2,210
8 years later	–	–	–	–	–	–	–	–	2,449	2,426	2,205
9 years later	–	–	–	–	–	–	–	–	–	2,419	2,207
10 years later	–	–	–	–	–	–	–	–	–	–	2,207
Settlements	**–**	**89**	**177**	**170**	**156**	**91**	**244**	**268**	**255**	**253**	**302**

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

€ million	2016	2015	2014	2013	2012	2011	2010
At the end of the year	4,110	3,827	3,574	3,669	3,313	3,298	3,254
1 year later	–	3,736	3,460	3,613	3,300	3,317	3,056
2 years later	–	–	3,393	3,533	3,211	3,236	3,077
3 years later	–	–	–	3,490	3,180	3,208	3,057
4 years later	–	–	–	–	3,139	3,194	2,939
5 years later	–	–	–	–	–	3,191	3,049
6 years later	–	–	–	–	–	–	2,957
Settlements	**–**	**91**	**181**	**179**	**174**	**107**	**297**

Claims rate trend for inward reinsurance business

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

€ million	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Gross provisions for claims outstanding	**2,718**	**2,433**	**1,976**	**1,710**	**1,506**	**1,409**	**1,190**	**892**	**712**	**596**	**524**
Cumulative payments for the year concerned and prior years											
1 year later	–	622	464	481	385	463	437	282	232	127	138
2 years later	–	–	783	685	630	640	632	399	347	203	175
3 years later	–	–	–	897	764	345	739	468	410	250	212
4 years later	–	–	–	–	930	891	856	516	447	282	240
5 years later	–	–	–	–	–	1,029	922	588	475	307	252
6 years later	–	–	–	–	–	–	1,043	626	528	324	266
7 years later	–	–	–	–	–	–	–	652	555	366	283
8 years later	–	–	–	–	–	–	–	–	574	384	307
9 years later	–	–	–	–	–	–	–	–	–	396	321
10 years later	–	–	–	–	–	–	–	–	–	–	330
Gross provisions for claims outstanding and payments made against the original provision											
At the end of the year	2,718	2,433	1,976	1,710	1,506	1,409	1,190	892	712	596	524
1 year later	–	2,434	2,157	1,840	1,593	1,536	1,401	1,026	779	583	541
2 years later	–	–	2,004	1,859	1,569	1,472	1,343	872	765	529	480
3 years later	–	–	–	1,779	1,628	1,014	1,338	826	696	518	432
4 years later	–	–	–	–	1,580	1,528	1,360	837	680	479	423
5 years later	–	–	–	–	–	1,501	1,396	858	691	470	396
6 years later	–	–	–	–	–	–	1,379	870	709	480	391
7 years later	–	–	–	–	–	–	–	876	719	498	399
8 years later	–	–	–	–	–	–	–	–	725	504	403
9 years later	–	–	–	–	–	–	–	–	–	505	407
10 years later	–	–	–	–	–	–	–	–	–	–	407
Settlements	**–**	**–1**	**–28**	**–69**	**–74**	**–92**	**–189**	**16**	**–13**	**91**	**117**

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

€ million	2016	2015	2014	2013	2012	2011	2010
Net provisions for claims outstanding	**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	–	622	464	473	383	461	432
2 years later	–	–	782	677	620	636	625
3 years later	–	–	–	888	754	333	729
4 years later	–	–	–	–	919	878	839
5 years later	–	–	–	–	–	1,016	904
6 years later	–	–	–	–	–	–	1,025
Net provisions for claims outstanding and payments made against the original provision							
At the end of the year	2,710	2,428	1,970	1,695	1,491	1,389	1,164
1 year later	–	2,429	2,152	1,827	1,576	1,519	1,377
2 years later	–	–	1,999	1,845	1,554	1,454	1,321
3 years later	–	–	–	1,766	1,612	997	1,314
4 years later	–	–	–	–	1,566	1,510	1,337
5 years later	–	–	–	–	–	1,484	1,372
6 years later	–	–	–	–	–	–	1,357
Settlements	**–**	**–1**	**–29**	**–71**	**–75**	**–95**	**–193**

11. Insurance business operating expenses

	2016 € million	2015 € million	Change (percent)
Gross expenses	−1,944	−1,794	8.4
Reinsurers' share	22	20	10.0
Total	**−1,922**	**−1,774**	**8.3**

12. Administrative expenses

	2016 € million	2015 € million	Change (percent)
Staff expenses	−10,318	−10,160	1.6
General and administrative expenses	−6,679	−6,141	8.8
Depreciation/amortization and impairment losses	−947	−933	1.5
Total	**−17,944**	**−17,234**	**4.1**

13. Other net operating expense/incomet

	2016 € million	2015 € million	Change (percent)
Gains and losses on non-current assets classified as held for sale and disposal groups	83	39	>100.0
Other operating income	816	868	−6.0
Other operating expenses	−975	−1,033	−5.6
Total	**−76**	**−126**	**−39.7**

14. Income taxes

	2016 € million	2015 € million	Change (percent)
Current tax expense	–2,497	–2,680	–6.8
Income from/expense on deferred taxes	87	–140	>100.0
Total	**–2,410**	**–2,820**	**–14.5**

Current taxes in relation to the German limited companies are calculated using an effective corporation tax rate of 15.825 percent based on a corporation tax rate of 15.0 percent plus the solidarity surcharge. The effective rate for trade tax is 14.0 percent based on an average trade tax multiplier of 400 percent. The tax rates correspond to those for the previous year.

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

	2016 € million	2015 € million	Change (percent)
Profit before taxes	**8,308**	**9,787**	**–15.1**
Notional rate of income tax of the Cooperative Financial Network (percent)	29.825	29.825	
Income taxes based on notional rate of income tax	**–2,478**	**–2,919**	**–15.1**
Tax effects	**68**	**99**	**–31.3**
Tax effects of tax-exempt income and non-tax deductible expenses	312	233	33.9
Tax effects of different tax types, different trade tax multipliers, and changes in tax rates	8	5	60.0
Tax effects of different tax rates in other countries	–47	15	>100.0
Current and deferred taxes relating to prior reporting periods	147	56	>100.0
Change in deferred tax assets due to valuation adjustments	–28	17	>100.0
Other tax effects	–324	–227	42.7
Total	**–2,410**	**–2,820**	**–14.5**

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, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Cash on hand	7,047	6,364	10.7
Balances with central banks and other government institutions	18,374	14,171	29.7
of which: with Deutsche Bundesbank	13,279	10,921	21.6
Public-sector debt instruments and bills of exchange eligible for refinancing by central banks	–	1	–100.0
Total	**25,421**	**20,536**	**23.8**

16. Loans and advances to banks and customers

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Loans and advances to banks	**41,433**	**32,988**	**25.6**
Repayable on demand	***27,786***	***17,534***	***58.5***
Other loans and advances	***13,647***	***15,454***	***–11.7***
Mortgage loans and other loans secured by mortgages on real estate	61	19	>100.0
Local authority loans	7,045	8,577	–17.9
Finance leases	14	100	–86.0
Other loans and advances	6,527	6,758	–3.4
Loans and advances to customers	**733,155**	**700,608**	**4.6**
Mortgage loans and other loans secured by mortgages on real estate	284,637	272,199	4.6
Local authority loans	37,738	38,091	–0.9
Home savings loans advanced by building society	37,253	33,659	10.7
of which: from allotment (home savings loans)	3,031	3,651	–17.0
for advance and interim financing	32,219	27,905	15.5
other building loans	2,003	2,103	–4.8
Finance leases	3,153	3,575	–11.8
Other loans and advances	370,374	353,084	4.9

17. Allowances for losses on loans and advances

	Specific loan loss allowance € million	Portfolio loan loss allowance € million	Total € million
Balance as at Jan. 1, 2015	**7,454**	**1,065**	**8,519**
Additions	2,027	116	2,143
Utilizations	–984	–	–984
Reversals	–1,758	–197	–1,955
Changes in the scope of consolidation	–14	–	–14
Other changes	–86	8	–78
Balance as at Dec. 31, 2015	**6,639**	**992**	**7,631**
Additions	2,103	234	2,337
Utilizations	–702	–1	–703
Reversals	–1,546	–218	–1,764
Changes in the scope of consolidation	14	–28	–14
Other changes	22	11	33
Balance as at Dec. 31, 2016	**6,530**	**990**	**7,520**

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

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Derivatives used for hedging (positive fair values)	**1,549**	**1,050**	**47.5**
for fair value hedges	1,545	1,049	47.3
for cash flow hedges	2	1	100.0
for hedges of net investments in foreign operations	2	–	–
Derivatives used for hedging (negative fair values)	**12,956**	**9,453**	**37.1**
for fair value hedges	12,940	9,442	37.0
for cash flow hedges	16	10	60.0
for hedges of net investments in foreign operations	–	1	–100.0

19. Financial assets held for trading

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Derivatives (positive fair values)	**23,587**	**24,665**	**−4.4**
Interest-linked contracts	20,440	22,221	−8.0
Currency-linked contracts	1,794	1,253	43.2
Share- and index-linked contracts	298	320	−6.9
Credit derivatives	244	287	−15.0
Other contracts	811	584	38.9
Securities	**10,378**	**14,424**	**−28.1**
Bonds and other fixed-income securities	9,321	13,387	−30.4
Shares and other variable-yield securities	1,057	1,037	1.9
Loans and advances	**13,963**	**14,117**	**−1.1**
Inventories and trade receivables	**342**	**364**	**−6.0**
Total	**48,270**	**53,570**	**−9.9**

20. Investments

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Securities	**248,491**	**246,591**	**0.8**
Bonds and other fixed-income securities	191,003	193,932	−1.5
Shares and other variable-yield securities	57,488	52,659	9.2
Investments in subsidiaries	**1,265**	**1,315**	**−3.8**
Equity investments	**2,209**	**2,054**	**7.5**
Investments in joint ventures	543	548	−0.9
Investments in associates	355	413	−14.0
Other shareholdings	1,311	1,093	19.9
Total	**251,965**	**249,960**	**0.8**

21. Investments held by insurance companies	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Investment property	2,470	2,251	9.7
Investments in subsidiaries, joint ventures and associates	621	527	17.8
Mortgage loans	9,049	8,732	3.6
Promissory notes and loans	7,667	8,001	–4.2
Registered bonds	9,102	9,438	–3.6
Other loans	768	837	–8.2
Variable-yield securities	8,430	7,288	15.7
Fixed-income securities	40,769	36,598	11.4
Derivatives (positive fair values)	360	233	54.5
Deposits with ceding insurers	188	163	15.3
Assets related to unit-linked contracts	10,011	8,698	15.1
Total	**89,435**	**82,766**	**8.1**

22. Property, plant and equipment, and investment property	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Land and buildings	6,839	6,839	–
Office furniture and equipment	1,378	1,408	–2.1
Assets subject to operating leases	388	460	–15.7
Investment property	253	264	–4.2
Other fixed assets	2,527	2,197	15.0
Total	**11,385**	**11,168**	**1.9**

23. Income tax assets and liabilities

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Income tax assets	**3,480**	**3,772**	**–7.7**
Current income tax assets	1,306	1,620	–19.4
Deferred tax assets	2,174	2,152	1.0
Income tax liabilities	**1,056**	**1,263**	**–16.4**
Current income tax liabilities	731	899	–18.7
Deferred tax liabilities	325	364	–10.7

	Deferred tax assets Dec. 31, 2016 € million	Deferred tax assets Dec. 31, 2015 € million	Deferred tax liabilities Dec. 31, 2016 € million	Deferred tax liabilities Dec. 31, 2015 € million
Tax loss carryforwards	59	35		
Loans and advances to banks and customers (net)	82	91	203	520
Financial assets and liabilities held for trading, derivatives used for hedging (positive and negative fair values)	787	1,199	29	28
Investments	328	360	549	1,080
Investments held by insurance companies	147	26	589	449
Deposits from banks and customers	485	796	169	160
Debt certificates including bonds	119	111	11	14
Provisions	1,941	1,737	183	43
Insurance liabilities	73	118	395	287
Intangible assets	–	–	24	29
Other balance sheet items	102	132	122	207
Total (gross)	**4,123**	**4,605**	**2,274**	**2,817**
Netting of deferred tax assets and deferred tax liabilities	–1,949	–2,453	–1,949	–2,453
Total (net)	**2,174**	**2,152**	**325**	**364**

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, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Other assets held by insurance companies	3,719	3,182	16.9
Goodwill	58	59	−1.7
Other intangible assets	423	350	20.9
Prepaid expenses	170	202	−15.8
Other receivables	3,115	2,803	11.1
Non-current assets and disposal groups classified as held for sale	182	198	−8.1
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	9,098	6,512	39.7
Residual other assets	442	426	3.8
Total	**17,207**	**13,732**	**25.3**

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

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Intangible assets	**156**	**155**	**0.6**
Reinsurers' share of insurance liabilities	**224**	**208**	**7.7**
Provision for unearned premiums	6	8	−25.0
Benefit reserves	63	65	−3.1
Provisions for claims outstanding	155	135	14.8
Loans and advances	**633**	**661**	**−4.2**
Receivables arising out of direct insurance operations	362	419	−13.6
Receivables arising out of reinsurance operations	203	182	11.5
Other receivables	68	60	13.3
Credit balances with banks, checks and cash on hand	**738**	**241**	**>100.0**
Residual other assets	**1,968**	**1,917**	**2.7**
Property, plant and equipment	418	437	−4.3
Prepaid expenses	23	34	−32.4
Remaining assets held by insurance companies	1,527	1,446	5.6
Total	**3,719**	**3,182**	**16.9**

25. Deposits from banks and customers

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Deposits from banks	**103,282**	**99,505**	**3.8**
Repayable on demand	6,156	7,223	–14.8
With agreed maturity or notice period	97,126	92,282	5.2
Deposits from customers	**774,302**	**739,218**	**4.7**
Savings deposits and home savings deposits	***240,802***	***238,345***	***1.0***
Savings deposits with agreed notice period of three months	174,621	172,203	1.4
Savings deposits with agreed notice period of more than three months	12,411	15,216	–18.4
Home savings deposits	53,770	50,926	5.6
Other deposits from customers	***533,500***	***500,873***	***6.5***
Repayable on demand	417,210	379,985	9.8
With agreed maturity or notice period	116,290	120,888	–3.8

26. Debt certificates issued including bonds

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Bonds issued	**44,813**	**48,489**	**–7.6**
Mortgage Pfandbriefe	27,299	26,385	3.2
Public-sector Pfandbriefe	5,058	8,383	–39.7
Other bonds	12,526	13,721	–8.7
Other debt certificates issued	**26,309**	**21,759**	**20.9**
Total	**71,122**	**70,248**	**1.2**

27. Financial liabilities held for trading

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Derivatives (negative fair values)	**25,123**	**27,822**	**−9.7**
Interest-linked contracts	19,568	22,328	−12.4
Currency-linked contracts	1,171	1,259	−7.0
Share- and index-linked contracts	791	799	−1.0
Credit derivatives	101	166	−39.2
Other contracts	3,492	3,270	6.8
Short positions	**508**	**849**	**−40.2**
Bonds issued and other debt certificates	**12,905**	**10,815**	**19.3**
Liabilities	**5,558**	**5,867**	**−5.3**
Liabilities from commodities transactions and commodity lending	**45**	**44**	**2.3**
Total	**44,139**	**45,397**	**−2.8**

28. Provisions

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Provisions for defined benefit plans	8,225	8,186	0.5
Provisions for loans and advances	456	418	9.1
Provisions relating to building society operations	915	653	40.1
Residual provisions	3,513	3,306	6.3
Total	**13,109**	**12,563**	**4.3**

Funding status of defined benefit obligations	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Present value of defined benefit obligations not funded by plan assets	7,064	7,684	−8.1
Present value of defined benefit obligations funded by plan assets	2,400	1,703	40.9
Present value of defined benefit obligations	**9,464**	**9,387**	**0.8**
less fair value of plan assets	−1,239	−1,201	3.2
Defined benefit obligations (net)	**8,225**	**8,186**	**0.5**
Provisions for defined benefit plans	**8,225**	**8,186**	**0.5**

Changes in the present value of defined benefit obligations	2016 € million	2015 € million	Change (percent)
Present value of defined benefit obligations as at Jan. 1	**9,387**	**10,303**	**–8.9**
Current service cost	133	149	–10.7
Interest expense	206	206	–
Pension benefits paid including plan settlements	–330	–374	–11.8
Past service cost	6	–9	>100.0
Actuarial gains (-) / losses (+)	51	–911	>100.0
Other changes	11	23	–52.2
Present value of defined benefit obligations as at Dec. 31	**9,464**	**9,387**	**0.8**

Changes in plan assets	2016 € million	2015 € million	Change (percent)
Fair value of plan assets as at Jan. 1	**1,201**	**1,215**	**–1.2**
Interest income	26	24	8.3
Contributions to plan assets	43	26	65.4
Pension benefits paid	–62	–56	10.7
Return on plan assets (excluding interest income)	35	–21	>100.0
Other changes	–4	13	>100.0
Fair value of plan assets as at Dec. 31	**1,239**	**1,201**	**3.2**

Actuarial assumptions used for defined benefit obligations	Dec. 31, 2016 (percent)	Dec. 31, 2015 (percent)
Weighted discount rate	1.75	2.24
Weighted salary increase	1.83	1.89
Weighted pension increase	1.75	1.76

29. Insurance liabilities

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Provision for unearned premiums	1,119	1,104	1.4
Benefit reserve	55,167	52,634	4.8
Provision for claims outstanding	10,071	9,257	8.8
Provision for premium refunds	8,918	7,923	12.6
Other insurance liabilities	65	53	22.6
Reserve for unit-linked insurance contracts	8,785	7,958	10.4
Total	**84,125**	**78,929**	**6.6**

Change in provision for unearned premiums

	2016 € million	2015 € million	Change (percent)
Balance as at Jan. 1	**1,104**	**1,071**	**3.1**
Additions	1,180	1,170	0.9
Utilizations / reversals	–1,172	–1,143	–2.5
Changes attributable to currency translation	7	6	16.7
Balance as at Dec. 31	**1,119**	**1,104**	**1.4**

Change in benefit reserve

	2016 € million	2015 € million	Change (percent)
Balance as at Jan. 1	**52,634**	**49,724**	**5.9**
Additions	6,158	5,965	3.2
Interest component	1,128	1,392	–19.0
Utilizations / reversals	–4,753	–4,448	–6.9
Changes attributable to currency translation	–	1	–100.0
Balance as at Dec. 31	**55,167**	**52,634**	**4.8**

Supplementary change-in-discount-rate reserves totaling €2,162 million have been recognized for policies with a discount rate in excess of the reference rate specified in the DeckRV (December 31, 2015: €1,528 million).

Change in the provision for claims outstanding	2016 € million	2015 € million	Change (percent)
Balance as at Jan. 1	**9,257**	**8,352**	**10.8**
Claims expenses	5,827	5,463	6.7
Less payments	−4,983	−4,622	−7.8
Changes attributable to currency translation	−30	64	<−100.0
Balance as at Dec. 31	**10,071**	**9,257**	**8.8**

Change in the provision for premium refunds	2016 € million	2015 € million	Change (percent)
Balance as at Jan. 1	**7,923**	**8,568**	**−7.5**
Additions	670	665	0.8
Utilizations / reversals	−760	−797	4.6
Changes resulting from unrealized gains and losses on investments (through other comprehensive income)	367	−626	>100.0
Changes resulting from other remeasurements (through profit or loss)	718	99	>100.0
Changes attributable to currency translation	–	14	−100.0
Balance as at Dec. 31	**8,918**	**7,923**	**12.6**

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

Balance as at December 31, 2016	≤ 1 year € million	> 1 year – 5 years € million	> 5 years € million	Indefinite € million
Provision for unearned premiums	1,011	83	25	–
Benefit reserve	1,654	6,983	12,129	34,401
Provision for claims outstanding	4,297	3,273	2,501	–
Provision for premium refunds	701	646	754	6,817
Other insurance liabilities	43	15	3	4
Total	**7,706**	**11,000**	**15,412**	**41,222**
Balance as at December 31, 2015				
Provision for unearned premiums	982	100	22	–
Benefit reserve	1,977	6,658	12,292	31,707
Provision for claims outstanding	3,855	3,090	2,312	–
Provision for premium refunds	739	607	854	5,723
Other insurance liabilities	39	9	3	2
Total	**7,592**	**10,464**	**15,483**	**37,432**

30. Other liabilities

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Other liabilities of insurance companies	4,948	4,255	16.3
Other liabilities and accruals	2,150	2,256	–4.7
Liabilities included in disposal groups	25	7	>100.0
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	431	479	–10.0
Residual other liabilities	586	572	2.4
Total	**8,140**	**7,569**	**7.5**

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

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Residual provisions	**329**	**327**	**0.6**
Provisions for employee benefits	**303**	**297**	**2.0**
Provisions for share-based payment transactions	1	1	–
Other provisions	25	29	−13.8
Payables and residual other liabilities	**4,619**	**3,928**	**17.6**
Subordinated capital	76	73	4.1
Deposits received from reinsurers	85	78	9.0
Payables arising out of direct insurance operations	1,523	1,574	−3.2
Payables arising out of reinsurance operations	239	230	3.9
Debt certificates issued including bonds	30	29	3.4
Deposits from banks	613	524	17.0
Derivatives (negative fair values)	105	70	50.0
Liabilities from capitalization transactions	1,345	775	73.5
Other liabilities	197	198	−0.5
Residual other liabilities	406	377	7.7
Total	**4,948**	**4,255**	**16.3**

31. Subordinated capital

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Subordinated liabilities	4,800	4,851	−1.1
Profit-sharing rights	158	494	−68.0
Share capital repayable on demand	22	22	–
Total	**4,980**	**5,367**	**−7.2**

E Financial instruments disclosures

32. Fair value of financial instruments

	Carrying amount Dec. 31, 2016 € million	Fair value Dec. 31, 2016 € million	Carrying amount Dec. 31, 2015 € million	Fair value Dec. 31, 2015 € million
Assets				
Cash and cash equivalents	18,374	18,374	14,172	14,172
Loans and advances to banks[1]	41,397	43,366	32,935	34,931
Loans and advances to customers[1]	725,671	728,364	693,030	699,519
Derivatives used for hedging (positive fair values)	1,549	1,549	1,050	1,050
Financial assets held for trading[2]	47,928	47,928	53,206	53,206
Investments[3]	251,067	251,142	248,999	249,204
Investments held by insurance companies[2, 3]	76,749	77,787	71,614	72,688
Other assets[2]	13,018	13,042	9,645	9,074
Liabilities				
Deposits from banks	103,282	105,325	99,505	101,724
Deposits from customers	774,302	776,260	739,218	743,352
Debt certificates issued including bonds	71,122	70,626	70,248	70,955
Derivatives used for hedging (negative fair values)	12,956	12,956	9,453	9,453
Financial liabilities held for trading[2]	44,094	44,094	45,353	45,353
Other liabilities[2]	2,810	2,630	2,882	2,408
Subordinated capital	4,980	5,717	5,367	5,633

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

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

33. Maturity analysis

Balance as at December 31, 2016	≤ 3 months € million	> 3 months – 1 year € million	> 1 year € million	Indefinite € million
Loans and advances to banks	19,512	3,272	23,076	501
Loans and advances to customers	37,800	56,874	636,339	19,599
Deposits from banks	27,553	8,148	69,347	962
Deposits from customers	627,400	24,076	73,794	54,042
Debt certificates issued including bonds	14,569	12,811	45,521	–
Balance as at December 31, 2015				
Loans and advances to banks	14,574	3,296	20,617	413
Loans and advances to customers	39,645	56,021	602,025	19,987
Deposits from banks	30,207	8,867	62,828	349
Deposits from customers	589,240	27,995	76,732	51,192
Debt certificates issued including bonds	15,462	11,187	45,960	–

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

F Other disclosures

34. Capital requirements and regulatory indicators

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Total capital	**92,134**	**87,628**	**5.1**
Tier 1 capital	75,006	69,174	8.4
of which: Common Equity Tier 1	74,170	68,233	8.7
Additional Tier 1 capital	836	941	-11.2
Tier 2 capital	17,128	18,454	-7.2
Total risk exposure	**572,458**	**555,952**	**3.0**
Common Equity Tier 1 capital ratio (percent)	**13.0**	**12.3**	
Tier 1 capital ratio (percent)	**13.1**	**12.4**	
Total capital ratio (percent)	**16.1**	**15.8**	
Common Equity Tier 1 capital ratio incl. reserves pursuant to Section 340f HGB (for information, percent)[1]	**15.2**	**14.6**	
Tier 1 capital ratio incl. reserves pursuant to Section 340f HGB (for information, percent) [1]	**15.4**	**14.8**	
Leverage ratio (for information, percent)[2]	**6.3**	**6.0**	
Leverage ratio incl. reserves pursuant to Section 340f HGB (for information, percent) [3]	**7.3**	**6.9**	

1 The balance of reserves pursuant to Section 340f HGB is based on the financial statements data reported for regulatory purposes before additions and reversals within the scope of the 2016 and 2015 financial statements.
2 Disclosure of the leverage ratio of the bank-specific protection system using the transitional definition for Tier 1 capital.
3 Disclosure of ratio after full introduction of the new CRR provisions (fully loaded), subject to the assumption of full reclassification and inclusion of reserves pursuant to Section 340f HGB as Tier 1 capital from a business point of view.

35. Financial guarantee contracts and loan commitments

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Financial guarantee contracts	18,259	18,024	1.3
Loan commitments	71,528	65,965	8.4
Total	**89,787**	**83,989**	**6.9**

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

36. Trust activities

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Trust assets	**1,592**	**2,692**	**–40.9**
of which: trust loans	595	1,679	–64.6
Trust liabilities	**1,592**	**2,692**	**–40.9**
of which: trust loans	595	1,679	–64.6

37. Asset management by the Union Investment Group

	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Fund assets	**258,956**	**230,685**	**12.3**
Other types of asset management	**44,839**	**40,714**	**10.1**
Unit-linked asset management	909	696	30.6
Institutional asset management	10,951	10,342	5.9
Advisory and outsourcing	32,979	29,676	11.1
Accounts managed by third parties	**–11,523**	**–10,597**	**8.7**
Total	**292,272**	**260,802**	**12.1**

As at the balance sheet date, the Union Investment Group (through Union Asset Management Holding AG) had total assets under management of €292,272 million (December 31, 2015: €260,802 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.

38. Leases

Finance leases with the Cooperative Financial Network as lessor	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Gross investment	**3,498**	**4,025**	**-13.1**
Up to 1 year	1,111	1,188	-6.5
More than 1 year and up to 5 years	2,072	2,337	-11.3
More than 5 years	315	500	-37.0
less unearned finance income	**-328**	**-397**	**-17.4**
Net investment	**3,170**	**3,628**	**-12.6**
less present value of unguaranteed residual values	**-70**	**-90**	**-22.2**
Present value of minimum lease payment receivables	**3,100**	**3,538**	**-12.4**
Up to 1 year	971	1,038	-6.5
More than 1 year and up to 5 years	1,853	2,071	-10.5
More than 5 years	276	429	-35.7

As at the balance sheet date, the accumulated allowance for uncollectable minimum lease payments at lessor companies amounted to €32 million (December 31, 2015: €41 million).

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

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

	Not allocated Number of contracts	Not allocated Home savings sum € million	Allocated Number of contracts	Allocated Home savings sum € million	Total Number of contracts	Total Home savings sum € million
Balance as at Dec. 31, 2015	**7,704,599**	**263,769**	**827,806**	**22,375**	**8,532,405**	**286,144**
Additions in 2016 as a result of						
New contracts (redeemed contracts)[1]	656,465	28,171	–	–	656,465	28,171
Transfers	23,471	660	951	22	24,422	682
Allocation waivers and cancellations	9,411	414	–	–	9,411	414
Splitting	220,051	–	63	–	220,114	–
Allocations and acceptance of allocations	–	–	356,533	9,398	356,533	9,398
Other	84,399	2,865	25	1	84,424	2,866
Total	**993,797**	**32,110**	**357,572**	**9,421**	**1,351,369**	**41,531**
Disposals in 2016 as a result of						
Allocations and acceptance of allocations	−356,533	−9,398	–	–	−356,533	−9,398
Reductions	–	−899	–	–	–	−899
Termination	−345,920	−8,460	−277,482	−7,110	−623,402	−15,570
Transfers	−23,471	−660	−951	−22	−24,422	−682
Pooling[1]	−57,939	–	−1	–	−57,940	–
Expiration	–	–	−155,187	−4,073	−155,187	−4,073
Allocation waivers and cancellations	–	–	−9,411	−414	−9,411	−414
Other	−84,399	−2,865	−25	−1	−84,424	−2,866
Total	**−868,262**	**−22,282**	**−443,057**	**−11,620**	**−1,311,319**	**−33,902**
Net addition / disposal	125,535	9,828	−85,485	−2,199	40,050	7,629
Balance as at Dec. 31, 2016	**7,830,134**	**273,597**	**742,321**	**20,176**	**8,572,455**	**293,773**

1 Including increases

Volume of unredeemed contracts	Number of contracts	Home savings sum € million
Contracts signed prior to Jan. 1, 2016	62,451	2,615
Contracts signed in 2016	197,805	11,074

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Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2016 € million
Additions	
Amounts carried forward from 2015 (surplus)	
Amounts not yet disbursed	48,783
Additions in 2016	
Savings deposits (including credited residential construction bonuses)	9,206
Repayable amounts (including credited residential construction bonuses)[1]	1,628
Interest on home savings deposits	706
Total	**60,323**
Withdrawals	
Withdrawals in 2016	
Amounts allocated (if disbursed)	
Home savings deposits	5,277
Building loans	993
Repayment of deposits on non-allocated home savings contracts	1,445
Building society guarantee fund	350
Surplus of additions	
(Amounts not yet disbursed) at the end of 2016[2]	52,258
Total	**60,323**

1 Amounts repaid are the portion of the loan principal actually repaid.
2 The surplus amounts allocated include:
a undisbursed home savings deposits from allocated home savings contracts €97 million
b undisbursed home savings loans from funds allocated €4,191 million

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

	Mortgage Pfandbriefe Dec. 31, 2016 € million	Mortgage Pfandbriefe Dec. 31, 2015 € million	Mortgage Pfandbriefe Change (percent)	Public-sector Pfandbriefe Dec. 31, 2016 € million	Public-sector Pfandbriefe Dec. 31, 2015 € million	Public-sector Pfandbriefe Change (percent)
Ordinary cover	**51,148**	**47,484**	**7.7**	**26,319**	**31,131**	**–15.5**
Loans and advances to banks	33	37	–10.8	741	1,048	–29.3
of which: Mortgage loans	33	37	–10.8	–	–	–
Local authority loans	–	–	–	741	1,048	–29.3
Loans and advances to customers	50,969	47,300	7.8	20,934	22,945	–8.8
of which: Mortgage loans	50,969	47,300	7.8	74	84	–11.9
Local authority loans	–	–	–	20,860	22,861	–8.8
Investments consisting of bonds and other fixed-income securities	–	–	–	2,603	4,839	–46.2
Property, plant and equipment	146	147	–0.7	2,041	2,299	–11.2
Extended cover	**1,784**	**2,353**	**–24.2**	**187**	**507**	**–63.1**
Loans and advances to banks	–	150	–100.0	18	358	–95.0
Investments consisting of bonds and other fixed-income securities	1,784	2,203	–19.0	169	149	13.4
Total cover	**52,932**	**49,837**	**6.2**	**26,506**	**31,638**	**–16.2**
Pfandbriefe requiring cover	**–46,344**	**–44,558**	**4.0**	**–23,275**	**–28,250**	**–17.6**
Nominal excess cover	**6,588**	**5,279**	**24.8**	**3,231**	**3,388**	**–4.6**
Present value of excess cover	**10,199**	**8,839**	**15.4**	**3,938**	**4,316**	**–8.8**
Risk-related present value of excess cover	**9,095**	**7,016**	**29.6**	**3,498**	**3,628**	**–3.6**

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

Maturity structure of mortgage Pfandbriefe and public-sector Pfandbriefe in issue	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Mortgage Pfandbriefe	**46,344**	**44,558**	**4.0**
≤ 6 months	1,735	4,560	–62.0
> 6 months and ≤ 12 months	1,937	1,305	48.4
> 12 months and ≤ 18 months	1,368	1,664	–17.8
> 18 months and ≤ 2 years	1,981	1,886	5.0
> 2 years and ≤ 3 years	4,207	2,773	51.7
> 3 years and ≤ 4 years	3,574	3,671	–2.6
> 4 years and ≤ 5 years	3,424	3,555	–3.7
> 5 years and ≤ 10 years	16,131	13,818	16.7
> 10 years	11,987	11,326	5.8
Public-sector Pfandbriefe	**23,275**	**28,250**	**–17.6**
≤ 6 months	1,909	1,722	10.9
> 6 months and ≤ 12 months	1,112	3,479	–68.0
> 12 months and ≤ 18 months	711	1,900	–62.6
> 18 months and ≤ 2 years	1,950	1,129	72.7
> 2 years and ≤ 3 years	2,064	2,666	–22.6
> 3 years and ≤ 4 years	2,209	2,129	3.8
> 4 years and ≤ 5 years	1,390	2,270	–38.8
> 5 years and ≤ 10 years	5,234	5,910	–11.4
> 10 years	6,696	7,045	–5.0

Fixed-interest periods of cover assets	Dec. 31, 2016 € million	Dec. 31, 2015 € million	Change (percent)
Mortgage Pfandbriefe	**52,932**	**49,837**	**6.2**
≤ 6 months	1,896	2,969	–36.1
> 6 months and ≤ 12 months	2,978	2,540	17.2
> 12 months and ≤ 18 months	2,225	2,203	1.0
> 18 months and ≤ 2 years	2,624	2,725	–3.7
> 2 years and ≤ 3 years	4,688	4,909	–4.5
> 3 years and ≤ 4 years	4,695	4,497	4.4
> 4 years and ≤ 5 years	4,423	4,630	–4.5
> 5 years and ≤ 10 years	19,331	17,525	10.3
> 10 years	10,072	7,839	28.5
Public-sector Pfandbriefe	**26,506**	**31,638**	**–16.2**
≤ 6 months	1,492	1,693	–11.9
> 6 months and ≤ 12 months	1,575	2,175	–27.6
> 12 months and ≤ 18 months	1,128	1,523	–25.9
> 18 months and ≤ 2 years	916	2,181	–58.0
> 2 years and ≤ 3 years	2,002	2,115	–5.3
> 3 years and ≤ 4 years	1,780	2,008	–11.4
> 4 years and ≤ 5 years	1,378	1,717	–19.7
> 5 years and ≤ 10 years	6,443	6,530	–1.3
> 10 years	9,792	11,696	–16.3

124 properties (December 31, 2015: 150) were in forced administration as at the reporting date. The mortgage loans held as cover include past-due payments for interests to be paid in the amount of €1 million (December 31, 2015: €1 million).

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

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

Berlin, July 12, 2017

National Association of German Cooperative Banks (BVR)
BVR

Board of Managing Directors

Uwe Fröhlich Gerhard P. 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, 2016, prepared by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR), have 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, 2016 (pursuant to IAS 1.81 A to IAS 1.105)
- Statement of comprehensive income for the period from January 1 to December 31, 2016 (pursuant to IAS 1.81A to IAS 1.105)
- Balance sheet as at December 31, 2016 (pursuant to IAS 1.54 to IAS 1.80A)
- Statement of changes in equity for the period from January 1 to December 31, 2016 (pursuant to IAS 1.106 to IAS 1.110)
- Statement of cash flows for the period from January 1 to December 31, 2016 (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, 2016

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 are shown in millions of euros (€ million). All figures are rounded to the nearest whole number. This may result in very small discrepancies in the calculation of totals and percentages in the consolidated financial statements.

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 primary 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, and, until the date of the merger between DZ BANK and WGZ BANK, all companies included in the IFRS consolidated financial statements of WGZ Bank AG Westdeutsche Genossenschafts-Zentralbank (WGZ Bank).

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

Interests in joint ventures and investments in associates in accordance with IFRS 11.4-19 are generally 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 are offset against each other. Gains and losses arising from transactions between entities within the Cooperative Financial Network are eliminated.

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Financial instruments

Financial instruments are designated upon initial recognition to the categories set out below if their characteristics and intended use meet the criteria of the relevant category. The following categories have been defined:

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

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

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

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

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

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

Financial liabilities measured at amortized cost

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

This category includes all financial liabilities that are measured at amortized cost.

In accordance with IAS 32.15-32, shares in partnerships are normally classified as debt instruments. Given their subordinated status compared with the liabilities of the partnerships concerned, non-controlling interests in this case are reported as subordinated capital. Profit attributable to non-controlling interests is recognized under other liabilities, provided that the resulting liability is not of a subordinated nature. Non-controlling interests in partnerships are classified as ‘share capital repayable on demand’ and are assigned to the ‘financial liabilities measured at amortized cost’ category.

This category also includes liabilities under compensation payment obligations owed to non-controlling interests in consolidated subsidiaries. These liabilities arise if DZ BANK or some other entity controlled by DZ BANK has concluded a profit transfer agreement with a subsidiary in accordance with section 291 (1) of the German Stock Corporation Act (AktG) under which there are non-controlling interests. Liabilities under compensation payment obligations are recognized at the amount of the discounted obligation.

In addition, this category includes liabilities from capitalization transactions that are not designated as unit-linked insurance products. There is no significant transfer of insurance risk in these transactions and they do not therefore satisfy the criteria for an insurance contract under IFRS 4 appendix A. As a consequence, such transactions need to be treated as financial instruments in accordance with the principles defined above.

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

Insurance-related financial assets and financial liabilities as well as receivables and liabilities from finance leases are recognized and measured pursuant to the principles set out in this section and in the sections entitled "Insurance business" or "Leases," respectively.

Liabilities from financial guarantee contracts have to be recognized by the guarantor at fair value at the time the commitment is made. The fair value normally has to correspond to the present value of the consideration received for issuing the financial guarantee contract. The obligation is subsequently measured at the higher of a provision recorded and the original amount less any amortization recognized subsequently.

Application of the fair value option
The fair value option has to be applied in the consolidated financial statements based on all of the application scenarios set out in IAS 39.9. The fair value option is applied to eliminate or significantly reduce accounting mismatches that arise if non-derivative financial instruments and related derivatives used to hedge such instruments are measured differently. Derivatives are measured at fair value through profit or loss, whereas non-derivative financial instruments are generally measured at amortized cost or changes in fair value are recognized in other comprehensive income. If the relevant hedge accounting criteria are not met, this gives rise to accounting mismatches that can be significantly reduced by applying the fair value option. The fair value option is used in the context of financial assets to prevent accounting mismatches that could arise in connection with loans and advances to banks and customers and bearer bonds. The risk and the performance arising from certain own-account investments are evaluated and reported on the basis of their fair values. The fair value option is also applied to structured financial assets and financial liabilities containing embedded derivatives requiring separation, provided that the embedded derivatives cannot be measured separately and the financial assets and financial liabilities are not classified as held for trading.

Initial recognition and derecognition of financial assets and financial liabilities
Derivatives are initially recognized on the trade date. Regular way purchases and sales of non-derivative financial assets are generally recognized and derecognized using settlement date accounting. In the case of consolidated investment funds and the issue of certain securities, the financial instruments are recognized on the trade date.

All financial instruments are measured at fair value on initial recognition. In the case of financial assets or financial liabilities not measured at fair value through profit or loss subsequently, initial recognition includes transaction costs directly attributable to the acquisition of the asset or issue of the liability concerned.

Financial assets are derecognized if the contractual rights to the cash flows from the financial assets have expired or these rights have been transferred to third parties, and substantially no risks or rewards of ownership in the financial assets remain. If the criteria for derecognizing financial assets are not satisfied, the transfer to third parties is recognized as a secured loan. Financial liabilities are derecognized when the contractual obligations have been settled, extinguished or have expired.

Impairment losses and reversals of impairment losses on financial assets
Financial assets not measured at fair value through profit or loss have to be reviewed at each reporting date to determine whether there is objective evidence of impairment.

In the case of debt instruments, important objective evidence of impairment includes financial difficulties on the part of the issuer or debtor, delay or default on interest payments or repayments of principal, failure to comply with ancillary contractually agreed arrangements or the contractually agreed provision of collateral, a significant downgrading in credit rating or issue of a default rating. In the case of securitization exposures, impairment testing requires an assessment of the assets underlying the securitization.

Significant objective evidence of impairment in the case of equity instruments includes a lasting deterioration in financial performance, sustained losses or consumption of equity, substantial changes with adverse consequences for the issuer's technological, market, economic or legal environment, and/or a considerable or enduring reduction in fair value associated with such changes.

Indications that financial assets may be impaired exist if the fair value falls by more than 20 percent of average cost or if the fair value remains below average cost for more than 6 months.

As regards securities, the disappearance of an active market for a financial asset owing to financial difficulties on the part of the issuer may constitute evidence of impairment.

Embedded derivatives
Embedded derivatives that are combined with a non-derivative financial instrument (host contract) in a hybrid (compound) instrument must be separated from the host contract and accounted for separately if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid (compound) instrument is not measured at fair value through profit or loss. If these conditions are not met, the embedded derivative may not be separated from the host contract. If an embedded derivative has to be separated, the individual components of the compound instrument are recognized and measured in accordance with the rules for the original financial instruments.

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 are recognized in profit or loss. Risks may be hedged by designating hedges either on an individual or on a portfolio basis.

Hedged items categorized as "loans and receivables", "financial liabilities measured at amortized cost", or receivables under finance leases are measured in accordance with the general measurement principles for these financial instruments. The values are adjusted for the change in fair value attributable to the hedged risk. Hedged items categorized as "available-for-sale financial assets" are measured at fair value, although only changes not attributable to the hedged changes in fair value are recognized in other comprehensive income. Interest income and interest expense arising from hedged items or hedging instruments are 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 are reported on the balance sheet under fair value changes of the hedged items in portfolio hedges of interest-rate risk, either under assets or liabilities depending on whether the portfolio comprises financial assets or financial liabilities.

Cash flow hedges
Hedging instruments are measured at fair value. Changes in fair value attributable to the effective portion of the hedge are recognized in other comprehensive income. Changes in fair value attributable to the ineffective portion of the hedge are recognized in profit or loss. Hedged items are 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 are accounted for in the same way as cash flow hedges.

Currency translation

All monetary assets and liabilities, together with unsettled spot transactions, are translated at the closing rate into the relevant functional currency of the consolidated entity. Cash in foreign currency is translated using the buying rate for cash on the balance sheet date. The translation of non-monetary assets and liabilities depends on the way in which these assets and liabilities are measured. If non-monetary assets are measured at amortized cost, they are translated using the historical exchange rate. Non-monetary assets measured at fair value are translated at the closing rate. Income, expenses, gains, and losses are 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 are translated at the exchange rate at the reporting date. Equity is translated at the historical rate. Income and expenses are also translated at the closing rate. Any differences arising from currency translation are reported in the currency translation reserve.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and reported as a net amount on the balance sheet if the group currently has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The legal right of set-off cannot be contingent on a future event and must be exercisable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity or any of the counterparties

Sale and repurchase agreements and securities lending transactions

Sale and repurchase agreements (repos) are transactions in which the parties agree the sale and subsequent repurchase of securities at a fixed price and time. The risks and rewards of ownership of the sold securities remain in full with the original seller, provided that the buyer is under an obligation to sell back the securities. In case repos are entered into as original seller, the securities sold continue to be recognized on the balance sheet of the consolidated financial statements. A liability corresponding to the amount of the purchase price received is recognized. In case reverse repos are entered into as buyer, the securities purchased must not be recognized on the balance sheet of the consolidated financial statements. A receivable corresponding to the amount of the purchase price paid is recognized.

Securities lent as part of securities lending transactions remain on the balance sheet. Where cash collateral is received in this regard, a liability is recognized. Borrowed securities must not be recognized on the balance sheet. Any cash collateral provided in connection with borrowed securities is reported as a receivable.

Sale and repurchase agreements and securities lending transactions result in transfers in which the transferred assets remain on the balance sheet in their entirety.

Collateral

Receivables are recognized for assets pledged as collateral in the form of cash deposits. Other assets pledged as collateral continue to be reported on the balance sheet unchanged. Where cash collateral is received, a liability for a corresponding amount is recognized. Other financial or non-financial assets received as collateral are not recognized on the balance sheet unless the assets are obtained in connection with the recovery of collateral or a purchase of real estate that was previously held as collateral.

Insurance business

General information on the accounting treatment of insurance business
Insurance contracts are recognized in accordance with the requirements of IFRS 4. Capitalization transactions are classified as financial instruments and are recognized in accordance with the mentioned principles. Service contracts are subject to the revenue recognition requirements specified in IAS 18.

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

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

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 are reported under liabilities from capitalization transactions.

The underlying financial instruments in these transactions are 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 is measured at amortized cost in accordance with the cost model. Non-interest-bearing, low-interest or forgivable loans are recognized in the same way as government grants. The amount of financial assistance or any government grant is deducted when the carrying amount of the asset is identified and is then recognized in profit or loss over the period covered by the assistance or grant by means of a reduced depreciation charge.

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 are generally 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 is determined by using the sales comparison approach, income approach, or cost approach and taking into account the provisions of any relevant contracts.

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 is capitalized. Maintenance and repair costs are expensed as incurred.

Insurance liabilities

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

Provision for unearned premiums

The provision for unearned premiums comprises premiums that have already been collected but that relate to future periods.

The provision for unearned premiums from direct non-life insurance operations is calculated from the gross premiums using the 360-day system. Calculation of non-transferable income components is based on the letter from the Bundesministerium der Finanzen (BMF) [German Federal Ministry of Finance], dated April 30, 1974. According to this letter, 85 percent of the fees, commissions, and payments to representatives, as well as some administrative personnel expenses, in non-life insurance may not be transferred.

Unearned premiums from life insurance are calculated taking into account the starting date and maturity date of each individual policy after deduction of non-transferable premium components. As far as life insurance is concerned, imputed collection expenses equivalent to up to 4 percent of premiums may not be transferred.

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

Benefit reserve

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 are reported under the benefit reserve.

The benefit reserve for life insurance and casualty insurance with premium refund is generally calculated in Germany 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 is 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 is used for other types of insurance. Negative benefit reserves on an individual policy basis are generally 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 is generally based on the Zillmer method. Following the introduction of the German Life Insurance Reform Act (LVRG), zillmerizing has not been applied to most new business entered into from 2015 onward. In particular, zillmerizing is not 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 includes administrative expenses for contracts with ongoing payment of premiums. A provision for administrative costs has been recognized to cover premium-free years under insurance policies, fully paid-up insurance, and some legacy insurance commitments.

In health insurance, benefit reserves are computed prospectively on an individual policy basis using the technical parameters for calculating rates. Negative benefit reserves are 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.

When the benefit reserves are prospectively calculated, the parameters used are 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 are 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 been 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 is recognized for policies with a discount rate in excess of the reference rate specified in the DeckRV. Subject to the approval of BaFin, the supplementary change-in-discount-rate reserve is increased for existing policies. Entity-specific probabilities for cancellation and lump-sum payments were used for the first time in 2016.

Provision for claims outstanding

The provision for claims outstanding represents 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 is recognized for claims that have already been reported and also for insured events that have occurred but have not yet been reported. It includes both internal and external expenses as well as the cost of settling claims.

The provision for claims outstanding in direct non-life insurance business is determined on a case-by-case basis for all known claims. Recourse claims, excess proceeds, and claims under loss sharing agreements are netted. Based on claims reports in previous years, an additional claims provision is recognized for claims that occur or are caused before the balance sheet date but have not yet been reported by this date. Statistical estimates are used in this measurement. The provision for claims outstanding is not discounted, except in the case of the pension benefits reserve. The provisions for claims settlement expenses, which are also included in this item, have been 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 formula 48 (German Insurance Association [GDV] formula) as specified in a letter dated March 20, 1973. Under these arrangements, internal costs likely to be incurred in connection with the settlement of future claims are projected using an overall rate applied to the present level of expenses.

The provision for claims outstanding as regards life insurance and pension funds is determined on a case-by-case basis. The provision is recognized for claims that have already been incurred and reported by the balance sheet date, but have not yet been settled. Furthermore, it contains a general claims provision corresponding to the amount of capital at risk based on updated empirical values for claims that have occurred but have not yet been reported and for entitlements arising from the benefit obligation resulting from the BGH's judgments dated May 7, 2014 (IV ZR 76/11) and December 17, 2014 (IV Z 260/11).

A provision for settlement expenses is 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 is determined on the basis of the costs paid out in the financial year in connection with claims during the year. The calculation is based on claims experience over the previous 3 financial years. Recourse claims are 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 is determined in accordance with reinsurance agreements. Where appropriate, provisions for claims outstanding are recognized on a case-by-case basis for claims relevant to reinsurance.

Provisions for premium refunds

The provision for premium refunds represents obligations not yet due for settlement on the balance sheet date relating to premium refunds to insured parties. It includes amounts allocated to policyholders under statutory or contractual arrangements for bonuses and rebates. In addition, the provision for premium refunds includes provisions resulting from time-restricted cumulative recognition and measurement differences between items in the financial statements prepared in accordance with IFRS 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 available-for-sale financial assets, corresponding expenses for deferred premium refunds are 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 are 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 is 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 is 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. Under section 140 of the German Act on the Supervision of Insurance Undertakings (VAG), that element of the provision for premium refunds not attributable to bonuses already declared but not yet allocated may be used to avert an imminent crisis and may therefore be seen as mitigating risk. The expenses for deferred premium refunds are 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 includes amounts allocated to policyholders under statutory or contractual arrangements for bonuses and rebates. The expenses for deferred premium refunds are 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.

Other insurance liabilities

Other insurance liabilities relating to non-life insurance include obligations arising from membership of the Verein Verkehrsopferhilfe e.V. (VOH) [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 is calculated on the basis of past experience, whereas operational planning is used as the basis for measuring the premium deficiency provision.

Other insurance liabilities for life insurance are 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 contain a cancellation provision. The cancellation provision was 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.

Reinsurance business
In the case of reinsurance business, the insurance liabilities are 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 is 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 are applied, the increases having been determined in accordance with prudent business practice, actuarial calculation methods, and past experience.

Reserve for unit-linked insurance contracts
The reserve for unit-linked insurance contracts is an item largely corresponding to assets related to unit-linked contracts. This item is 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 is measured at fair value on the basis of the underlying investments. Gains and losses on the fund assets 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 is 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

A lease is classified as a finance lease if substantially all the risks and rewards incidental to the ownership of an asset are transferred from the lessor to the lessee. If the risks and rewards remain substantially with the lessor, the lease is an operating lease.

Cooperative Financial Network as lessor
If a lease is classified as a finance lease, a receivable due from the lessee must be recognized. The receivable is measured at an amount equal to the net investment in the lease at the inception of the lease. Lease payments are apportioned into payment of interest and repayment of principal. The interest portion is 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 are reported as assets. The leased assets are 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 is recognized in profit or loss on a straight-line basis over the term of the lease and is included in the current income from operating leases reported under net interest income.

Cooperative Financial Network as lessee
If a lease is classified as a finance lease, the leased asset must be recognized as an asset at the lower of fair value and the present value of the minimum lease payments. A liability of an equivalent amount is also recognized. The interest expenses have to be recognized on an accrual basis.

Expenses incurred under operating leases have to be amortized on an accrual basis over the term of the leases and reported as administrative expenses.

Income

Interest and dividends received
Interest income is accrued and recognized in the relevant period.

Premiums and discounts are 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 designated as at fair value through profit or loss are 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 are 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 is not recorded on an accrual basis but has to be recognized in its full amount at the date of realization. Dividends are recognized as soon as a legal entitlement to the payment of such a dividend is established.

Fees and commissions
Income from fees and commissions is recognized when the underlying services have been performed, it is probable that the economic benefits will flow to the group, and the amount of the income can be reliably measured. Such income is therefore recognized in profit or loss over the period in which the underlying service is performed or immediately after the service has been performed.

Fees and commissions earned over the period in which a service is performed include certain types of fees for administration and safe custody as part of the securities business and asset management, and fees in connection with the furnishing of financial guarantees. In the case of performance-related management fees, income is recognized when the contractually agreed performance criteria have been satisfied.

Insurance business
For each insurance contract, gross premiums written are calculated pro rata temporis for an exact number of days based on the actual start date of the insurance. These premiums 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, are also recognized as gross premiums written.

The components of premiums covering administration fees are 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 are deferred and apportioned over the relevant periods in line with the service performed.

Cash and cash equivalents

Cash and cash equivalents are cash on hand, balances with central banks and other government institutions, treasury bills, and non-interest-bearing treasury notes.

Cash on hand comprises euros and other currencies measured at face value or translated at the buying rate. Balances with central banks and other government institutions, treasury bills, and non-interest-bearing treasury notes are classified as "loans and receivables" and measured at amortized cost. Interest income on cash and cash equivalents is recognized as interest income from lending and money market business.

Loans and advances to banks and customers

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

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

Interest income on loans and advances to banks and customers is recognized as interest income from lending and money market operations. This also includes gains and losses on the sale of such loans and advances classified as "loans and receivables" and the amortization of hedge adjustments to carrying amounts due to fair value hedges. Gains and losses on the valuation of loans and advances designated as at fair value through profit or loss are also shown under the same item as part of other gains and losses on valuation of financial instruments.

Allowances for losses on loans and advances

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

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

Derivatives used for hedging (positive and negative fair values)

Derivatives used for hedging (positive and negative market values) include the carrying amounts of derivatives designated as hedging instruments in an effective and documented hedging relationship.

Derivatives are measured at fair value. Changes in the fair value of hedging instruments in fair value hedges between 2 reporting dates are 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 derivative hedging instruments are being used as 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. These changes are shown in the cash flow hedge reserve or in the currency translation reserve as part of equity. Changes in fair value attributable to the ineffective portion of hedges are 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 solely comprise financial assets and financial liabilities that fall within the measurement category “financial instruments held for trading”.

Derivatives with positive fair values are 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 to be recognized as hedging instruments.

Financial instruments reported as financial assets or financial liabilities held for trading are always 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 are 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 that are recognized under hedge accounting criteria, are recognized under other gains and losses on valuation of financial instruments as gains and losses on derivatives held for purposes other than trading. If, to avoid accounting mismatches, hedged items are classified as “financial instruments designated as at fair value through profit or loss”, the valuation gains and losses on the related derivatives concluded for 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, are reported under net interest income.

Investments

The following are 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 include investments in non-consolidated subsidiaries as well as in joint ventures and associates.

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Investments are initially recognized at fair value. Equities and other shareholdings and investments in subsidiaries, joint ventures, and associates that are accounted for using the equity method or for which a fair value cannot be reliably determined are initially recognized at cost. These investments are 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 is generally used for subsequent measurement.

Impairment losses on investments are applied directly to the carrying amount of the investment.

Interest and any investment premiums or discounts amortized over the maturity of the investment are recognized under net interest income. Dividends derived from equity instruments are recognized as current income under net interest income. Gains or losses on investments accounted for using the equity method are also reported under net interest income. Impairment losses, reversals of impairment losses, and gains and losses realized on the sale of investments not measured at fair value through profit or loss are reported under gains and losses on investments.

Property, plant and equipment, and investment property

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

Property, plant and equipment, and investment property is measured at cost less cumulative depreciation and impairment losses in subsequent reporting periods. Borrowing costs directly assignable to property, plant and equipment, and investment property are capitalized as part of the asset cost, provided that the asset concerned is a qualifying asset.

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

Income tax assets and liabilities

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

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

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

Other assets

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

Assets and liabilities held for sale

The carrying amount of non-current assets and groups of assets and liabilities classified as held for sale 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 are measured at the lower of carrying amount and fair value less costs to sell. The assets are no longer depreciated from the date on which they are classified as held for sale.

Assets and disposal groups classified as held for sale are shown on the balance sheet under other assets as non-current 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 are 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 and not classified as "financial instruments held for trading" are recognized as deposits from banks and customers.

Deposits from banks and customers are 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 is 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 are measured at fair value as at the balance sheet date.

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

Debt certificates issued including bonds

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

Debt certificates issued and gains and losses on these certificates are 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 are 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 are 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 are 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 are recognized for these indirect pension commitments. The contributions paid are 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 are measured on the basis of the projected unit credit method. The measurement depends on various actuarial assumptions. These include, in particular, assumptions about long-term salary and pension trends and average life expectancy. Assumptions about salary and pension trends are based on past trends and take account of expectations about future labor market trends. Generally accepted biometric tables (2005G mortality tables published by Professor Klaus Heubeck) are 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 is 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 are not included in this process. The defined benefit obligations of the primary banks and of MHB are 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 are recognized in other comprehensive income in the reporting period in which they occur.

Provisions for loans and advances
Provisions for loans and advances factor in the usual sector-specific level of uncertainty. The underlying assumptions and estimates used 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 are recognized to cover the payment of any bonuses that may have been agreed in the terms and conditions of home savings contracts. These bonuses may take the form of a reimbursement of some of the sales charges or interest bonuses on deposits.

Residual provisions
The residual provisions include 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 include provisions for restructuring measures as well as provisions for risks arising from ongoing legal disputes. The amount of the provisions recognized for risks arising from ongoing legal disputes corresponds to the potential resulting losses and, when it is more likely than not that the relevant legal dispute will result in a payment obligation.

Subordinated capital

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

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

Equity

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

Trust activities

Trust activities are defined as business transacted on one's own behalf for a third-party account. Assets

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and liabilities held as part of trust activities do not satisfy the criteria for recognition on the balance sheet.

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

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 “Operating Segments”
- Further analysis and breakdowns of the material components of income statement and balance sheet items
- Presentation of the changes in the development of allowances for losses and on loans and advances (balance sheet and income statement; reconciliation of opening balance to closing balance)
- Reconciliation in accordance with IAS 12.81c 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 7.39a
- 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 ex tended aggregated calculation in accordance with art. 49 (3) CRR in conjunction with art. 113 (7) CRR (“EAC”).
  - As at December 31, 2016, the presentation of the leverage ratio of the institutional protection system of the Cooperative Financial Network has to comply with the requirements set out in art. 429 CRR. Tier 1 capital is used as the capital measure pursuant to the extended aggregated calculation in accordance with art. 49 (3) CRR, adjusted by any Tier 1 capital items of the members of the institutional protection system held internally within the Cooperative Financial Network. The exposure values were determined by aggregating the individual figures reported for the leverage ratio of all member institutions and adjusted by material items held internally within the Cooperative Financial Network.
  - The primary banks and Münchener Hypothekenbank are 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, 2016 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 IAS 17.47
- 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

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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 the risk report. Performance indicators within the meaning of section 315 (3) HGB have to be disclosed accordingly. The relevant non-financial performance indicators have to be presented in the section "Human resources 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.

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1 Gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments
2 Premiums earned, gains and losses on investments held by insurance companies 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 by the Union Investment Group
4 Ratio of profit before taxes to average equity
5 Ratio of net profit to total assets

BVR