80 years
BVR protection scheme

BVR

Consolidated Financial Statements 2013

of the Volksbanken Raiffeisenbanken
Cooperative Financial Network

The Volksbanken Raiffeisenbanken Cooperative Financial Network

Facts and Figures at a Glance

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

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

Volksbanken Raiffeisenbanken Cooperative Financial Network	2013 € million	2012 € million	Change (percent)
Financial performance			
Net interest income	20,010	19,644	1.9
Allowances for losses on loans and advances	–774	–1,034	–25.1
Net fee and commission income	5,061	4,860	4.1
Profit on financial and commodities transactions[1]	1,061	1,238	–14.3
Net income from insurance business[2]	666	817	–18.5
Profit before taxes	9,553	9,312	2.6
Net profit	6,862	6,872	–0.1
Cost/income ratio (percent)	61.5	61.2	
Net assets			
Loans and advances to banks	33,413	41,785	–20.0
Loans and advances to customers	648,470	632,448	2.5
Allowances for losses on loans and advances	–9,284	–9,785	–5.1
Financial assets held for trading	57,539	72,205	–20.3
Investments	237,257	242,161	–2.0
Investments held by insurance companies	67,868	64,100	5.9
Remaining assets	45,302	47,422	–4.5
Financial position			
Deposits from banks	96,210	110,824	–13.2
Deposits from customers	693,191	664,839	4.3
Debt certificates including bonds	67,507	83,259	–18.9
Financial liabilities held for trading	44,310	58,307	–24.0
Insurance liabilities	67,386	63,260	6.5
Other liabilities	32,575	37,649	–13.5
Equity	79,386	72,198	10.0
Total assets/total equity and liabilities	**1,080,565**	**1,090,336**	**–0.9**
Volume of business[3]	**1,363,313**	**1,358,308**	**0.4**
Regulatory capital ratios under SolvV			
Tier 1 capital ratio (percent)	11.4	10.1	
Total capital ratio (percent)	16.1	14.7	
Employees as at Dec. 31	**191,243**	**190,095**	**0.6**

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

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Introduction by the Board of Managing Directors

For the Volksbanken Raiffeisenbanken Cooperative Financial Network, 2013 was a year of growth. The Cooperative Financial Network – comprising 1,078 cooperative banks, DZ BANK, WGZ BANK, and the central product specialists, i.e. the three mortgage banks (DG HYP, WL BANK, and Münchener Hypothekenbank), Bausparkasse Schwäbisch Hall, R+V Versicherung, Union Investment, VR-LEASING, TeamBank, and DZ PRIVATBANK – strengthened its customer base and continued to expand its market share in customer business.

Despite fierce competition in financial markets and regulatory challenges, the Cooperative Financial Network again demonstrated its stability. It gained market share both in the lending business and in the deposit-taking sector. In parallel to this, there was a rise in the proportion of total assets and liabilities accounted for by customer business. The Network proved robust and able to function, with its equity increasing by 10 percent to Euro 79.4 billion.

Reporting a net profit after taxes of Euro 6.9 billion, the Cooperative Financial Network is one of the most profitable banking groups in Europe.

This success is also the result of the Network's firm focus on customers, something that is also expressed in major inhouse projects such as webErfolg (web success) and Beratungsqualität (quality of advice). Membership continues to grow from year to year. The number of members climbed by 364,000 to a record 17.7 million in 2013 – proof positive of the confidence that the cooperative institutions' customers have in the Cooperative Financial Network's strategy.

This confidence has been underpinned by the protection scheme of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks] for 80 years. The purpose of the scheme is to ensure the credit quality of the member institutions by identifying and averting financial difficulties at an early stage. Over the decades, this has enabled it to reliably protect the money of the cooperative banks' customers at all times.

These annual consolidated financial statements of the Cooperative Financial Network for 2013 can therefore be seen as a reflection of a fully functioning cooperative model, a model whose preservation we will continue to fight for at regulatory level.

Uwe Fröhlich
Gerhard Hofmann
Dr. Andreas Martin

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Business Performance

Economic conditions

Germany's macroeconomic performance was again hampered by the impact of the European sovereign debt crisis and the weak global economy in 2013. Adjusted for inflation, gross domestic product (GDP) rose by just 0.4 percent year on year, having only grown by a modest 0.7 percent in 2012. The start of the year was particularly subdued for the German economy. Production was held back by faltering foreign trade and the unusually hard and long winter. Nevertheless, the economic situation brightened considerably as the year progressed. Two of the major factors in this improvement were the gradual easing of uncertainty about developments in the eurozone and a rebound in exports. However, imports increased at a similar rate to exports, which meant that foreign trade did not provide any growth stimulus overall.

With global economic conditions remaining difficult at the start of the year, capital expenditure suffered. Spending on capital equipment therefore declined again year on year, despite funding conditions remaining very favorable. Investment in the commercial construction sector was also weak. The only sectors where capital expenditure was up were public-sector construction and house-building.

Contrasting with capital expenditure, consumer and government spending rose noticeably and were therefore the mainstays of economic growth in 2013. Consumption was stimulated by a further improvement in employment, higher wages under collective pay agreements, and an increase in monetary social benefits. Moreover, there was relief for private households in the form of a lowering of the contribution rate for statutory pension insurance, the abolition of charges for doctor's appointments, and a small rise in the basic tax allowance, which also boosted consumer spending.

Consumer prices rose by a moderate 1.5 percent in 2013, whereas the rate of inflation in the previous year had been 2.0 percent. Food prices, which went up by 4.4 percent, were the main factor in overall inflation.

Jobs continued to be created in the German labor market, although at a slower pace than in 2012. The number of people employed in Germany advanced by 232,000 to over 41.8 million people. This increase was attributable to the growing number of German citizens in work and rising migration from eastern Europe and crisis-hit countries of the eurozone. The number of people unemployed rose to almost 3.0 million. This slight increase of 53,000 was mainly due to the scaling back of labor-market policy measures. The average rate of unemployment for 2013 was 6.9 percent, up by 0.1 percentage points year on year.

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Volksbanken Raiffeisenbanken Cooperative Financial Network

Business development

The Volksbanken Raiffeisenbanken Cooperative Financial Network again proved to be a central pillar of the German banking sector in 2013. Economic growth stabilized in the eurozone over the course of the reporting year, primarily supported by the distinctly expansionary monetary policy of the European Central Bank (ECB). To boost the recovery of the economy as a whole, the ECB cut interest rates twice in 2013, which took its key lending rate to 0.25 percent. This poses major challenges for the banking industry, as does the extensive list of regulatory requirements.

With its focus on value creation and customers, the regionally oriented business model of the Cooperative Financial Network proved robust against this difficult economic backdrop. The Cooperative Financial Network revealed itself to be one of the most profitable banking groups in Europe, posting a profit before taxes of Euro 9,553 million, up by Euro 241 million on what had already been a good figure in 2012.

In their lending business with retail and corporate customers, the cooperative banks built on their record success in the two previous years and gained further market share. Overall, the lending business with retail and corporate customers rose by 4.3 percent compared with 2012. Despite a decline in lending to corporate customers in the market as a whole, the primary banks were able to achieve a year on year gain of 4.1 percent in this business. In the retail customer business, the volume of lending grew at a faster rate than the market as a whole, above all due to long-term real-estate finance.

Despite tough competition, the Cooperative Financial Network also gained market share in the deposit-taking sector. There was a further year on year increase in customer deposits, which grew by 4.3 percent. As a result, the Cooperative Financial Network occupies a strong competitive position and has sufficient leeway for growth to meet the borrowing requirements of its retail and corporate customers. By contrast, a lack of adequate funding causes bottlenecks for many banks.

Equity advanced from Euro 72.2 billion in 2012 to Euro 79.4 billion in 2013. This represents a further substantial year on year increase in equity of Euro 7.2 billion (2012: increase of Euro 6.8 billion) and was achieved despite the persistently difficult economic conditions, thereby underlining the sustainability of the Cooperative Financial Network's successful business model and strengthening its future viability. The sound level of equity puts the Cooperative Financial Network in a good starting point for meeting the growing number of regulatory requirements, and the network therefore lives up to its ambition of being one of the best capitalized banking groups in Europe.

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

The popularity of the Cooperative Financial Network in the market is clearly demonstrated by the fact that its membership has been growing for years. Cooperative banks primarily define themselves in their business activities in terms of their customer relationships, supporting their customers through long-term partnerships. This creates broad backing in the community and draws potential customers' attention to the advantages associated with cooperative membership. In 2013 alone, the German cooperative banks gained 364,000 members, bringing the total to 17.7 million as at December 31, 2013.

Financial performance

The local cooperative banks' **net interest income** – the biggest source of income for the Cooperative Financial Network – rose slightly year on year, advancing by 1.9 percent to Euro 20.0 billion despite the worsening of margins caused by low interest rates and a market environment dominated by fierce competition. The main factor in this increase was the growth in customer business volumes in the year under review.

Allowances for losses on loans and advances decreased from Euro 1,034 million in 2012 to Euro 774 million in 2013. The reasons for this decline were mainly the small number of insolvencies and Germany's economic performance, which remained favorable for customers. As a result, the overall addition to allowances for losses on loans and advances was less than in the previous year. At the same time, loan loss allowances were reduced in both corporate and retail banking.

Compared with the previous year, **net fee and commission income** went up by 4.1 percent to Euro 5,061 million. This improvement was primarily driven by income from payments processing, strong demand for building society and insurance products, and recovering demand for securities and investment funds.

The Cooperative Financial Network's **gains and losses on trading activities** in 2013 came to a net gain of Euro 507 million compared with a netgain of Euro 856 million for 2012. There had been a positive impact on the prior-year figure from the higher valuation of securities held for trading purposes as a result of the narrowing of spreads. The main focus of sales in the retail banking securities business in 2013 was on capital preservation products and structured interest-rate products. In the reporting year, the Cooperative Financial Network was again able to consolidate its dominant position in the market for capital preservation certificates by continuing to pursue a strict quality strategy that places great emphasis on the priority investor requirements for guarantees, opportunities, and security. As in previous years, investment and risk management products were the main contributors to the gains achieved in business with corporate and institutional customers.

Gains and losses on investments and **other gains and losses on valuation of financial instruments** were influenced by the recovery in the financial markets, despite some losses. The level of gains and losses on investments amounted to a loss of Euro 523 million, compared with a gain of Euro 390 million in 2012. The 2013 figure was mainly due to the rise in the long-term level of interest rates over the course of the year, whereas the figure for 2012 had been boosted by exceptionally large reversals of impairment losses. Other gains and losses on the valuation of financial instruments advanced to a gain of Euro 1,077 million (2012: loss of Euro 8 million), predominantly as a result of positive effects from the remeasurement of bonds of eurozone peripheral countries.

Net income from insurance business fell by 18.5 percent to Euro 666 million in 2013. This change was the net result of a number of factors, including on the one hand a rise in premium receipts, but on the other hand significantly lower gains on investments held by insurance companies, higher claims costs in non-life insurance, and a higher addition to the benefit reserve in the life insurance and health insurance business.

Against a backdrop of increased regulatory requirements and salary adjustments in relation to collective pay agreements, **administrative expenses** increased slightly in the year under review, going up by 0.8 percent to Euro 16,486 million (2012: Euro 16,348 million).

Income taxes amounted to Euro 2,691 million in 2013 (2012: Euro 2,440 million), with most of this amount (Euro 2,490 million) attributable to current income taxes. This 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 2013 after tax amounted to Euro 6,862 million, compared with Euro 6,872 million in 2012.

The Cooperative Financial Network's **cost/income ratio** amounted to 61.5 percent in 2013 (2012: 61.2 percent).

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Financial performance

	2013 € million	2012 € million	Change (percent)
Net interest income	20,010	19,644	1.9
Allowances for losses on loans and advances	−774	−1,034	−25.1
Net fee and commission income	5,061	4,860	4.1
Gains and losses on trading activities	507	856	−40.8
Gains and losses on investments	−523	390	>100.0
Other gains and losses on valuation of financial instruments	1,077	−8	>100.0
Net income from insurance business	666	817	−18.5
Administrative expenses	−16,486	−16,348	0.8
Other net operating income	15	135	−88.9
Profit before taxes	**9,553**	**9,312**	**2.6**
Income taxes	−2,691	−2,440	10.3
Net profit	**6,862**	**6,872**	**−0.1**

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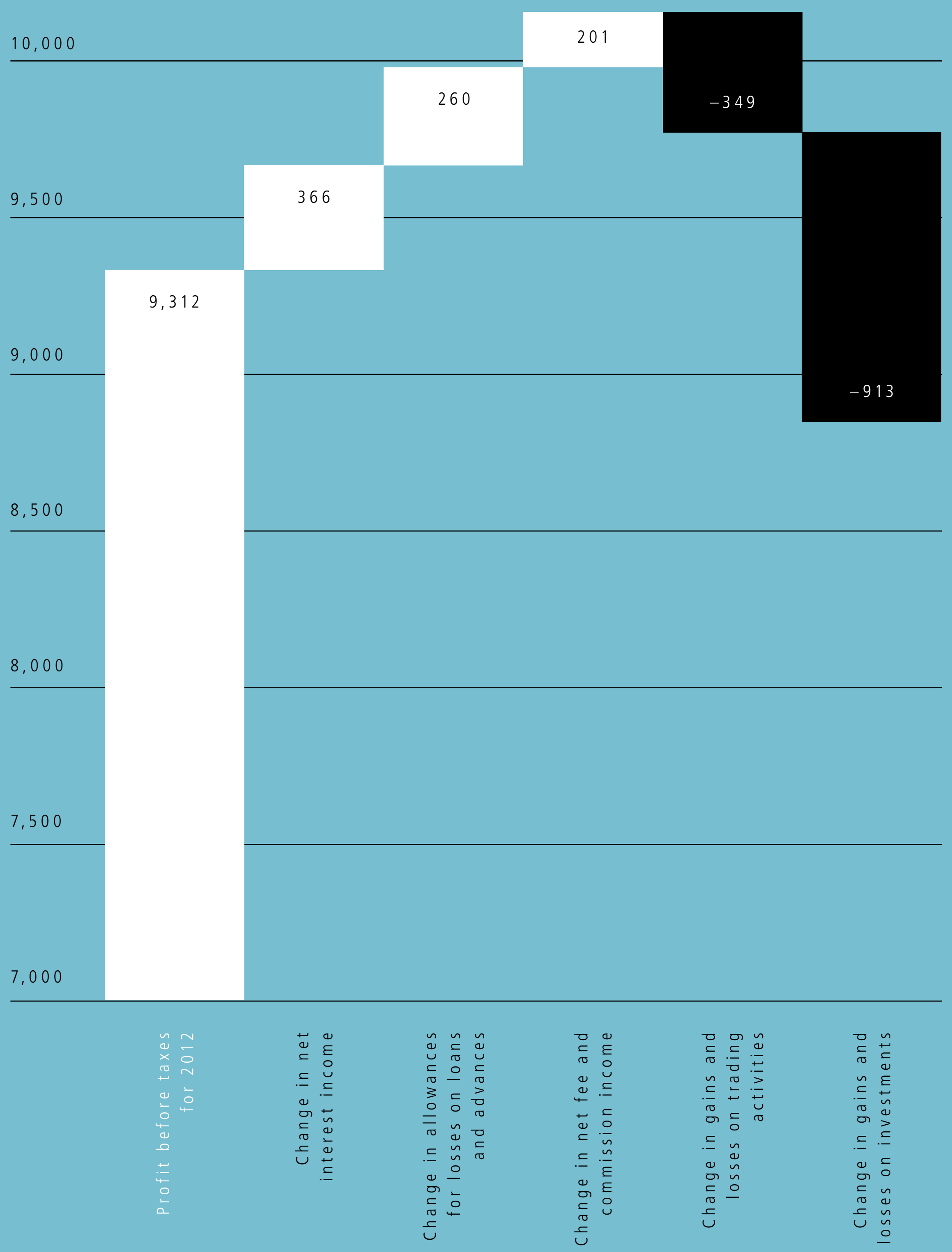
Breakdown of change in profit before taxes by income statement items

€ million



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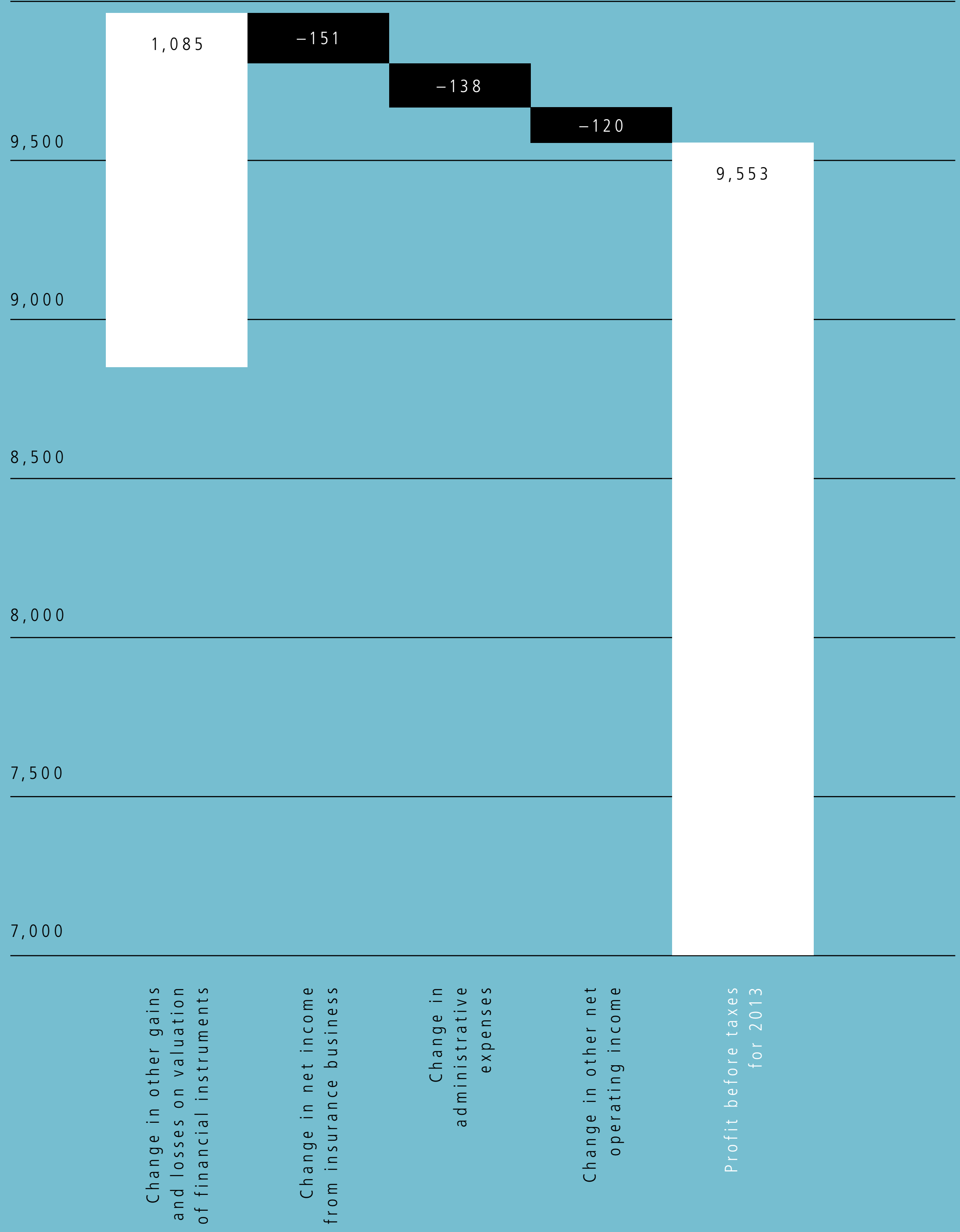

Financial position

The **total assets** of the Volksbanken Raiffeisenbanken Cooperative Financial Network had decreased by Euro 9.7 billion to Euro 1,080.6 billion as at December 31, 2013 (December 31, 2012: Euro 1,090.3 billion). The **volume of business**, which comprises the Cooperative Financial Network's total assets, financial guarantee contracts and loan commitments, trust activities, and the assets managed by the Union Investment Group, had increased from Euro 1,358.3 billion as at December 31, 2012 to Euro 1,363.3 billion as at December 31, 2013.

Of the total assets, 59.3 percent was attributable to the primary banks (December 31, 2012: 57.8 percent), 30.6 percent to the DZ BANK Group (December 31, 2012: 31.6 percent), and 7.2 percent to the WGZ BANK Group (December 31, 2012: 7.5 percent).

On the **assets** side of the balance sheet, loans and advances to customers grew by 2.5 percent to Euro 648.5 billion (December 31, 2012: Euro 632.4 billion). In 2013 again, this rise was predominantly attributable to the primary banks, which achieved a slightly smaller gain of 4.1 percent compared with 4.8 percent in the previous year. Lending to corporate customers (loans to non-financial companies and self-employed people) by the local cooperative banks advanced by 4.1 percent, whereas the market as a whole contracted by 0.5 percent. In the retail sector, the lending volume rose by 4.4 percent, while the market as a whole grew by just 1.4 percent. As anticipated, long-term home finance was the growth driver in the retail customer business.

Financial assets held for trading decreased by Euro 14.7 billion or 20.3 percent to Euro 57.5 billion in the reporting year. This fall was due, in particular, to a Euro 15.9 billion decline in derivatives (positive fair values) to Euro 24.6 billion.

On the **equity and liabilities** side of the balance sheet, deposits from customers had grown again, from Euro 664.8 billion as at December 31, 2012 to Euro 693.2 billion as at December 31, 2013. The lion's share of this amount was invested in short-term demand deposits, i. e. deposits in current accounts and overnight money, at the primary banks. The huge popularity of bank deposits as a secure, liquid form of investment explains this rise. At 53.2 percent, demand deposits accounted for the largest share of deposits from customers held by the primary banks (December 31, 2012: 49.5 percent).

Corresponding to the change in financial assets held for trading, financial liabilities held for trading declined by Euro 14.0 billion, or 24.0 percent, to Euro 44.3 billion. Whereas the liabilities reported under financial liabilities held for trading grew by Euro 4.3 billion, derivatives (negative fair values) decreased by a substantial Euro 18.2 billion.

The equity attributable to the Cooperative Financial Network remained at a healthy level, increasing by 10.0 percent to Euro 79.4 billion (December 31, 2012: Euro 72.2 billion). The main reason for this rise was the use of profits generated in 2012 to boost reserves.

Regulatory capital

The capital held by the Cooperative Financial Network – as required by the Solvency Regulation (SolvV) – grew by Euro 8.7 billion, or 11.6 percent, to Euro 83.5 billion.

The corresponding total capital ratio rose from 14.7 percent to 16.1 percent. The Tier 1 capital ratio as defined by the SolvV also improved, increasing from 10.1 percent at the end of 2012 to 11.4 percent at year-end 2013. Both of these key ratios continued to comfortably exceed the regulatory minimums of 8.0 percent for the total capital ratio and 4.0 percent for the Tier 1 capital ratio.

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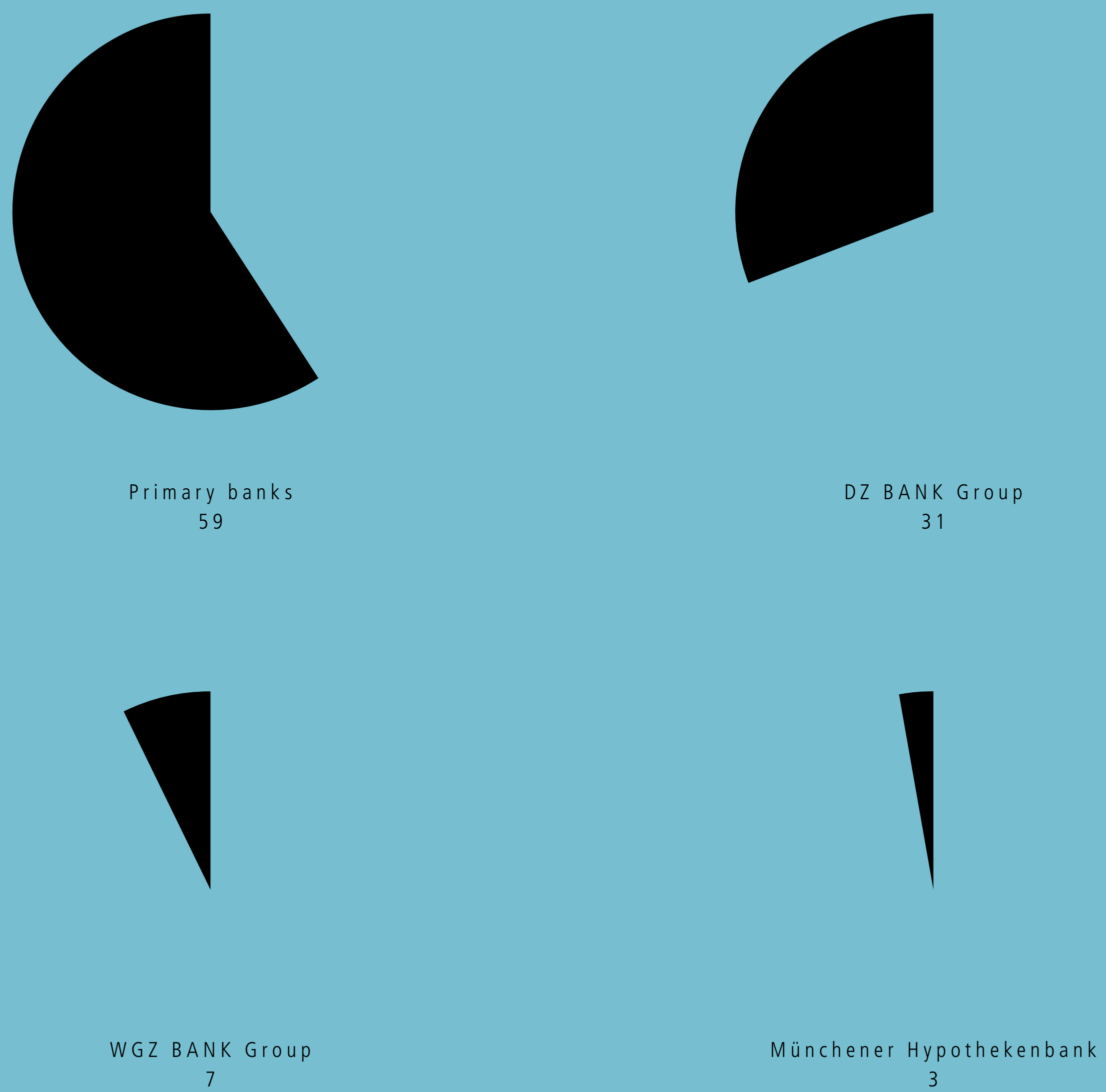
Breakdown of the total assets held in the Volksbanken Raiffeisenbanken Cooperative Financial Network as at December 31, 2013

(percent)



Operating segments of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Bank operating segment

The **net interest income** earned by the Bank operating segment improved again, advancing from Euro 1,914 million in 2012 to Euro 2,096 million in 2013. Despite an encouraging performance in corporate banking, it is worth pointing out that the sluggish economy and a general disinclination to commit to capital spending in 2013 combined to prevent the demand for lending reaching the 2012 level, both in the direct business with large and medium-sized corporate customers and in the joint credit business with the local cooperative banks. Especially against the backdrop of the European sovereign debt crisis, many corporate customers seemed to be nervous about economic trends on international markets going forward and decided to postpone capital spending until the next year. Furthermore, large and medium-sized companies continued to enjoy a reasonable liquidity position, making them reluctant to commit to new borrowing. Corporate capital investment was increasingly self-funded.

This trend was also evident in the development lending with the cooperative banks. The volume of new business in this area in 2013 fell just short of the challenging level set in 2012 owing to the local cooperative banks' increased use of their own liquidity. There was a positive trend in the agriculture, nature, and renewable energies product sector. Significant growth was achieved in both agriculture and renewable energies finance with customers of the local cooperative banks. The year under review saw greater demand for structured finance (including syndicated loans and acquisition finance), particularly in corporate banking business with major corporate customers. The volume of new business in transport finance reached almost the same level as the previous year. During the year under review, global freight and passenger transport in all areas of the transport sector was influenced by a gradual improvement in economic growth in the eurozone, but slackening economic growth in emerging markets, and generally muted economic recovery in the United States. Furthermore, the international transport industry continued to suffer from overcapacity, particularly within individual market segments covering international maritime shipping. Net interest income in the leasing business was slightly up on the previous year. Given the limited growth in corporate capital spending during 2013, overall new leasing business in the sector remained at the same level as that in 2012. A great deal of this stagnation was attributable to the continuing significant impact from the crisis in the eurozone and the associated planning uncertainty for businesses, particularly during the first half of 2013.

Allowances for losses on loans and advances grew slightly, from Euro 393 million in 2012 to Euro 416 million in 2013. This change was the result of net additions to portfolio loan loss allowances, which were primarily attributable to a deterioration in borrowers' credit ratings, whereas the net addition to specific loan loss allowances was almost unchanged year on year. In 2012, there had been net reversals of portfolio loan loss allowances. Allowances for losses on loans and advances also increased in the transport finance business, while they declined sharply in the leasing business as a consequence of the significant losses from eastern European business included in the figure for the previous year.

Net fee and commission income came to Euro 567 million in 2013 and was therefore roughly the same as in the previous year (2012: Euro 564 million). The higher contributions to this net income generated in the securities business from commission and custody business were offset to a fractionally greater degree by lower income from the securities issuing business (attributable to market conditions) and higher payments to the banks in the Cooperative Financial Network in connection with the issuance of bonds. The contribution from the lending business was down slightly as a result of a fall in loan processing fees. The contribution generated by payments processing was at the same level as in 2012. Likewise, the contribution from the international business remained virtually unchanged year on year. Within the transport finance lending business, net fee and commission income declined slightly compared with 2012 because of progressively weaker global growth and the associated adverse impact on international freight and passenger transport markets.

The Bank operating segment's **gains and losses on trading activities** in 2013 came to a net gain of Euro 269 million compared with a figure of Euro 637 million for 2012. In the operating business, the extraordinary high gain in 2012 had been caused by a much higher valuation – primarily in the first quarter – of the securities held for trading purposes as a result of the narrowing of spreads driven by market conditions. The gain on trading activities in 2013 was adversely impacted by increases in the carrying amounts of liabilities recognized at fair value as a result of the narrowing of spreads. In addition, the balance of recognized and unrecognized gains and losses relating to asset-backed securities (ABSs) had a positive impact on gains and losses on trading activities. Interest-rate-related decreases in the value of cross-currency basis swaps are also reflected in gains and losses on trading activities.

As in previous years, the gains and losses on trading activities in 2013 stemmed mainly from customer-related business in investment and risk management products involving the asset classes of interest rates, equities, loans, foreign exchange, and commodities. Structured interest-rate products generating the greatest retail investor demand included subordinated debt issuances, products with simple interest-rate structures, and floating-rate bonds with a minimum coupon. In corporate banking, commercial paper business contracted during the course of the year, mainly as a result of a further drop in issuance activity. Products offering long-term hedging of interest rates continued to be in high demand. The foreign exchange business was also systematically expended during the reporting year. Among institutional clients, demand picked up again for corporate bonds, covered bonds, and government bonds issued by peripheral countries of the eurozone. Investors in this case increasingly tended to favor coupon structures with long maturities. Multitranche paper was bought in addition to callable bonds with single or multiple call dates.

The level of **gains and losses on investments** improved from a loss of Euro 340 million in 2012 to a loss of Euro 88 million in the reporting year. The figure reported for 2012 had included impairment losses on long-term equity investments, losses resulting from the disposal of Greek bonds, and losses on disposals and impairment losses in connection with ABSs. In 2013, the figure was primarily attributable to losses on disposals (to optimize capital) and impairment losses in connection with ABSs.

Other gains and losses on valuation of financial instruments changed from a loss of Euro 54 million in 2012 to a gain of Euro 39 million in 2013, largely because of an improvement in gains and losses on derivatives used for purposes other than trading and an improvement in the gains and losses on valuation of non-derivative financial instruments using the fair-value option.

Administrative expenses went up by Euro 44 million to Euro 1,652 million in the period under review. This was due to new appointments in response to regulatory requirements, salary adjustments in the context of pay hikes under collective pay agreements, and increases in other administrative expenses in connection with measures to meet enhanced regulatory requirements.

The Bank operating segment's **profit before taxes** went up by Euro 146 million year on year to Euro 803 million (2012: Euro 657 million). The cost/income ratio improved from 60.5 percent in 2012 to 57.5 percent in the reporting year.

Retail operating segment

There was a further small year on year increase in the **net interest income** of the Retail operating segment, which was slightly up on 2012 at Euro 17,083 million (2012: Euro 16,611 million), despite the dampening effect of monetary policy on earnings prospects. The worsening of margins caused by the phase of low interest rates was offset by volume increases. The primary banks' lending business, which relies on a surplus of deposits, generated growth in 2013. In what was a flat market for consumer finance that continued to be dominated by fierce competition, the Cooperative Financial Network achieved a further gain in its share of this market and again increased its net interest income. Reduced volume in "LuxCredit" foreign-currency lending led to a decline in net interest income.

Allowances for losses on loans and advances decreased from Euro 510 million in 2012 to Euro 291 million in 2013. The risk situation in this operating segment proved stable, above all because of benign economic trends in Germany.

Net fee and commission income in the Retail operating segment advanced slightly, rising from Euro 5,058 million in 2012 to Euro 5,239 million in the year under review. This increase was driven primarily by income from payments processing, account charges, strong demand among customers for building society and insurance products, and rising demand for investment funds and some securities. The encouraging growth in average assets under management was essentially attributable to the net new business generated during the year and the overall growth in the market and strong performance of the Cooperative Financial Network. In the cooperative private banking business, the collaboration with partner banks was ratcheted up still further with the objective of consolidating market position. The portfolio of assets under management for high-net-worth private clients remained stable in the year under review.

Gains and losses on trading activities amounted to a gain of Euro 227 million, a small year on year improvement of Euro 14 million that was attributable, above all, to the primary banks' commodities trading.

The level of **gains and losses on investments** equated to a loss of Euro 408 million in 2013, compared with a gain of Euro 860 million in the previous year. The 2013 figure was predominantly due to the rise in the long-term level of interest rates over the course of the year, whereas the figure for 2012 had been boosted by exceptionally large reversals of impairment losses.

Other gains and losses on valuation of financial instruments in the Retail operating segment amounted to a gain of Euro 21 million (2012: gain of Euro 12 million), which was essentially the result of gains arising from changes in the value of cross-currency basis swaps.

In terms of costs, the primary banks made further efforts to become more efficient. Overall, **administrative expenses** in the Retail operating segment went up by just 0.7 percent to Euro 14,530 million in the year under review. Staff expenses, in particular, rose as a result of new regulatory requirements and extensive reporting obligations.

The **profit before taxes** reported by the Retail operating segment fell from Euro 7,891 million in 2012 to Euro 7,346 million in 2013. The cost/income ratio therefore rose from 63.2 percent in 2012 to 65.5 percent in 2013.

Real Estate Finance operating segment

The **net interest income** of the Real Estate Finance operating segment was virtually unchanged year on year at Euro 1,554 million (2012: Euro 1,522 million). In the home savings loans business, smaller portfolios and a drop in average interest rates led to a fall in interest income. Furthermore, the historically low interest rates applied to the investment of a higher balance of available funds also led to lower interest income. By contrast, interest income in non-collective home finance business rose year on year despite the lower average level of interest rates because of increased demand for advance and interim financing loans. Overall, net interest income from building society operations in 2013 was slightly down compared with the previous year.

There was a countervailing change in net interest income in the mortgage lending business, which went up as a consequence of the scheduled increase in the volume of commercial real-estate finance and a parallel reduction in the non-strategic consumer home finance business. The encouraging growth in income reflects the significant appeal and increasing importance of commercial real-estate finance for the cooperative banks.

Allowances for losses on loans and advances in the Real Estate Finance operating segment decreased from Euro 61 million in 2012 to Euro 34 million in 2013.

The **net fee and commission income** is usually a negative figure for the Real Estate Finance operating segment and, in 2013, amounted to a loss of

Euro 292 million (2012: loss of Euro 284 million). This further slight deterioration of Euro 8 million was attributable to the rise in the volume of new building society operations business.

Gains and losses on investments showed a further year on year improvement, amounting to a loss of Euro 20 million in 2013 (2012: loss of Euro 32 million). In the reporting year, this figure mainly comprised losses that were realized in connection with the reduction in the volume of risk-weighted asset equivalents in the mortgage lending business.

Other gains and losses on valuation of financial instruments equated to a very strong gain of Euro 1,021 million in the reporting year (2012: gain of Euro 27 million) and was primarily influenced by gains on bonds from countries on the periphery of the eurozone in the mortgage lending business. This resulted, in particular, from the narrowing of credit spreads and the redemption of a corporate bond that matured at the end of March 2013.

The slight rise in **administrative expenses** to Euro 693 million (2012: Euro 669 million) was caused by the increased banking levy and additional costs for projects in connection with regulatory requirements.

The Real Estate Finance operating segment's **profit before taxes** climbed by a considerable Euro 1,046 million to Euro 1,605 million in 2013. The primary reason behind this profit increase was the positive change in other gains and losses on valuation of financial instruments in the mortgage banking business.

Insurance operating segment

Premiums earned grew by Euro 906 million to Euro 12,693 million, reflecting the integral position held by R+V within the Cooperative Financial Network. The already very high level of premiums earned in 2012, which had been boosted by significant growth stimulus, was therefore exceeded again. Gross premiums written increased to Euro 12,753 million in 2013, up by 7.4 percent on the impressive level of premiums generated in 2012 of Euro 11,875 million. In the non-life insurance business, premiums increased by 4.3 percent, with most of this growth being generated in the vehicle insurance business. Premium income in the life insurance and health insurance business grew appreciably year on year by 12.1 percent. This increase was accounted for by both regular and one-time premiums. In the inward reinsurance business, premium income declined by 2.7 percent.

Gains and losses on investments held by insurance companies and other insurance company gains and losses declined by 12.8 percent to a net gain of Euro 2,923 million (2012: gain of Euro 3,353 million). The lower level of gains on investments held by insurance companies compared with the previous year reflected the relevant developments in the financial, capital, and currency markets. Although the performance of equity markets relevant to R+V was generally better than in 2012, at the same time there was also a significant year on year rise in the level of long-term interest rates. Furthermore, exchange rate movements were far less favorable for R+V than in the previous year. 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 fund-linked business in the 'insurance benefit payments' line item presented below, however, the associated change in the level of gains on investments held by insurance companies only partially affects the level of net income from insurance business.

Insurance benefit payments in the reporting year amounted to Euro 13,181 million, which represented an increase of 5.4 percent on the 2012 figure of Euro 12,509 million. In the periods from May to early August 2013 and from the end of October to the beginning of December 2013, the non-life insurance business received a considerable number of major claims relating to flood and storm damage. These claims led to expenses of approximately Euro 470 million in 2013, although an amount of Euro 250 million was offset by natural catastrophe reinsurance with insurers external to the Cooperative Financial Network. In line with the changes in premium income, higher additions were made to insurance liabilities at companies offering personal insurance. In inward reinsurance, losses caused by major claims – especially those resulting from natural disasters – were within expectations, however. Overall, the level of losses in this area of business was noticeably lower than in 2012.

The fall in **insurance business operating expenses** to Euro 2,126 million (2012: Euro 2,145 million), a year on year decrease of 0.9 percent, was primarily the result of lower front-end fees in the life insurance and health insurance business. The higher front-end fees in 2012 had been caused by the switch to unisex rates at the end of the year.

Profit before taxes in the Insurance operating segment fell by Euro 238 million to Euro 252 million in the reporting year (2012: Euro 490 million).

Human Resources Report

Approximately 191,243 people were employed by the entities in the Cooperative Financial Network as at December 31, 2013. As in previous years, these companies offer a wide variety of skilled jobs throughout Germany and continue to assume a responsible role as a local employer. The number of employees has risen continually since 2009.

In-depth training and regular continuing professional development (CPD) opportunities for employees provide the foundations for offering customers high-quality services and expert advice. Employees' dedication and receptiveness to customer needs underpin the Cooperative Financial Network's sustainable, long-term client relationships. The diagram on page 24 showing staff members' years of service reveals that around 27 percent of those employed by the local cooperative banks and central institutions have been working at these organizations for 25 years or more. This continuity is one of the reasons why the relationships between advisors and their clients are usually close and long-lasting.

In view of demographic change and the impending skills shortage, the local cooperative banks have been investing in their own young and talented employees for years. The ratio of trainees to other employees rose for the fifth year in succession, reaching 8.3 percent in 2013. This is higher than in many other sectors. The range of training offered by the cooperative banks clearly puts them in a strong position compared with other companies in what is becoming, from the perspective of employers, an increasingly small market of potential trainees.

In 2013, 85.6 percent of trainees continued to be employed by the entity that had trained them after passing their exams (this figure includes those hired on temporary contracts). It is noteworthy that the proportion of trainees taken on permanently has continued to rise. In 2013, 38.3 percent of trainees were given a permanent employment contract after completing their final exams, up by around 3 percent compared with 2012. This is proof positive that the banks are planning for the future by retaining highly qualified trainees.

Surveys of schoolchildren, students, and university graduates also prove that the cooperative banks are employers of choice for young people. For many years now, the local cooperative banks have been one of the most popular companies at which to train – as evidenced by the trendence schoolchild barometer, a representative nationwide survey of over 10,000 schoolchildren in Germany. In 2013, the local cooperative banks were again voted one of Germany's top 100 employers in the trendence schoolchild barometer.

Quality seal for the 2013/2014 trendence schoolchild barometer

The local cooperative banks also did very well in the trendence university graduate barometer. Every year, this survey asks 14,000 university students who are approaching their final exams who their employer of choice would be and what their career goals are. The local cooperative banks have now been voted one of Germany's top 100 employers in the trendence university graduate barometer for the fifth time in succession. They moved up the ranking of the most popular employers compared with the previous year, while most of the other banks listed saw their attractiveness decline.

Quality seal for the 2014 trendence university graduate barometer

Our continuing objective is to increase the local cooperative banks' attractiveness as a place to work and to highlight their unique selling proposition as an employer.

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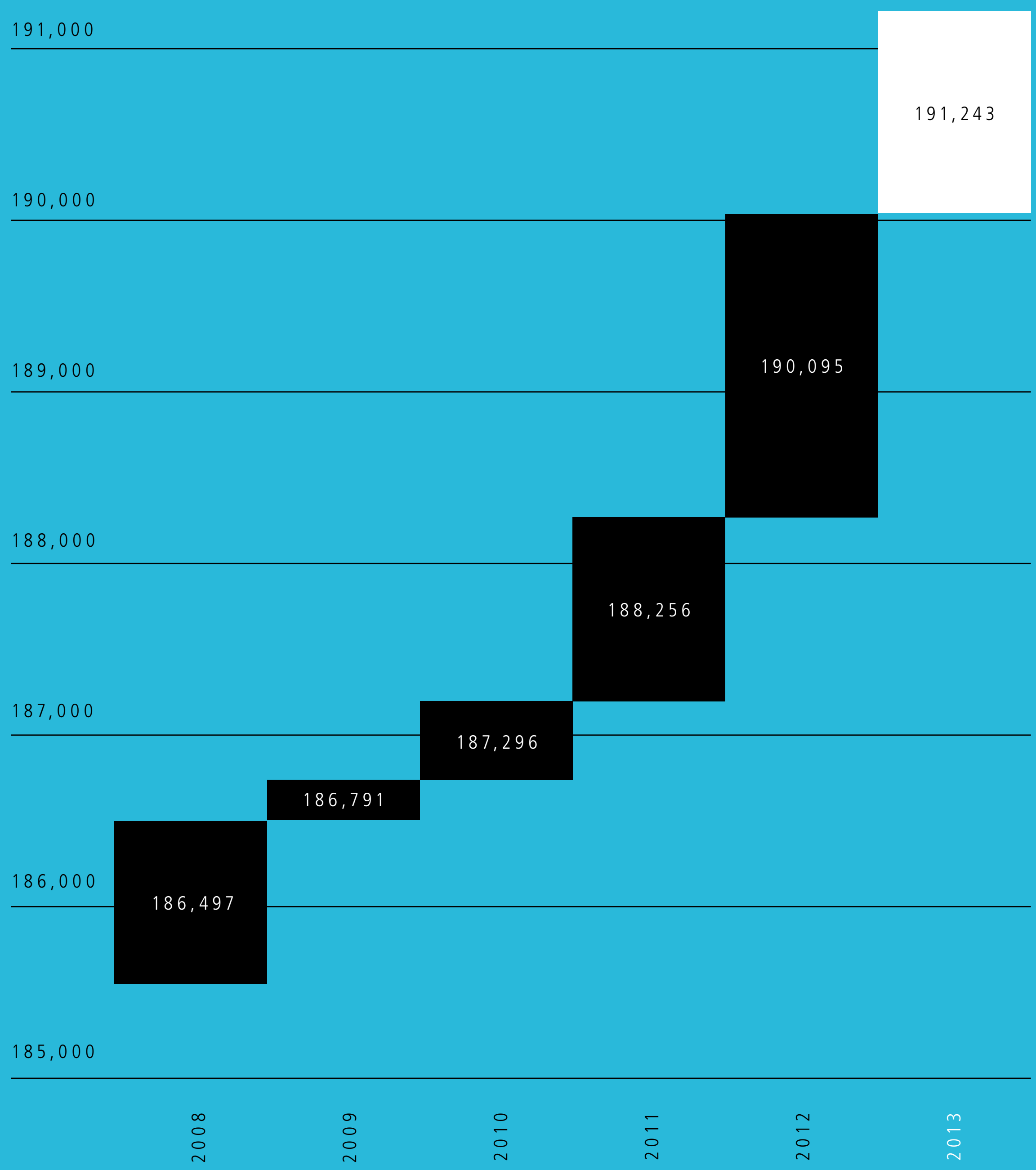
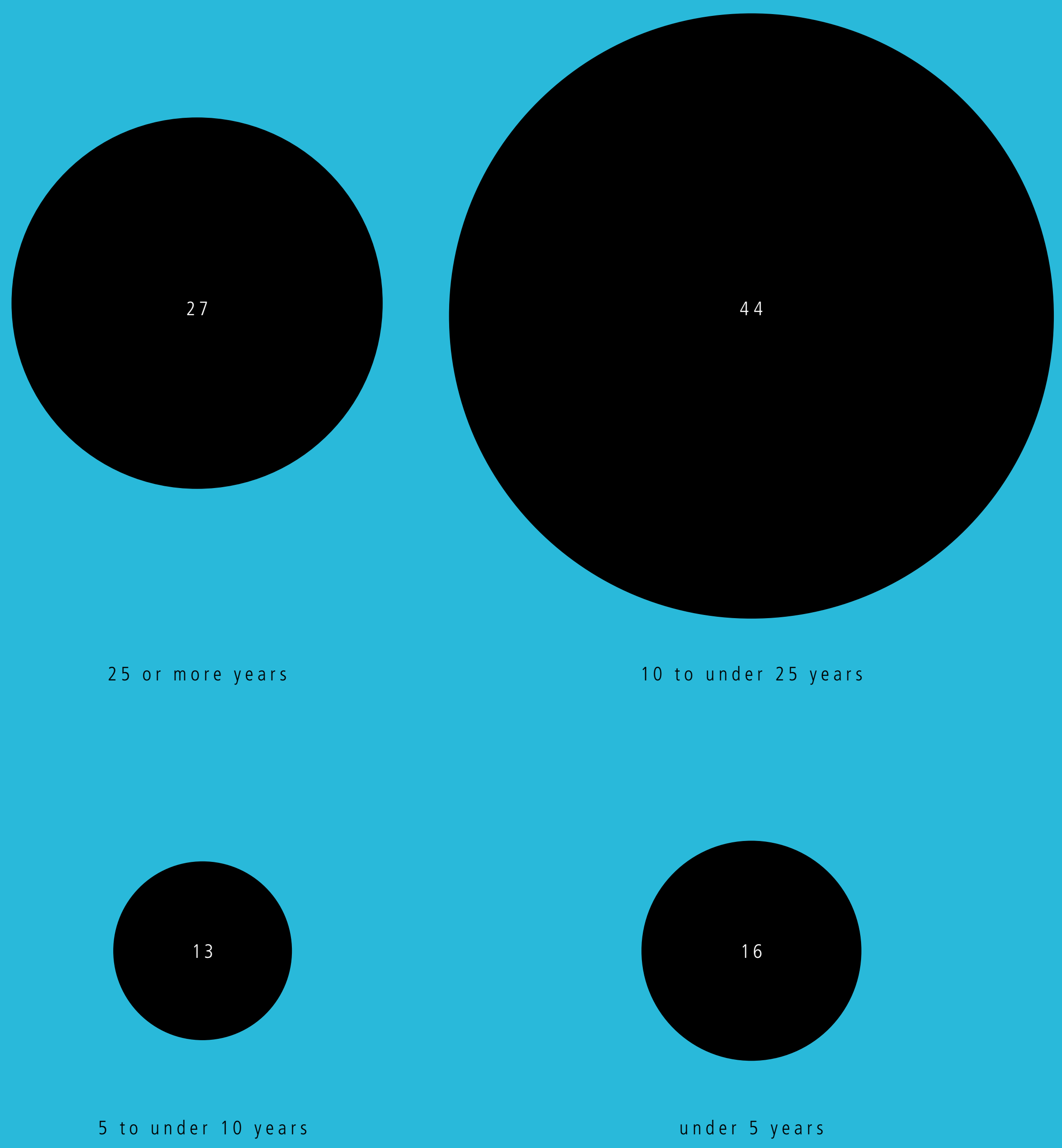
Number of employees*



*Volksbanken Raiffeisenbanken Cooperative Financial Network

Staff members' years of service

(Percent, as at December 31, 2013)



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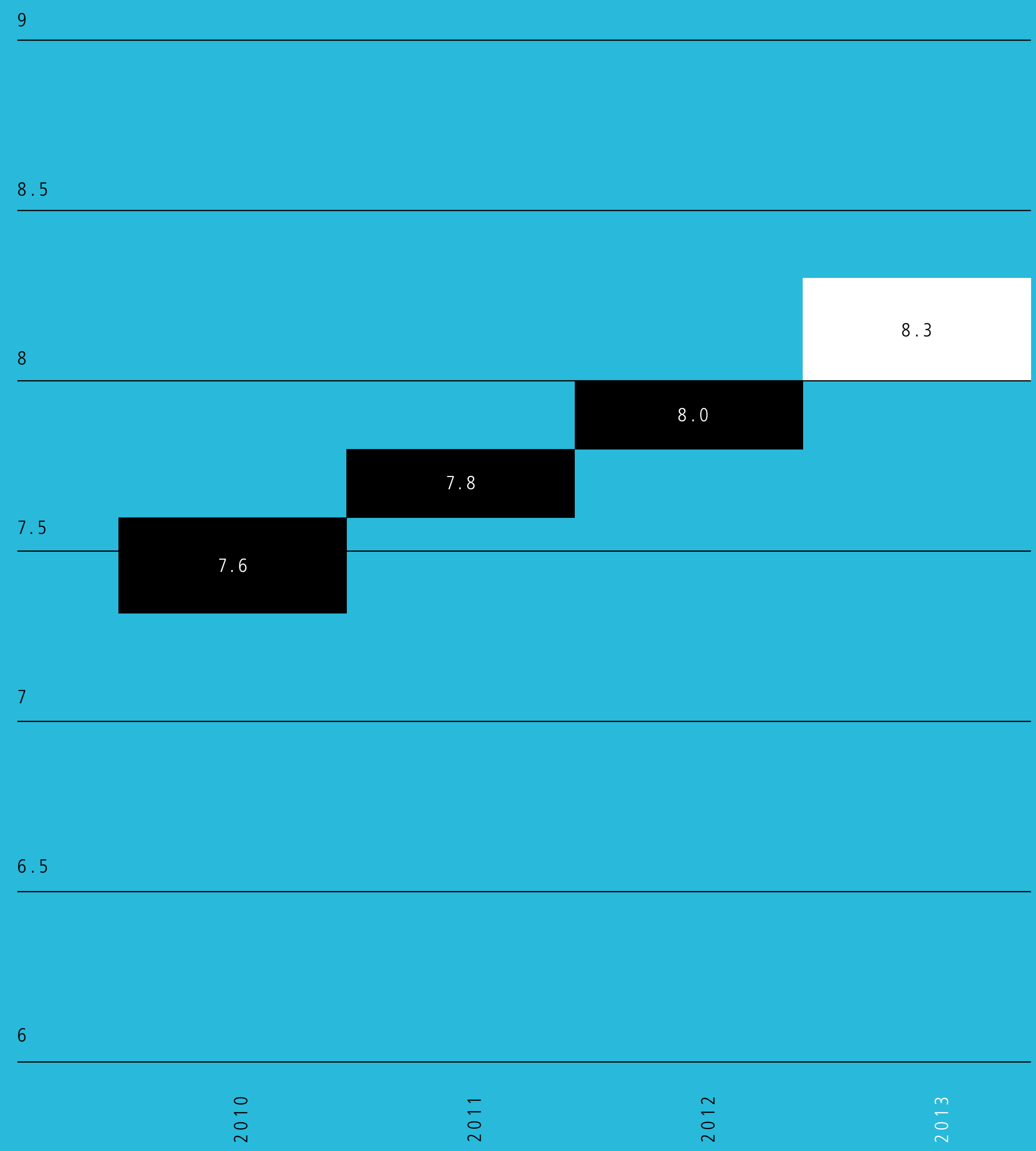
Ratio of trainees to other employees*

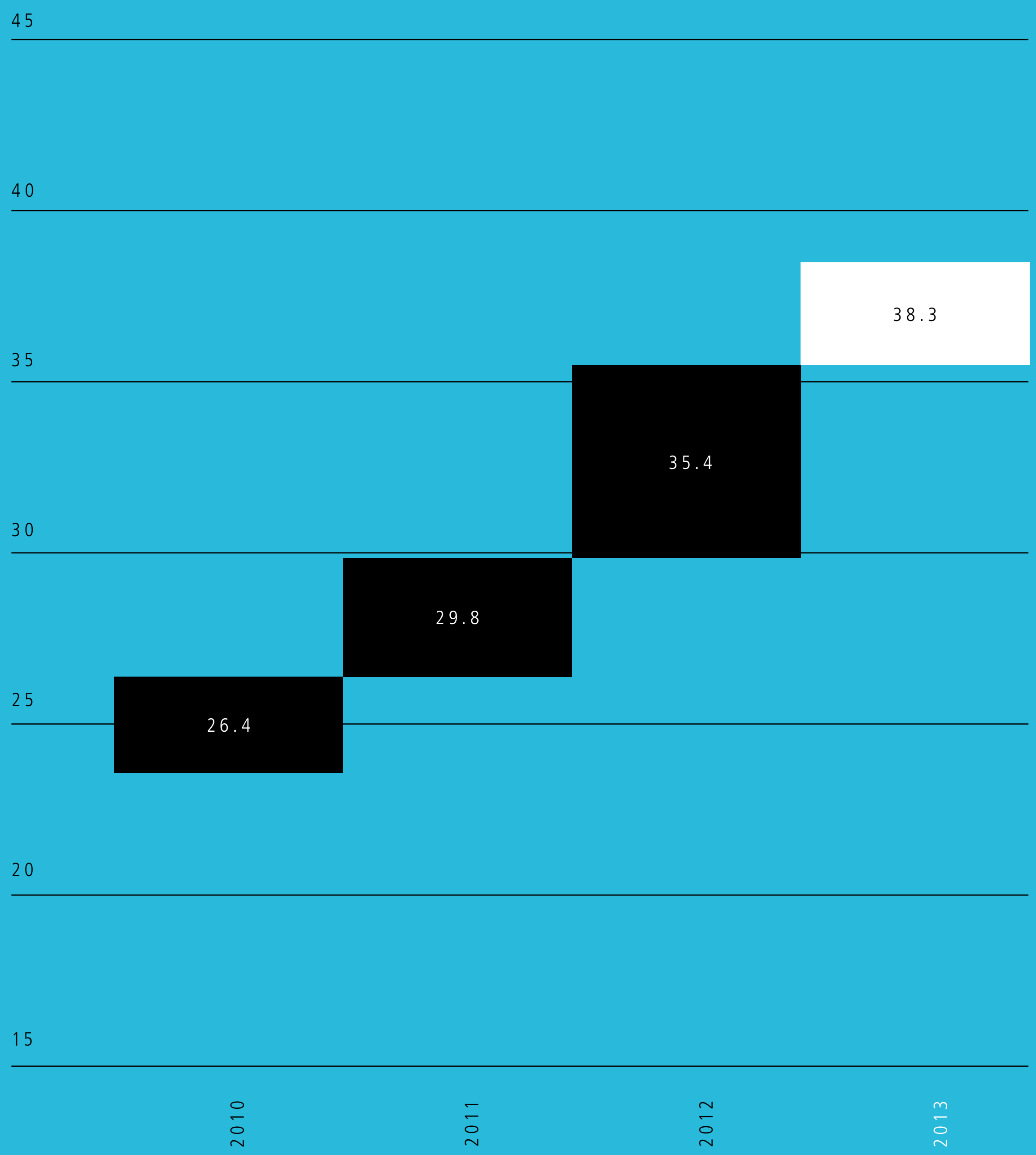
(percent)



* Local cooperative banks, central institutions

Trainees taken on permanently*

(percent)



* Local cooperative banks, central institutions

Risk Report

The Volksbanken Raiffeisenbanken Cooperative Financial Network enjoyed one of its most successful years ever in 2013, enabling it to carry out its consistent and stabilizing role in the German financial sector. This positive impact is attributable to its sustainable business model. The protection scheme run by the BVR ensures the stability of the entire Cooperative Financial Network and confidence in the creditworthiness of all its members. The BVR protection scheme acts as the financial and organizational linchpin in the solidarity-based system of cooperative institutions.

The BVR's protection scheme celebrated its 80th birthday on May 14, 2014. It is the world's oldest exclusively privately funded deposit guarantee fund for banks and has always proved its effectiveness and functionality. Since being set up, it has guaranteed comprehensive protection for all member institutions and, consequently, for customers' deposits. No customer of a local cooperative bank or other bank affiliated with the protection scheme has ever lost their deposits. The BVR's protection scheme will continue to exist under the new regulatory requirements, maintaining its successful work. It has already been accepted as a possible form of deposit protection in the new pan-European directive on deposit guarantees.

Rating agencies attest to the Cooperative Financial Network's enduring strength. Standard & Poor's rates the network as AA–, while Fitch Ratings has awarded A+, both with a stable outlook. The Cooperative Financial Network stands out because the effects of the financial crisis and the tightening of banking regulation have not lowered its credit ratings. The rating agencies point to the consistently successful business model focused on retail banking as the reason for their positive assessment. This model ensures a good level of liquidity and funding. Capital adequacy is also judged to be above average. The granular credit structure and high proportion of mortgages are the hallmarks of the overall high level of quality in the customer lending business.

Risk management in a decentralized organization

Remit of the BVR protection scheme

Section 4 of the BVR's articles of association requires the BVR to manage a protection scheme. This facility is specified expressly as a bank-protection scheme in section 12 of the legislation implementing the EU deposit guarantee schemes and investor compensation schemes directives, which still applied as at the reporting date having come into force in 1994 and having been modified most recently in 2010. Since August 1, 1998, the protection scheme has therefore been subject to monitoring by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [Federal Financial Supervisory Authority] (section 12 (1) in conjunction with section 7 (3) of the German Deposit Guarantee and Investor Compensation Act); as a result, the member institutions do not need to participate in any statutory compensation scheme.

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

In 2013 the protection scheme met, without qualification, all its responsibilities as a bank-protection scheme in accordance with statutory requirements and the articles of association. A total of 1,093 institutions of the Cooperative Financial Network belonged to the BVR protection scheme as at December 31, 2013 (December 31, 2012: 1,116 members). The decrease in membership stemmed solely from mergers.

Risk identification and analysis

Basic structures

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

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

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

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

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

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

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

Classification process and contributions to the protection scheme

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

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

Since 2009, the results of the classification have revealed a positive trend in the form of a rise in the number of institutions with good or very good credit ratings. The latest assessments show that there is a slightly higher proportion of small and medium-sized institutions in the upper classes A++ to A. The reasons for this improvement include the increase in net interest income on the back of growth in the lending business, which was achieved despite the phase of low interest rates.

Nonetheless, the rate of contributions paid into the protection scheme's guarantee fund – amounting to 1.2 permille of the assessment basis – has been held at the same level for 2013 in order to adequately address the material and other aspects of the new requirements expected to emerge from the ongoing discussions about the EU directives.

Risk management and monitoring

Preventive management

The results of the BVR's classification process also provide the basis for the BVR protection scheme's systematic preventive management. Preventive management continues to be used for all banks that have been classified as B- or lower on the basis of their annual financial statements. 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. Before the prevention phase, the monitoring of conspicuous institutions plays a significant role in the early analysis of institutions. This underpins the long-term trend of shifting the focus of the protection scheme's work onto preventive management. Significantly more institutions are now in the preventive phase of restructuring rather than the support phase.

The aim of prevention is to 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 are analyzed and, following additional discussions with the management of these banks, appropriate measures are agreed that are aimed at stabilizing and improving their business performance.

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

Restructuring management

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

Restructuring measures are provided and carried out in accordance with the 'Handbook for the Realignment and Restructuring of Cooperative Banks', which represents a continuation of the tried-and-tested restructuring process, the standards for which were laid down in 2003, and also takes account of the growing importance of preventive management. The principles documented in the handbook provide affected banks with guidance on restructuring and describe concepts for re-establishing their fundamental profitability. The aim is for the banks to enter this restructuring phase within no more than five years. The protection scheme's handbook also specifically targets banks undergoing preventive measures and institutions that have identified the need for reorientation by themselves (either entirely or partly).

The protection scheme's positive performance has continued. One affiliated institution required first-time supporting measures – on a moderate scale – in 2013. In other respects, costs were attributable to legacy cases, where risks already covered had become acute or the allowances for losses on loans and advances recognized in the protection scheme's annual financial statements were increased. The total restructuring amounts in need of protection were below the expected amount. This again meant that the protection scheme's capital base was further strengthened in 2013 and the guarantee fund resources at its disposal were increased.

Outlook for the protection scheme

The protection scheme expects to maintain its positive performance in 2014 and boost the resources in the guarantee fund. 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 2014. At its meeting on November 12, 2013, the BVR Association Council voted unanimously for the rate of contributions paid into the guarantee fund for

2014 to remain at its 2013 level of 1.2 permille, this resolution being based on the protection scheme's statutes. This means that the total contributions received for 2014 are likely to be at the same level as in 2013. Taking account of returns on the investment of guarantee fund resources, administrative expenses, and the expected cost of restructuring measures (legacy and potential new cases), the net income for the year is expected to be sufficient for a significant addition to be made to the guarantee fund's capital.

In 2013, one of the main areas of focus for the protection scheme was again the examination of various initiatives launched by the European Commission to regulate the European banking sector. The subject of 'banking union' deserves special mention. During the closing trilogue discussions on the Deposit Guarantee Schemes (DGS) Directive, a major success was achieved with regard to the Cooperative Financial Network's core issue of bank protection. The BVR's key demands have been reflected in the final version of the directive: prevention of the communitization of the money in national protection schemes, equal recognition of bank protection, the permissibility of preventive measures, and the use of a tried-and-tested classification process. Following the European Parliament's adoption of the DGS directive, it is now on the agenda for implementation into national law in 2014. During this phase, which is likely to take about a year and will therefore extend into 2015, the task is to resolve the challenges that have emerged, e.g. regarding the need to amend the protection scheme's statutes and organizational structures, and to contribute our expertise to the consultation process for the national implementation of the directive. This is the main focus of activities for the protection scheme in 2014 – alongside its regular tasks as a bank-protection scheme.

There was also success from the intensive efforts to achieve the necessary approval from Germany's financial services regulator regarding application of article 49 (3) of the Capital Requirements Regulation (CRR), which was enacted in 2013. In a letter dated January 2, 2014, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) confirmed that the prerequisites had been satisfied and granted its approval pursuant to article 113 (7) CRR (successor to section 10c (2) of the German Banking Act (KWG)) on the zero-weighting of intra-network receivables) and pursuant to article 49 (3) CRR. As a consequence, the institutions affiliated with the protection scheme no longer have to deduct intra-network long-term equity investments from their capital, which they had been obliged to do before the CRR came into force on January 1, 2014. At the same time, the ongoing fulfillment of article 49 (3) CRR entails additional tasks for the protection scheme, in particular the semi-annual calculation of capital ratios on the basis of an 'extended aggregated calculation' and the related reporting requirements.

Tools and methods for identifying and measuring risk

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

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

An integrated approach to measuring credit risk in own-account investing activities, which was developed under the leadership of the BVR, has been widely used since 2012. It takes full account of the aspects of risk in the securities business by simulating spread risk, migration risk, and credit risk in the securities portfolio. Furthermore, the risk arising from securities of the issuers in the Cooperative Financial Network is determined using simplified spread shifts. This provides the bank with the expected value of the portfolio plus any unexpected losses and enables it to calculate the expected and unexpected fair value gains and losses for balance sheet management purposes. It is also possible to calculate stress scenarios. The BVR validates the portfolio model and its parameters.

The banking regulator is increasingly focused on banks' inhouse assessment of their own bank-wide risk-bearing-capacity. With the MaRisk, the regulator specifically deals with the calculation of aggregate risk cover and the risk profiles in the banks' different approaches. The majority of the cooperative banks calculate an institution's risk-bearing-capacity periodically on the basis of the going concern approach. In larger local cooperative banks, this calculation is frequently supplemented by a risk-bearing-capacity analysis based on present value. Numerous stress tests are also conducted in parallel to the risk-bearing-capacity calculation in the cooperative institutions.

Risk capital management

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

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

The 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 solvency ratio.

Capital adequacy

There was a further year on year rise in the Cooperative Financial Network's regulatory capital ratios. As at December 31, 2013, the consolidated total capital ratio indicating solvency was 16.1 percent (December 31, 2012: 14.7 percent) and the Tier 1 capital ratio was 11.4 percent (December 31, 2012: 10.1 percent). This uptrend is due, in particular, to the sharp increase in Tier 1 capital, which climbed by Euro 7.2 billion compared with the prior-year level. Overall, regulatory capital went up by Euro 8.7 billion to Euro 83.5 billion. Capital requirements amounted to Euro 41.5 billion as at December 31, 2013 (December 31, 2012: Euro 40.8 billion).

The protection scheme gains an overview of each of its affiliated institutions' level of capital by analyzing their regulatory capital ratios. The following chart shows the distribution of the total capital ratios indicating the solvency of the Cooperative Financial Network as at December 31, 2013 and December 31, 2012 and highlights the high level of capital adequacy of the individual banks. The unweighted average for the total capital ratio was 18.4 percent at the end of 2013 (end of 2012: 17.8 percent).

The Cooperative Financial Network has healthy capital adequacy thanks to equity of Euro 79.4 billion. Despite the financial crisis, it has continually boosted its level of capital in recent years by retaining profit. This substantiates the Cooperative Financial Network's sustainable business model with its broad diversification of sources of risk and income.

Basel III and CRR/CRD IV

The new regulatory framework of Basel III came into force on January 1, 2014 with various transitional rules. One important core area of the new regulatory measures aims to fundamentally improve institutions' capital adequacy and liquidity. At European level, the Basel III regulations are implemented by the CRD IV package, which consists of the amended 'Capital Requirements Directive IV' and the associated 'Capital Requirements Regulation'.

Above all, the CRD IV package is designed to increase the quantity and quality of institutions' regulatory capital. Besides applying the stricter definition of capital, the banks must meet qualitatively more stringent capital requirements and revised standards for liquidity coverage ratios. The regulatory changes are to be implemented successively between now and 2019.

The CRR has also introduced the principle of a leverage ratio for banks. This key figure shows the ratio of regulatory capital to non-risk-weighted exposures (both on-balance-sheet and off-balance-sheet items). Although this ratio will be a mandatory disclosure from 2015, a decision will not be reached until at least 2018 about whether there will be a minimum capital requirement for the leverage ratio and, if so, what it will be.

Hand in hand with the central institutions, associations, and computing centers, the BVR is closely examining the tighter regulatory requirements and their consequences. During the EU negotiations on implementation of the Basel III regulations, the Cooperative Financial Network succeeded in achieving

recognition of the specific nature of capital in the cooperative banks, in particular paid-up shares in cooperatives, and prevented the deduction of intra-network long-term equity investments from capital. Overall, the Cooperative Financial Network already satisfies the regulatory requirements that will apply in the future.

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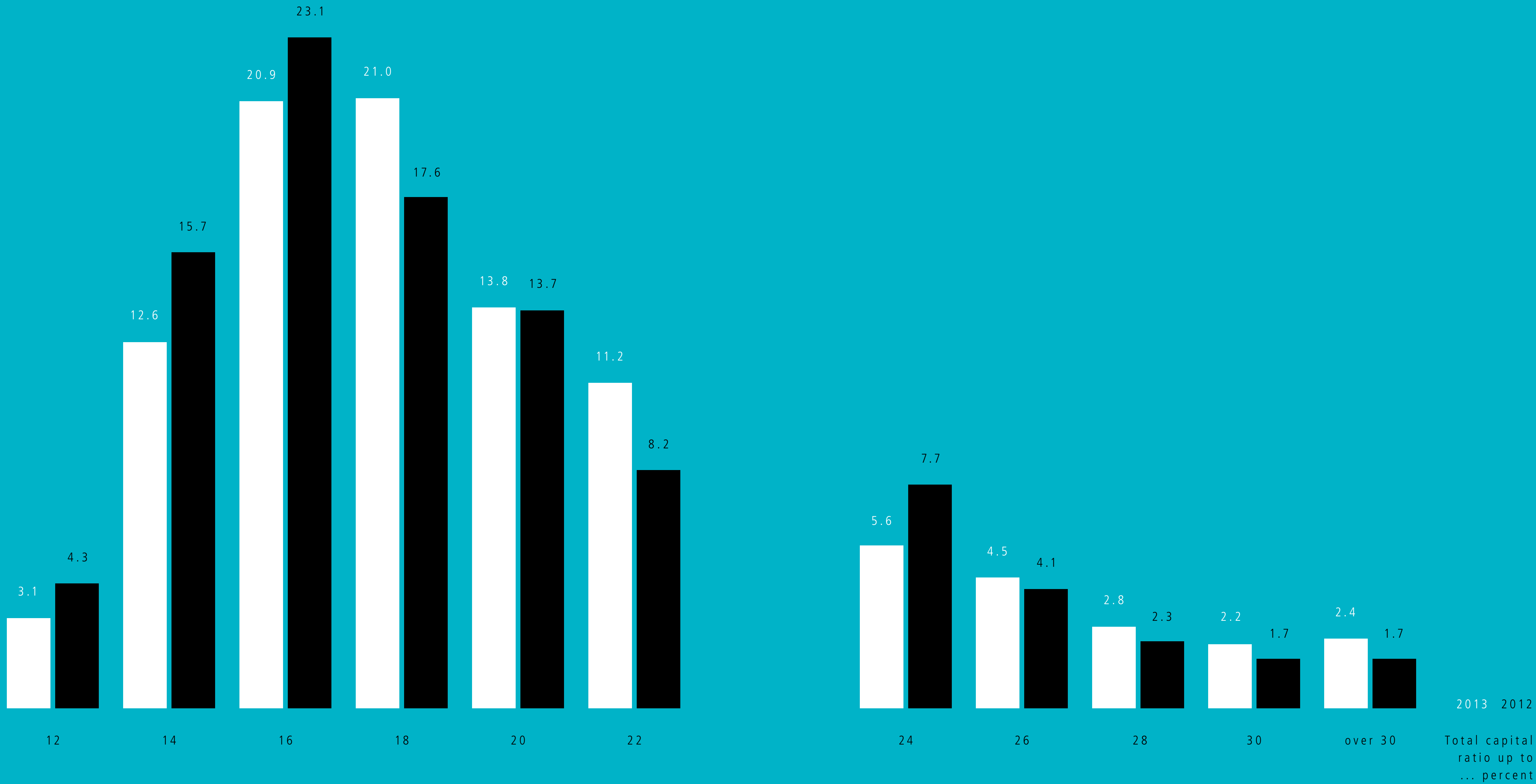
Distribution of total capital ratios in the Cooperative Financial Network*

Proportion of institutions (percent)



* As at December 31, 2013

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Credit risk, market risk, and liquidity risk

Credit risk

Credit risk is the most important risk category given the Cooperative Financial Network's substantial exposure in its customer lending business. 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 take a conservative approach 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 is characterized by a granular credit structure and a high proportion of mortgages and local authority loans. The granularity and extensive regional diversification of the Cooperative Financial Network's business activities limit the formation of risk clusters.

The strength of the German economy, with a high level of employment and a declining number of insolvencies, continued to provide a fillip to the Cooperative Financial Network's lending business in 2013. Lending to retail and corporate customers saw a substantial year on year increase of 4.3 percent. The main factor here was the rise in house-building loans and loans to businesses. The growth in corporate banking was primarily driven by lending to companies in the energy and mining sectors. Because of their regional roots, the local cooperative banks have established a strong foothold in this market and provide financial support to companies in relation to projects for increased energy efficiency and for power generation from renewable sources.

Sustained demand for real-estate loans also led to an increase in the Cooperative Financial Network's long-term loans and advances in 2013. Given the very low interest rates and high level of liquidity, the cooperative banks' market knowledge represents one of the Cooperative Financial Network's strengths. To help the member institutions to monitor the regional markets, the BVR teamed up with vdp Research GmbH to develop a concept for measuring market volatility in individual ZIP code areas: BVR real-estate market monitoring. The measurements from BVR real-estate market monitoring provide additional regional information to complement the German Banking Industry Committee's market volatility concept. This enables the cooperative banks to determine the geographical areas forming their relevant markets and better comply with regulatory requirements.

The protection scheme regularly monitors real-estate prices. Despite very buoyant demand for housing in some urban centers, the BVR does not currently anticipate a broad-based real-estate price bubble. From a regional perspective, individual market segments have shown strong price rises although there has been a fundamental explanation for these trends so far.

In 2013, expenses for allowances for losses on loans and advances declined by 25.1 percent to Euro 744 million and therefore continued to equate to 0.1 percent of the total lending volume. This figure remains below the long-term average and indicates that the banks' lending business is in a healthy state overall.

The Cooperative Financial Network's exposures in respect of bonds from public-sector borrowers in countries particularly affected by the sovereign debt crisis were virtually unchanged in 2013. The total carrying amount of these bonds came to Euro 11.5 billion as at December 31, 2013 (December 31, 2012: Euro 11.1 billion). According to the latest estimates, these exposures present a manageable risk for the Cooperative Financial Network overall.

Market risk

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

Interest-rate risk has a significant influence on the banks' financial performance. Despite the flatter interest-rate curve in 2013, there was a small increase of 1.9 percent in the Cooperative Financial Network's net interest income. However, given the persistently low level of interest rates and growing competition for deposits, the banks will have to expect narrower interest margins in the future. Moreover, a reversal of interest rates poses risks for financial markets 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.

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

Liquidity risk

The Cooperative Financial Network has a reliable liquidity structure that has always proved crisis-resistant so far. The loan to deposit ratio of the Cooperative Financial Network is below 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 finance through customer deposits. Customers recognize and reward the effectiveness of the protection scheme operated by the BVR, which goes beyond the statutory requirements for deposit protection and is specifically designed to safeguard deposits. The cooperative central institutions collect the liquidity surpluses of the individual institutions, enabling cash pooling within the network of primary banks and specialized service providers.

Basel III now incorporates new ratios for the measurement of liquidity risk, as implemented in European law through the CRR. The liquidity coverage ratio (LCR) primarily indicates an institution's short-term liquidity. The LCR was originally meant to come into force on January 1, 2015. However, the Basel Committee on Banking Supervision distanced itself from this schedule on January 6, 2013. Instead of having to comply with the LCR in full by 2015, it will be sufficient to achieve a minimum liquidity coverage of 60 percent on that date. Under the CRR, this figure will then rise in annual increments to 100 percent in 2018.

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Outlook

Real economy and banking industry

The forces driving the German economy visibly gathered momentum at the start of 2014. In the first quarter, GDP rose at its fastest rate for three years, climbing by 0.8 percent. This was primarily due to the comparatively mild winter weather, which meant there was little disruption to construction activity. However, the rapid economic growth seen at the start of the year is unlikely to be maintained in subsequent quarters. A number of leading indicators, such as the ZEW Indicator of Economic Sentiment of the Zentrum für Europäische Wirtschaftsforschung [Centre for European Economic Research], are already pointing to an imminent slowdown of economic growth. Nonetheless, the BVR anticipates much stronger average growth for 2014 than in 2013.

Based on the data that came out in the spring, German GDP adjusted for inflation is predicted to rise by around 2 percent in 2014 – provided that uncertainties surrounding the performance of the eurozone continue to fade. It is also expected that growth of global economic output will accelerate sharply compared with last year and achieve its long-term trend rate.

Personal consumption is likely to remain a pillar of Germany's growth in 2014, accounting for almost half of the rise in production in the economy as a whole. The continued stable performance of the labor market and slightly faster rises in earned income will boost consumption by private households. Capital spending on plant and equipment is also expected to grow dynamically, providing another major source of support for the economy. The growth in capital expenditure is anticipated to be almost as high as the growth in consumer spending. Given the robust level of domestic demand, there is likely to be a marked rise in imports. Although export growth will also be brisk in view of the more favorable trends in the sales markets, slightly negative growth impetus is expected from the trade balance overall.

The German labor market should remain robust. In 2014, employment is likely to maintain its uptrend, rising from 41.8 million to 42.1 million people. The rate of unemployment is expected to fall slightly, from 6.9 percent to 6.8 percent.

However, the growth outlook is not entirely free of risks. Should the Ukrainian conflict worsen or the economies of the emerging markets experience a bumpy landing, Germany's exports and its domestic investing activities will become markedly more subdued. In this case, economic growth would be far slower than forecast.

The European Central Bank has committed to maintaining its distinctly expansionary monetary policy for a long time yet. Accordingly, the ECB Governing Council voted for a further cut in interest rates and for negative deposit rates. It also announced a raft of new and modified special monetary policy measures. At the same time, the further improving situation in the eurozone, particularly in the countries on its periphery, means investors are becoming slightly less risk-averse, which is likely to dampen demand for especially safe types of investment. Against this backdrop, an increase – albeit small – in long-term interest rates is expected before the end of the year.

The outlook for the banking sector is cautiously optimistic, not least due to the aforementioned environment created by monetary policy. This also takes account of latent risks in the event that the financial crisis is rekindled. We do not currently anticipate a renewed flare-up of an acute financial crisis with knock-on effects for trade and investment, but this could be triggered by faltering reform efforts that could lead to a loss of confidence and, in turn, market turmoil of crisis-like dimensions. Furthermore, an increase in political unrest in regions currently in crisis may have a negative impact on financial markets.

The transfer of responsibility for bank oversight to the European Central Bank represents a milestone for the banking industry. Banks are currently putting in a lot of administrative effort in order to deal with the requirements of the asset quality review and stress test. The aim of the measures is to obtain clarity about banks' financial situation by conducting an objective and standardized assessment of them. This is seen as essential to restoring trust among market participants. The markets should then rally and liquidity should increase. On the basis of the findings, further recapitalization measures would be taken if necessary.

The policy of low interest rates, which the ECB and other central banks worldwide have stepped up recently, creates long-term challenges for the banking sector. Negative real interest rates jeopardize the transmission mechanism of monetary policy and financial intermediation. It is important to watch out for any bubbles forming in other markets, such as equity markets and real-estate markets. Low interest rates make saving an unappealing option and call many banking and insurance products into question. The task here is to prevent wealth being transferred to the shadow banking sector, which has the potential to trigger a new financial crisis because of its continued lack of adequate regulation. The financial sector must rethink its product and sales strategy and, if necessary, update its business models.

Volksbanken Raiffeisenbanken Cooperative Financial Network

The outlook for the Cooperative Financial Network's **financial performance** in 2014 is influenced by the ongoing phase of low interest rates and the sustained increase in administrative expenses resulting from the latest regulatory initiatives. By contrast, the economic environment will provide a boost for the real economy and small and medium-sized enterprises and, consequently also for the Cooperative Financial Network.

Improved economic prospects for the eurozone, especially Germany, will have a positive impact on **net interest income**, although the ECB cutting the key lending rate by a further ten basis points in early June 2014 to its current 0.15 percent is likely to have a mildly dampening effect overall. During the course of 2015, a slight increase in net interest income is expected, driven by the anticipated stronger pace of economic growth, particularly in the eurozone. If the performance of the economy in Europe and Germany were to be worse than forecast, this would have an adverse effect on net interest income.

The specific loan loss allowances included in the **allowances for losses on loans and advances** are expected to stay at approximately the same level in 2014 as in 2013 based on the favorable forecasts for economic growth and the application of the consistent, long-term risk policy. As far as 2015 is concerned, it is expected that allowances for losses on loans and advances will increase in line with the growth in net interest income. Risks would arise if the European sovereign debt crisis were to flare up again causing a sharp economic downturn in Europe, and Germany were unable to escape the effects. Such a development would then have a detrimental impact on the level of allowances for losses on loans and advances.

In 2014, **net fee and commission income** is expected to be marginally higher than in 2013. It is worth noting that fee and commission income from the excellent performance of the assets under management could be expected to offset the sharp rise in fee and commission payments arising from the uptrend in new business. Net fee and commission income is expected to rise fractionally in 2015, partly as a result of an increase in the volume of business in private banking. Any renewed uncertainty in capital and financial markets could have a negative impact on confidence and sentiment among private and institutional investors, thereby depressing net fee and commission income.

A substantial increase in **net gains on trading activities** is forecast for both 2014 and 2015, whereas gains and losses on trading activities in 2013 had been adversely affected by the negative amounts from funding cap adjustments and expenses in connection with basis spread effects. Some growth stimulus is expected to come from customer-driven capital markets business and from cross-selling activity following the implementation of the corporate banking initiative on schedule. The prerequisite for an improvement in gains and losses on trading activities in 2014 and 2015 is the forecast long-term economic growth in Europe combined with the stability in financial markets that is anticipated for 2014 and 2015. Any significant renewed volatility in financial markets could influence the trend in gains and losses on trading activities. A further tightening of regulatory requirements could also impair the amount of net gains realized on trading activities in the future.

Following the recognition of losses caused by the disposal of securitized investments to optimize capital recovery, a significant improvement in **gains and losses on investments** is predicted for 2014 and 2015. In addition, impairment losses on securitization exposures are expected to fall in 2014, thereby increasing gains on investments.

Net income from insurance business is likely to show a significant year on year increase in 2014. Premiums earned are again predicted to rise as budgeted (the result of expected premium growth in non-life insurance and life/health insurance). Prudent estimates suggest that net gains on investments held by insurance companies will fall marginally.

Administrative expenses are expected to rise again slightly in 2014. This increase will reflect the response of the Cooperative Financial Network to the tighter regulatory and statutory provisions. One of the main consequences of these provisions will be higher staff expenses.

Banks and insurance companies remain at the center of public attention in view of ongoing efforts to tackle the financial and sovereign debt crisis in Europe. Public debate is focusing particularly on the macro and micro financial risks arising from the interaction between the real economy and the different segments within the financial sector. Against this background, the Cooperative Financial Network's crisis-proof, tried-and-tested business model with its hallmarks of personal responsibility, partnership, and reliability takes on particular significance. 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.

Consolidated Financial Statements 2013

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Income statement for the period January 1 to December 31, 2013

	Note no.	2013 € million	2012 € million	Change (percent)
Net interest income	2.	20,010	19,644	1.9
Interest income and current income and expense		*31,822*	*34,294*	*–7.2*
Interest expense		*–11,812*	*–14,650*	*–19.4*
Allowances for losses on loans and advances	3.	–774	–1,034	–25.1
Net fee and commission income	4.	5,061	4,860	4.1
Fee and commission income		*6,530*	*6,237*	*4.7*
Fee and commission expense		*–1,469*	*–1,377*	*6.7*
Gains and losses on trading activities	5.	507	856	–40.8
Gains and losses on investments	6.	–523	390	> 100.0
Other gains and losses on valuation of financial instruments	7.	1,077	–8	> 100.0
Premiums earned	8.	12,693	11,787	7.7
Gains and losses on investments held by insurance companies and other insurance company gains and losses	9.	2,816	3,196	–11.9
Insurance benefit payments	10.	–13,181	–12,509	5.4
Insurance business operating expenses	11.	–1,662	–1,657	0.3
Administrative expenses	12.	–16,486	–16,348	0.8
Other net operating income	13.	15	135	–88.9
Profit before taxes		**9,553**	**9,312**	**2.6**
Income taxes	14.	–2,691	–2,440	10.3
Net profit		**6,862**	**6,872**	**–0.1**
Attributable to:				
Shareholders of the Cooperative Financial Network		6,664	6,707	–0.6
Non-controlling interests		198	165	20.0

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Statement of comprehensive income for the period January 1 to December 31, 2013

	2013 € million	2012 € million	Change (percent)
Net profit	**6,862**	**6,872**	**–0.1**
Other comprehensive income	**555**	**173**	**> 100.0**
Amounts reclassified to the income statement	***353***	***1,489***	***–76.3***
Gains and losses on available-for-sale financial assets	460	1,944	–76.3
Gains and losses on cash flow hedges	–	41	–100.0
Exchange differences on currency translation of foreign operations	–10	13	> 100.0
Gains and losses on hedges of net investments in foreign operations	5	–2	> 100.0
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	–19	89	> 100.0
Income taxes	–83	–596	–86.1
Amounts not reclassified to the income statement	***202***	***–1,316***	***> 100.0***
Gains and losses arising on remeasurements of defined benefit plans	365	–1,877	> 100.0
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	–1	–	–
Income taxes	–162	561	> 100.0
Total comprehensive income	**7,417**	**7,045**	**5.3**
Attributable to:			
Shareholders of the Cooperative Financial Network	7,173	6,706	7.0
Non-controlling interests	244	339	–28.0

Balance sheet as at December 31, 2013

Assets	Note no.	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Cash and cash equivalents	15.	15,980	14,277	11.9
Loans and advances to banks	16.	33,413	41,785	−20.0
Loans and advances to customers	16.	648,470	632,448	2.5
Allowances for losses on loans and advances	17.	−9,284	−9,785	−5.1
Derivatives used for hedging (positive fair values)	18.	1,382	1,388	−0.4
Financial assets held for trading	19.	57,539	72,205	−20.3
Investments	20.	237,257	242,161	−2.0
Investments held by insurance companies	21.	67,868	64,100	5.9
Property, plant and equipment, and investment property	22.	10,668	10,444	2.1
Income tax assets	23.	4,907	5,751	−14.7
Other assets	24.	12,365	15,562	−20.5
Total assets		**1,080,565**	**1,090,336**	**−0.9**

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Equity and liabilities	Note no.	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Deposits from banks	25.	96,210	110,824	−13.2
Deposits from customers	25.	693,191	664,839	4.3
Debt certificates including bonds	26.	67,507	83,259	−18.9
Derivatives used for hedging (negative fair values)	18.	7,178	10,352	−30.7
Financial liabilities held for trading	27.	44,310	58,307	−24.0
Provisions	28.	11,356	11,808	−3.8
Insurance liabilities	29.	67,386	63,260	6.5
Income tax liabilities	23.	1,001	1,248	−19.8
Other liabilities	30.	7,621	7,763	−1.8
Subordinated capital	31.	5,419	6,478	−16.3
Equity		79,386	72,198	10.0
Subscribed capital		*10,424*	*9,994*	*4.3*
Capital reserves		*708*	*703*	*0.7*
Retained earnings		*58,019*	*51,707*	*12.2*
Revaluation reserve		*435*	*104*	*> 100.0*
Cash flow hedge reserve		*4*	*4*	*–*
Currency translation reserve		*12*	*36*	*−66.7*
Non-controlling interests		*3,120*	*2,943*	*6.0*
Unappropriated earnings		*6,664*	*6,707*	*−0.6*
Total equity and liabilities		**1,080,565**	**1,090,336**	**−0.9**

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 before non-controlling interests	Non-controlling interests	Total equity
Equity as at Jan. 1, 2012	**9,624**	**700**	**53,486**	**–1,131**	**–25**	**5**	**62,659**	**2,770**	**65,429**
Net profit	–	–	6,707	–	–	–	6,707	165	6,872
Other comprehensive income/loss	–	–	–1,296	1,235	29	31	–1	174	173
Total comprehensive income	**–**	**–**	**5,411**	**1,235**	**29**	**31**	**6,706**	**339**	**7,045**
Issue and repayment of equity	370	3	–	–	–	–	373	–85	288
Changes in the scope of consolidation	–	–	53	–	–	–	53	5	58
Acquisition/disposal of non-controlling interests	–	–	–30	–	–	–	–30	–12	–42
Dividends paid	–	–	–506	–	–	–	–506	–74	–580
Equity as at Dec. 31, 2012	**9,994**	**703**	**58,414**	**104**	**4**	**36**	**69,255**	**2,943**	**72,198**
Net profit	–	–	6,664	–	–	–	6,664	198	6,862
Other comprehensive income/loss	–	–	201	332	–	–24	509	46	555
Total comprehensive income	**–**	**–**	**6,865**	**332**	**–**	**–24**	**7,173**	**244**	**7,417**
Issue and repayment of equity	430	5	–	–	–	–	435	–8	427
Changes in the scope of consolidation	–	–	–14	–	–	–	–14	–3	–17
Acquisition/disposal of non-controlling interests	–	–	–62	–1	–	–	–63	–2	–65
Dividends paid	–	–	–520	–	–	–	–520	–54	–574
Equity as at Dec. 31, 2013	**10,424**	**708**	**64,683**	**435**	**4**	**12**	**76,266**	**3,120**	**79,386**

The table below gives a breakdown of subscribed capital:	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Cooperative shares	9,768	9,311	4.9
Share capital	176	173	1.7
Capital of silent partners	480	510	–5.9
Total	**10,424**	**9,994**	**4.3**

Statement of cash flows

	2013 € million	2012 € million
Net profit	**6,862**	**6,872**
Non-cash items included in net profit and reconciliation to cash flows from operating activities		
Depreciation, amortization, impairment losses, and reversals of impairment losses on assets, and other non-cash changes in financial assets and liabilities	203	896
Non-cash changes in provisions	–452	1,867
Changes in insurance liabilities	3,709	4,451
Other non-cash income and expenses	1,069	1,230
Gains and losses on the disposal of assets and liabilities	495	–386
Other adjustments (net)	–19,502	–18,075
Subtotal	**–7,616**	**–3,145**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	–9,959	–23,046
Other assets from operating activities	720	256
Derivatives used for hedging (positive and negative fair values)	–681	1,214
Financial assets and financial liabilities held for trading	803	–4,059
Deposits from banks and customers	14,547	24,701
Debt certificates including bonds	–15,596	–4,248
Other liabilities from operating activities	465	928
Interest, dividends and operating lease payments received	32,538	34,762
Interest paid	–11,912	–14,793
Income taxes paid	–1,742	–1,914
Cash flows from operating activities	**1,567**	**10,656**

The consolidated statement of cash flows shows the changes in cash and cash equivalents during the financial year. Cash and cash equivalents consist of cash on hand, balances with central banks and other government institutions as well as public-sector debt instruments and bills of exchange eligible for refinancing by central banks. Cash and cash equivalents do not include any financial investments with a maturity of more than three months at the date of acquisition. Changes in cash and cash equivalents are broken down into operating, investing and financing activities.

	2013 € million	2012 € million
Proceeds from the sale of investments	32,468	21,099
Proceeds from the sale of investments held by insurance companies	27,250	24,849
Payments for acquisitions of investments	–27,658	–26,839
Payments for acquisitions of investments held by insurance companies	–30,799	–30,885
Payments for acquisitions of property, plant and equipment, and investment property (excluding assets subject to operating leases)	–558	–1,156
Changes in the scope of consolidation	28	70
Net change in cash and cash equivalents from other investing activities	58	47
Cash flows from investing activities	**789**	**–12,815**
Proceeds from capital increases	435	373
Dividends paid to shareholders of the Cooperative Financial Network and non-controlling interests	–574	–580
Other payments to shareholders of the Cooperative Financial Network and non-controlling interests	–8	–85
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	–506	–1,230
Cash flows from financing activities	**–653**	**–1,522**
Cash and cash equivalents as at January 1	**14,277**	**17,958**
Cash flows from operating activities	1,567	10,656
Cash flows from investing activities	789	–12,815
Cash flows from financing activities	–653	–1,522
Cash and cash equivalents as at December 31	**15,980**	**14,277**

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 disclosures

Basis of preparation

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

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

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

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

As part of the preparation of these consolidated financial statements, the financial statements of the local cooperative banks and of the BVR protection scheme that are included and have been prepared in accordance with the HGB have been brought into line with IFRSs. Thus, using a simplified approach, assets, liabilities, equity, income and expenses are reconciled with the carrying amounts that would have resulted from consistent application of IFRS.

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

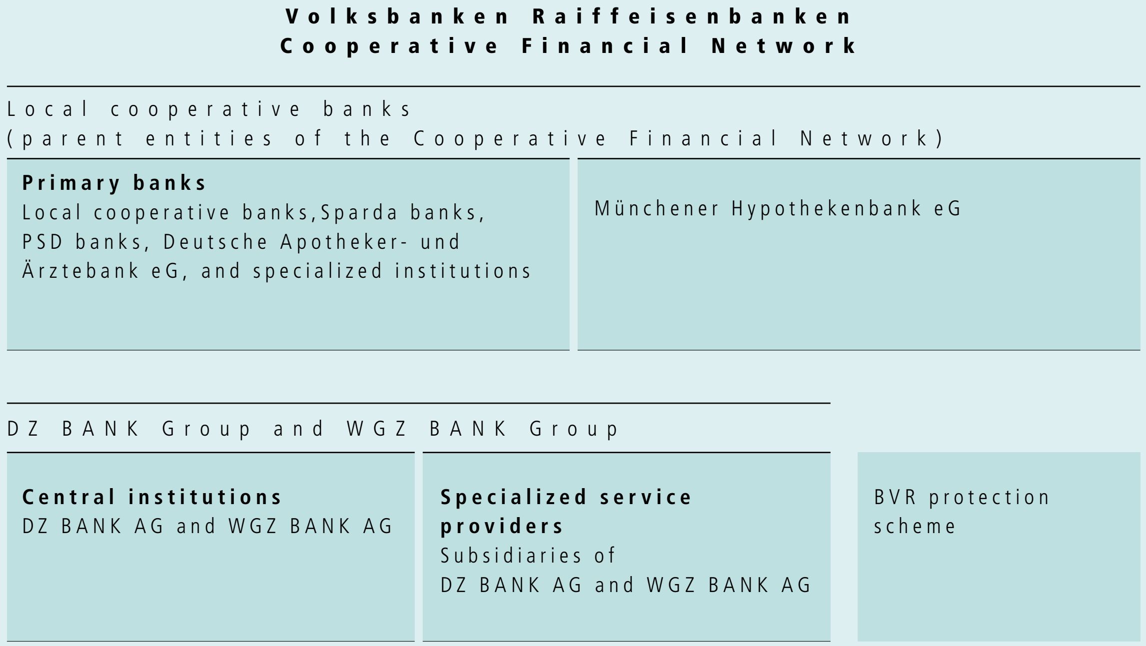
In the interest of clarity, some items on the face of the balance sheet and the income statement have been aggregated and are explained by additional disclosures. Unless stated otherwise, all amounts are shown in millions of euros (€ million). All figures are rounded to the nearest whole number. This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

Scope of consolidation

The consolidated entities included in these consolidated financial statements are the 1,074 primary banks (2012: 1,096), the DZ BANK Group, the WGZ BANK Group, Münchener Hypothekenbank eG (MHB), and the BVR protection scheme. The consolidated primary banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

The primary banks and MHB are the legally independent, horizontally structured parent entities of the Cooperative Financial Network, whereas the other corporate groups and entities are consolidated as subsidiaries. The two cooperative central institutions and a total of 779 subsidiaries (2012: 871) have been consolidated in the DZ BANK Group and WGZ BANK Group.

The consolidated financial statements include 22 joint ventures between a consolidated entity and at



least one other non-network entity (2012: 24) and 19 associates (2012: 25) over which a consolidated entity has significant influence, that are accounted for using the equity method.

Procedures of consolidation

Similar to IFRS 3 in conjunction with IAS 27, business combinations are accounted for using the purchase method by offsetting the acquisition cost of a subsidiary against the share of the equity that is attributable to the parent entities and remeasured at fair value on the relevant date when control is acquired.

This eliminates the multiple gearing of qualifying elements of capital and any inappropriate creation of capital for regulatory purposes between the consolidated entities listed above.

Any positive difference between these two amounts is recognized as goodwill under other assets and subjected to an annual impairment test. Any negative goodwill is recognized immediately in profit or loss. Any share of subsidiaries' net assets not attributable to the parent entities is reported as non-controlling interests within equity.

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

The consolidated subsidiaries have generally prepared their financial statements on the basis of the financial year ended December 31, 2013. There is one subsidiary (2012: 2 subsidiaries) included in the consolidated financial statements with a different reporting date for its annual financial statements. With 16 exceptions (2012: 16 exceptions), the separate financial statements of the entities accounted for using the equity method are prepared to the same balance sheet date as that of the consolidated financial statements.

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

Financial instruments

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

Financial instruments at fair value through profit or loss
Financial instruments in this category are recognized at fair value through profit or loss. This category is broken down into two subcategories, as shown below.

<u>Financial instruments held for trading</u>
The "financial instruments held for trading" subcategory covers financial assets and financial liabilities that are acquired or incurred for the purpose of selling or repurchasing them in the near term, that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or that are derivatives, except for derivatives that are designated as effective hedging instruments as defined by IAS 39.

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

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

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

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

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

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

Cash and cash equivalents

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

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

Loans and advances to banks and customers

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

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

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

Allowances for losses on loans and advances

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

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

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

Derivatives used for hedging (positive and negative fair values)

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

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

Financial assets and financial liabilities held for trading

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

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

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

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

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

Investments

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

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

Property, plant and equipment, and investment property

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

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

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

Income tax assets and liabilities

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

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

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

Deposits from banks and customers

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

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. To avoid accounting mismatches, certain liabilities are designated as at fair value through profit or loss.

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

Debt certificates including bonds

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

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

Provisions

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

Actuarial reports are used to calculate the carrying amounts of defined benefit obligations and other post-employment benefits. These include assumptions about long-term salary and pension trends and average life expectancy. Assumptions about salary and pension trends are based on past trends and take account of expectations about future labor market trends. Recognized biometric tables (mortality tables published by Professor Dr. Klaus Heubeck) are used to estimate average life expectancy. The discount rate used to discount future payment obligations is an appropriate market interest rate for high-quality fixed-income corporate bonds with a maturity equivalent to that of the defined benefit obligations. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions regarding defined benefit obligations as well as gains and losses on remeasurements of plan assets are recognized as other comprehensive income in the financial year in which they occur.

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

Provisions for loans and advances factor in the usual sector-specific level of uncertainty about amounts and maturity dates. Provisions relating to building society operations are recognized to cover the payment of any bonuses that may have been agreed in the terms and conditions of home savings contracts.

Subordinated capital

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

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

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

Equity

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

Trust activities

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

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

Insurance business

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

Financial assets and financial liabilities
Financial assets and financial liabilities held or entered into in connection with insurance operations are generally accounted for and measured in accordance with IAS 39. They are reported in the investments held by insurance companies, or in the other assets and other liabilities of insurance companies.

Impairment losses on financial assets recognized under the investments and the other assets of insurance companies are directly deducted from the assets' carrying amounts.

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

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

Leases

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

B Income statement disclosures

1. Information on operating segments

Financial year 2013 (€ million)	Bank	Retail	Real Estate Finance	Insurance	Other/ Consolidation	Total
Net interest income	2,096	17,083	1,554	–	–723	20,010
Allowances for losses on loans and advances	–416	–291	–34	–	–33	–774
Net fee and commission income	567	5,239	–292	–	–453	5,061
Gains and losses on trading activities	269	227	14	–	–3	507
Gains and losses on investments	–88	–408	–20	–	–7	–523
Other gains and losses on valuation of financial instruments	39	21	1,021	–	–4	1,077
Premiums earned	–	–	–	12,693	–	12,693
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	2,923	–107	2,816
Insurance benefit payments	–	–	–	–13,181	–	–13,181
Insurance business operating expenses	–	–	–	–2,126	464	–1,662
Administrative expenses	–1,652	–14,530	–693	–	389	–16,486
Other net operating income	–12	5	55	–57	24	15
Profit before taxes	**803**	**7,346**	**1,605**	**252**	**–453**	**9,553**
Cost/income ratio (percent)	57.5	65.5	29.7	–	–	61.5

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

Definition of operating segments

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

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

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

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

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

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

Presentation of the disclosures on operating segments

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

Intersegment consolidation

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

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

The figure under Other/Consolidation for administrative expenses includes the contributions paid to the BVR protection scheme by member institutions of the Cooperative Financial Network.

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

2.
Net interest income

	2013 € million	2012 € million	Change (percent)
Interest income and current income and expense	**31,822**	**34,294**	**–7.2**
Interest income from	***30,360***	***32,892***	***–7.7***
Lending and money market business	26,443	28,128	–6.0
of which: building society operations	991	998	–0.7
finance leases	320	386	–17.1
Fixed-income securities	4,422	5,211	–15.1
Other assets	–505	–447	13.0
Current income from	***1,300***	***1,210***	***7.4***
Shares and other variable-yield securities	1,172	1,066	9.9
Investments in subsidiaries and equity investments	93	67	38.8
Operating leases	35	77	–54.5
Income/loss from using the equity method for	***81***	***84***	***–3.6***
Interests in joint ventures	68	66	3.0
Investments in associates	13	18	–27.8
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***81***	***108***	***–25.0***
Interest expense	**–11,812**	**–14,650**	**–19.4**
Interest expense on	***–11,148***	***–13,772***	***–19.1***
Deposits from banks and customers	–8,997	–12,178	–26.1
of which: building society operations	–742	–727	2.1
Debt certificates including bonds	–1,880	–1,307	43.8
Subordinated capital	–323	–346	–6.6
Other liabilities	52	59	–11.9
Other interest expense	***–664***	***–878***	***–24.4***
Total	**20,010**	**19,644**	**1.9**

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

3. Allowances for losses on loans and advances

	2013 € million	2012 € million	Change (percent)
Additions	–2,807	–2,959	–5.1
Reversals	2,027	1,926	5.2
Directly recognized impairment losses	–233	–232	0.4
Receipts from loans and advances previously impaired	230	239	–3.8
Changes in the provisions for loans and advances as well as in the liabilities from financial guarantee contracts	22	–8	> 100.0
Impairment losses on available for sale loans and advances	–13	–	–
Total	**–774**	**–1,034**	**–25.1**

4. Net fee and commission income

	2013 € million	2012 € million	Change (percent)
Fee and commission income	**6,530**	**6,237**	**4.7**
Securities business	2,861	2,666	7.3
Asset management	174	152	14.5
Payments processing including card processing	2,240	2,148	4.3
Lending business and trust activities	270	301	–10.3
Financial guarantee contracts and loan commitments	178	191	–6.8
International business	115	129	–10.9
Building society operations	355	325	9.2
Other	337	325	3.7
Fee and commission expense	**–1,469**	**–1,377**	**6.7**
Securities business	–588	–513	14.6
Asset management	–10	–9	11.1
Payments processing including card processing	–252	–222	13.5
Lending business and trust activities	–124	–142	–12.7
Financial guarantee contracts and loan commitments	–15	–10	50.0
International business	–23	–21	9.5
Building society operations	–376	–354	6.2
Other	–81	–106	–23.6
Total	**5,061**	**4,860**	**4.1**

5. Gains and losses on trading activities

	2013 € million	2012 € million	Change (percent)
Gains and losses on trading in financial instruments	235	522	–55.0
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	80	141	–43.3
Gains and losses on commodities trading	192	193	–0.5
Total	**507**	**856**	**–40.8**

6. Gains and losses on investments

	2013 € million	2012 € million	Change (percent)
Gains and losses on securities	–502	450	>100.0
Gains and losses on investments in subsidiaries and equity investments	–21	–60	–65.0
Total	**–523**	**390**	**>100.0**

7. Other gains and losses on valuation of financial instruments

	2013 € million	2012 € million	Change (percent)
Gains and losses from hedge accounting	**–21**	**–24**	**–12.5**
Fair value hedges	***–21***	***–24***	***–12.5***
Gains and losses on hedging instruments	2,848	–2,403	>100.0
Gains and losses on hedged items	–2,869	2,379	>100.0
Gains and losses on derivatives held for purposes other than trading	**66**	**–21**	**>100.0**
Gains and losses on financial instruments designated as at fair value through profit or loss	**1,032**	**37**	**>100.0**
Total	**1,077**	**–8**	**>100.0**

8. Premiums earned

	2013 € million	2012 € million	Change (percent)
Net premiums written	**12,666**	**11,828**	**7.1**
Gross premiums written	12,753	11,875	7.4
Reinsurance premiums ceded	−87	−47	85.1
Change in provision for unearned premiums	**27**	**−41**	**>100.0**
Gross premiums	28	−14	>100.0
Reinsurers' share	−1	−27	−96.3
Total	**12,693**	**11,787**	**7.7**

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

	2013 € million	2012 € million	Change (percent)
Interest income and current income	2,548	2,489	2.4
Administrative expenses	−113	−121	−6.6
Gains and losses on valuation and disposals	250	672	−62.8
Other gains and losses of insurance companies	131	156	−16.0
Total	**2,816**	**3,196**	**−11.9**

10. Insurance benefit payments

	2013 € million	2012 € million	Change (percent)
Expenses for claims	**−8,765**	**−8,301**	**5.6**
Gross expenses for claims	−9,055	−8,342	8.5
Reinsurers' share	290	41	>100.0
Changes in benefit reserve, reserve for deferred policyholder participation, and in other insurance liabilities	**−4,416**	**−4,208**	**4.9**
Changes in gross liabilities	−4,408	−4,181	5.4
Reinsurers' share	−8	−27	−70.4
Total	**−13,181**	**−12,509**	**5.4**

11. Insurance business operating expenses

	2013 € million	2012 € million	Change (percent)
Gross expenses	−1,683	−1,676	0.4
Reinsurers' share	21	19	10.5
Total	**−1,662**	**−1,657**	**0.3**

12. Administrative expenses

	2013 € million	2012 € million	Change (percent)
Staff expenses	−9,782	−9,682	1.0
General and administrative expenses	−5,810	−5,717	1.6
Depreciation/amortization and impairment losses	−894	−949	−5.8
Total	**−16,486**	**−16,348**	**0.8**

13. Other net operating income

	2013 € million	2012 € million	Change (percent)
Gains and losses on non-current assets and disposal groups classified as held for sale	10	−2	>100.0
Other operating income	1,004	1,131	−11.2
Other operating expenses	−999	−994	0.5
Total	**15**	**135**	**−88.9**

14. Income taxes

	2013 € million	2012 € million	Change (percent)
Current tax expense	–2,490	–2,431	2.4
Deferred tax expense	–201	–9	>100.0
Total	**–2,691**	**–2,440**	**10.3**

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.

	2013 € million	2012 € million	Change (percent)
Profit before taxes	**9,553**	**9,312**	**2.6**
Notional rate of income tax of the Cooperative Financial Network (percent)	29.825	29.825	
Income taxes based on notional rate of income tax	**–2,849**	**–2,777**	**2.6**
Tax effects	**158**	**337**	**–53.1**
Tax effects of tax-exempt income and non-tax deductible expenses	112	104	7.7
Tax effects of different tax types, different trade tax multipliers, and changes in tax rates	44	18	>100.0
Tax effects of different tax rates in other countries	–4	24	>100.0
Current and deferred taxes relating to prior reporting periods	–59	5	>100.0
Reversal of valuation adjustments of deferred tax assets	2	43	–95.3
Other tax effects	63	143	–55.9
Income taxes	**–2,691**	**–2,440**	**10.3**

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

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C Balance sheet disclosures

15. Cash and cash equivalents

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Cash on hand	6,348	5,795	9.5
Balances with central banks and other government institutions	9,560	8,358	14.4
of which: with Deutsche Bundesbank	8,765	7,586	15.5
Public-sector debt instruments and bills of exchange eligible for refinancing by central banks	72	124	–41.9
Total	**15,980**	**14,277**	**11.9**

16. Loans and advances to banks and customers

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Loans and advances to banks	**33,413**	**41,785**	**–20.0**
Repayable on demand	***10,623***	***15,102***	***–29.7***
Other loans and advances	***22,790***	***26,683***	***–14.6***
Mortgage loans and other loans secured by mortgages on real estate[1, 2]	665	741	–10.3
Local authority loans[2]	11,019	11,607	–5.1
Other loans and advances[2]	11,106	14,335	–22.5
Loans and advances to customers	**648,470**	**632,448**	**2.5**
Mortgage loans and other loans secured by mortgages on real estate[1]	238,148	227,031	4.9
Local authority loans	43,418	45,401	–4.4
Home savings loans advanced by building society	27,259	25,447	7.1
of which: from allotment (home savings loans)	4,897	5,640	–13.2
for advance and interim financing	20,264	17,860	13.5
other building loans	2,098	1,947	7.8
Finance leases	4,872	5,519	–11.7
Other loans and advances[1]	334,773	329,050	1.7

1 The item "other loans secured by mortgages on real estate" was reclassified for the year under review and the previous year and is now reported together with the item "mortgage loans."
2 Own-account investments in the form of Pfandbriefe were reported in accordance with their cover in the year under review. They are reported under local authority loans (previous year before restatement: Euro 8,515 million) and under mortgage loans and other loans secured by mortgages on real estate (previous year before restatement: Euro 107 million). Other loans and advances have decreased accordingly (previous year before restatement: Euro 18,061 million).

17. Allowances for losses on loans and advances

	Specific loan loss allowances € million	Portfolio loan loss allowances € million	Total € million
Balance as at Jan. 1, 2012	**8,350**	**1,298**	**9,648**
Additions	2,785	175	2,960
Utilizations	−962	–	−962
Reversals	−1,685	−285	−1,970
Changes in the scope of consolidation	59	2	61
Other changes	3	45	48
Balance as at Dec. 31, 2012	**8,550**	**1,235**	**9,785**
Additions	2,613	208	2,821
Utilizations	−1,215	–	−1,215
Reversals	−1,818	−245	−2,063
Changes in the scope of consolidation	−9	−22	−31
Other changes	−18	5	−13
Balance as at Dec. 31, 2013	**8,103**	**1,181**	**9,284**

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

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Derivatives used for hedging (positive fair values)	**1,382**	**1,388**	**−0.4**
Fair value hedges	1,370	1,377	−0.5
Cash flow hedges	11	11	–
Hedges of net investments in foreign operations	1	–	–
Derivatives used for hedging (negative fair values)	**7,178**	**10,352**	**−30.7**
Fair value hedges	7,176	10,350	−30.7
Cash flow hedges	2	1	100.0
Hedges of net investments in foreign operations	–	1	−100.0

19. Financial assets held for trading

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Derivatives (positive fair values)	**24,550**	**40,486**	**−39.4**
Interest-linked contracts	21,418	37,265	−42.5
Currency-linked contracts	1,013	992	2.1
Share- and index-linked contracts	582	624	−6.7
Credit derivatives	463	727	−36.3
Other contracts	1,074	878	22.3
Securities	**15,330**	**16,368**	**−6.3**
Bonds and other fixed-income securities	14,723	15,812	−6.9
Shares and other variable-yield securities	607	556	9.2
Loans and advances	**17,288**	**14,908**	**16.0**
Inventories and trade receivables	**371**	**443**	**−16.3**
Total	**57,539**	**72,205**	**−20.3**

20. Investments

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Securities	**233,664**	**238,103**	**−1.9**
Bonds and other fixed-income securities	187,383	192,304	−2.6
Shares and other variable-yield securities	46,281	45,799	1.1
Investments in subsidiaries	**1,202**	**1,929**	**−37.7**
Equity investments	**2,391**	**2,129**	**12.3**
Interests in joint ventures	633	611	3.6
Investments in associates	359	338	6.2
Other shareholdings	1,399	1,180	18.6
Total	**237,257**	**242,161**	**−2.0**

21. Investments held by insurance companies

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Investment property	1,595	1,530	4.2
Investments in subsidiaries, interests in joint ventures and investments in associates	649	437	48.5
Mortgage loans	7,257	6,494	11.7
Promissory notes and loans	8,213	8,622	−4.7
Registered bonds	9,027	9,029	–
Other loans	1,101	1,525	−27.8
Variable-yield securities	5,156	4,479	15.1
Fixed-income securities	28,284	26,032	8.7
Derivatives (positive fair values)	144	268	−46.3
Deposits with ceding insurers	174	182	−4.4
Assets related to unit-linked contracts	6,268	5,502	13.9
Total	**67,868**	**64,100**	**5.9**

22. Property, plant and equipment, and investment property

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Land and buildings	6,690	6,127	9.2
Office furniture and equipment	1,411	1,415	−0.3
Assets subject to operating leases	639	1,029	−37.9
Investment property	88	89	−1.1
Other fixed assets	1,840	1,784	3.1
Total	**10,668**	**10,444**	**2.1**

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23. Income tax assets and liabilities

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Income tax assets	**4,907**	**5,751**	**−14.7**
Current income tax assets	2,384	2,813	−15.3
Deferred tax assets	2,523	2,938	−14.1
Income tax liabilities	**1,001**	**1,248**	**−19.8**
Current income tax liabilities	755	984	−23.3
Deferred tax liabilities	246	264	−6.8

	Deferred tax assets Dec. 31, 2013 € million	Deferred tax assets Dec. 31, 2012 € million	Deferred tax liabilities Dec. 31, 2013 € million	Deferred tax liabilities Dec. 31, 2012 € million
Tax loss carryforwards	99	268		
Loans and advances to banks and customers (net)	129	288	484	850
Financial assets and liabilities held for trading, derivatives used for hedging (positive and negative fair values)	1,057	1,731	161	344
Investments	481	621	426	768
Investments held by insurance companies	15	24	207	305
Deposits from banks and customers	705	896	132	99
Debt certificates including bonds	122	250	23	27
Provisions	1,349	1,357	34	28
Insurance liabilities	88	80	232	249
Other balance sheet items	149	110	218	281
Total (gross)	**4,194**	**5,625**	**1,917**	**2,951**
Netting of deferred tax assets and deferred tax liabilities	−1,671	−2,687	−1,671	−2,687
Total (net)	**2,523**	**2,938**	**246**	**264**

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, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Other assets held by insurance companies	4,096	3,553	15.3
Goodwill	120	180	−33.3
Other intangible assets	292	289	1.0
Prepaid expenses	312	325	−4.0
Other receivables	2,810	2,555	10.0
Non-current assets and disposal groups classified as held for sale	11	199	−94.5
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	4,211	6,905	−39.0
Residual other assets	513	1,556	−67.0
Total	**12,365**	**15,562**	**−20.5**

25. Deposits from banks and customers

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Deposits from banks	**96,210**	**110,824**	**−13.2**
Repayable on demand	10,741	13,254	−19.0
With agreed maturity or notice period	85,469	97,570	−12.4
Deposits from customers	**693,191**	**664,839**	**4.3**
Savings deposits and home savings deposits	***234,160***	***228,244***	***2.6***
Savings deposits with agreed notice period of three months	169,611	167,520	1.2
Savings deposits with agreed notice period of more than three months	19,566	19,789	−1.1
Home savings deposits	44,983	40,935	9.9
Other deposits from customers	***459,031***	***436,595***	***5.1***
Repayable on demand	314,037	282,226	11.3
With agreed maturity or notice period	144,994	154,369	−6.1

26. Debt certificates including bonds

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Bonds issued	**59,376**	**71,314**	**−16.7**
Mortgage Pfandbriefe	21,250	23,263	−8.7
Public-sector Pfandbriefe	15,006	19,700	−23.8
Other bonds	23,120	28,351	−18.5
Other debt certificates	**8,131**	**11,945**	**−31.9**
Total	**67,507**	**83,259**	**−18.9**

27. Financial liabilities held for trading

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Derivatives (negative fair values)	**23,764**	**41,943**	**−43.3**
Interest-linked contracts	20,993	38,188	−45.0
Currency-linked contracts	1,026	1,041	−1.4
Share- and index-linked contracts	770	978	−21.3
Credit derivatives	312	648	−51.9
Other contracts	663	1,088	−39.1
Delivery commitments arising from short-selling of securities	**749**	**828**	**−9.5**
Bonds issued and other debt certificates	**9,398**	**9,435**	**−0.4**
Liabilities	**10,352**	**6,053**	**71.0**
Liabilities from commodities transactions and commodity lending	**47**	**48**	**−2.1**
Total	**44,310**	**58,307**	**−24.0**

28. Provisions

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Provisions for defined benefit plans	7,018	7,296	–3.8
Provisions for loans and advances	422	454	–7.0
Provisions relating to building society operations	516	459	12.4
Residual provisions	3,400	3,599	–5.5
Total	**11,356**	**11,808**	**–3.8**

Funding status of defined benefit obligations	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Present value of defined benefit obligations not funded by plan assets	7,068	7,058	0.1
Present value of defined benefit obligations funded by plan assets	1,090	1,332	–18.2
Present value of defined benefit obligations	**8,158**	**8,390**	**–2.8**
less fair value of plan assets	–1,145	–1,096	4.5
Defined benefit obligations (net)	**7,013**	**7,294**	**–3.9**
Recognized surplus	5	2	>100.0
Provisions for defined benefit plans	**7,018**	**7,296**	**–3.8**

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Changes in the present value of the defined benefit obligations	2013 € million	2012 € million	Change (percent)
Present value of defined benefit obligations as at Jan. 1	**8,390**	**6,419**	**30.7**
Current service cost	121	91	33.0
Interest expense	272	317	–14.2
Pension benefits paid including plan settlements	–335	–316	6.0
Unrecognized past service cost	1	–	–
Actuarial gains (–)/losses (+)	–293	1,872	>100.0
Other changes	3	7	–57.1
Present value of defined benefit obligations as at Dec. 31	**8,159**	**8,390**	**–2.8**

Changes in plan assets	2013 € million	2012 € million	Change (percent)
Fair value of plan assets as at Jan. 1	**1,096**	**1,045**	**4.9**
Interest income	33	34	–2.9
Contributions to plan assets	76	15	>100.0
Pension benefits paid	–51	–46	2.2
Return on plan assets (excluding interest income)	–6	47	>100.0
Other changes	–3	1	–90.0
Fair value of plan assets as at Dec. 31	**1,145**	**1,096**	**4.5**

Actuarial assumptions used for defined benefit obligations	Dec. 31, 2013 (percent)	Dec. 31, 2012 (percent)
Discount rate	3.14 – 3.25	3.25 – 3.40
Salary increases	0.02 – 3.50	1.50 – 3.50
Pension increases	0.00 – 3.00	0.00 – 3.50

29. Insurance liabilities

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Provision for unearned premiums	1,035	1,069	–3.2
Benefit reserve	46,431	43,440	6.9
Provision for claims outstanding	7,798	6,967	11.9
Reserve for deferred policyholder participation	6,240	6,601	–5.5
Other insurance liabilities	37	39	–5.1
Reserve for unit-linked insurance contracts	5,845	5,144	13.6
Total	**67,386**	**63,260**	**6.5**

30. Other liabilities

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Other liabilities of insurance companies	4,056	4,149	–2.2
Other liabilities and accruals	2,544	2,410	5.6
Liabilities included in disposal groups classified as held for sale	–	14	–100.0
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	464	630	–26.3
Residual other liabilities	557	560	–0.5
Total	**7,621**	**7,763**	**–1.8**

31. Subordinated capital

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Subordinated liabilities	4,886	5,037	–3.0
Profit-sharing rights	102	1,021	–90.0
Other hybrid capital	363	379	–4.2
Share capital repayable on demand	68	41	65.9
Total	**5,419**	**6,478**	**–16.3**

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D Financial instruments disclosures

32. Fair value of financial instruments

	Fair value Dec. 31, 2013 € million	Fair value Dec. 31, 2012 € million	Carrying amount Dec. 31, 2013 € million	Carrying amount Dec. 31, 2012 € million
Assets				
Cash and cash equivalents	9,632	8,482	9,632	8,482
Loans and advances to banks[1,4]	34,852	44,334	33,254	41,638
Loans and advances to customers[1,4]	643,905	629,403	639,332	622,810
Derivatives used for hedging (positive fair values)	1,382	1,388	1,382	1,388
Financial assets held for trading[2]	57,169	71,762	57,169	71,762
Investments[3]	236,112	240,593	236,265	241,212
Investments held by insurance companies[2,3]	60,657	57,982	59,773	56,826
Other assets[2]	7,256	8,975	7,671	9,806
Equity and liabilities				
Deposits from banks[4]	97,890	113,339	96,210	110,824
Deposits from customers[4]	696,551	669,587	693,191	664,839
Debt certificates issued including bonds	68,548	84,916	67,507	83,259
Derivatives used for hedging (negative fair values)	7,178	10,352	7,178	10,352
Financial liabilities held for trading[2]	44,264	58,259	44,264	58,259
Other liabilities[2]	2,710	2,962	3,171	3,588
Subordinated capital	5,346	6,668	5,419	6,478

1 Carrying amounts less loan loss allowances
2 Fair value and carrying amount only include financial instruments
3 Excluding interests in joint ventures and investments in associates
4 Prior year amount restated (amounts before restatement: loans and advances to banks Euro 44,371 million; loans and advances to customers Euro 629,661 million; deposits from banks Euro 113,348 million; deposits from customers Euro 669,588 million)

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

33.
Maturity analysis

as at Dec. 31, 2013	≤ 3 months € million	> 3 months–1 year € million	> 1 year € million	Indefinite € million
Loans and advances to banks	12,384	4,417	23,761	423
Loans and advances to customers	41,442	52,766	551,247	19,626
Deposits from banks	27,568	10,132	62,578	443
Deposits from customers	533,715	33,948	88,083	44,997
Debt certificates including bonds	10,416	7,903	53,131	–
as at Dec. 31, 2012				
Loans and advances to banks	16,388	5,231	27,897	485
Loans and advances to customers	42,356	52,212	535,053	20,881
Deposits from banks	32,705	11,885	70,970	416
Deposits from customers	500,686	39,372	93,075	40,926
Debt certificates including bonds	10,989	15,901	61,107	–

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

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

	Dec. 31, 2013 € million	Dec. 31, 2012[1] € million
Portugal	786	902
Italy	6,305	5,852
Ireland	506	574
Greece	10	8
Spain	3,918	3,724
Total	**11,525**	**11,060**

1 Primary banks in the business area of WGZ BANK: carrying amounts as at February 28, 2013

The table shows the carrying amounts of bonds issued by governments and other public authorities particularly affected by the sovereign debt crisis.

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

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E Other disclosures

35.
Financial guarantee contracts and loan commitments

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Financial guarantee contracts	16,831	16,538	1.8
Loan commitments	55,382	55,450	–0.1
Total	**72,213**	**71,988**	**0.3**

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

36.
Trust activities

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Trust assets	4,374	5,449	–19.7
of which: trust loans	3,340	4,180	–20.1
Trust liabilities	4,374	5,449	–19.7
of which: trust loans	3,340	4,180	–20.1

37. Asset management by the Union Investment Group

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Fund assets	**182,121**	**173,663**	**4.9**
Other types of asset management	**30,007**	**26,023**	**15.3**
Unit-linked asset management	330	315	4.8
Institutional asset management	6,221	5,561	11.9
Advisory and outsourcing	23,456	20,147	16.4
Accounts managed by third parties	**−5,967**	**−9,151**	**−34.8**
Total	**206,161**	**190,535**	**8.2**

As at the balance sheet date, the Union Investment Group (through Union Asset Management Holding) has total assets under management of Euro 206,161 million (December 31, 2012: Euro 190,535 million). The fund assets comprise equity funds, fixed-income funds, money market funds, mixed funds, other securities funds, capital preservation funds, real estate funds, alternative investment funds and hybrid funds issued by Union Investment Group.

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

38. Leases

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Gross investment	**5,587**	**6,452**	**−13.4**
Up to 1 year	1,500	1,745	−14.0
More than 1 year and up to 5 years	2,957	3,445	−14.2
More than 5 years	1,130	1,262	−10.5
less unearned finance income	**−716**	**−934**	**−23.3**
Net investment	**4,871**	**5,518**	**−11.7**
less present value of unguaranteed residual values	**−113**	**−114**	**−0.9**
Present value of minimum lease payment receivables	**4,758**	**5,404**	**−12.0**
Up to 1 year	1,271	1,464	−13.2
More than 1 year and up to 5 years	2,523	2,902	−13.1
More than 5 years	964	1,038	−7.1

As at the balance sheet date, the accumulated allowance for uncollectable minimum lease payments at lessor companies amounted to Euro 63 million (December 31, 2012: Euro 92 million).

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

39. Capital requirements and capital ratios

	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Total capital	**83,503**	**74,845**	**11.6**
Tier 1 capital	59,843	52,618	13.7
Tier 2 capital	24,694	24,165	2.2
Tier 3 capital	1	3	−55.9
Deductions from Tier 1 and Tier 2 capital	−1,035	−1,941	−46.7
Capital requirements	**41,451**	**40,826**	**1.5**
Tier 1 capital ratio (percent)	**11.4**	**10.1**	
Tier 1 capital ratio including reserves pursuant to section 340f of the HGB (percent)	**13.8**	**12.5**	
Total capital ratio (percent)	**16.1**	**14.7**	

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

	Not allocated Number of contracts	Not allocated Home savings sum € million	Allocated Number of contracts	Allocated Home savings sum € million	Total Number of contracts	Total Home savings sum € million
Balance as at Dec. 31, 2012	**6,651,857**	**221,785**	**1.016,281**	**26,782**	**7,668,138**	**248,567**
Additions in 2013 as a result of						
New contracts (redeemed contracts)[1]	1,113,196	34,323	–	–	1,113,196	34,323
Transfers	24,029	674	2,305	57	26,334	731
Allocation waivers and cancellations	9,093	346	–	–	9,093	346
Splitting	238,240	–	273	–	238,513	–
Allocations and acceptance of allocations	–	–	381,793	9,604	381,793	9,604
Other	128,923	4,862	71	4	128,994	4,866
Total	**1,513,481**	**40,205**	**384,442**	**9,665**	**1,897,923**	**49,870**
Disposal in 2013 as a result of						
Allocations and acceptance of allocations	–381,793	–9,604	–	–	–381,793	–9,604
Reductions	–	–895	–	–	–	–895
Termination	–318,167	–7,162	–247,607	–5,494	–565,774	–12,656
Transfers	–24,029	–674	–2,305	–57	–26,334	–731
Pooling[1]	–129,943	–	–4	–	–129,947	–
Expiration	–	–	–180,805	–5,243	–180,805	–5,243
Allocation waivers and cancellations	–	–	–9,093	–346	–9,093	–346
Other	–128,923	–4,862	–71	–4	–128,994	–4,866
Total	**–982,855**	**–23,197**	**–439,885**	**–11,144**	**–1,422,740**	**–34,341**
Net addition/disposal	530,626	17,008	–55,443	–1,479	475,183	15,529
Balance as at Dec. 31, 2013	**7,182,483**	**238,793**	**960,838**	**25,303**	**8,143,321**	**264,096**

1 Including increases

Volume of unredeemed contracts	Number of contracts	Home savings sum € million
Contracts signed prior to Jan. 1, 2013	64,610	2,305
Contracts signed in 2013	239,279	9,676

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41. Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2013 € million
Additions	
Amounts carried forward from 2012 (surplus)	
Amounts not yet disbursed	36,341
Additions in 2013	
Savings deposits (including credited residential construction bonuses)	9,748
Repayable amounts (including credited residential construction bonuses)[1]	2,322
Interest on home savings deposits	659
Total	**49,070**
Withdrawals	
Withdrawals in 2013	
Amounts allocated (if disbursed)	
Home savings deposits	5,307
Building loans	1,563
Repayment of deposits on non-allocated home savings contracts	1,058
Surplus of additions (Amounts not yet disbursed) at the end of 2013[2]	41,142
Total	**49,070**

1 Amounts repaid are the portion of the loan principal actually repaid
2 The surplus amounts allocated include:
a undisbursed home savings deposits from allocated home savings contracts Euro 107 million
b undisbursed home savings loans from funds allocated Euro 3,679 million

42. Cover statement for the mortgages and local authority loans extended by the mortgage banks	Mortgage Pfandbriefe Dec. 31, 2013 € million	Mortgage Pfandbriefe Dec. 31, 2012 € million	Mortgage Pfandbriefe Change (percent)	Public-sector Pfandbriefe Dec. 31, 2013 € million	Public-sector Pfandbriefe Dec. 31, 2012 € million	Public-sector Pfandbriefe Change (percent)
Ordinary cover	**42,830**	**42,496**	**0.8**	**42,751**	**48,030**	**–11.0**
Loans and advances to banks	38	56	–32.1	3,497	5,020	–30.3
of which: mortgage loans	38	56	–32.1	–	–	–
local authority loans	–	–	–	3,497	5,020	–30.3
Loans and advances to customers	42,646	42,294	0.8	27,565	30,283	–9.0
of which: mortgage loans	42,646	42,294	0.8	581	641	–9.4
local authority loans	–	–	–	26,984	29,642	–9.0
Investments consisting of bonds and other fixed-income securities	–	–	–	8,154	9,466	–13.9
Property, plant and equipment	146	146	–	3,535	3,261	8.4
Extended cover	**2,188**	**3,751**	**–41.7**	**1,190**	**1,170**	**1.7**
Loans and advances to banks	150	100	50.0	939	744	26.2
Investments consisting of bonds and other fixed-income securities	2,038	3,651	–44.2	251	426	–41.1
Total cover	**45,018**	**46,247**	**–2.7**	**43,941**	**49,200**	**–10.7**
Pfandbriefe requiring cover	**–38,452**	**–38,573**	**–0.3**	**–38,064**	**–44,095**	**–13.7**
Nominal excess cover	**6,566**	**7,674**	**–14.4**	**5,877**	**5,105**	**15.1**
Present value of excess cover	**9,059**	**10,554**	**–14.2**	**6,605**	**5,729**	**15.3**
Risk-related present value of excess cover	**8,164**	**9,755**	**–16.3**	**6,153**	**5,149**	**19.5**

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, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Mortgage Pfandbriefe	**38,452**	**38,573**	**–0.3**
Up to 1 year	3,952	8,514	–53.6
More than 1 year and up to 5 years	16,505	17,461	–5.5
More than 5 years and up to 10 years	11,022	8,931	23.4
More than 10 years	6,973	3,667	90.2
Public-sector Pfandbriefe	**38,064**	**44,095**	**–13.7**
Up to 1 year	7,894	7,740	2.0
More than 1 year and up to 5 years	14,211	18,750	–24.2
More than 5 years and up to 10 years	6,873	7,696	–10.7
More than 10 years	9,086	9,909	–8.3

Fixed-interest periods of cover assets	Dec. 31, 2013 € million	Dec. 31, 2012 € million	Change (percent)
Mortgage Pfandbriefe	**45,018**	**46,247**	**–2.7**
Up to 1 year	6,242	7,004	–10.9
More than 1 year and up to 5 years	19,184	20,439	–6.1
More than 5 years and up to 10 years	15,144	15,079	0.4
More than 10 years	4,448	3,725	19.4
Public-sector Pfandbriefe	**43,941**	**49,200**	**–10.7**
Up to 1 year	6,448	6,132	5.2
More than 1 year and up to 5 years	16,662	21,070	–20.9
More than 5 years and up to 10 years	8,508	8,725	–2.5
More than 10 years	12,323	13,273	–7.2

230 properties were in forced administration at the balance sheet date (December 31, 2012: 285). The mortgage loans held as cover include past-due payments totaling Euro 46 million (December 31, 2012: Euro 53 million).

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

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

Berlin, June 23, 2014

National Association of German Cooperative Banks
BVR

Board of Managing Directors

Uwe Fröhlich   Gerhard P. Hofmann   Dr. Andreas Martin

Review Report (Translation)

Review Report (Translation)

To the National Association of German Cooperative Banks (BVR)

We have reviewed the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network that were prepared by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR) [National Association of German Cooperative Banks], Berlin, for the period from January 1 to December 31, 2013.

The Board of Managing Directors of the BVR is responsible for preparing the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network in accordance with the accounting policies presented in section A of the notes to the annual consolidated financial statements including, but not limited to, the requirements relating to the elimination of multiple gearing of qualifying elements of capital and relating to the elimination of any inappropriate creation of capital between the entities included in the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network. Our responsibility is to issue a review report on the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network based on our review.

We conducted our review of the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. Those standards require that we plan and perform our review such that, having conducted a critical assessment, we can with reasonable certainty exclude the possibility that the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network have not been prepared, in all material respects, in accordance with the accounting policies presented in section A of the notes to the annual consolidated financial statements including, but not limited to, the requirements relating to the elimination of multiple gearing of qualifying elements of capital and relating to the elimination of any inappropriate creation of capital between the entities included in the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network. A review is essentially restricted to interviews of employees and to analytical assessments and therefore does not offer the degree of certainty provided by an audit. As we did not conduct an audit under the terms of our engagement, we cannot issue an audit opinion.

Our review did not reveal any findings that might lead us to conclude that the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network have not been prepared, in all material respects, in accordance with the accounting policies presented in section A of the notes to the annual consolidated financial statements; in particular, our review did not reveal any findings that might lead us to conclude that multiple gearing of qualifying elements of capital or any inappropriate creation of capital between the entities included in the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network was not eliminated.

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

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

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

Eschborn/Frankfurt am Main, June 27, 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

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