Consolidated Financial Statements 2014

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	AA−	AA−
Short-Term Issuer Default Rating	F1+	A−1+
Support Rating	5	*
Outlook	Stable	Stable
Individual Rating	aa−	aa−

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

Volksbanken Raiffeisenbanken Cooperative Financial Network	2014 € million	2013 € million	Change (percent)
Financial performance			
Net interest income	20,047	20,010	0.2
Allowances for losses on loans and advances	−299	−774	−61.4
Net fee and commission income	5,467	5,061	8.0
Profit on financial and commodities transactions[1]	1,335	1,061	25.8
Net income from insurance business[2]	1,281	666	92.3
Profit before taxes	10,655	9,553	11.5
Net profit	7,807	6,862	13.8
Cost/income ratio (percent)	60.7	61.5	
Net assets			
Loans and advances to banks	38,293	33,413	14.6
Loans and advances to customers	670,683	648,470	3.4
Allowances for losses on loans and advances	−8,519	−9,284	−8.2
Financial assets held for trading	61,181	57,539	6.3
Investments	249,219	237,257	5.0
Investments held by insurance companies	77,545	67,868	14.3
Remaining assets	47,358	45,302	4.5
Financial position			
Deposits from banks	103,526	96,210	7.6
Deposits from customers	713,485	693,191	2.9
Debt certificates issued including bonds	66,981	67,507	−0.8
Financial liabilities held for trading	52,760	44,310	19.1
Insurance liabilities	74,670	67,386	10.8
Other liabilities	37,837	32,575	16.2
Equity	86,501	79,386	9.0
Total assets/total equity and liabilities	**1,135,760**	**1,080,565**	**5.1**
Volume of business[3]	**1,446,483**	**1,363,313**	**6.1**
Regulatory capital ratios under SolvV[4]			
Tier 1 capital ratio (percent)	11.5	11.4	
Total capital ratio (percent)	15.1	16.1	
Employees as at Dec. 31	**190,544**	**191,243**	**−0.4**

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
4 The amounts reported as of December 31, 2013 were determined based on the German Solvency Regulation. The disclosures as of December 31, 2014 are based on CRR rules.

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Introduction by the Board of Managing Directors

2014 was a good year for the Volksbanken Raiffeisenbanken Cooperative Financial Network. The network comprising the 1,047 cooperative banks, DZ BANK, WGZ BANK and the central product specialists – Bausparkasse Schwäbisch Hall, R+V Versicherung, Union Investment, VR-LEASING, TeamBank, DZ PRIVATBANK plus the three mortgage banks DG HYP, WL BANK and Münchner Hypothekenbank – maintained the growth trajectory of the previous year, and generated consolidated net profit of €7.8 billion.

Once more, the Cooperative Financial Network proved itself a strong lender and a reliable partner to small and medium-sized enterprises in Germany. Yet again, the tremendous confidence placed in us by our customers and 18 million members was reflected in higher volumes of customer business. Customer loans increased by 3.4 percent to €671 billion, with particularly strong growth in lending to corporate clients and in consumer home finance. Despite fierce competition, the volume of customer deposits also grew again, rising from €693 billion to €713 billion.

However, the future has major challenges in store for us. The interest-rate situation that has depressed earnings for a considerable time, for example, is putting increased pressure on the financial performance of banks. In addition to the process optimizations required, the Cooperative Financial Network is also rising to the digital challenges of our time in the form of numerous joint commercial initiatives and large-scale projects. This will be a strategic investment in the ongoing development of the cooperative business model combined with personal service and customer-friendly online access.

The burden placed on the cooperative banks by the swathe of regulatory requirements is also growing steadily. In the interests of savers in Germany, we are firmly opposed to the mounting European demands for joint liability for deposit guarantee schemes in the eurozone. Rather than progress for the euro area, this would represent a clear step toward transfer union.

Uwe Fröhlich
Gerhard Hofmann
Dr. Andreas Martin

Management Report 2014

Business Performance

Economic conditions

In 2014, Germany's economic performance continued to be held back by what was generally a difficult situation internationally. Nevertheless, the latest data shows that there was a much bigger increase in inflation-adjusted gross domestic product (GDP) than in previous years, with GDP rising by 1.6 percent in 2014 compared with 0.4 percent in 2012 and 0.1 percent in 2013.

Mild weather helped the economy to expand significantly at the start of the year. However, there was a marked decline in the pace of economic growth as 2014 continued before it picked up again at the end of the year. Hopes of a strong upturn in investing activities in Germany were dashed by factors such as the violent conflicts in eastern Ukraine, Syria, and Iraq and the unexpectedly weak recovery of the eurozone's economy. Foreign trade, too, only provided muted stimulus overall. Consumption continued to be a dependable pillar of growth, however.

Consumer spending increased significantly and, together with government current account spending, contributed 0.9 percentage points to the rise in GDP. The sustained improvement in employment and the general trend of significantly rising real incomes provided a particular boost to consumer spending.

Germany's cross-border trade continued to increase in 2014, although with less momentum than in previous years. Exports were hampered by the sluggish recovery of the eurozone, the economic sanctions imposed on Russia in response to the Ukrainian crisis, and the generally weak level of worldwide economic growth. Global uncertainties meant that spending on capital equipment rose only moderately. However, capital expenditure on construction increased significantly.

The rate of inflation dropped from 1.5 percent in 2013 to just 0.9 percent in 2014. Inflation virtually ground to a halt at the end of the year. The declining inflationary pressure was mainly attributable to energy prices, which fell noticeably.

The labor market continued to enjoy good health. The average number of people employed in Germany in 2014 advanced by 357,000 compared with 2013 to reach a record level of over 42.6 million people. This rise was primarily due to a marked increase in employment contracts subject to social security contributions. However, the number of people who were unemployed went down only slightly. The average for the year decreased by 52,000 to just under 2.9 million, while the unemployment rate fell by 0.2 percentage points to 6.7 percent.

Volksbanken Raiffeisenbanken Cooperative Financial Network

Business situation

The Volksbanken Raiffeisenbanken Cooperative Financial Network again proved to be a central pillar of the German banking sector in 2014. The reporting year was dominated by efforts to support economic growth through monetary policy and avoid deflationary tendencies in the eurozone. To boost the recovery of the economy as a whole, the European Central Bank (ECB) cut interest rates twice more in 2014, which took its key lending rate to 0.05 percent. Furthermore, the ECB decided at the start of September 2014 to introduce a negative interest rate of minus 0.2 percent on money deposited with the ECB. 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 and reliable against this difficult economic backdrop. Profit before taxes rose again year on year, climbing to €10,655 million. This represented an increase of €1,102 million on what had already been an impressive figure in 2013. The Cooperative Financial Network therefore continued to show itself to be one of the most profitable banking groups in Europe.

In their lending business with retail and corporate customers, the Cooperative Financial Network gained further market share in 2014. Overall, loans and advances to customers grew by 3.4 percent. The primary banks, in particular, were able to build on their record success in the previous two years and expanded the lending business with retail and corporate customers by 4.3 percent compared with 2013. The market as a whole expanded by only 1.0 percent, thereby increasing the market share of the primary banks by 0.5 percent to 15.4 percent. Lending to corporate customers was down in the market as a whole. However, the primary banks achieved a year-on-year gain of 3.7 percent in this business, which meant they were well above the industry average. The primary banks also generated 3.9 percent growth in their lending to retail customers, a rise that was mainly attributable to consumer home 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 2.9 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 again, from €79.4 billion in 2013 to €86.5 billion in 2014. This represents a further substantial year-on-year increase in equity of €7.1 billion (2013: increase of €7.2 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– from rating agencies Standard & Poor's and Fitch Ratings, still with a stable outlook. These ratings are encouraging when viewed in comparison with the rest of the sector. (As at March 2015)

The popularity of the Cooperative Financial Network in the market is clearly demonstrated by the fact that its membership has been continuing to grow 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 investors' attention to the market advantages associated with cooperative membership. In 2014, the German cooperative banks gained 312,000 members, bringing the total to over 18 million as at December 31, 2014.

Financial performance

The Cooperative Financial Network's **net interest income,** traditionally its biggest source of income, amounted to €20,047 million and was therefore largely unchanged on the strong prior-year level of €20,010 million thanks to an encouraging increase in the volume of customer business. This was a respectable result given the sustained low level of interest rates accompanied by a worsening of margins and a competitive market environment.

Allowances for losses on loans and advances decreased from €774 million in 2013 to €299 million in 2014. The reason for this was the encouraging decline in the number of personal and corporate insolvencies. Companies benefited from Germany's favorable economic conditions and continually strengthened their capital buffers. Another factor was the reduction in the interest burden resulting from low interest rates.

Compared with the previous year, **net fee and commission income** went up by 8.0 percent to €5,467 million. The increase primarily resulted from improved contributions from securities and funds business and from payments processing.

The Cooperative Financial Network's **gains and losses on trading activities** in 2014 came to a net gain of €752 million compared with a net gain of €507 million for 2013. As in previous years, investment and risk management products were the main contributors to the gains achieved in business with corporate and institutional customers.

The level of **gains and losses on investments** amounted to a gain of €148 million, whereas there had been a loss of €523 million in 2013. This was primarily the result of selling securities that had been impaired in previous periods. The prior-year figure had included losses on disposals and impairment losses in connection with securities.

Other gains and losses on valuation of financial instruments declined from a gain of €1,077 million in 2013 to a gain of €435 million in the reporting year. This reduction was attributable to a fall in positive effects from the remeasurement of bonds of eurozone peripheral countries.

Net income from insurance business improved significantly in 2014, rising by 92.3 percent to €1,281 million. This change was predominantly the result of a rise in premiums earned and a significantly higher gain under gains and losses on investments held by insurance companies, although some of the gains were offset by higher insurance benefit payments.

Increased regulatory requirements and salary adjustments in relation to collective pay agreements were among the reasons why **administrative expenses** rose slightly in the year under review, going up by 2.5 percent to €16,895 million (2013: €16,486 million).

Income taxes amounted to €2,848 million in 2014 (2013: €2,691 million), with most of this amount (€2,508 million) attributable to current income taxes. This again underlines the particular importance of the Cooperative Financial Network for Germany's regional authorities by virtue of it being one of the largest municipal tax payers.

The **net profit** for 2014 after tax amounted to €7,807 million, compared with €6,862 million in 2013.

There was an improvement in the Cooperative Financial Network's **cost/income ratio** owing to the aforementioned increases in income. The ratio for 2014 was 60.7 percent, compared with 61.5 percent in 2013.

Financial performance

	2014 € million	2013 € million	Change (percent)
Net interest income	20,047	20,010	0.2
Allowances for losses on loans and advances	–299	–774	–61.4
Net fee and commission income	5,467	5,061	8.0
Gains and losses on trading activities	752	507	48.3
Gains and losses on investments	148	–523	>100.0
Other gains and losses on valuation of financial instruments	435	1,077	–59.6
Net income from insurance business	1,281	666	92.3
Administrative expenses	–16,895	–16,486	2.5
Other net operating expense/income	–281	15	>100.0
Profit before taxes	**10,655**	**9,553**	**11.5**
Income taxes	–2,848	–2,691	5.8
Net profit	**7,807**	**6,862**	**13.8**

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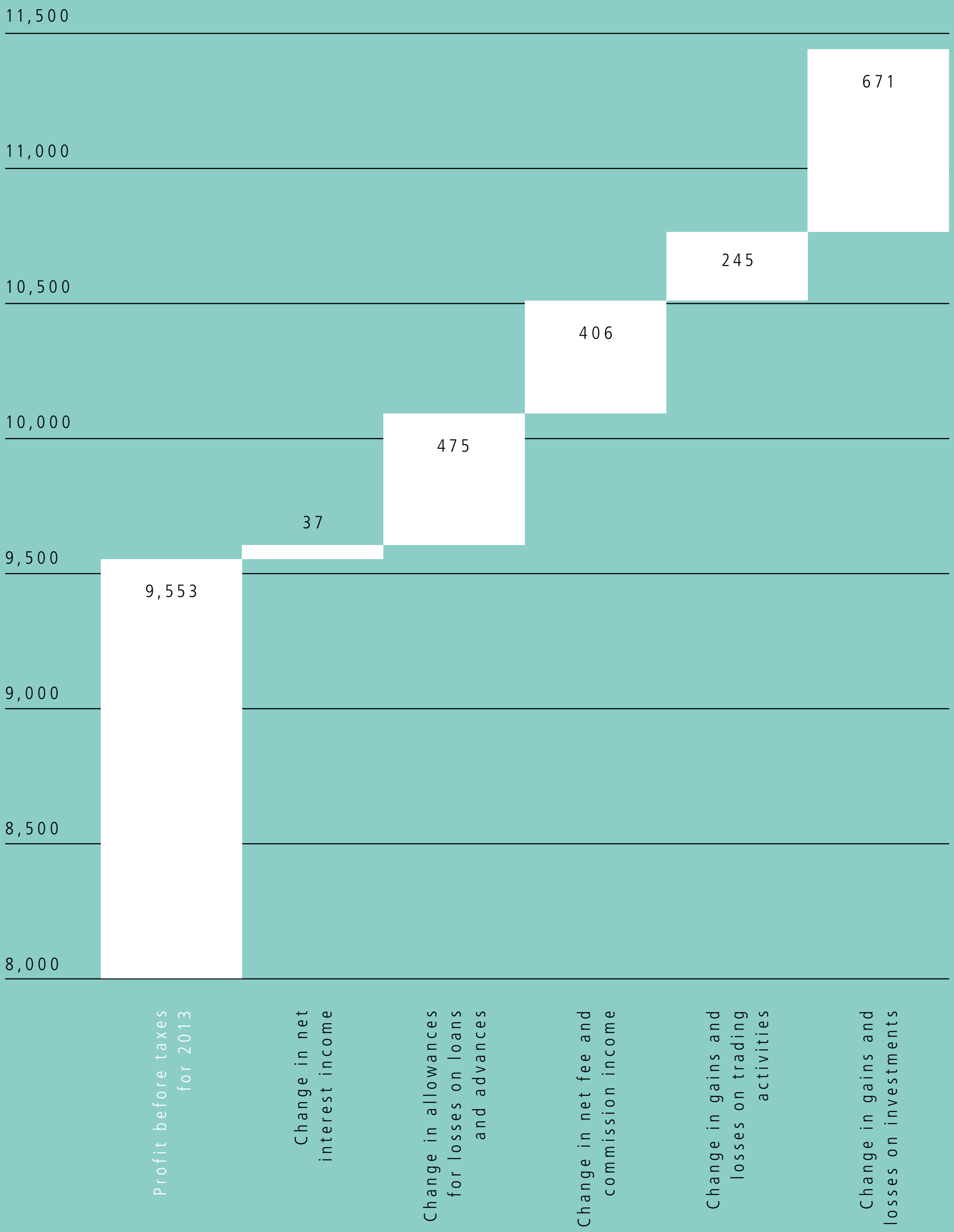
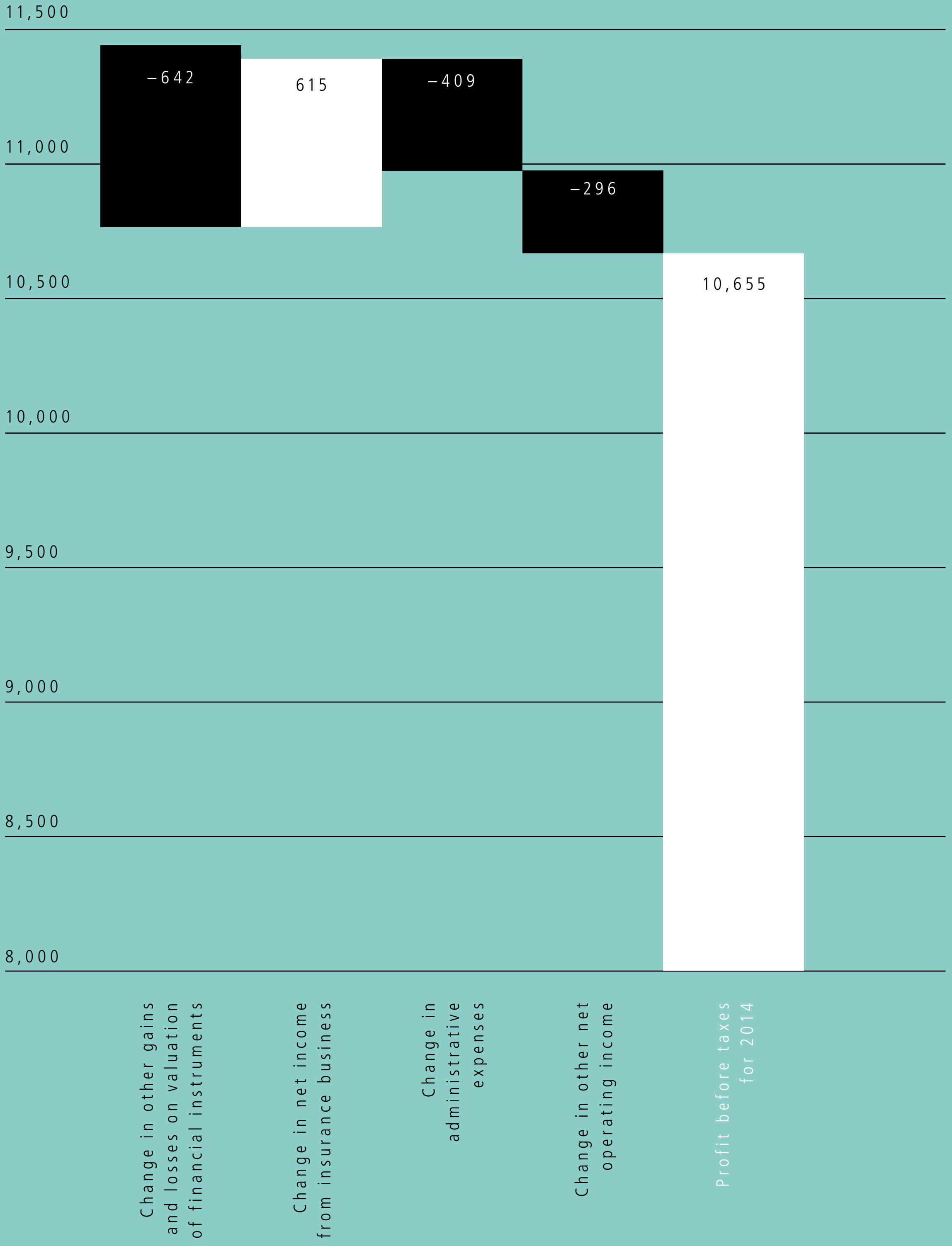
Breakdown of change in profit before taxes by income statement items

€ million




11,500
11,000
10,500
10,000
9,500
9,000
8,500
8,000
−642
615
−409
−296
10,655
Change in other gains and losses on valuation of financial instruments
Change in net income from insurance business
Change in administrative expenses
Change in other net operating income
Profit before taxes for 2014

Financial position

The **total assets** of the Volksbanken Raiffeisenbanken Cooperative Financial Network had risen by €55.2 billion to €1,135.8 billion as at December 31, 2014 (December 31, 2013: €1,080.6 billion). The **volume of business** had increased by 6.1 percent to €1,446.5 billion as at December 31, 2014.

Of the total assets, 59.2 percent was attributable to the primary banks (December 31, 2013: 59.3 percent), 30.5 percent to the DZ BANK Group (December 31, 2013: 30.6 percent), and 7.2 percent to the WGZ BANK Group (December 31, 2013: 7.2 percent).

On the **assets** side of the balance sheet, loans and advances to customers grew by 3.4 percent to €670.7 billion (December 31, 2013: €648.5 billion). This rise – which has continued for years now – was again predominantly attributable to the primary banks in 2014. They achieved a gain of 4.1 percent, similar to the previous year's gain of 4.1 percent. Lending to corporate customers (loans to non-financial companies and self-employed people) by the local cooperative banks advanced by 3.7 percent, whereas the market as a whole declined by 0.8 percent. The volume of lending to retail customers rose by 3.9 percent. As anticipated, long-term home finance was the growth driver in the retail customer business.

Financial assets held for trading grew by €3.7 billion or 6.3 percent to €61.2 billion in the reporting year. This rise was mainly due to an increase in derivatives (positive fair values) of 29.9 percent to €31.9 billion and an increase in securities of 12.1 percent to €17.2 billion, while loans and advances fell by €5.5 billion to €11.7 billion.

On the **equity and liabilities** side of the balance sheet, deposits from customers grew again, from €693.2 billion as at December 31, 2013 to €713.5 billion as at December 31, 2014. Deposits from banks also increased, climbing by 7.6 percent to reach €103.5 billion at the end of the year.

Corresponding to the change in financial assets held for trading, financial liabilities held for trading rose by €8.5 billion, or 19.1 percent, to €52.8 billion. Whereas the liabilities reported under financial liabilities held for trading decreased by €0.5 billion to €9.8 billion, derivatives (negative fair values) advanced by a substantial 35.5 percent to €32.2 billion.

The equity attributable to the Cooperative Financial Network remained at a robust level, increasing by 9.0 percent to €86.5 billion (2013: €79.4 billion). The main reason for this rise was the use of profits generated in 2014 to boost reserves.

Regulatory capital ratios in accordance with the CRR

Calculated in accordance with the Capital Requirements Regulation (CRR), which came into effect on January 1, 2014, the capital of the Cooperative Financial Network amounted to €81.6 billion as at December 31, 2014. Tier 1 capital stood at €62.1 billion.

These amounts were calculated as at the balance sheet date using the extended aggregated calculation pursuant to article 49 (3) CRR in conjunction with article 113 (7) CRR.

The total capital ratio came to 15.1 percent, while the Tier 1 capital ratio was 11.5 percent. For information only, the material Tier 1 capital ratio (including the reserves pursuant to section 340f German Commercial Code (HGB)), was 13.8 percent. The Cooperative Financial Network therefore has strong capital adequacy.

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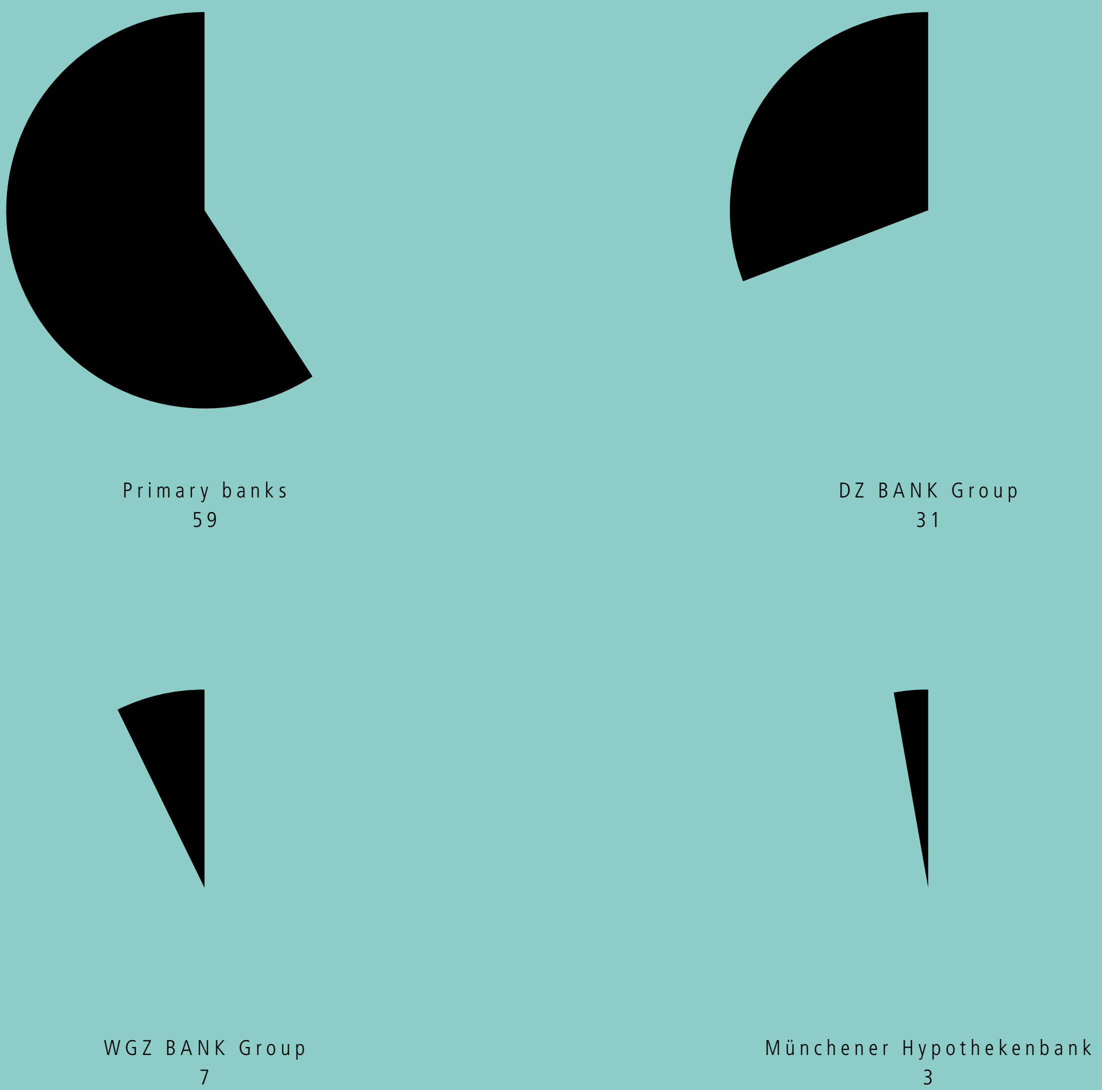
Breakdown of the total assets held in the Volksbanken Raiffeisenbanken Cooperative Financial Network as at December 31, 2014

(percent)



Operating segments of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Bank operating segment

The **net interest income** of the Bank operating segment declined slightly, falling by €179 million to €1,917 million in 2014 (2013: €2,096 million). Net interest income from corporate banking was unable to maintain its prior-year level due to growing competition, the resulting pressure on margins, and the level of demand for corporate loans, which remained muted. There was uncertainty among many corporate customers, particularly in view of the instability in some regions of the world, such as Ukraine and the Middle East. As a result, German companies' investing activities fell short of expectations, despite the stable domestic economy and historically low interest rates. Many businesses continue to perform well in terms of income and liquidity and are thus able to fund capital spending from their own resources.

In the development lending business, the volume of new business in the reporting year did not match the level achieved in 2013. Both the contraction in demand for borrowing from corporate customers and the cutbacks in grants in certain development segments had an adverse impact. On the other hand, the residential construction business with retail customers held steady in 2014.

Net interest income in the syndicated business/ renewable energies product field rose sharply in the year under review. The first half of 2014 was influenced by the effect of spending brought forward because of the imminent amendment to the German Renewable Energy Sources Act (EEG) on August 1, 2014. In consequence, the second half of the year was more subdued. In the acquisition finance business, the high degree of liquidity in bond markets led to loans being repaid. This and the selective granting of new lending, especially outside Germany, led to a reduction in the size of the portfolio. There was a small year-on-year increase in net interest income from international trade and export business and from project finance business.

Liquid markets and very low interest rates, together with increasing competition in the sector, led to unexpected high redemptions of transport finance loans. The resulting increase in liquid assets had an adverse impact on net interest income because the redemptions could only be partially offset by additional new business, and also only after a time lag. Although global freight and passenger transport was bolstered during 2014 by the strong growth of the US economy, it was at the same time, however, also adversely impacted by the weak pace of economic growth in the emerging markets and in the eurozone resulting from the geopolitical crises and conflicts, which intensified during the course of the year. 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 declined, above all due to the ongoing low interest rate situation and the associated increase in competition and pressure on margins. With Germany's economic growth lagging behind expectations, companies showed greater reluctance to invest. Furthermore, there was only a slight improvement in the pace of growth among small and medium-sized enterprises (SMEs). Capital spending requirements were also frequently satisfied from companies' own resources. Nonetheless, there was encouraging growth in the volume of leases originated across the sector in Germany last year. The further increase in the proportion of capital investment financed by leasing underlines the importance of the German leasing industry as a valued investment partner, particularly for SMEs.

Allowances for losses on loans and advances declined from €416 million in 2013 to €147 million in 2014, largely due to the stable domestic economy in Germany.

Net fee and commission income came to €576 million in 2014 and was therefore slightly higher than in the previous year (2013: €567 million). The lending business and payments processing saw year-on-year increases in this income. The contribution from international business was down slightly compared with the previous year. The higher contribution from the securities business mainly resulted from lower reallowance expenses. Net fee and commission income within the transport finance lending business reflected the muted level of global growth and the associated impact on international freight and passenger transport markets.

The Bank operating segment's gains and losses on trading activities in 2014 came to a net gain of €570 million compared with a figure of €269 million for 2013. The considerable narrowing of spreads that had created an adverse effect in 2013 was not repeated to the same extent in 2014. Interest-rate-related increases in the value of cross-currency basis swaps were also reflected in gains and losses on trading activities last year. 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 in the Bank operating segment.

As in previous years, the **gains and losses on trading activities** in 2014 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. The main focus of sales to retail investors in 2014 was on capital preservation products (capital guarantees and partial protection) and structured interest-rate products.

The level of **gains and losses on investments** improved from a loss of €88 million in 2013 to a gain of €61 million in the reporting year. This improvement was predominantly due to disposals of securities categorized on the balance sheet as available-for-sale financial assets and to positive effects from the disposal of ABSs that had been impaired in previous periods.

Other gains and losses on valuation of financial instruments changed from a gain of €39 million in 2013 to a loss of €39 million in 2014, largely because of a year-on-year decline in gains and losses on derivatives used for purposes other than trading and a decline in the gains and losses on the valuation of non-derivative financial instruments using the fair-value option.

Administrative expenses went up by a marginal €23 million to €1,675 million in the period under review. This rise was caused by higher project costs on the back of increased regulatory requirements, growth in headcount, and salary adjustments.

The Bank operating segment's **profit before taxes** advanced by €293 million year on year to €1,096 million (2013: €803 million). The cost/income ratio improved from 57.5 percent in 2013 to 57.4 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 rose to €17,277 million from €17,083 million in 2013. The narrowing of margins in the deposit-taking and lending businesses caused by persistently low interest rates was offset by brisk customer business. The primary banks' lending business, which relies on a surplus of deposits, remained stable in 2014. Net interest income from consumer finance again rose substantially during the year under review. In what was a flat market for consumer finance, the Cooperative Financial Network successfully defended its share of this market despite cut-throat competition in terms of pricing. Reduced volume in LuxCredit foreign-currency lending led to a decline in net interest income.

Allowances for losses on loans and advances decreased from €291 million in 2013 to €174 million in 2014. The risk situation in this operating segment proved stable, above all because of benign economic trends in Germany and a drop in the number of insolvencies.

Net fee and commission income in the Retail operating segment advanced slightly, rising from €5,239 million in 2013 to €5,542 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.

Gains and losses on trading activities amounted to a gain of €210 million, a small year-on-year decrease of €17 million.

The level of **gains and losses on investments** improved by a significant €462 million, resulting in a gain of €54 million in the reporting year (2013: loss of €408 million).

Other gains and losses on valuation of financial instruments in the Retail operating segment amounted to a gain of €12 million (2013: gain of €21 million), essentially due to losses (2013: gains) arising from changes in the value of cross-currency basis swaps used to hedge long-term liquidity risks in foreign currency.

In terms of costs, the primary banks made further efforts to become more efficient. Nevertheless, **administrative expenses** in the Retail operating segment went up by a total of 2.4 percent to €14,880 million in the year under review, the main reason being higher staff expenses resulting from regulatory requirements and extensive reporting obligations, but also from recent collectively agreed pay rises.

The Retail operating segment's **profit before taxes** rose from €7,346 million in 2013 to €7,845 million in 2014. The cost/income ratio in 2014 was 65.0 percent (2013: 65.5 percent).

Real Estate Finance operating segment

The **net interest income** of the Real Estate Finance operating segment was virtually unchanged year on year at €1,552 million (2013: €1,554 million). The marked rise in demand for advance and interim financing led to an increase in interest income in the non-collective home finance business and compensated for the lower average interest rates. In the home savings loans business, a smaller portfolio and the drop in average interest rates led to a fall in interest income. Overall, net interest income from building society operations in 2014 was slightly down compared with the previous year.

There was a countervailing change in net interest income in the mortgage lending business. Against the backdrop of stable economic and political conditions, the transaction volume for commercial real estate in Germany reached a new record level of €39.8 billion in the reporting year. The critical contributing factors were the fundamentally favorable environment and, above all, the period of historically low interest rates, which focused investor attention on the stability of a real-estate investment. At the same time, German banks as well as institutional and foreign investors were becoming increasingly drawn to the highly attractive commercial real-estate market in Germany.

Allowances for losses on loans and advances in the Real Estate Finance operating segment decreased from minus €34 million in 2013 to €9 million in 2014.

Net fee and commission income increased by €146 million to a loss of €146 million in 2014 (2013: loss of €292 million). This improvement was essentially due to a change in the way that accruals are recognized for fees and commissions in building society operations.

Gains and losses on investments amounted to a small gain of €8 million in 2014 (2013: loss of €20 million). Whereas the prior-year figure had mainly comprised losses that were realized in connection with the reduction in the volume of risk-weighted asset equivalents in the mortgage lending business, the figure for 2014 was boosted by a gain from disposals of mortgage-backed securities that had been impaired in previous periods.

Other gains and losses on valuation of financial instruments equated to another very strong gain of €454 million in the reporting year (2013: gain of €1,021 million). The prior-year figure had been primarily influenced by gains on bonds from countries on the periphery of the eurozone in the mortgage lending business. The gain reported for 2014 reflects the weaker narrowing of credit spreads compared with 2013 on bonds from the peripheral countries of the eurozone.

Administrative expenses rose to €735 million in 2014 (2013: €693 million) as a consequence of higher staff expenses and the recognition of provisions.

Profit before taxes in the Real Estate Finance operating segment fell by a substantial €424 million to €1,181 million in the reporting year (2013: €1,605 million). This decrease was caused, to a large extent, by the year-on-year decline in other gains and losses on valuation of financial instruments in the mortgage lending business.

Insurance operating segment

Premiums earned grew by €1,234 million to €13,927 million, reflecting the integral position held by R+V within the Cooperative Financial Network. The already very high level of premiums earned in 2013, which had been boosted by significant growth stimulus, was therefore exceeded again. Gross premiums written increased to €14,040 million in 2014, up by 10.1 percent on the impressive level of premiums generated in 2013 of €12,753 million. Premiums earned in the life insurance and health insurance business grew appreciably year on year, advancing by 12.4 percent. This increase was mainly derived from unit-linked life insurance and the R+V-PrivatRente IndexInvest product. In the non-life insurance business, premiums rose by 4.2 percent, with most of this growth being generated in the vehicle insurance and corporate customer businesses. In the inward reinsurance business, premiums earned climbed by 15.8 percent.

Gains and losses on investments held by insurance companies and other insurance company gains and losses went up by 53.3 percent to a net gain of €4,481 million (2013: gain of €2,923 million). The substantial year-on-year fall in long-term interest rates in 2014 contrasted with a marked increase in corresponding interest rates in 2013. Equities markets relevant to R+V improved during the course of 2014, but the gains had been even greater in 2013. Furthermore, exchange rate movements were far more favorable for R+V than in the previous year. In the overall gains and losses on investments held by insurance companies, the aforementioned market trends led to higher realized and unrealized gains and to higher foreign exchange gains, primarily as a result of the strengthening of the US dollar and pound sterling. However, 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, the associated change in the level of gains on investments held by insurance companies only partially affected the level of net income from insurance business in the reporting year.

Insurance benefit payments rose by 15.8 percent to €15,264 million (2013: €13,181 million), primarily reflecting the higher amount of premiums earned and the increase in gains on investments held by insurance companies compared with 2013.

In line with the growth in premiums earned and greater gains on investments held by insurance companies, higher additions were made to insurance liabilities at companies offering personal insurance. In non-life insurance, claims expenses stabilized during the reporting period, whereas in 2013 the direct insurance business had been adversely affected by major claims resulting from storms and floods. In inward reinsurance, losses caused by major claims – especially those resulting from natural disasters – were within expectations.

Insurance business operating expenses incurred in the course of ordinary business activities went up by 7.4 percent to €2,284 million (2013: €2,126 million).

Profit before taxes in the Insurance operating segment climbed by €604 million to €856 million in the reporting year (2013: €252 million).

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Management Report 2014

Human Resources Report

The world of work is becoming increasingly technology-driven and digitized. Social, legal, and regulatory changes are also having a growing impact. Simple tasks and activities are more and more likely to be replaced by technological or digital solutions. At the same time, new highly specialized occupations are emerging. But although demand for specialists is rising, the supply of skilled workers is depleting as a result of demographic change. Companies will find it increasingly difficult to recruit qualified, motivated employees as each year passes.

The members of the Cooperative Financial Network have been working hard to counteract these changes. This has enabled them to identify potential shortages of personnel at an early stage and develop strategies for resolving such situations. Appropriate skills training for existing employees plays an important role in ensuring they are prepared for dealing with future requirements.

Inhouse training and development for the next generation remains a mainstay of the local cooperative banks' personnel strategies. The ratio of trainees to other employees of the local cooperative banks, the DZ BANK Group, and the WGZ BANK Group was 8.0 percent in 2014 (see page 23), which is high compared with the rest of the sector. 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. This attractiveness is backed up by surveys: In 2014, for example, the local cooperative banks were once again voted one of Germany's top 100 employers in the trendence schoolchild barometer.

Employment in local cooperative banks, the DZ BANK Group, or the WGZ BANK Groupis also becoming increasingly appealing to university graduates. This can be seen from the growth in the proportion of employees with a degree, which rose from 7.9 percent in 2013 to 8.4 percent in 2014 (see page 24). And the list of Germany's top 100 employers in the trendence graduate barometer indicates that the local cooperative banks have a good reputation among future graduates, too. In 2014, the banks again secured a place on this list, which is voted for by around 14,000 students who are approaching their final exams.

The cooperative banks are aware of their important role as a provider of employment and training in their region. They are supported by a wide range of training and development activities offered for employees by regional associations and academies. One of these is the option of combining vocational training with a university degree. The proportion of trainees who have chosen this dual scheme has held steady at over 8.0 percent for many years.

Overall, employees appreciate the development opportunities on offer, which strengthen their loyalty to the company. This is also reflected in their length of service. Almost a third of employees have worked for 'their bank' for more than 25 years (see page 25).

The number of people employed by the entities in the Cooperative Financial Network totaled 190,544 as at December 31, 2014 (see page 26).

Our objective will continue to be to increase the local cooperative banks' attractiveness as a place to work and to highlight their unique selling proposition as a local employer.

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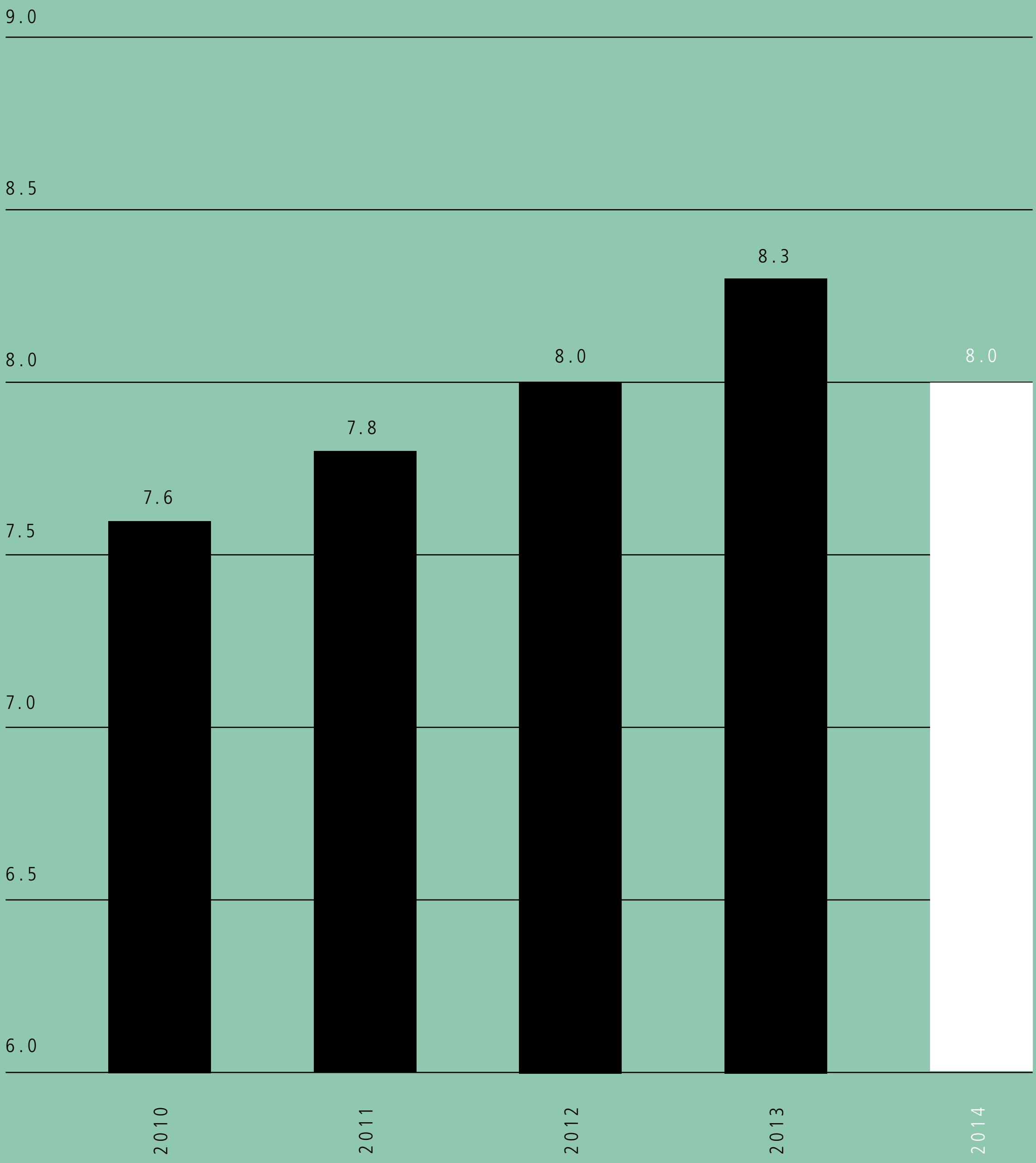
Ratio of trainees to other employees*

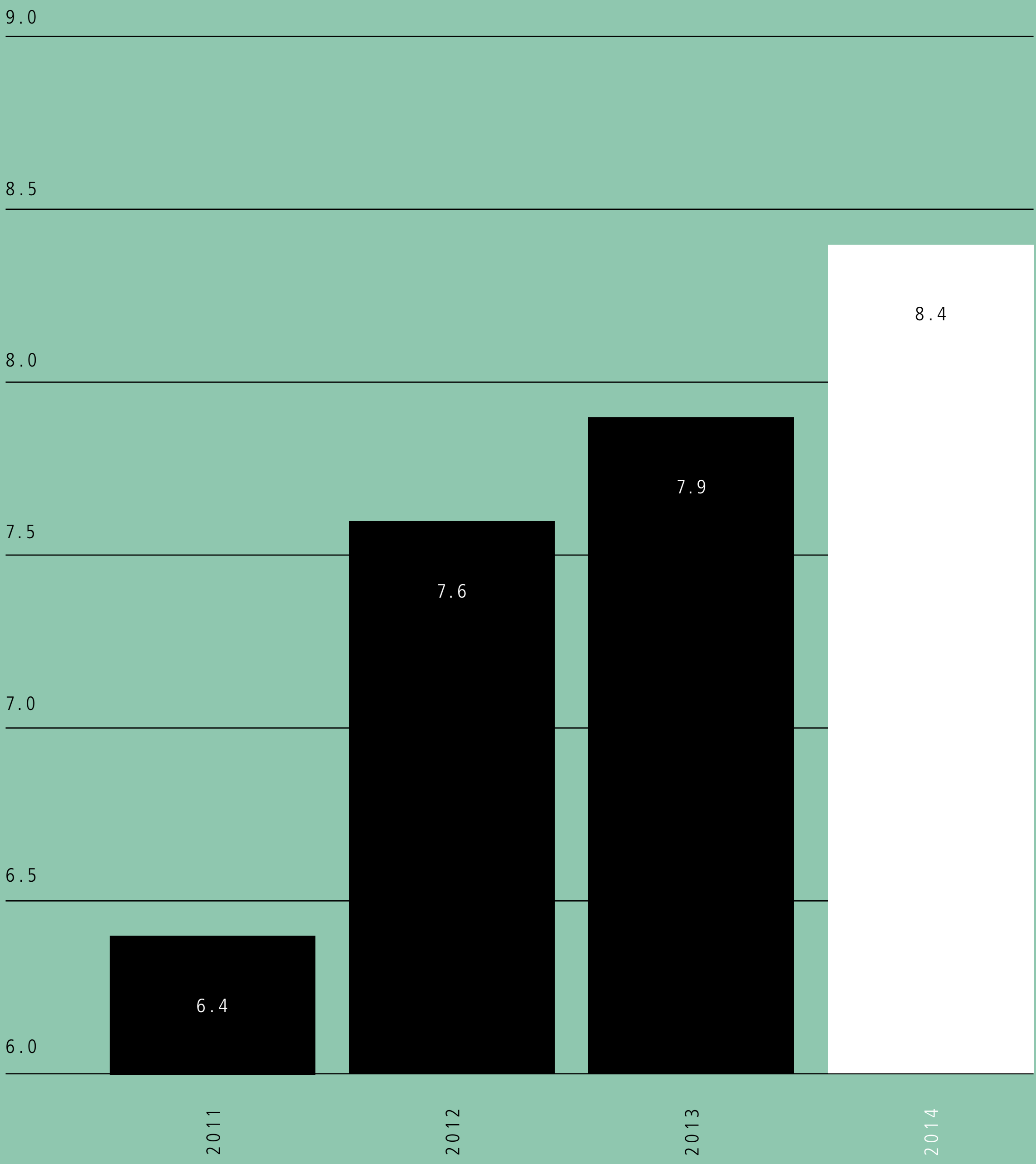
(percent)



* Local cooperative banks, central institutions

Proportion of employees with a degree*

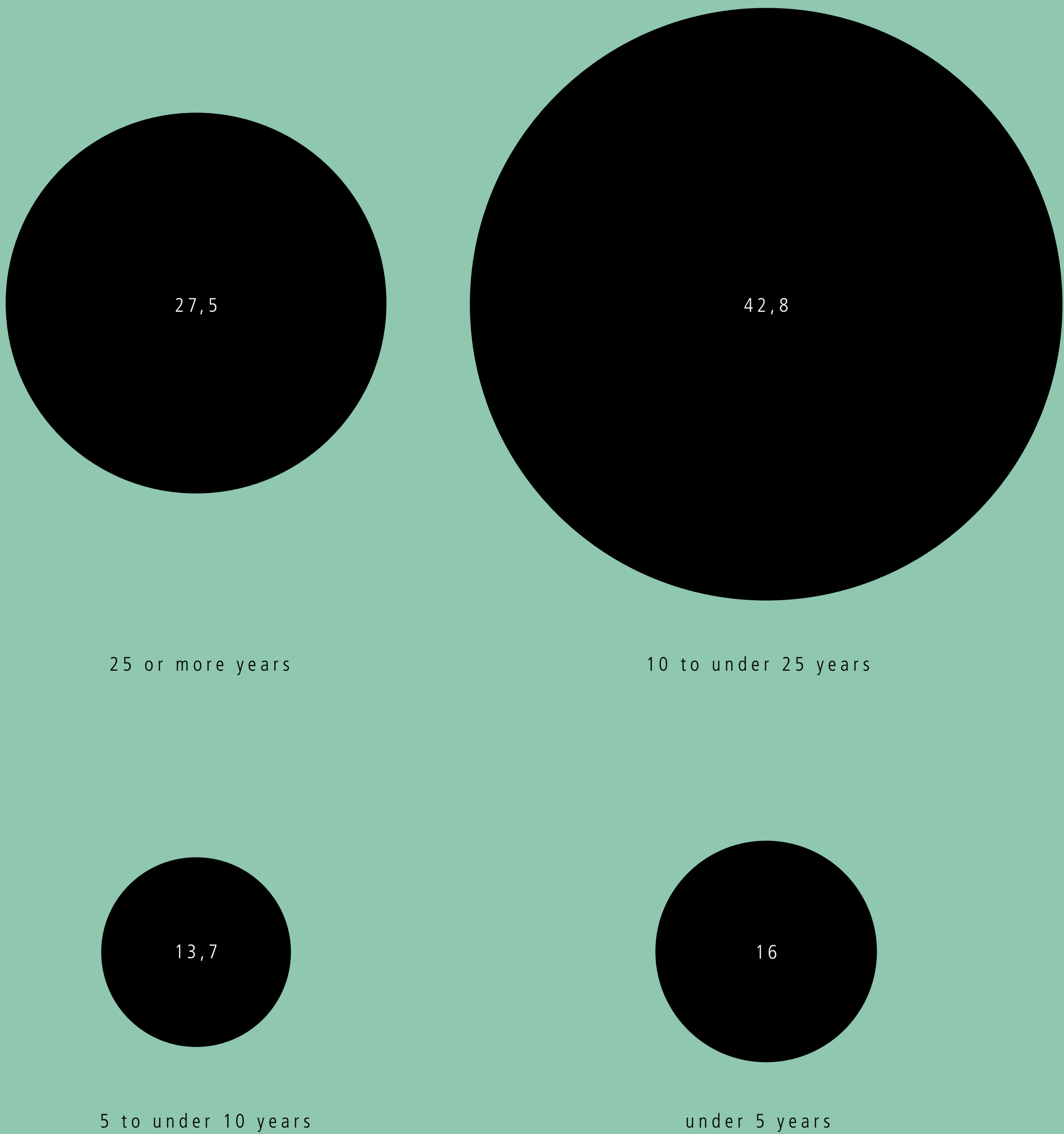
(percent)



*Volksbanken Raiffeisenbanken Cooperative Financial Network

Staff members' years of service

(percent)



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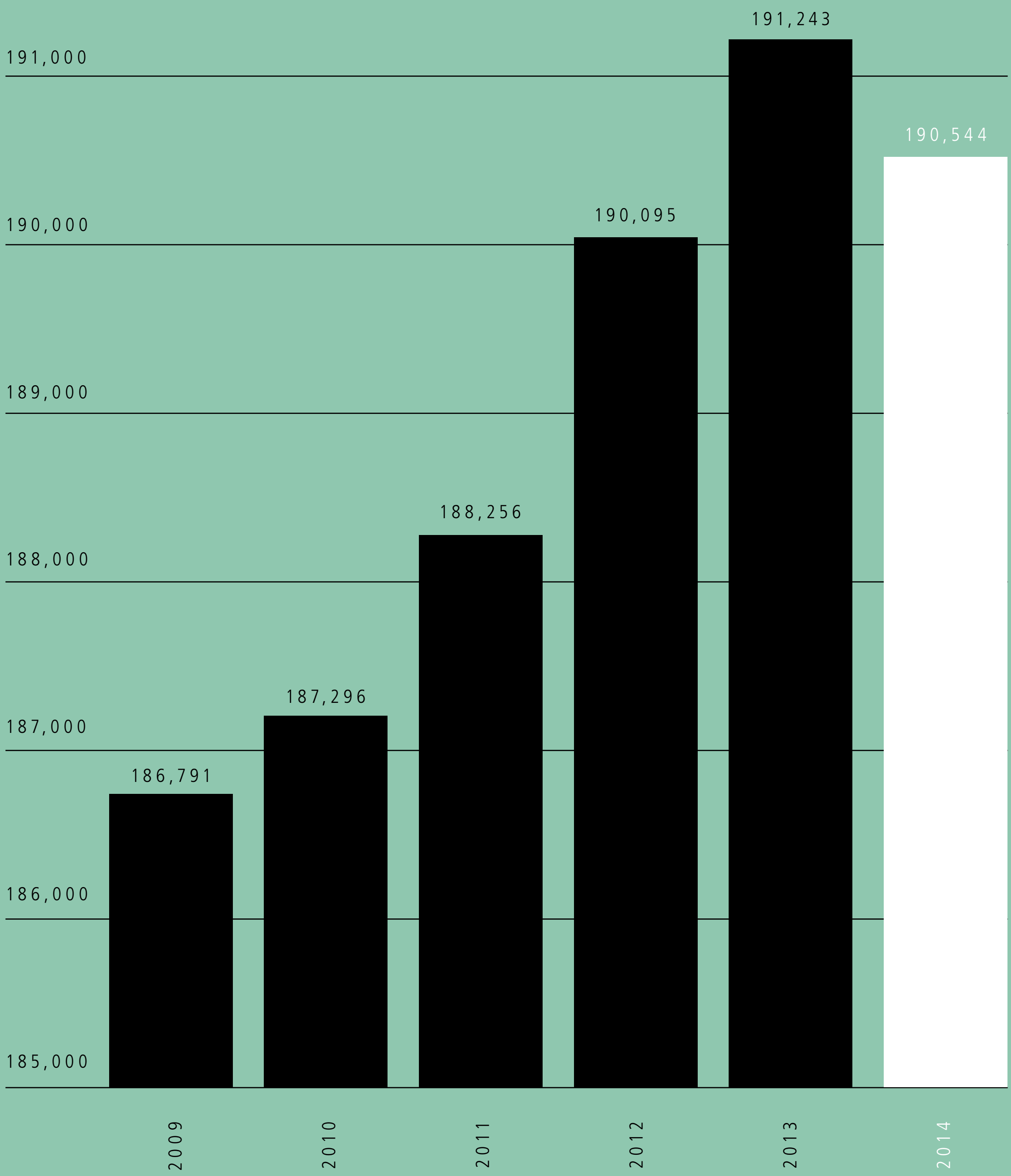
Number of employees*



* Local cooperative banks, central institutions

Management Report 2014

Risk Report

The Volksbanken Raiffeisenbanken Cooperative Financial Network again enjoyed a very successful year despite all the adversities that it faced in the market, enabling it to continue carrying out its consistent and stabilizing role in the German financial sector. This positive impact is attributable to its sustainable business model. The protection scheme run by the BVR 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 protection scheme 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 more than 80 years ago, 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 protection scheme will continue to exist under the new regulatory requirements laid down in Germany's new deposit insurance legislation (EinSiG, applicable from July 3, 2015).

The credit ratings of the Cooperative Financial Network were unchanged until December 31, 2014. Standard & Poor's rated it as AA-, while Fitch awarded A+. In March 2015, Fitch Ratings raised this credit rating to AA-. The strength of the Cooperative Financial Network is underlined by the fact that the credit ratings are based solely on the individual credit ratings and not on assumptions about the prospect of government support. 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 was specified expressly as a bank-protection scheme in section 12 of the legislation implementing the EU deposit guarantee schemes and investor-compensation schemes directives, which still applied as at the reporting date having come into force in 1994 and having been modified most recently in 2010. From August 1, 1998, the protection scheme has been therefore subject to monitoring by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [Federal Financial Supervisory Authority] (section 12 (1) in conjunction with section 7 (3) of the German Deposit Guarantee and Investor Compensation Act, EAEG); as a result, the member institutions did not need to participate in any statutory compensation scheme in 2014.

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. The basic structures of the work of the protection scheme have remained in place since Germany's deposit insurance legislation (EinSiG) came into effect on July 3, 2015.

In 2014 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 1,062 institutions of the Cooperative Financial Network belonged to the BVR protection scheme as at December 31, 2014 (December 31, 2013: 1,093 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. In doing so, the protection scheme is applying the concept used to analyze large banks, taking into account the risks resulting from the size category of the affiliated institutions.

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

Besides assessing each individual member institution, the BVR protection scheme 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 and financial performance, 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.

The overall results of the classification on the basis of the 2013 annual financial statements were virtually unchanged on the strong results achieved in 2012. One of the reasons why the results remained at a good level was that net interest income was stable despite the low interest rates and, in fact, rose slightly thanks to sustained growth in retail and commercial lending. Risks in the lending business also remain fairly small. Furthermore, the assessments show that there continues to be a slightly higher proportion of small and medium-sized institutions in the upper classes A++ to A.

The rate of contributions paid into the protection scheme's guarantee fund was held at 0.12 percent of the assessment basis for 2014.

Risk management and monitoring

Preventive management

The results of the BVR's classification process also provide a basis for the BVR protection scheme's systematic preventive management. Preventive management continues to be used when a bank is classified as B- or lower on the basis of its annual financial statements, but sometimes earlier. In addition, other key figures and data have increasingly been used over the past few years so that any abnormalities at institutions can be identified at an early stage. Before the prevention phase, the monitoring of conspicuous institutions is playing an ever more significant role in the early analysis of institutions. This underpins the long-term trend of shifting the focus of the protection scheme's work away from restructuring and toward end-to-end preventive management that now also includes monitoring. Significantly more institutions are now in the preventive phase of restructuring rather than the support phase.

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

Restructuring management

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

Restructuring measures are provided and carried out in accordance with the “Handbook for the Realignment and Restructuring of Cooperative Banks”, which was developed in 2012, has essentially remained unchanged since then, and has proved successful in practice. It 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. First-time supporting measures were not carried out for any affiliated institutions in 2014. Costs were therefore solely incurred in connection with 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 not only lower than expected, they were also – on a net basis – smaller than the repayments under debtor warrant obligations and other guarantee release obligations. This again meant that the protection scheme's capital base was further strengthened in 2014 and the guarantee fund resources at its disposal were increased again.

Outlook for the protection scheme

In financial terms, the protection scheme expects to maintain its positive performance in 2015.

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 2015. At its meeting on November 27, 2014, the BVR Association Council voted unanimously for the rate of contributions to be paid into the guarantee fund for 2015 by the member banks to remain at its 2014 level of 0.12 percent, this resolution being based on the protection scheme's statutes. This means that the total contributions received for 2015 are likely to be at the same level as in 2014. 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 2014, the protection scheme's work on regulatory and legislative matters focused on examining various initiatives launched by the European Commission to regulate the European banking sector and on dealing with the Cooperative Financial Network's core issue of bank protection during the closing discussions on the EU Deposit Guarantee Schemes Directive. Other activities in this area in 2014 included drawing up amendments to the legal basis of the existing cooperative deposit guarantee fund that were then implemented in 2015. The basis was also created in the articles of association for the new, officially recognized cooperative deposit guarantee fund. This required extensive preparatory work on designing the new 'dual system' of bank protection and for the general meeting of the BVR's members on May 6, 2015, which voted on this matter.

BVR Institutssicherung GmbH (BVR-ISG) was then set up in order to meet the new Europe-wide requirements. By virtue of its function as a bank protection scheme as specified in its statutes, the BVR-ISG has been officially recognized as a deposit insurance system and fulfills the statutory remit of ensuring that depositors affected by a bank's insolvency are compensated in accordance with national deposit insurance legislation. In addition, it is legally authorized to take measures to avert any threats posed to a bank's continued existence as a going concern, i.e. to prevent its insolvency. The BVR protection scheme will continue to exist alongside the BVR-ISG. This 'dual system' of an officially recognized deposit insurance scheme supplemented by a voluntary bank-related protection system will ensure stability and confidence in the Cooperative Financial Network going forward.

Tools and methods for identifying and measuring risk

Development of the VR-Control concept has provided the cooperative primary institutions with a process that ensures the consistent measurement of market risk and credit risk across the entire business of each institution. In line with their individual business strategies and in accordance with the Minimum Requirements for Risk Management (MaRisk), the local cooperative banks choose which of the available methods to use.

A 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 developed under the leadership of the BVR is available for measuring credit risk in own-account investing activities. 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 portfolio model and its parameters are validated regularly.

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

Risk capital management

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

The 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 total capital ratio.

Changed requirements resulting from Basel III and 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' (CRD IV) and the 'associated Capital Requirements Regulation' (CRR).

The CRD IV package introduced stricter offsetting and measurement rules, which had a significant impact on the calculation of Tier 1 capital and risk-weighted assets. This means that the Tier 1 capital ratios for 2013 cannot be directly compared with the 2014 ratios. Besides applying the stricter definition for their Tier 1 capital ratios, the banks must meet revised standards for liquidity coverage ratios. The regulatory changes are being implemented successively between now and 2021.

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 at individual institution level is a mandatory disclosure from 2015, a decision will not be reached until at least 2017 about whether there will be a minimum capital requirement for the leverage ratio from 2018 and, if so, what it will be. Delaying the decision means it can be based on the experience gained in the interim.

Hand in hand with the central institutions, associations, and computing centers, the BVR is continuing to closely examine the tighter regulatory requirements and their consequences.

Capital adequacy

The consolidated capital ratios for 2014 were the first to be calculated using the extended aggregated calculation pursuant to article 49 (3) in conjunction with article 113 (7) CRR. The ratios for the previous year were calculated as at December 31, 2013 in accordance with the rules of the Solvency Regulation (SolvV), which continued to apply until that date.

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

The Cooperative Financial Network's regulatory total capital ratio was 15.1 percent as at December 31, 2014 (December 31, 2013: 16.1 percent). Overall, regulatory capital decreased by €1.9 billion to €81.6 billion. This reduction essentially reflects the new method of calculating capital adequacy based on the CRR rules.

The Tier 1 capital ratio was virtually unchanged at 11.5 percent (December 31, 2013: 11.4 percent). For information only, the material Tier 1 capital ratio, i.e. including the reserves pursuant to section 340f HGB, was 13.8 percent. The Cooperative Financial Network's capital is predominantly held by the primary institutions.

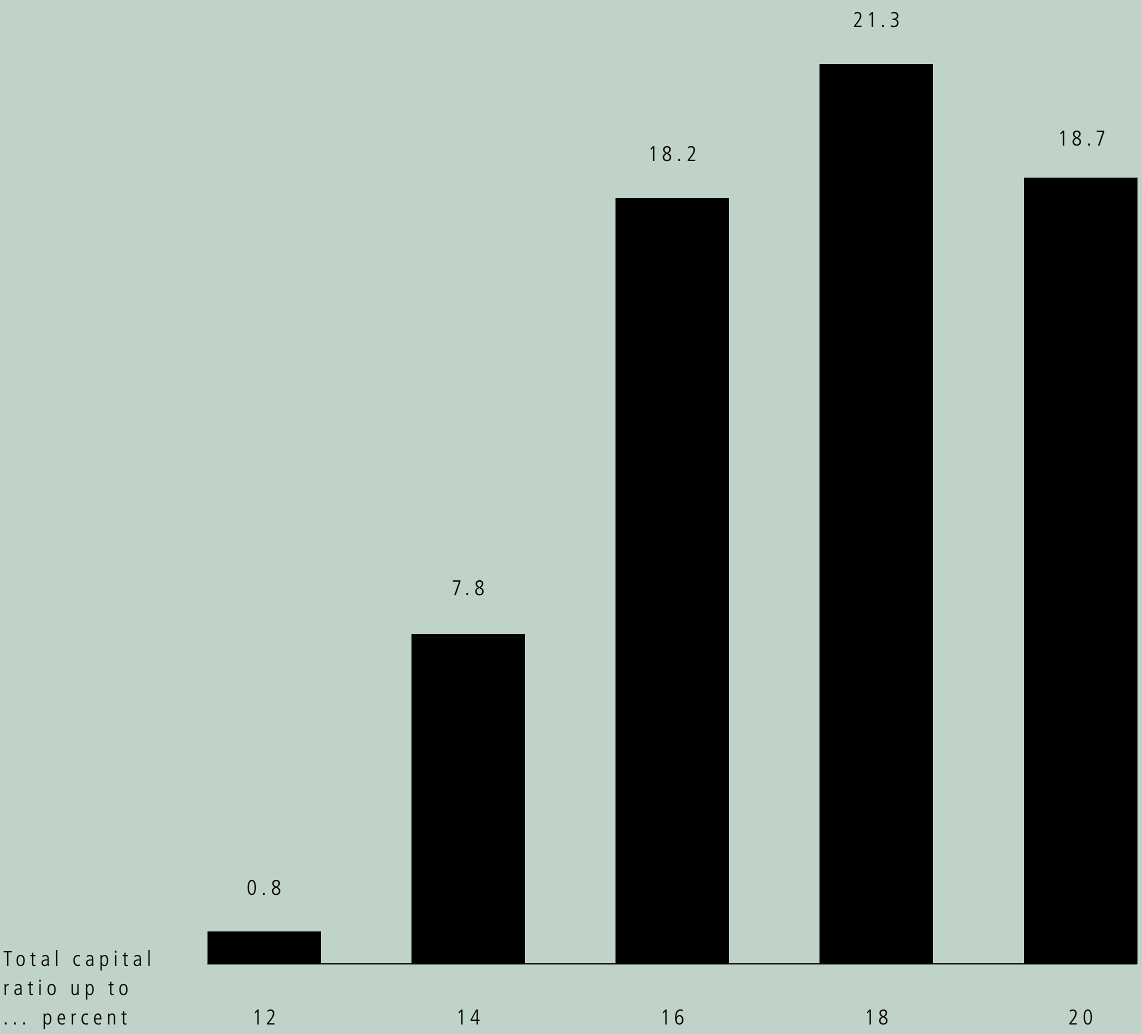
Capital requirements amounted to €43.3 billion as at December 31, 2014 (December 31, 2013: €41.5 billion).

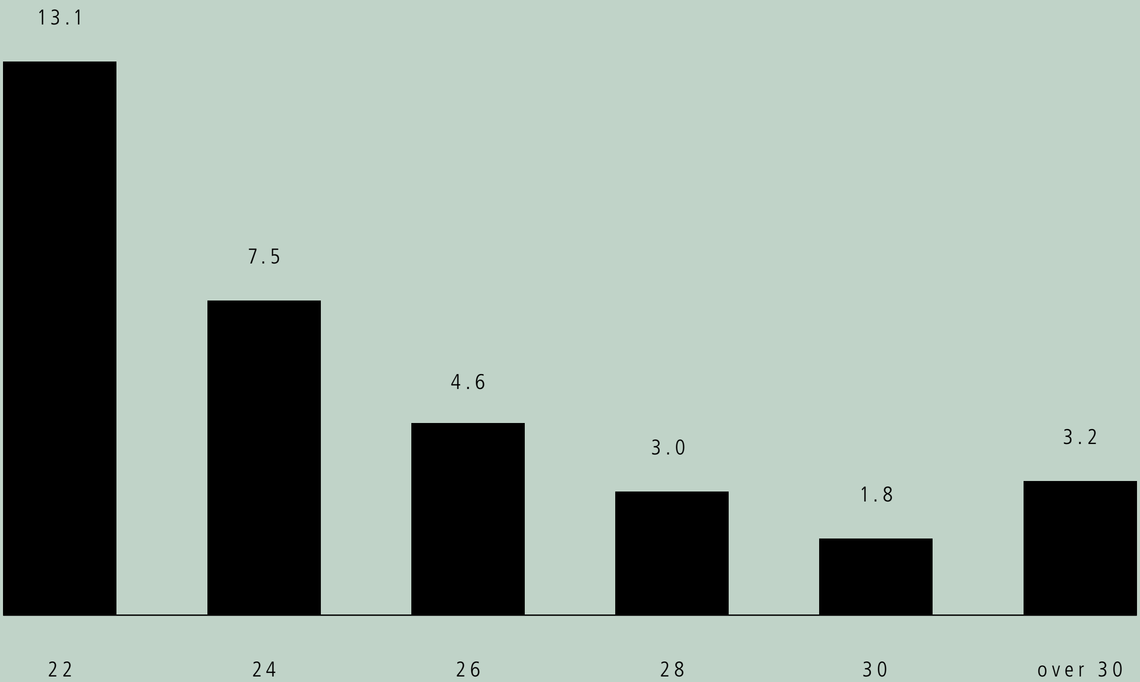
The protection scheme analyzes the regulatory capital ratios of each member bank. The following chart shows the distribution of total capital ratios in the Cooperative Financial Network as at the reporting date of December 31, 2014. It highlights the healthy level of capital adequacy of the individual banks. The unweighted average for the total capital ratio was 19.0 percent at the end of 2014.

The Cooperative Financial Network has healthy capital adequacy thanks to equity of €86.5 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.

Distribution of total capital ratios in the Cooperative Financial Network*

Proportion of institutions (percent)





* As at December 31, 2014

Credit risk, market risk, and liquidity risk

Credit risk

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

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

The Cooperative Financial Network registered further significant growth in its lending business in 2014. Lending to retail and corporate customers saw a substantial increase of 3.4 percent compared with 2013. A key factor here was again the rise in home loans and loans to businesses. The growth in corporate banking was predominantly driven by lending to companies in the services, energy, and mining sectors. Because of their regional roots, the local cooperative banks have established a strong foothold in the renewable energies market and provide financial support to companies in relation to projects for increased energy efficiency and for power generation from renewable sources.

Sustained demand for real-estate loans also led to an increase in the Cooperative Financial Network's long-term loans and advances in 2014. 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.

In 2014, expenses for allowances for losses on loans and advances declined by 61.4 percent to €299 million and therefore remained at a low level equating to 0.04 percent of the total lending volume. This indicates that the cooperative banks operate a healthy lending business overall.

The Cooperative Financial Network's exposures in respect of bonds from public-sector borrowers in countries particularly affected by the sovereign debt crisis remained at a manageable level, as was the case in previous years. The total carrying amount of these bonds came to €13.9 billion as at December 31, 2014 (December 31, 2013: €11.6 billion).

Market risk

Interest-rate risk has a significant influence on the banks' financial performance. Despite low interest rates in 2014, there was a small increase of 0.2 percent in the Cooperative Financial Network's net interest income. Given the persistently low level of interest rates and growing competition for deposits, the banks expect interest margins to be narrower in the future. Moreover, a reversal of interest rates 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.

Along with credit risk, interest-rate risk plays an important role for most of the cooperative banks. The European Banking Authority (EBA), the Basel Committee on Banking Supervision (BCBS), and the

German regulator are currently carrying out activities to obtain an overview of institutions' vulnerability with regard to rising interest rates. These activities include inquiries about the phase of low interest rates, the EBA's recently published Guidelines on the Management of Interest-rate Risk and the BCBS's Consultative Document: Interest-rate Risk in the Banking Book (IRRBB), and the activities of a task force of the BCBS on the possible treatment of interest-rate risk in the banking book within pillar 1.

The protection scheme monitors the appropriateness of the member institutions' level of interest-rate risk. It conducts simulation calculations for net interest income and analyzes interest-rate risk coefficients.

Liquidity risk

As in previous years, 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 94 percent. The basis for this is 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, 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.

Since March 31, 2014, there has been a requirement to disclose the individual line items in the liquidity coverage ratio (LCR). This ratio relates to a short-term time horizon of 30 calendar days and is designed to ensure that a bank's net liquidity outflows are covered by a sufficient liquidity buffer. From October 2015, the liquidity buffer will have to be at least 60 percent of net liquidity outflows. The minimum requirement will rise to 70 percent from January 2016, to 80 percent from January 2017, and to 100 percent from January 2018, which will mark the end of the minimum buffer's phase-in.

Implementation of this ratio in the Cooperative Financial Network is being accompanied by extensive support services from the auditors' associations, the central institutions, and the BVR.

Management Report 2014

Outlook

Real economy and banking industry

The German economy remained on an upward trajectory at the start of 2015. Initial official estimates indicate that Germany's GDP rose by 0.3 percent in the first quarter. This was roughly the same as the average rate of growth seen in the years after the country's reunification. Leading economic indicators, such as the ifo Business Climate Index, seem to suggest that economic growth will continue throughout the rest of this year.

Based on the data that came out in the spring, the BVR anticipates that German GDP adjusted for inflation will rise by around 2 percent on average in 2015. This growth forecast is underpinned by the assumption that economic expansion in the eurozone and the rest of the world will gain momentum. It is also assumed that the Euro exchange rate will remain low against the US dollar and that oil prices will increase only moderately.

Consumer spending is likely to be higher in 2015 than last year, remaining the biggest driver of economic growth. It continues to be boosted by favorable conditions in the labor market and the general trend of significantly rising incomes. Capital expenditure should also contribute to overall economic growth, albeit to a lesser extent than in 2014. However, foreign trade is likely to provide little stimulus. Although exports are expected to expand more strongly than last year as the global economy rebounds, the robust level of domestic demand should also lead to a bigger rise in imports.

The positive trends in the German labor market are expected to continue. The average number of people employed is predicted to rise by approximately 200,000 year on year to reach 42.8 million for 2015. A smaller decline of 0.2 percentage points to 6.5 percent looks likely for the rate of unemployment.

As with any growth forecast, the outlook described here is subject to significant uncertainty. It is conceivable that the conflicts in Ukraine and the Middle East will escalate further and growth in emerging markets could unexpectedly falter. Such situations would substantially weaken Germany's economic growth stemming from exports and capital expenditure. The as-yet-unresolved crisis in Greece also poses risks.

The ECB is not expected to change its key interest rates this year. It has announced that its extended program of securities buying, which began in March 2015, will continue until at least September 2016. Yields on long-term German government bonds are therefore forecast to remain very low on a historical comparison.

Like last year, the outlook for the banking sector is cautiously optimistic in view of the aforementioned economic conditions created by monetary policy. The politically motivated environment of low interest rates as a way of tackling the European sovereign debt crisis is impacting on business risk because it is likely to make it more difficult for banks to do business in the medium term.

In addition, bureaucratic requirements continue to increase, pushing up costs associated with satisfying regulatory standards. The regulatory environment encompassing the entire banking industry continues to be characterized by a steady progression of ever tighter regulatory capital and liquidity standards and increasingly stringent process and reporting requirements.

Potentially, the European sovereign debt crisis and developments in other trouble spots around the world could have a negative impact on credit risk, equity investment risk, market risk, actuarial risk, business risk, and reputational risk. Moreover, the Cooperative Financial Network is exposed to business-specific risk factors of an overarching nature that affect a number of risk types.

Volksbanken Raiffeisenbanken Cooperative Financial Network

The outlook for the business performance of the Cooperative Financial Network is shaped by the ongoing phase of extremely low interest rates, a hike in costs in order to meet regulatory requirements, and the introduction of the European bank levy. By contrast, the economic environment is expected to provide a boost to the real economy and small and medium-sized enterprises and, consequently, also for the Cooperative Financial Network. Brisk customer business is likely to further strengthen its market position.

Net interest income will decline, above all as a consequence of the persistently low interest rates. In particular, income from interest-rate-dependent business models will come under increasing pressure. Net interest income could be negatively impacted in 2015 by a renewed deterioration in sentiment regarding the prospects for economic growth in the eurozone and by discussion of a possible Greek exit.

Allowances for losses on loans and advances will rise presumably compared with 2014. In 2014, the higher reversals of portfolio loan loss allowances had a positive impact on overall allowances for losses on loans and advances and such reversals are not planned for subsequent years. As far as 2015 is concerned, it is expected that allowances for losses on loans and advances will normalize and change in line with the lending portfolio. Risks would primarily arise if there were 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 2015, **net fee and commission income** is likely to be marginally higher than in 2014. The expected rise is attributable, above all, to the increased volume of assets under management, which means that directly volume-related income will be significantly higher. 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.

Net gains under **gains and losses on trading activities** will increase slightly in 2015, boosted by the customer-driven capital markets business. Strategic measures are also planned for the capital markets business in 2016 with the aim of increasing the net gains. The prerequisites for this improvement in gains and losses on trading activities are that there must be no further significant fall in interest rates and capital markets must remain stable.

Net gains under **gains and losses on investments** are likely to decline significantly in 2015 because there will be no benefit from positive one-off items. However, a small improvement is expected for 2016 based on the very low starting point.

Other gains and losses on valuation of financial instruments, which in 2014 were primarily influenced by positive effects, are expected to deteriorate in 2016. The forecast trend in this case reflects the reduced potential for reversing impairment losses.

The **net income from insurance business** is predicted to be much more muted in 2015, although premiums earned in 2015 are expected to be at a similarly high level to that achieved in 2014. The reason is the increased supplementary change-in-discount-rate reserve and the negative effect of the return to normal levels in 2015 following extraordinary gains under gains and losses on investments held by insurance companies in 2014. Exceptional events in the capital markets or changes in underwriting practices may affect the level of net income expected to be earned from insurance business.

Administrative expenses are predicted to rise again in 2015. This growth will reflect the response of the Cooperative Financial Network to the tighter regulatory and statutory provisions. The main consequences of these provisions are likely to be higher staff expenses and increased project costs.

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 2014

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Income statement for the period January 1 to December 31, 2014

	Note no.	2014 € million	2013 € million	Change (percent)
Net interest income	2.	20,047	20,010	0.2
Interest income and current income and expense		*30,657*	*31,822*	*−3.7*
Interest expense		*−10,610*	*−11,812*	*−10.2*
Allowances for losses on loans and advances	3.	−299	−774	−61.4
Net fee and commission income	4.	5,467	5,061	8.0
Fee and commission income		*6,793*	*6,530*	*4.0*
Fee and commission expense		*−1,326*	*−1,469*	*−9.7*
Gains and losses on trading activities	5.	752	507	48.3
Gains and losses on investments	6.	148	−523	>100.0
Other gains and losses on valuation of financial instruments	7.	435	1,077	−59.6
Premiums earned	8.	13,927	12,693	9.7
Gains and losses on investments held by insurance companies and other insurance company gains and losses	9.	4,388	2,816	55.8
Insurance benefit payments	10.	−15,264	−13,181	15.8
Insurance business operating expenses	11.	−1,770	−1,662	6.5
Administrative expenses	12.	−16,895	−16,486	2.5
Other net operating expense/income	13.	−281	15	>100.0
Profit before taxes		**10,655**	**9,553**	**11.5**
Income taxes	14.	−2,848	−2,691	5.8
Net profit		**7,807**	**6,862**	**13.8**
Attributable to:				
Shareholders of the Cooperative Financial Network		7,555	6,664	13.4
Non-controlling interests		252	198	27.3

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Statement of comprehensive income for the period January 1 to December 31, 2014

	2014 € million	2013 € million	Change (percent)
Net profit	**7,807**	**6,862**	**13.8**
Other comprehensive income	**–513**	**555**	**>100.0**
Amounts reclassified to the income statement	***956***	***353***	***>100.0***
Gains and losses on available-for-sale financial assets	1,397	460	>100.0
Gains and losses on cash flow hedges	–31	–	–
Exchange differences on currency translation of foreign operations	12	–10	>100.0
Gains and losses on hedges of net investments in foreign operations	–16	5	>100.0
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	27	–19	>100.0
Income taxes	–433	–83	>100.0
Amounts not reclassified to the income statement	***–1,469***	***202***	***>100.0***
Gains and losses arising from remeasurements of defined benefit plans	–2,092	365	>100.0
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	–4	–1	>100.0
Income taxes	627	–162	>100.0
Total comprehensive income	**7,294**	**7,417**	**–1.7**
Attributable to:			
Shareholders of the Cooperative Financial Network	6,950	7,173	–3.1
Non-controlling interests	344	244	41.0

Balance sheet as at December 31, 2014

Assets	Note no.	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Cash and cash equivalents	15.	15,656	15,980	−2.0
Loans and advances to banks	16.	38,293	33,413	14.6
Loans and advances to customers	16.	670,683	648,470	3.4
Allowances for losses on loans and advances	17.	−8,519	−9,284	−8.2
Derivatives used for hedging (positive fair values)	18.	1,099	1,382	−20.5
Financial assets held for trading	19.	61,181	57,539	6.3
Investments	20.	249,219	237,257	5.0
Investments held by insurance companies	21.	77,545	67,868	14.3
Property, plant and equipment, and investment property	22.	11,429	10,668	7.1
Income tax assets	23.	4,484	4,907	−8.6
Other assets	24.	14,690	12,365	18.8
Total assets		**1,135,760**	**1,080,565**	**5.1**

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Equity and liabilities	Note no.	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Deposits from banks	25.	103,526	96,210	7.6
Deposits from customers	25.	713,485	693,191	2.9
Debt certificates issued including bonds	26.	66,981	67,507	–0.8
Derivatives used for hedging (negative fair values)	18.	10,423	7,178	45.2
Financial liabilities held for trading	27.	52,760	44,310	19.1
Provisions	28.	13,661	11,356	20.3
Insurance liabilities	29.	74,670	67,386	10.8
Income tax liabilities	23.	1,198	1,001	19.7
Other liabilities	30.	7,819	7,621	2.6
Subordinated capital	31.	4,736	5,419	–12.6
Equity		86,501	79,386	9.0
Subscribed capital		*10,762*	*10,424*	*3.2*
Capital reserves		*754*	*708*	*6.5*
Retained earnings		*62,807*	*58,019*	*8.3*
Revaluation reserve		*1,258*	*435*	*>100.0*
Cash flow hedge reserve		*–15*	*4*	*>100.0*
Currency translation reserve		*32*	*12*	*>100.0*
Non-controlling interests		*3,348*	*3,120*	*7.3*
Unappropriated earnings		*7,555*	*6,664*	13.4
Total equity and liabilities		**1,135,760**	**1,080,565**	**5.1**

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, 2013	**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**
Net profit	–	–	7,555	–	–	–	7,555	252	7,807
Other comprehensive income/loss	–	–	−1,441	835	−19	20	−605	92	−513
Total comprehensive income	**–**	**–**	**6,114**	**835**	**−19**	**20**	**6,950**	**344**	**7,294**
Issue and repayment of equity	338	46	–	–	–	–	384	144	528
Changes in the scope of consolidation	–	–	46	−12	–	–	34	1	35
Acquisition/disposal of non-controlling interests	–	–	101	–	–	–	101	−198	−97
Dividends paid	–	–	−582	–	–	–	−582	−63	−645
Equity as at Dec. 31, 2014	**10,762**	**754**	**70,362**	**1,258**	**−15**	**32**	**83,153**	**3,348**	**86,501**

The table below gives a breakdown of subscribed capital:	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Cooperative shares	10,271	9,768	5.1
Share capital	176	176	–
Capital of silent partners	315	480	–34.4
Total	**10,762**	**10,424**	**3.2**

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Statement of cash flows

	2014 € million	2013 € million
Net profit	**7,807**	**6,862**
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	–1,676	203
Non-cash changes in provisions	2,305	–452
Changes in insurance liabilities	9,977	3,709
Other non-cash income and expenses	981	1,069
Gains and losses on the disposal of assets and liabilities	–152	495
Other adjustments (net)	–18,746	–19,502
Subtotal	**496**	**–7,616**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	–27,134	–9,959
Other assets from operating activities	1,075	720
Derivatives used for hedging (positive and negative fair values)	434	–681
Financial assets and financial liabilities held for trading	4,812	803
Deposits from banks and from customers	26,543	14,547
Debt certificates issued including bonds	–909	–15,596
Other liabilities from operating activities	–2,676	465
Interest, dividends and operating lease payments received	29,063	32,538
Interest paid	–8,333	–11,912
Income taxes paid	–2,314	–1,742
Cash flows from operating activities	**21,057**	**1,567**

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

	2014 € million	2013 € million
Proceeds from the sale of investments	13,551	32,468
Proceeds from the sale of investments held by insurance companies	24,670	27,250
Payments for acquisitions of investments	–23,490	–27,658
Payments for acquisitions of investments held by insurance companies	–32,110	–30,799
Netpayments for acquisitions of property, plant and equipment, and investment property (excluding assets subject to operating leases)	–1,144	–558
Changes in the scope of consolidation	–21	28
Net change in cash and cash equivalents from other investing activities	18	58
Cash flows from investing activities	**–18,526**	**789**
Proceeds from capital increases	528	435
Dividends paid to shareholders of the Cooperative Financial Network and non-controlling interests	–645	–574
Other payments to shareholders of the Cooperative Financial Network and non-controlling interests	–	–8
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	–2,738	–506
Cash flows from financing activities	**–2,855**	**–653**
Cash and cash equivalents as at January 1	**15,980**	**14,277**
Cash flows from operating activities	21,057	1,567
Cash flows from investing activities	–18,526	789
Cash flows from financing activities	–2,855	–653
Cash and cash equivalents as at December 31	**15,656**	**15,980**

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 Significant financial reporting principles

Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network prepared by the Federal 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 (IFRS).

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

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

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

The financial year corresponds to the calendar year. 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 1,036 primary banks (2013: 1,074), 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 622 subsidiaries (2013: 779)

Volksbanken Raiffeisenbanken
Cooperative Financial Network

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

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

Münchener Hypothekenbank eG

DZ BANK Group and WGZ BANK Group

Central institutions
DZ BANK AG and WGZ BANK AG

Specialized service providers
Subsidiaries of DZ BANK AG and WGZ BANK AG

BVR protection scheme

have been consolidated in the DZ BANK Group and WGZ BANK Group.
The consolidated financial statements include 23 joint ventures between a consolidated entity and at least one other non-network entity (2013: 22) and 25 associates (2013: 19) over which a consolidated entity has significant influence, that are accounted for using the equity method.

Due to the fact that IFRS 10 was required to be applied for the first time for the financial year under review, there were changes in the scope of consolidation resulting from the DZ BANK Group. Since the effects of the changes on the consolidated financial statements are immaterial, we elected not to adjust prior-year figures.

Procedures of consolidation

Similar to IFRS 3 in conjunction with IFRS 10, business combinations are accounted for using the purchase method by offsetting the acquisition cost of a subsidiary against the share of the equity that is attributable to the parent entities and remeasured at fair value on the relevant date when control is acquired. This eliminates the multiple gearing of eligible own funds and any inappropriate creation of own funds for regulatory purposes between the consolidated entities listed above. Any positive difference is recognized as goodwill under other assets and is subject to an annual impairment test. 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.

Investments in joint ventures and 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, 2014. There is one subsidiary (2013: 1 subsidiary) included in the consolidated financial statements with a different reporting date for its annual financial statements.

With 20 exceptions (2013: 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. 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 the following subcategories.

<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.

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

<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.

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.

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.

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 in fair value hedges 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 short positions, bonds issued and other debt certificates entered into for trading purposes, liabilities and obligations from commodities transactions. Bonds issued and other debt certificates include share- and index-linked certificates as well as commercial paper. Liabilities result primarily from money market transactions.

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

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

Investments

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

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

Property, plant and equipment, and investment property

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

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

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

Income tax assets and liabilities

Current and deferred tax assets are shown under the income tax assets balance sheet item; current and deferred tax liabilities are reported under 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 comprehensvie 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, in particular, 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 issued including bonds

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

Debt certificates issued including bonds and gains and losses thereon 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. 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 Selected disclosures of interests in other entities

Investments in subsidiaries

Share in the business operations of the Cooperative Financial Network attributable to non-controlling interests

DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK) and Westdeutsche Genossenschafts-Zentralbank AG (WGZ BANK) are included in the consolidated financial statements together with their respective subsidiaries as a subgroup. In this context, DZ BANK and WGZ BANK are focused on their clients and owners, the local cooperative banks, as central bank, commercial bank and holding company. The objective of this focus is to sustainably expand the position of the Cooperative Financial Network as one of the leading groups providing comprehensive financial services.

The shares of DZ BANK, with its headquarters in Frankfurt/Main, Germany, are held by the primary banks and by MHB, with ownership interests amounting to 85.4 percent (2013: 83.8 percent). Another 6.7 percent (2013: 6.7 percent) of the shares are held by WGZ BANK. The remaining shares of 7.9 percent (2013: 9.5 percent) are attributable to shareholders that are not part of the Cooperative Financial Network. The pro-rata share in net profit attributable to non-controlling interests amounts to €241 million (2013: €182 million). The carrying amount of non-controlling interests amounts to €3,279 million (2013: €3,060 million). In the financial year under review, the dividend payment made to non-controlling interests amounts to €62 million (2013: €53 million).

The shares of WGZ BANK, with its headquarters in Düsseldorf, Germany, are held by the primary banks with ownership interests amounting to 98.1 percent (2013: 97.8 percent). The remaining shares of 1.9 percent (2013: 2.2 percent) are attributable to shareholders that are not part of the Cooperative Financial Network. The pro-rata share in net profit attributable to non-controlling interests amounts to €11 million (2013: €16 million). The carrying amount of non-controlling interests amounts to €69 million (2013: €60 million). In the financial year under review, the dividend payment made to non-controlling interests amounts to €1 million, unchanged from the prior year.

Nature and extent of significant limitations

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

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Assets	**65,811**	**62,046**	**6.1**
Investments held by insurance companies	65,811	62,046	6.1
Liabilities	**63,243**	**59,442**	**6.4**
Insurance liabilities	63,243	59,442	6.4

Nature of the risks associated with interests in consolidated structured entities

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

Interests in joint arrangements and investments in associates

Nature, extent and financial effects of interests in joint arrangements
The carrying amount of individually immaterial joint ventures accounted for using the equity method totaled €615 million as at the balance sheet date (2013: €651 million).

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

	2014 € million	2013 € million	Change (percent)
Share of profit from continuing operations	95	154	−38.3
Share of other comprehensive income/loss	56	−48	>100.0
Pro-rata share in total comprehensive income	151	106	42.5

Nature, extent and financial effects of interests in associates
The carrying amount of individually immaterial associates accounted for using the equity method totaled €369 million as at the balance sheet date (2013: €344 million).

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

	2014 € million	2013 € million	Change (percent)
Share of profit from continuing operations	21	31	−32.3
Share of profit from discontinued operations	1	–	–
Share of other comprehensive income/loss	−6	9	>100.0
Pro-rata share in total comprehensive income	16	40	−60.0

Shares in unconsolidated structured entities

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

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

Shares in investment funds issued by the Cooperative Financial Network

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

Shares in investment funds not issued by the Cooperative Financial Network

The interests in the investment funds not issued by the Cooperative Financial Network above all comprise investment funds managed by entities in the Union Investment Group within the scope of their own decision-making powers that have been issued by entities outside the Cooperative Financial Network and parts of such investment funds. The DZ BANK Group also extends loans to investment funds in order to generate interest income. In addition, there are investment funds issued by entities outside the Cooperative Financial Network in connection with unit-linked life insurance of the R+V Group (R+V).

Interests in securitization vehicles

The interests in securitization vehicles are interests in vehicles where the DZ BANK Group's involvement goes beyond that of an investor.

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

Interests in asset-leasing vehicles

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

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C Income statement disclosures

1. Information on operating segments

Financial year 2014 (€ million)	Bank	Retail	Real Estate Finance	Insurance	Other/ Consolidation	Total
Net interest income	1,917	17,277	1,552	–	–699	20,047
Allowances for losses on loans and advances	–147	–174	9	–	13	–299
Net fee and commission income	576	5,542	–146	–	–505	5,467
Gains and losses on trading activities	570	210	–18	–	–10	752
Gains and losses on investments	61	54	8	–	25	148
Other gains and losses on valuation of financial instruments	–39	12	454	–	8	435
Premiums earned	–	–	–	13,927	–	13,927
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	4,481	–93	4,388
Insurance benefit payments	–	–	–	–15,264	–	–15,264
Insurance business operating expenses	–	–	–	–2,284	514	–1,770
Administrative expenses	–1,675	–14,880	–735	–	395	–16,895
Other net operating expense/income	–167	–196	57	–4	29	–281
Profit before taxes	**1,096**	**7,845**	**1,181**	**856**	**–323**	**10,655**
Cost/income ratio (percent)	57.4	65.0	38.5	–	–	60.7

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 expense/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

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 and 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 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 (Team-Bank) and Union Investment Group.

The Real Estate Finance operating segment encompasses the home savings and loan operations, mortgage banking, and real estate business. The entities allocated to this operating segment include Bausparkasse Schwäbisch Hall Group (BSH), Deutsche Genossenschafts-Hypothekenbank AG, WL BANK AG Westfälische Landschaft Bodenkreditbank, and MHB. In the prior year, WGZ Immobilien + Treuhand Gruppe and WGZ Immobilien + Management GmbH had been included up until their deconsolidation.

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

	2014 € million	2013 € million	Change (percent)
Interest income and current income and expense	**30,657**	**31,822**	**−3.7**
Interest income from	***29,307***	***30,360***	***−3.5***
Lending and money market business	25,709	26,443	−2.8
of which: building society operations	1,008	991	1.7
finance leases	232	320	−27.5
Fixed-income securities	4,121	4,422	−6.8
Other assets	−523	−505	3.6
Current income from	***1,224***	***1,300***	***−5.8***
Shares and other variable-yield securities	1,144	1,172	−2.4
Investments in subsidiaries and equity investments	89	93	−4.3
Operating leases	−9	35	>100.0
Income/loss from using the equity method for	***46***	***81***	***−43.2***
Interests in joint ventures	36	68	−47.1
Investments in associates	10	13	−23.1
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***80***	***81***	***−1.2***
Interest expense	**−10,610**	**−11,812**	**−10.2**
Interest expense on	***−9,964***	***−11,148***	***−10.6***
Deposits from banks and customers	−7,882	−8,997	−12.4
of which: building society operations	−773	−742	4.2
Debt certificates issued including bonds	−1,825	−1,880	−2.9
Subordinated capital	−297	−323	−8.0
Other liabilities	40	52	−23.1
Other interest expense	***−646***	***−664***	***−2.7***
Total	**20,047**	**20,010**	**0.2**

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

	2014 € million	2013 € million	Change (percent)
Additions	−2,467	−2,807	−12.1
Reversals	2,092	2,027	3.2
Directly recognized impairment losses	−187	−233	−19.7
Recoveries on loans and advances previously impaired	296	230	28.7
Changes in the provisions for loans and advances as well as in the liabilities from financial guarantee contracts	−27	22	>100.0
Impairment losses on available for sale loans and advances	−6	−13	−53.8
Total	**−299**	**−774**	**−61.4**

4. Net fee and commission income

	2014 € million	2013 € million	Change (percent)
Fee and commission income	**6,793**	**6,530**	**4.0**
Securities business	2,912	2,861	1.8
Asset management	283	174	62.6
Payments processing including card processing	2,345	2,240	4.7
Lending business and trust activities	264	270	−2.2
Financial guarantee contracts and loan commitments	182	178	2.2
International business	112	115	−2.6
Building society operations	29	355	−91.8
Other	663	337	96.7
Income from negative effective interest rates for financial liabilities	**3**	**–**	**–**
Fee and commission expense	**−1,326**	**−1,469**	**−9.7**
Securities business	−423	−588	−28.1
Asset management	−89	−10	>100.0
Payments processing including card processing	−286	−252	13.5
Lending business and trust activities	−117	−124	−5.6
Financial guarantee contracts and loan commitments	−11	−15	−26.7
International business	−22	−23	−4.3
Building society operations	−129	−376	−65.7
Other	−248	−81	>100.0
Expenses from negative effective interest rates for financial liabilities	−1	–	–
Total	**5,467**	**5,061**	**8.0**

5. Gains and losses on trading activities

	2014 € million	2013 € million	Change (percent)
Gains and losses on trading in financial instruments	637	235	>100.0
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	−74	80	>100.0
Gains and losses on commodities trading	189	192	−1.6
Total	**752**	**507**	**−48.3**

6. Gains and losses on investments

	2014 € million	2013 € million	Change (percent)
Gains and losses on securities	83	−502	>100.0
Gains and losses on investments in subsidiaries and equity investments	65	−21	>100.0
Total	**148**	**−523**	**>100.0**

7. Other gains and losses on valuation of financial instruments

	2014 € million	2013 € million	Change (percent)
Gains and losses from hedge accounting	**−27**	**−21**	**28.6**
Fair value hedges	***−27***	***−21***	**28.6**
Gains and losses on hedging instruments	−3,776	2,848	>100.0
Gains and losses on hedged items	3,749	−2,869	>100.0
Gains and losses on derivatives held for purposes other than trading	**2**	**66**	**−97.0**
Gains and losses on financial instruments designated as at fair value through profit or loss	**460**	**1,032**	**−55.4**
Total	**435**	**1,077**	**−59.6**

8. Premiums earned

	2014 € million	2013 € million	Change (percent)
Net premiums written	**13,957**	**12,666**	**10.2**
Gross premiums written	14,040	12,753	10.1
Reinsurance premiums ceded	−83	−87	−4,6
Change in provision for unearned premiums	**−30**	**27**	**>100.0**
Gross premiums	−29	28	>100.0
Reinsurers' share	−1	−1	–
Total	**13,927**	**12,693**	**9.7**

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

	2014 € million	2013 € million	Change (percent)
Interest income and current income	2,587	2,548	1.5
Administrative expenses	−122	−113	8.0
Gains and losses on valuation and disposals	1,809	250	>100.0
Other gains and losses of insurance companies	114	131	−13.0
Total	**4,388**	**2,816**	**55.8**

10. Insurance benefit payments

	2014 € million	2013 € million	Change (percent)
Expenses for claims	**−9,487**	**−8,765**	**8.2**
Gross expenses for claims	−9,524	−9,055	5.2
Reinsurers' share	37	290	−87.2
Changes in benefit reserve, provisions for premium refunds and in other insurance liabilities	**−5,777**	**−4,416**	**30.8**
Changes in gross liabilities	−5,765	−4,408	30.8
Reinsurers' share	−12	−8	50.0
Total	**−15,264**	**−13,181**	**15.8**

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11. Insurance business operating expenses

	2014 € million	2013 € million	Change (percent)
Gross expenses	–1,786	–1,683	6.1
Reinsurers' share	16	21	–23.8
Total	**–1,770**	**–1,662**	**6.5**

12. Administrative expenses

	2014 € million	2013 € million	Change (percent)
Staff expenses	–10,059	–9,782	2.8
General and administrative expenses	–5,904	–5,810	1.6
Depreciation/amortization and impairment losses	–932	–894	4.3
Total	**–16,895**	**–16,486**	**2.5**

13. Other net operating expense/income

	2014 € million	2013 € million	Change (percent)
Gains and losses on non-current assets classified as held for sale and disposal groups	1	10	–90.0
Other operating income	1,009	1,004	0.5
Other operating expenses	–1,291	–999	29.2
Total	**–281**	**15**	**>100.0**

14. Income taxes

	2014 € million	2013 € million	Change (percent)
Current tax expense	–2,508	–2,490	0.7
Expense on deferred taxes	–340	–201	69.2
Total	**–2,848**	**–2,691**	**5.8**

Current taxes in relation to the German limited companies are calculated using an effective corporation tax rate of 15.825 percent based on a corporation tax rate of 15 percent plus the solidarity surcharge. The effective rate for trade tax is 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.

	2014 € million	2013 € million	Change (percent)
Profit before taxes	**10,655**	**9,553**	**11.5**
Notional rate of income tax of the Cooperative Financial Network (percent)	29.825	29.825	
Income taxes based on notional rate of income tax	**–3,178**	**–2,849**	**11.5**
Tax effects	**330**	**158**	**>100.0**
Tax effects of tax-exempt income and non-tax deductible expenses	179	112	59.8
Tax effects of different tax types, different trade tax multipliers, and changes in tax rates	–1	44	>100.0
Tax effects of different tax rates in other countries	8	–4	>100.0
Current and deferred taxes relating to prior reporting periods	166	–59	>100.0
Reversal of valuation adjustments of deferred tax assets	43	2	>100.0
Other tax effects	–65	63	>100.0
Income taxes	**–2,848**	**–2,691**	**5.8**

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

D Balance sheet disclosures

15. Cash and cash equivalents

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Cash on hand	6,409	6,348	1.0
Balances with central banks and other government institutions	9,247	9,560	–3.3
of which: with Deutsche Bundesbank	6,941	8,765	–20.8
Public-sector debt instruments and bills of exchange eligible for refinancing by central banks	–	72	–100.0
Total	**15,656**	**15,980**	**–2.0**

16. Loans and advances to banks and customers

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Loans and advances to banks	**38,293**	**33,413**	**14.6**
Repayable on demand	***17,331***	***10,623***	***63.1***
Other loans and advances	***20,962***	***22,790***	***–8.0***
Mortgage loans and other loans secured by mortgages on real estate	74	665	–88.9
Local authority loans	10,557	11,019	–4.2
Other loans and advances	10,331	11,106	–7.0
Loans and advances to customers	**670,683**	**648,470**	**3.4**
Mortgage loans and other loans secured by mortgages on real estate	256,703	238,148	7.8
Local authority loans	41,383	43,418	–4.7
Home savings loans advanced by building society	29,960	27,259	9.9
of which: from allotment (home savings loans)	4,437	4,897	–9.4
for advance and interim financing	23,377	20,264	15.4
other building loans	2,146	2,098	2.3
Finance leases	4,118	4,872	–15.5
Other loans and advances	338,519	334,773	1.1

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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, 2013	**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**
Additions	2,271	196	2,467
Utilizations	−1,132	–	−1,132
Reversals	−1,824	−305	−2,129
Other changes	36	−7	29
Balance as at Dec. 31, 2014	**7,454**	**1,065**	**8,519**

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

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Derivatives used for hedging (positive fair values)	**1,099**	**1,382**	**−20.5**
Fair value hedges	1,095	1,370	−20.1
Cash flow hedges	4	11	−63.6
Hedges of net investments in foreign operations	–	1	−100.0
Derivatives used for hedging (negative fair values)	**10,423**	**7,178**	**45.2**
Fair value hedges	10,395	7,176	44.9
Cash flow hedges	27	2	>100.0
Hedges of net investments in foreign operations	1	–	–

19. Financial assets held for trading

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Derivatives (positive fair values)	**31,884**	**24,550**	**29.9**
Interest-linked contracts	28,301	21,418	32.1
Currency-linked contracts	2,104	1,013	>100.0
Share- and index-linked contracts	426	582	−26.8
Credit derivatives	400	463	−13.6
Other contracts	653	1,074	−39.2
Securities	**17,182**	**15,330**	**12.1**
Bonds and other fixed-income securities	16,433	14,723	11.6
Shares and other variable-yield securities	749	607	23.4
Loans and advances	**11,744**	**17,288**	**−32.1**
Inventories and trade receivables	**371**	**371**	**–**
Total	**61,181**	**57,539**	**6.3**

20. Investments

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Securities	**245,949**	**233,664**	**5.3**
Bonds and other fixed-income securities	197,228	187,383	5.3
Shares and other variable-yield securities	48,721	46,281	5.3
Investments in subsidiaries	**1,106**	**1,202**	**−8.0**
Equity investments	**2,164**	**2,391**	**−9.5**
Investments in joint ventures	597	633	−5.7
Investments in associates	391	359	8.9
Other shareholdings	1,176	1,399	−15.9
Total	**249,219**	**237,257**	**5.0**

21. Investments held by insurance companies

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Investment property	1,924	1,595	20.6
Investments in subsidiaries, joint ventures and in associates	504	649	−22.3
Mortgage loans	8,047	7,257	10.9
Promissory notes and loans	8,043	8,213	−2.1
Registered bonds	9,376	9,027	3.9
Other loans	898	1,101	−18.4
Variable-yield securities	6,248	5,156	21.2
Fixed-income securities	34,457	28,284	21.8
Derivatives (positive fair values)	443	144	>100.0
Deposits with ceding insurers	172	174	−1.1
Assets related to unit-linked contracts	7,433	6,268	18.6
Total	**77,545**	**67,868**	**14.3**

22. Property, plant and equipment, and investment property

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Land and buildings	6,752	6,690	0.9
Office furniture and equipment	1,451	1,411	2.8
Assets subject to operating leases	1,200	639	87.8
Investment property	93	88	5.7
Other fixed assets	1,933	1,840	5.1
Total	**11,429**	**10,668**	**7.1**

23. Income tax assets and liabilities

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Income tax assets	**4,484**	**4,907**	**–8.6**
Current income tax assets	1,973	2,384	–17.2
Deferred tax assets	2,511	2,523	–0.5
Income tax liabilities	**1,198**	**1,001**	**19.7**
Current income tax liabilities	816	755	8.1
Deferred tax liabilities	382	246	55.3

	Deferred tax assets Dec. 31, 2014 € million	Deferred tax assets Dec. 31, 2013 € million	Deferred tax liabilities Dec. 31, 2013 € million	Deferred tax liabilities Dec. 31, 2013 € million
Tax loss carryforwards	89	99		
Loans and advances to banks and customers (net)	35	129	719	484
Financial assets and liabilities held for trading, derivatives used for hedging (positive and negative fair values)	1,518	1,057	37	161
Investments	383	481	1,360	426
Investments held by insurance companies	13	15	589	207
Deposits from banks and customers	1,079	705	83	132
Debt certificates issued including bonds	157	122	22	23
Provisions	1,966	1,349	37	34
Insurance liabilities	129	88	246	232
Intangible assets	1	–	29	–
Other balance sheet items	126	149	245	218
Total (gross)	**5,496**	**4,194**	**3,367**	**1,917**
Netting of deferred tax assets and deferred tax liabilities	–2,985	–1,671	–2,985	–1,671
Total (net)	**2,511**	**2,523**	**382**	**246**

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, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Other assets held by insurance companies	3,790	4,096	−7.5
Goodwill	121	120	0.8
Other intangible assets	272	292	−6.8
Prepaid expenses	211	312	−32.4
Other receivables	2,791	2,810	−0.7
Non-current assets and disposal groups classified as held for sale	33	11	>100.0
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	7,008	4,211	66.4
Residual other assets	464	513	−9.6
Total	**14,690**	**12,365**	**18.8**

25. Deposits from banks and customers

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Deposits from banks	**103,526**	**96,210**	**7.6**
Repayable on demand	10,349	10,741	−3.6
With agreed maturity or notice period	93,177	85,469	9.0
Deposits from customers	**713,485**	**693,191**	**2.9**
Savings deposits and home savings deposits	***237,205***	***234,160***	***1.3***
Savings deposits with agreed notice period of three months	169,869	169,611	0.2
Savings deposits with agreed notice period of more than three months	18,993	19,566	−2.9
Home savings deposits	48,343	44,983	7.5
Other deposits from customers	***476,280***	***459,031***	***3.8***
Repayable on demand	339,360	314,037	8.1
With agreed maturity or notice period	136,920	144,994	−5.6

26. Debt certificates issued including bonds

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Bonds issued	**51,803**	**59,376**	**–12.8**
Mortgage Pfandbriefe	22,048	21,250	3.8
Public-sector Pfandbriefe	11,023	15,006	–26.5
Other bonds	18,732	23,120	–19.0
Other debt certificates issued	**15,178**	**8,131**	**86.7**
Total	**66,981**	**67,507**	**–0.8**

27. Financial liabilities held for trading

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Derivatives (negative fair values)	**32,190**	**23,764**	**35.5**
Interest-linked contracts	27,332	20,993	30.2
Currency-linked contracts	1,733	1,026	68.9
Share- and index-linked contracts	762	770	–1.0
Credit derivatives	210	312	–32.7
Other contracts	2,153	663	>100.0
Short positions	**883**	**749**	**17.9**
Bonds issued and other debt certificates	**9,817**	**9,398**	**4.5**
Liabilities	**9,827**	**10,352**	**–5.1**
Liabilities from commodities transactions and commodity lending	**43**	**47**	**–8.5**
Total	**52,760**	**44,310**	**19.1**

28. Provisions

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Provisions for defined benefit plans	9,088	7,018	29.5
Provisions for loans and advances	432	422	2.4
Provisions relating to building society operations	580	516	12.4
Residual provisions	3,561	3,400	4.7
Total	**13,661**	**11,356**	**20.3**

Funding status of defined benefit obligations	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Present value of defined benefit obligations not funded by plan assets	8,558	7,068	21.1
Present value of defined benefit obligations funded by plan assets	1,745	1,090	60.1
Present value of defined benefit obligations	**10,303**	**8,158**	**26.3**
less fair value of plan assets	–1,215	–1,145	6.1
Defined benefit obligations (net)	**9,088**	**7,013**	**29.6**
Recognized surplus	–	5	–100.0
Provisions for defined benefit plans	**9,088**	**7,018**	**29.5**

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Changes in the present value of the defined benefit obligations	2014 € million	2013 € million	Change (percent)
Present value of defined benefit obligations as at Jan. 1	**8,159**	**8,390**	**−2.8**
Current service cost	113	121	−6.6
Interest expense	261	272	−4.0
Pension benefits paid including plan settlements	−345	−335	3.0
Past service cost	–	1	−100.0
Actuarial gains (−)/losses (+)	2,100	−293	>100.0
Other changes	15	3	>100.0
Present value of defined benefit obligations as at Dec. 31	**10,303**	**8,159**	**26.3**

Changes in plan assets	2014 € million	2013 € million	Change (percent)
Fair value of plan assets as at Jan. 1	**1,145**	**1,096**	**4.5**
Interest income	34	33	3.0
Contributions to plan assets	22	76	−71.1
Pension benefits paid	−47	−51	−7.8
Return on plan assets (excluding interest income)	52	−6	>100.0
Other changes	9	−3	>100.0
Fair value of plan assets as at Dec. 31	**1,215**	**1,145**	**6.1**

Actuarial assumptions used for defined benefit obligations	Dec. 31, 2014 (percent)	Dec. 31, 2013 (percent)
Discount rate	1.80 – 2.00	3.14 – 3.25
Salary increases	1.50 – 3.50	0.02 – 3.50
Pension increases	0.00 – 3.00	0.00 – 3.00

29. Insurance liabilities

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Provision for unearned premiums	1,071	1,035	3.5
Benefit reserve	49,724	46,431	7.1
Provision for claims outstanding	8,352	7,798	7.1
Provisions for premium refunds	8,568	6,240	37.3
Other insurance liabilities	40	37	8.1
Reserve for unit-linked insurance contracts	6,915	5,845	18.3
Total	**74,670**	**67,386**	**10.8**

30. Other liabilities

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Other liabilities of insurance companies	4,203	4,056	3.6
Other liabilities and accruals	2,382	2,544	–6.4
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	567	464	22.2
Residual other liabilities	667	557	19.7
Total	**7,819**	**7,621**	**2.6**

31. Subordinated capital

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Subordinated liabilities	4,518	4,886	–7.5
Profit-sharing rights	196	102	92.2
Other hybrid capital	–	363	–100.0
Share capital repayable on demand	22	68	–67.6
Total	**4,736**	**5,419**	**–12.6**

E Financial instruments disclosures

32. Fair value of financial instruments

	Carrying amount Dec. 31, 2014 € million	Fair value Dec. 31, 2014 € million	Carrying amount Dec. 31, 2013 € million	Fair value Dec. 31, 2013 € million
Assets				
Cash and cash equivalents	9,247	9,247	9,632	9,632
Loans and advances to banks[1]	38,185	39,572	33,254	34,852
Loans and advances to customers[1]	662,272	669,424	639,332	643,905
Derivatives used for hedging (positive fair values)	1,099	1,099	1,382	1,382
Financial assets held for trading[2]	60,810	60,810	57,169	57,169
Investments[3]	248,231	248,496	236,265	236,112
Investments held by insurance companies[2,3]	67,977	69,311	59,773	60,657
Other assets[2]	10,192	9,342	7,671	7,256
Liabilities				
Deposits from banks	103,526	105,070	96,210	97,890
Deposits from customers	713,485	718,568	693,191	696,551
Debt certificates issued including bonds	66,981	68,232	67,507	68,548
Derivatives used for hedging (negative fair values)	10,423	10,423	7,178	7,178
Financial liabilities held for trading[2]	52,717	52,717	44,264	44,264
Other liabilities[2]	3,122	2,561	3,171	2,710
Subordinated capital	4,736	5,035	5,419	5,346

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

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

33. Maturity analysis

Balance as at Dec. 31, 2014	≤ 3 months € million	>3 months–1 year € million	>1 year € million	Indefinite useful life € million
Loans and advances to banks	15,609	4,416	24,356	564
Loans and advances to customers	38,319	55,690	574,018	21,067
Deposits from banks	30,541	10,056	65,992	448
Deposits from customers	548,880	32,532	84,651	53,315
Debt certificates issued including bonds	12,103	12,099	45,285	–
Balance as at Dec. 31, 2013				
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 issued including bonds	10,416	7,903	53,131	–

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, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Portugal	725	786	–7.8
Italy	8,182	6,305	29.8
Ireland	563	506	11.3
Greece	1	10	–90.0
Spain	4,451	3,918	13.6
Total	**13,922**	**11,525**	**20.8**

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

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

F Other disclosures

35. Financial guarantee contracts and loan commitments

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Financial guarantee contracts	17,020	16,831	1.1
Loan commitments	59,477	55,382	7.4
Total	**76,497**	**72,213**	**5.9**

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

36. Trust activities

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Trust assets	2,169	4,374	−50.4
of which: trust loans	1,127	3,340	−66.3
Trust liabilities	2,169	4,374	−50.4
of which: trust loans	1,127	3,340	−66.3

37. Asset management by the Union Investment Group

	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Fund assets	**205,061**	**182,121**	**12.6**
Other types of asset management	**35,132**	**30,007**	**17.1**
Unit-linked asset management	500	330	51.5
Institutional asset management	8,401	6,221	35.0
Advisory and outsourcing	26,231	23,456	11.8
Accounts managed by third parties	**–8,136**	**–5,967**	**36.3**
Total	**232,057**	**206,161**	**12.6**

As at the balance sheet date, the Union Investment Group (through Union Asset Management Holding) had total assets under management of €232,057 billion (December 31, 2013: €206,161 billion). The fund assets comprise equity funds, fixed-income funds, money market funds, mixed funds, other securities funds, capital preservation funds, real estate funds, alternative investment funds and hybrid funds issued by Union Investment Group.

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

38. Leases Finance leases with the Cooperative Financial Network as lessor	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Finance leases of the Cooperative Financial Network	**4,628**	**5,587**	**–17.2**
Up to 1 year	1,336	1,500	–10.9
More than 1 year and up to 5 years	2,655	2,957	–10.2
More than 5 years	637	1,130	–43.6
less unearned finance income	**–540**	**–716**	**–24.6**
Net investment	**4,088**	**4,871**	**–16.1**
less present value of unguaranteed residual values	**–94**	**–113**	**–16.8**
Present value of minimum lease payment receivables	**3,994**	**4,758**	**–16.1**
Up to 1 year	1,146	1,271	–9.8
More than 1 year and up to 5 years	2,304	2,523	–8.7
More than 5 years	544	964	–43.6

As at the balance sheet date, the accumulated allowance for uncollectable minimum lease payments at lessor companies amounted to €63 million (December 31, 2013: €63 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, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Total capital	**81,565**	**83,503**	**–2.3**
Tier 1 capital	62,092	59,843	3.8
of which: Common Equity Tier 1 capital	60,838	–	–
Additional Tier 1 capital	1,254	–	–
Tier 2 capital	19,473	24,694	–21.1
Tier 3 capital[1]	–	1	–
Deductions from Tier 1 and Tier 2 capital[2]	–	–1,035	–
Regulatory capital requirements	**43,315**	**41,451**	**4.5**
Common Equity Tier 1 capital ratio (percent)	**11.2**	**–**	
Tier 1 capital ratio (percent)	**11.5**	**11.4**	
Total capital ratio (percent)	**15.1**	**16.1**	
Tier 1 capital ratio including reserves pursuant to section 340f of the HGB (percent)[3]	**13.8**	**13.8**	

1 Tier 3 capital is no longer permitted to be included as a capital component pursuant to CRR and no longer eligible for the financial year 2014.
2 This item is no longer presented within the scope of the new CRR regulations. Own funds reported (i.e. Tier 1 and Tier 2 capital) have already been reduced by the respective deductions.
3 The balance of reserves pursuant to Section 340f HGB as at December 31, 2014 is based on the financial statements data reported by the primary banks. The balance as at December 31, 2013 results from reports pursuant to the German Solvency Regulation.

The amounts reported as of December 31, 2013 were determined based on the German Solvency Regulation. The disclosures as of December 31, 2014 are based on CRR rules. The disclosures refer to the joint liability scheme of the Cooperative Financial Network and the relevant reporting date. The disclosures in relation to own funds and capital requirements as at December 31, 2014 are based on the results of the extended aggregated calculation in accordance with Art. 49 (3) CRR in conjunction with Art. 113 (7) CRR.

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, 2013	**7,182,483**	**238,793**	**960,838**	**25,303**	**8,143,321**	**264,096**
Additions in 2014 as a result of						
New contracts (redeemed contracts)[1]	772,515	28,465	–	–	772,515	28,465
Transfers	23,365	663	1,883	48	25,248	711
Allocation waivers and cancellations	9,220	375	–	–	9,220	375
Splitting	230,249	–	254	–	230,503	–
Allocations and acceptance of allocations	–	–	369,260	9,797	369,260	9,797
Other	131,025	4,568	47	3	131,072	4,571
Total	**1,166,374**	**34,071**	**371,444**	**9,848**	**1,537,818**	**43,919**
Disposal in 2014 as a result of						
Allocations and acceptance of allocations	−369,260	−9,797	–	–	−369,260	−9,797
Reductions	–	−869	–	–	–	−869
Termination	−303,819	−7,021	−243,719	−5,712	−547,538	−12,733
Transfers	−23,365	−663	−1,883	−48	−25,248	−711
Pooling[1]	−91,377	–	−2	–	−91,379	–
Expiration	–	–	−170,897	−4,670	−170,897	−4,670
Allocation waivers and cancellations	–	–	−9,220	−375	−9,220	−375
Other	−131,025	−4,568	−47	−3	−131,072	−4,571
Total	**−918,846**	**−22,918**	**−425,768**	**−10,808**	**−1,344,614**	**−33,726**
Net addition/disposal	247,528	11,153	−54,324	−960	193,204	10,193
Balance as at Dec. 31, 2014	**7,430,011**	**249,946**	**906,514**	**24,343**	**8,336,525**	**274,289**

1 Including increases

Volume of unredeemed contracts	Number of contracts	Home savings sum € million
Contracts signed prior to Jan. 1, 2014	68,585	2,492
Contracts signed in 2014	237,484	10,614

41. Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2014 € million
Additions	
Amounts carried forward from 2013 (surplus)	
Amounts not yet disbursed	41,142
Additions in 2014	
Savings deposits (including credited residential construction bonuses)	9,275
Repayable amounts (including credited residential construction bonuses)[1]	2,026
Interest on home savings deposits	683
Total	**53,126**
Withdrawals	
Withdrawals in 2014	
Amounts allocated (if disbursed)	
Home savings deposits	5,331
Building loans	1,556
Repayment of deposits on non-allocated home savings contracts	1,024
Surplus of additions (Amounts not yet disbursed) at the end of 2013[2]	45,215
Total	**53,126**

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 3,977 million

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

	Mortgage Pfandbriefe Dec. 31, 2014 € million	Mortgage Pfandbriefe Dec. 31, 2013 € million	Mortgage Pfandbriefe Change (percent)	Public-sector Pfandbriefe Dec. 31, 2014 € million	Public-sector Pfandbriefe Dec. 31, 2013 € million	Public-sector Pfandbriefe Change (percent)
Ordinary cover	**44,730**	**42,830**	**4.4**	**36,243**	**42,751**	**–15.2**
Loans and advances to banks	24	38	–36.8	2,261	3,497	–35.3
of which: mortgage loans	24	38	–36.8	–	–	–
local authority loans	–	–	–	2,261	3,497	–35.3
Loans and advances to customers	44,560	42,646	4.5	24,939	27,565	–9.5
of which: mortgage loans	44,560	42,646	4.5	97	581	–83.3
local authority loans	–	–	–	24,842	26,984	–7.9
Investments consisting of bonds and other fixed-income securities	–	–	–	6,613	8,154	–18.9
Property, plant and equipment	146	146	–	2,430	3,535	–31.3
Extended cover	**1,726**	**2,188**	**–21.1**	**348**	**1,190**	**–70.8**
Loans and advances to banks	–	150	–100.0	187	939	–80.1
Investments consisting of bonds and other fixed-income securities	1,726	2,038	–15.3	161	251	–35.9
Total cover	**46,456**	**45,018**	**3.2**	**36,591**	**43,941**	**–16.7**
Pfandbriefe requiring cover	**–39,794**	**–38,452**	**3.5**	**–32,583**	**–38,064**	**–14.4**
Nominal excess cover	**6,662**	**6,566**	**1.5**	**4,008**	**5,877**	**–31.8**
Present value of excess cover	**9,380**	**9,059**	**3.5**	**4,954**	**6,605**	**–25.0**
Risk-related present value of excess cover	**8,482**	**8,164**	**3.9**	**4,391**	**6,153**	**–28.6**

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

Maturity structure of mortgage Pfandbriefe and public–sector Pfandbriefe in issue	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Mortgage Pfandbriefe	**39,794**	**38,452**	**3.5**
<= 6 months	2,868	3,952	33.2
>6 months and <= 12 months	2,396		
>12 months and <= 18 months	4,664	5,207	17.4
>18 months and <= 2 years	1,450		
>2 years and <= 3 years	3,522	5,784	–39.1
>3 years and <= 4 years	2,274	3,460	–34.3
>4 years and <= 5 years	3,193	2,054	55.5
>5 years and <= 10 years	11,947	11,022	8.4
>10 years	7,480	6,973	7.3
Public–sector Pfandbriefe	**32,583**	**38,064**	**–14.4**
<= 6 months	2,267	7,894	–46.0
>6 months and <= 12 months	1,996		
>12 months and <= 18 months	1,758	4,033	32.3
>18 months and <= 2 years	3,578		
>2 years and <= 3 years	3,151	4,890	–35.6
>3 years and <= 4 years	2,732	2,584	5.7
>4 years and <= 5 years	2,271	2,704	–16.0
>5 years and <= 10 years	6,837	6,873	–0.5
>10 years	7,993	9,086	–12.0

Fixed-interest periods of cover assets	Dec. 31, 2014 € million	Dec. 31, 2013 € million	Change (percent)
Mortgage Pfandbriefe	**46,456**	**45,018**	**3.2**
<= 6 months	3,264	6,242	−0.6
>6 months and <= 12 months	2,942		
>12 months and <= 18 months	2,306	5,380	−6.8
>18 months and <= 2 years	2,707		
>2 years and <= 3 years	4,999	5,189	−3.7
>3 years and <= 4 years	4,706	4,497	4.6
>4 years and <= 5 years	4,342	4,118	5.4
>5 years and <= 10 years	15,661	15,144	3.4
>10 years	5,529	4,448	24.3
Public-sector Pfandbriefe	**36,591**	**43,941**	**−16.7**
<= 6 months	2,300	6,448	−24.0
>6 months and <= 12 months	2,599		
>12 months and <= 18 months	1,687	5,483	−24.3
>18 months and <= 2 years	2,461		
>2 years and <= 3 years	3,989	4,396	−9.3
>3 years and <= 4 years	2,229	4,275	−47.9
>4 years and <= 5 years	1,883	2,508	−24.9
>5 years and <= 10 years	7,665	8,508	−9.9
>10 years	11,778	12,323	−4.4

213 properties were in forced administration at the balance sheet date (December 31, 2013: 230). The mortgage loans held as cover do not include any past-due payments (December 31, 2013: €1 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 30, 2015

National Association of German Cooperative Banks (BVR)
BVR

Board of Managing Directors

Uwe Fröhlich Gerhard P. Hofmann Dr. Andreas Martin

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Review Report (Translation)

Review Report (Translation)

To the National Association of German Cooperative Banks (BVR)

We have reviewed the 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 – consisting of the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the notes – for the period from January 1 to December 31, 2014.

The Board of Managing Directors of BVR is responsible for preparing the annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network in accordance with the significant financial reporting principles presented in section A of the notes to the consolidated financial statements. 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 the 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 consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network have not been prepared, in all material respects, in accordance with the significant financial reporting principles presented in section A of the notes to the annual consolidated financial statements. 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 significant financial reporting principles presented in section A of the notes to the consolidated financial statements.

Without qualifying our conclusion, we refer to section A of the notes to the consolidated financial statements, in which the significant financial reporting principles are described. The annual consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network 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 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 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 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, July 3, 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

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