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PRESS RELEASE

German cooperative banks remain strong: profit before taxes of €7.4 billion / Tier 1 capital raised to €4.9 billion

The 1,101 German cooperative banks (Volksbanken and Raiffeisenbanken, Sparda banks, PSD banks and other cooperative specialized institutions) again achieved substantial year-on-year increases in income in 2012. Booming membership, a buoyant lending business, and a rallying of securities prices resulted in a profit after taxes of €2.2 billion, up by 3.9 percent compared with the previous year. Profit before taxes came to €7.4 billion. At the same time, combined total assets grew by €21 billion to €750 billion. "These are very good results, comparing favorably with the rest of the sector, and are proof positive of our cooperative business model. Our institutions have seized opportunities presented by the market in partnership with their 30 million or so customers," said Uwe Fröhlich, President of the Bundesverband der Deutschen Volksbanken und Raffeisenbanken (BVR) [National Association of German Cooperative Banks]. "Being a member of a cooperative bank has never been as popular as it is now," he added. Almost 350,000 new members joined during the reporting period, bringing the total to 17.3 million.

"We are doing our homework and tackling the challenges of the future," explained Fröhlich. He calls on politicians and regulators to act with a sense of proportion as far as banking regulation is concerned. In his opinion, the growing complexity and number of new regulatory measures is making the low-risk, dependable banking business of the cooperative financial network increasingly difficult. "Given the many different steps being taken to regulate the banks at the moment, I ask myself whether politicians have lost sight of their primary aim of making the financial markets safe," continued Fröhlich. He believes that Berlin and Brussels are imposing more and more regulation on the banks without analyzing the cumulative effects of their action.

For example, the German government is rushing ahead of European legislation with its latest proposals regarding the separation of banks. This will create inconsistencies in the legislation in place across Europe. According to Fröhlich, the crisis management directive drawn

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up in Brussels needs to give greater recognition to the positive role played by a respected bank-specific security system, such as the BVR's protection scheme. Proven mechanisms like this must be retained so that the local cooperative banks can continue to act as an anchor of stability in the German banking sector.

Flourishing lending business

In 2012, the cooperative banking group benefited from a brisk lending business. The volume of loans extended to retail and corporate customers during the reporting period advanced by 4.4 percent, or €19 billion, year on year to €443 billion. Lending to corporate customers by the local cooperative banks rose at an above-average rate of 6.9 percent. The market as a whole generated growth of just 0.9 percent. Real-estate loans to retail customers increased by 3.4 percent to approximately €180 billion. Encouragingly, deposits were able to keep up with this pace of growth despite the fierce competition for savings deposits in Germany. Deposits from non-banks totaled €542 billion, an increase of €18 billion or 3.5 percent.

There was a slight increase in **net interest income**, which rose by 0.4 percent to €16.4 billion in the year under review. As a percentage of average total assets, the interest margin declined by 0.08 percentage points to 2.22 percent. **Net fee and commission income** grew slightly to reach €4.1 billion but, as a percentage of total assets, decreased from 0.58 percent in 2011 to 0.56 percent in 2012.

General and administrative expenses amounted to €13.7 billion. The **cost-income ratio**, which indicates the efficiency of the cooperative banking group, went up slightly – by 1.4 percentage points – to 66.9 percent. By contrast, **allowances for losses on loans and advances** decreased from €0.4 million in 2011 to €0.3 million in 2012. Loan loss allowances were therefore considerably different from the long-term average.

Fair value gains and losses on the measurement of securities benefited from the recovery of international financial and capital markets, improving significantly from a loss of €0.7 billion in 2011 to a gain of €0.7 billion in 2012. Consequently, **operating profit after fair value measurement** stood at €7.6 billion, up by 5.3 percent year on year. Profit before taxes climbed by 5.8 percent to €7.4 billion.

Net income after taxes rose by 3.9 percent compared with 2011 to €2.2 billion.

In addition, the local cooperative banks paid €3.1 billion into the fund for general banking risks in 2012, thereby strengthening reserves for the future. This contribution was 6.4 percent larger than in the previous year. The cooperative banking group further strengthened its already very healthy level of capital adequacy, with Tier 1 capital rising by €4.9 billion to €47.7 billion. The solvency ratio improved again, rising to 15.9 percent (2011: 15.6 percent).

Outlook

Despite intense competition for retail customers and small & medium-sized corporate customers, the BVR expects the local cooperative banks to gain further market share in customer business this year. The anticipated increase in volume will at least partly compensate for the difficulties presented by low interest rates, as a result of which the Group's overall earnings are predicted to be slightly lower in 2013 than they were last year.