Consolidated Financial Statements

BVR

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

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Volksbanken Raiffeisenbanken Cooperative Financial Network

	2022 € million	2021 € million	Change (percent)
Financial performance			
Net interest income	20,546	18,232	12.7
Net fee and commission income	8,646	8,675	-0.3
Gains and losses on financial and commodities activities[1]	-5,976	377	>100.0
Net income from insurance business[2]	243	1,293	-81.2
Loss allowances	-1,363	337	>100.0
Administrative expenses	-19,078	-18,577	2.7
Other net operating income	875	186	>100.0
Profit before taxes	3,892	10,522	-63.0
Net profit	2,102	7,505	-72.0
Net assets			
Loans and advances to banks	45,292	15,843	> 100.0
Loans and advances to customers	999,937	944,028	5.9
Financial assets held for trading	49,015	47,442	3.3
Investments	240,192	248,390	-3.3
Loss allowances	-10,341	-9,562	8.1
Investments held by insurance companies	104,763	127,782[3]	-18.0
Remaining assets	152,246	192,528[3]	-20.9
Financial position			
Deposits from banks	166,002	193,809	-14.3
Deposits from customers	1,032,862	984,926	4.9
Debt certificates issued including bonds	71,149	63,521	12.0
Financial liabilities held for trading	48,825	40,045	21.9
Insurance liabilities	103,795	118,863	-12.7
Remaining liabilities	30,904	35,744	-13.5
Equity	127,569	129,543	-1.5
Total assets/total equity and liabilities	**1,581,104**	**1,566,451**	**0.9**
Profitability/efficiency			
Cost/income ratio (percent)	78.4	64.6	
Return on equity (percent)[4]	3.0	8.4	
Average equity	128,556	125,645	2,3
Return on capital employed (percent)[5]	0.1	0.5	
Regulatory capital ratios			
Tier 1 capital ratio (percent)	15.1	15.2	
Total capital ratio (percent)	15.7	15.8	
Employees as at reporting date	**170,488**	**170,614**	**-0.1**

See back inside cover for footnotes 1–5.

Consolidated Financial Statements 2022

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

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Annex: Significant Financial Reporting Principles

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In brief

In 2022, the Volksbanken Raiffeisenbanken Cooperative Financial Network reported consolidated profit before taxes of €3.9 billion in challenging conditions. The decrease compared with the exceptionally healthy profit before taxes of €10.5 billion in 2021 was predominantly due to temporary, interest-rate-related valuation effects. The impairment losses are likely to be reversed in subsequent years. Equity stood at €127.6 billion, reflecting the Cooperative Financial Network's continued very good level of capitalization.

The annual consolidated financial statements of the Cooperative Financial Network provide information on the 2022 financial year of the local cooperative banks, Sparda banks, PSD banks, and other specialized institutions in the Cooperative Financial Network as well as the DZ BANK Group and Münchener Hypothekenbank. For the purposes of the consolidated reporting, the cooperative banks' financial statements, which are based on the German Commercial Code (HGB), are reconciled to International Financial Reporting Standards (IFRS).

The banking business, in particular, with its approximately 30 million customers performed extremely well in the past financial year. The Cooperative Financial Network recorded year-on-year growth of around 6 percent in its lending business, virtually crossing the trillion euro threshold for the first time with a lending volume of €999.9 billion. In the deposit-taking business, the volume of deposits rose once again, advancing by approximately 5 percent to €1,033 billion. Consolidated total assets held relatively steady, increasing by just under 1 percent to €1,581 billion.

The first positive effects of higher interest rates and the further growth in the lending volume resulted in net interest income of €20.5 billion in 2022, a rise of 12.7 percent. At €8.6 billion, net fee and commission income remained stable at the high level achieved in the previous year. Expenses for loss allowances amounted to a net addition of €1.4 billion, whereas there had been a net reversal of €0.3 billion in 2021. The bulk of the loss allowances recognized in 2022 were based on model-related effects at stages 1 and 2 under IFRS 9. These constitute a reserve for future years and for the foreseeable risks. Gains and losses on investments came to a net loss of €6.8 billion, compared with a net loss of €0.2 billion in the previous year. This deterioration was largely due to temporary, interest-rate-related valuation effects that will result in reversals of impairment losses in the next few years.

Administrative expenses went up by 2.7 percent year on year to €19.1 billion as a result of wage increases, additional capital expenditure, and inflation-related rises in costs and energy prices. The cost/income ratio rose to 78.4 percent in 2022, mainly due to fair value gains and losses on securities (2021: 64.6 percent). The Cooperative Financial Network paid €2.8 billion in income taxes in 2022, thereby making a direct and important contribution to society through the funding of regional infrastructure. After taxes, the Cooperative Financial Network's consolidated net profit amounted to just over €2.1 billion.

Management Report 2022

General Information about the Volksbanken Raiffeisenbanken Cooperative Financial Network

Structure, business model, and features of the IPS*

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

The Volksbanken Raiffeisenbanken Cooperative Financial Network consists of 735 cooperative banks (2021: 771), the DZ BANK Group, Münchener Hypothekenbank eG, the BVR protection scheme, and BVR Institutssicherung GmbH as consolidated entities. The consolidated cooperative banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

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

The Volksbanken Raiffeisenbanken Cooperative Financial Network's institutional protection scheme (IPS) is set up as a dual cooperative scheme that comprises the BVR protection scheme and BVR Institutssicherung GmbH. The IPS forms the backbone of risk management in the Cooperative Financial Network. The institutions are linked – through the BVR protection scheme – by their mutual liability. The protection scheme is mainly focused on preventing individual institutions from getting into difficulties.

* Institutional Protection Scheme.

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

Definition of the main operating segments

The definitions of the operating segments referred to in the management report – 'Retail Customers and SMEs', 'Central Institution and Major Corporate Customers', 'Real Estate Finance', and 'Insurance' – can be found in the notes to the consolidated financial statements starting on page 81.

Management Report 2022

Business Performance

Economic conditions

Russia's war of aggression against Ukraine had a considerable adverse impact on the German economy in 2022. Adjusted for inflation, gross domestic product (GDP) rose by 1.8 percent year on year, representing significantly weaker growth in economic output than in 2021. Driven by the war, general inflation continued to rise. At 6.9 percent as measured by the consumer price index (CPI), inflation was at its highest rate since Germany's reunification.

The year started with strong growth in economic output, primarily thanks to the burgeoning recovery of the services sector, which had slumped when the pandemic broke out in 2020 because it tends to involve a lot of face-to-face contact. As 2022 continued, however, the economy deteriorated markedly and ultimately contracted for the year as a whole. The main reason for this deterioration was the economic fallout from Russia's invasion of Ukraine in late February, including surging prices for energy and food as well as a worsening of the disruptions to supply chains and the availability of materials. Economic growth was further hampered by the shortage of skilled workers that had existed even before the war broke out.

Thanks to the scaling back of infection control measures, consumer spending was the biggest driver of growth in 2022 as a whole. Spending on capital equipment rose significantly too. However, construction investment declined due to the shortage of materials and labor, higher mortgage rates, and other factors. Foreign trade also acted as a brake on overall economic growth because there was a sharper increase in imports than in exports.

The labor market continued to bounce back from the crisis in 2020, with a further fall in the number of people registered as unemployed. Despite a temporary rise as a result of Ukrainian refugees being included in the figures for the first time, the average number of people out of work decreased by around 200,000 to roughly 2.4 million in 2022. This meant a further reduction in the unemployment rate, from 5.7 percent in the previous year to 5.3 percent. The number of people in work in Germany in 2022 swelled by almost 600,000 to approximately 45.6 million, thereby reaching a new high.

In its monetary policy, the European Central Bank (ECB) responded to the high inflation rates and, on July 27, 2022, raised its key interest rates for the first time since 2011. By the end of the year, the rate for the deposit facility had climbed from minus 0.5 percent to 2.0 percent. The interest rate for main refinancing operations advanced from 0.0 percent to 2.5 percent, while the rate for the marginal lending facility grew from 0.25 percent to 2.75 percent. In addition, the ECB stressed that these rate hikes would be followed by further increases in 2023 in order to bring down inflation.

As part of its tightening of monetary policy, the ECB also changed the conditions of its longer-term refinancing operations by raising the interest rate to the level of the deposit facility for the remaining term. Furthermore, the ECB discontinued its bond purchases on June 30, 2022 when it stopped making net purchases under the asset purchase program (APP), having already ended its net purchases under the pandemic emergency purchase program (PEPP) on March 31, 2022. On December 15, 2022, the ECB Governing Council also decided that it would stop fully reinvesting the principal payments from maturing securities under the APP from March 2023 onward and would instead reduce the volume by €15 billion per month. However, principal payments under the PEPP are to be fully reinvested until at least the end of 2024.

Volksbanken Raiffeisenbanken Cooperative Financial Network

Business situation

Despite the difficult market conditions resulting from the sharp interest-rate rises, the war in Ukraine, and the lingering effects of COVID-19 restrictions, the Volksbanken Raiffeisenbanken Cooperative Financial Network reported a profit before taxes of €3,892 million in 2022 (2021: €10,522 million).

The cooperative banks' lending to retail and corporate customers increased by 6.5 percent in 2022, almost repeating the record growth of the previous year (2021: 6.9 percent). The market share of the cooperative banks in the retail and corporate customer segment stood at 17.8 percent (2021: 17.9 percent).

The Cooperative Financial Network's deposit-taking business did not grow as strongly as in previous years, with customer deposits coming to €1,032,861 million (December 31, 2021: €984,926 million). These deposits played a crucial part in funding the Cooperative Financial Network's lending business.

Equity amounted to €127,569 million at the end of the reporting year (December 31, 2021: €129,543 million). The Cooperative Financial Network's capital resources provide it with a risk buffer and also form the foundations on which it can expand its lending business with retail and corporate customers.

The Cooperative Financial Network had a rating of A+ (2021: A+) from credit rating agency Standard & Poor's, while the rating from Fitch Ratings was AA− (2021: AA−). In 2022, the number of members of the Cooperative Financial Network fell slightly year on year, predominantly due to demographic change. As at the end of the financial year, the cooperative banks had 17.9 million members (individuals and companies) in total, compared with 18.2 million at the end of 2021.

Financial performance

Net interest income amounted to €20,546 million in the year under review (2021: €18,232 million). This figure was primarily influenced by the 6.5 percent growth in the volume of lending at the cooperative banks and the resulting rise in interest income, whereas there was an only moderate increase in deposits due to customers' reduced ability to save. Within the net figure, interest income rose sharply to €22,593 million (2021: €19,448 million) and interest expense to €3,499 million (2021: €2,622 million). The cooperative banks' net interest income is the biggest source of income for the Cooperative Financial Network.

Net fee and commission income stabilized at the prior-year level, dropping by just €29 million to €8,646 million in the year under review (2021: €8,675 million). It was therefore in line with expectations. The main sources of income continued to be payments processing (including card processing) and securities brokerage business with entities in the Cooperative Financial Network. The bulk of net fee and commission income is attributable to the cooperative banks. Net fee and commission income also included the volume-related net income contribution resulting from an increase in the average assets under management.

The Cooperative Financial Network's **gains and losses on trading activitie**s amounted to a net gain of €1,009 million in the reporting year (2021: net gain of €339 million). Gains and losses on trading activities are largely influenced by the DZ BANK Group and improved thanks to the good performance of the capital markets operating business, in particular due to valuation effects resulting from significant changes in the fair value of own issues and other instruments.

The net loss under **gains and losses on investments** came to €6,774 million (2021: net loss of €152 million). This significant deterioration had been anticipated and was largely attributable to realized gains and losses on sales of securities during the year and to measurement effects at the cooperative banks. In this context, the jump in interest rates over the course of the year resulted in valuation adjustments in the securities portfolios that were almost entirely interest-rate-related. However, the cooperative banks tend to hold the securities to maturity.

Loss allowances were calculated at a significantly higher level in 2022, as had been forecast in 2021, and amounted to a net addition of €1,363 million (2021: net reversal of €337 million). The gloomy economic conditions were reflected in the increased additions that had to be made to parameter-based loss allowances, whereas the economic recovery in the previous year had meant a low level of company insolvencies and income from the reversal of loss allowances for individual exposures.

Other gains and losses on valuation of financial instruments deteriorated markedly year on year and came to a net loss of €211 million in the reporting year (2021: net gain of €190 million). This was due to the deterioration in this key figure in the DZ BANK Group, which was primarily driven by the valuation of guarantee commitments and own-account investments in the Union Investment Group, the performance of bonds from eurozone periphery countries, and the gain/loss from ineffectiveness in hedge accounting. Gains and losses from fair value hedge accounting amounted to a net loss of €45 million (2021: net gain of €20 million), gains and losses on derivatives used for purposes other than trading amounted to a net loss of €6 million (2021: net gain of €58 million), and gains and losses on financial instruments designated as at fair value through profit or loss amounted to a net loss of €160 million (2021: net gain of €111 million).

Net income from insurance business, which is exclusively attributable to the R+V Group, comprises premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance benefit payments, and insurance business operating expenses. As expected, net income from insurance business fell sharply to €243 million in 2022 (2021: €1,293 million).

The reduction was primarily due to the deterioration – driven by the situation in the capital markets – in gains and losses on investments held by insurance companies and other insurance company gains and losses to a net loss of €3,405 million (2021: net gain of €5,233 million). Some of these decreases were offset by a fall in insurance benefit payments to €12,127 million (2021: €20,356 million). In the non-life insurance business, the overall claims rate was above the level of the prior year but below the three-year average. In the inward reinsurance business, the series of winter storms in Europe, plus tornadoes, hurricanes and other natural disasters outside Germany, resulted in claims incurred of €285 million. Premiums earned declined to €18,397 million (2021: €18,994 million), while insurance business operating expenses incurred in the course of ordinary business activities amounted to €2,622 million (2021: €2,578 million).

Administrative expenses came to 19,078 million in the year under review, which was a little higher than the prior-year figure of €18,577 million. The bulk of the administrative expenses were attributable to staff expenses amounting to €10,456 million (2021: €10,402 million), which primarily went up owing to pay rises, appointments, and higher expenses relating to additions to provisions for pensions and other post-employment benefits. Other administrative expenses, which comprise general and administrative expenses plus depreciation/amortization and impairment losses, totaled €8,622 million (2021: €8,175 million) and were predominantly attributable to additional capital expenditure on infrastructure and growth, the rise in energy costs, and general inflation.

Other net operating income swelled to €875 million (2021: €186 million), partly thanks to income from the reversal of provisions and partly because of the DZ BANK Group's higher restructuring expenses in the previous year. There were also contributions to earnings from the cooperative banks, including gains on the disposal of assets and income from property rentals.

Income taxes amounted to €1,790 million in 2022 (2021: €3,017 million), with most of this amount (€2,807 million; 2021: €3,084 million) attributable to current income taxes.

The **consolidated net profit** after taxes stood at €2,102 million in 2022 (2021: €7,505 million).

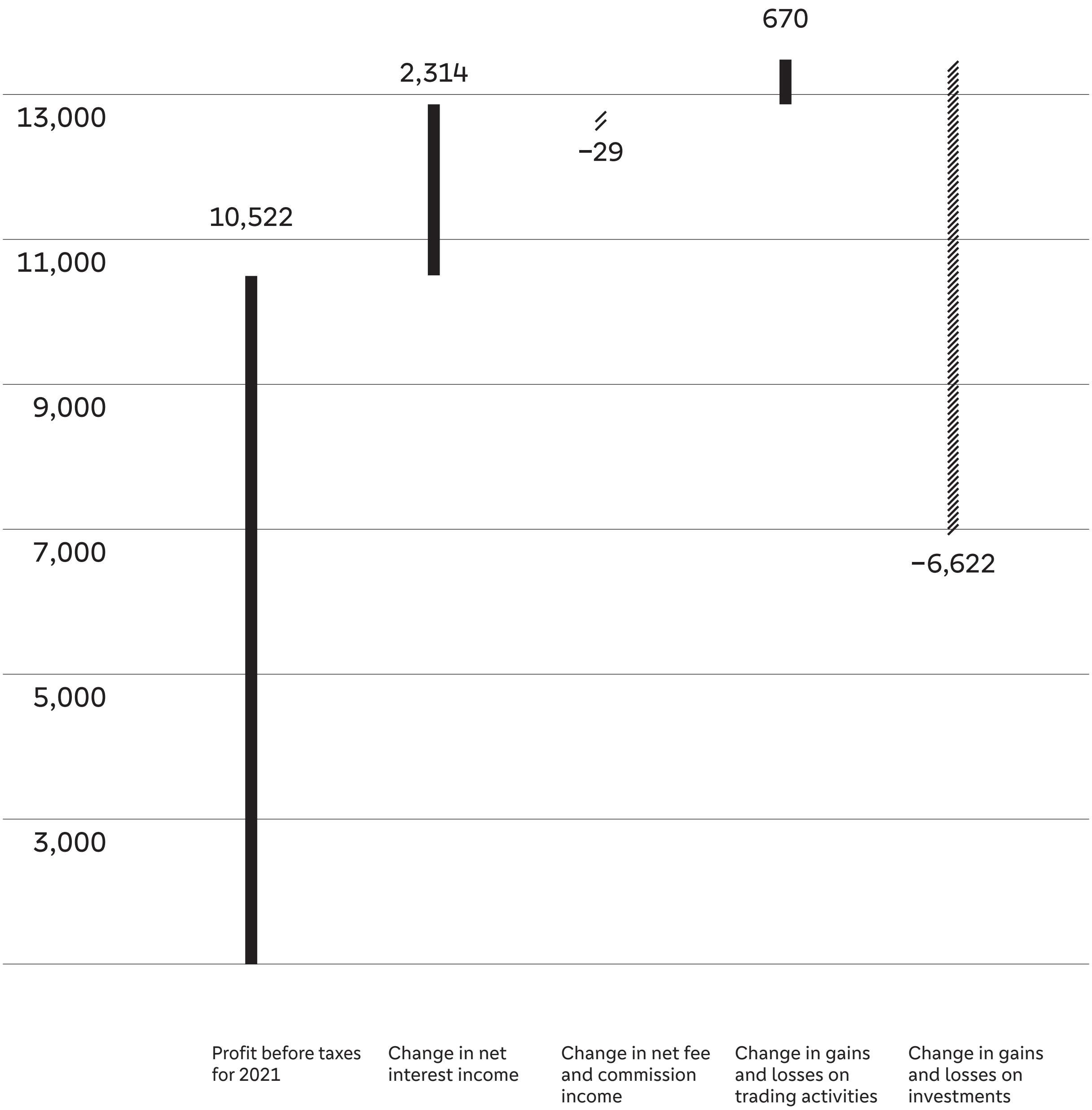
The Cooperative Financial Network's **cost/ income ratio** came to 78.4 percent in 2022 (2021: 64.6 percent).

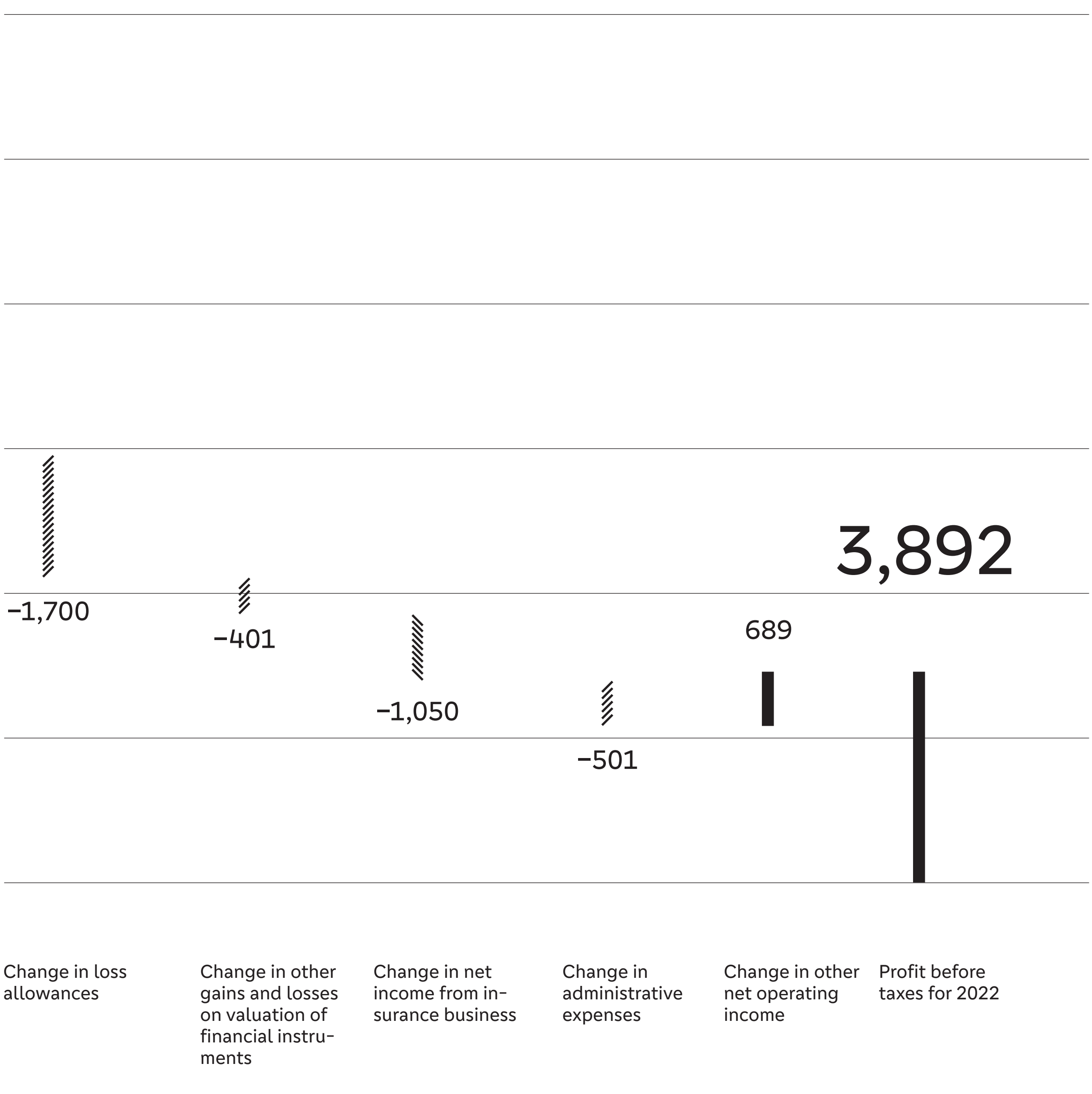
Financial performance

	2022 € million	2021 € million	Change (percent)
Net interest income	20,546	18,232	12.7
Net fee and commission income	8,646	8,675	−0.3
Gains and losses on trading activities	1,009	339	>100.0
Gains and losses on investments	−6,774	−152	>100.0
Loss allowances	−1,363	337	>100.0
Other gains and losses on valuation of financial instruments	−211	190	>100.0
Net income from insurance business	243	1,293	−81.2
Administrative expenses	−19,078	−18,577	2.7
Other net operating income	875	186	>100.0
Profit before taxes	**3,892**	**10,522**	**−63.0**
Income taxes	−1,790	−3,017	−40.7
Net profit	**2,102**	**7,505**	**−72.0**

Income statement – breakdown of the change in profit before taxes by line item

€ million




−1,700
−401
−1,050
−501
689
3,892
Change in loss allowances
Change in other gains and losses on valuation of financial instruments
Change in net income from insurance business
Change in administrative expenses
Change in other net operating income
Profit before taxes for 2022

Financial position

The consolidated **total assets** of the Volksbanken Raiffeisenbanken Cooperative Financial Network rose by €14,653 million to €1,581,104 million as at December 31, 2022 (December 31, 2021: €1,566,451 million). Trust activities amounted to a volume of €3,579 million (December 31, 2021: €3,830 million). Of the total assets before consolidation, 62.7 percent was attributable to the cooperative banks (December 31, 2021: 62.3 percent) and 34.2 percent to the DZ BANK Group (December 31, 2021: 34.7 percent).

On the **assets** side of the balance sheet, loans and advances to banks went up by €29,449 million to €45,292 million (December 31, 2021: €15,843 million) and loans and advances to customers by €55,909 million to €999,937 million (December 31, 2021: €944,028 million). As in previous years, this upward trend was mainly driven by increased lending by the cooperative banks. By contrast, cash and cash equivalents declined to €117,964 million (December 31, 2021: €156,973 million).

Hedging instruments (positive fair values) rose to €10,169 million (December 31, 2021: €389 million). Financial assets held for trading increased by €1,573 million to €49,015 million at the end of 2022 (December 31, 2021: €47,442 million) largely due to the growth in derivatives (positive fair values) to €21,474 million (December 31, 2021: €16,188 million). Conversely, bonds and other fixed-income securities declined to €7,602 million (December 31, 2021: €10,815 million), shares and other variable-yield securities to €1,408 million (December 31, 2021: €1,772 million), and receivables to €18,064 million (December 31, 2021: €18,294 million).

Investments fell to €240,192 million as at December 31, 2022 (December 31, 2021: €248,390 million). The principal reason for this was the decrease in bonds and other fixed-income securities to €152,460 million (December 31, 2021: €163,582 million), whereas shares and other variable-yield securities increased to €82,289 million (December 31, 2021: €79,710 million).

Investments held by insurance companies went down from €127,782 million as at December 31, 2021 to €104,763 million at the end of 2022. This reduction was largely due to the fall in fixed-income securities to €47,259 million (December 31, 2021: €60,951 million), in registered bonds to €4,790 million (December 31, 2021: €7,795 million), in assets related to unit-linked contracts to €16,429 million (December 31, 2021: €18,719 million), in mortgage loans to €10,960 million (December 31, 2021: €13,005 million), in promissory notes and loans to €5,857 million (December 31, 2021: €7,072 million), and in variable-yield securities to €13,023 million (December 31, 2021: €13,742 million). However, investment property increased to €4,028 million (December 31, 2021: €3,813 million) and derivatives (positive fair values) to €278 million (December 31, 2021: €199 million).

On the **equity and liabilities** side of the balance sheet, deposits from banks contracted to €166,002 million (December 31, 2021: €193,809 million). The prior-year figure had been boosted by the expansion of support loan business in connection with the COVID-19 pandemic. The volume was back at normal levels at the end of 2022.

Deposits from customers grew from €984,926 million as at December 31, 2021 to €1,032,861 million as at the end of the reporting year. This rise can be explained by the increase in other deposits, whereas savings deposits and home savings deposits declined overall.

Debt certificates issued including bonds advanced to €71,149 million (December 31, 2021: €63,521 million), mainly because bonds issued rose to €56,733 million (December 31, 2021: €50,298 million) and other debt certificates issued increased to €14,416 million (December 31, 2021: €13,223 million).

Financial liabilities held for trading stood at €48,825 million as at December 31, 2022 (December 31, 2021: €40,045 million). This rise was attributable, in particular, to derivatives (negative fair values) amounting to €26,642 million (December 31, 2021: €15,402 million) and liabilities of €1,104 million (December 31, 2021: €804 million). By contrast, short positions fell to €1,017 million (December 31, 2021: €1,548 million) and bonds issued including share certificates, index-linked certificates, and other debt certificates issued decreased to €20,014 million (December 31, 2021: €22,245 million).

Insurance liabilities fell to €103,795 million (December 31, 2021: €118,863 million), primarily owing to the reduction in provisions for premium refunds to €4,436 million (December 31, 2021: €11,237 million).

Equity declined to €127,569 million as at the end of 2022 (December 31, 2021: €129,543 million). Within this figure, there was a reduction in the reserve from other comprehensive income to minus €3,940 million (December 31, 2021: €1,947 million) that was mainly due to a fair-value-related fall in financial instruments measured at fair value through other comprehensive income. Conversely, subscribed capital swelled from €14,938 million as at December 31, 2021 to €16,485 million as at December 31, 2022 and retained earnings increased to €112,710 million (December 31, 2021: €109,874 million). The cooperative banks accounted for 88.5 percent of equity while the other entities in the Cooperative Financial Network accounted for 11.5 percent. This equity allocation highlights the local corporate responsibility and great significance of the cooperative banks for the Cooperative Financial Network.

Capital adequacy and regulatory ratios

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

By far the greatest proportion of the consolidated own funds is held by the cooperative banks. The growth in own funds therefore arises primarily from the profits generated, and in most cases retained, by the cooperative banks and network institutions. Rights issues by the network institutions are for the most part subscribed internally and consolidated within the Cooperative Financial Network.

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

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

The Cooperative Financial Network's Tier 1 capital ratio was virtually unchanged year on year at 15.1 percent as at December 31, 2022 (December 31, 2021: 15.2 percent). The regulatory total capital ratio also held steady compared with a year earlier at 15.7 percent (December 31, 2021: 15.8 percent). In absolute terms, the Cooperative Financial Network's own funds increased by €1.8 billion to €121.7 billion. The changes in the capital ratios – both overall and in-year fluctuation – were influenced by the rise in own funds resulting from the retention of the profits reported in the 2021 financial statements and by negative effects that were attributable to almost exclusively temporary, interest-rate-related impairment in the securities portfolio and to the impact of phasing out some components of Tier 2 capital.

As at December 31, 2022, risk-weighted assets stood at €775.8 billion, which was up by €18.1 billion year on year (see table on page 23). This increase was predominantly due to the growth of loans and advances in customer-related business. In total, credit risk exposures made up 91.2 percent of risk-weighted assets (December 31, 2021: 90.9 percent). The banks in the Cooperative Financial Network primarily use the Standardized Approach to credit risk to determine their regulatory capital requirements. Some institutions also apply internal ratings-based (IRB) approaches, including the institutions in the DZ BANK Group, Münchener Hypothekenbank eG, and Deutsche Apotheker- und Ärztebank eG.

The leverage ratio stood at 7.4 percent as at December 31, 2022 (December 31, 2021: 8.0 percent). The decrease was due to special arrangements that had been introduced during the coronavirus pandemic and are now expiring.

Breakdown of risk-weighted assets

	Dec. 31, 2022 € million	Dec. 31, 2021 € million	Change (percent)
Total credit risk	**707,196**	**689,046**	**2.6**
Total under the Standardized Approach to credit risk	**601,413**	**567,392**	**6.0**
of which corporates	195,799	186,025	5.3
of which retail business	157,312	151,832	3.6
of which secured by mortgages on immovable property	103,349	95,763	7.9
of which undertakings for collective investment in transferable securities (UCITS)	56,213	56,969	−1.3
Total under IRB approaches	**101,014**	**117,468**	**−14.0**
of which corporates	51,554	49,944	3.2
of which retail business	25,935	26,805	−3.2
of which equity investments	13,284	29,382	−54.8
of which securitization exposures	**4,683**	**4,090**	**14.5**
Total market risk	**13,185**	**14,501**	**−9.1**
Total operational risk	**51,943**	**50,894**	**2.1**
Total other exposures (including CVAs[1])	**3,459**	**3,272**	**5.7**
Total	**775,783**	**757,713**	**2.4**

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

Operating segments of the Volksbanken Raiffeisen-banken Cooperative Financial Network

Retail Customers and SMEs

The **net interest income** generated by the Retail Customers and SMEs operating segment amounted to €17,771 million in the reporting year (2021: €16,249 million). This figure was primarily influenced by the 6.5 percent growth in the volume of lending at the cooperative banks and the resulting rise in interest income, whereas there was an only moderate increase in deposits due to customers' reduced ability to save. The interest margin at the cooperative banks went up relative to average total assets. TeamBank recorded a further rise in the average volume of consumer finance.

Net fee and commission income came to €8,697 million (2021: €8,843 million). In 2022, this line item was again influenced primarily by income from payments processing (including card processing) and from the securities and funds business. A further driver of net fee and commission income in the Retail Customers and SMEs operating segment was the volume-related income contribution generated by the Union Investment Group as a result of the average assets under management. DZ PRIVATBANK's contributions to income from private banking and the fund services business were up year on year. As at December 31, 2022, high-net-worth individuals' assets under management, which comprise the volume of securities, derivatives, and deposits of customers in the private banking business, came to €21.2 billion (December 31, 2021: €22.2 billion). The value of funds under management amounted to €168.0 billion as at December 31, 2022 (December 31, 2021: €182.1 billion).

Gains and losses on trading activities in the Retail Customers and SMEs operating segment came to a net gain of €234 million (2021: net gain of €218 million). This line item is derived from trading in financial instruments, gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals business, and gains and losses on commodities trading.

The net loss under **gains and losses on investments** came to €6,524 million in the year under review (2021: net loss of €427 million). The change in the gains and losses was predominantly attributable to realized gains and losses on sales of securities during the year and to measurement effects at the cooperative banks. In this context, the jump in interest rates over the course of the year resulted in valuation adjustments in the securities portfolios. However, the cooperative banks tend to hold the securities to maturity.

Loss allowances amounted to a net addition of €1,119 million (2021: net reversal of €137 million), primarily due to additions to parameter-based loss allowances at stages 1 and 2 under IFRS. The gloomy economic conditions were reflected in the increased additions that had to be made, whereas the economic recovery in the previous year had meant a low level of company insolvencies.

In the view of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks], the Cooperative Financial Network's **administrative expenses** are subject to constant cost management. In the Retail Customers and SMEs operating segment, they amounted to €16,811 million in the reporting year (2021: €16,369 million). Staff expenses amounted to €9,143 million in 2022 (2021: €9,129 million). The biggest influences on staff expenses were appointments to new and vacant positions, higher provisions for pensions and other post-employment benefits, average pay rises, and collectively negotiated one-off payments, although there was a mitigating effect from people leaving – mainly due to retirement. Other administrative expenses advanced to €7,668 million (2021: €7,240 million), notably because of the rise in energy costs and general inflation as well as higher expenses for consultancy and IT.

Other net operating income swelled to €757 million (2021: €148 million) as a result of contributions to earnings from the cooperative banks, including gains on the disposal of assets and income from property rentals.

As a result of the factors described above, the **profit before taxes** of the Retail Customers and SMEs operating segment amounted to €2,887 million in the reporting year (2021: €8,833 million). The cost/income ratio was 80.8 percent (2021: 65.3 percent).

Central Institution and Major Corporate Customers

The **net interest income** of the Central Institution and Major Corporate Customers operating segment rose to €1,577 million in the year under review (2021: €1,385 million).

In the Corporate Banking business line, net interest income went up owing to the growth of the lending volume in the operating lending business. Net interest income from structured finance was on a par with the previous year. The figure for 2022 was boosted by successful business activities that resulted in a greater lending volume in all product units and by the appreciation of the US dollar.

The year-on-year increase in net interest income from the investment promotion business primarily resulted from new business commitments and substantial portfolio growth in 2021, and from the fact that some of the associated development loans were only made available over the course of 2022 due to high demand for residential development funding. Net interest income went up in the Capital Markets business line. This increase was thanks to the growth of business with Cooperative Financial Network customers and institutional customers in the short-dated maturity segment, and to the treasury portfolios. Repayment gains on repurchased own issues also contributed to the improvement.

Net fee and commission income in the Central Institution and Major Corporate Customers operating segment came to €575 million in 2022 and was therefore higher than in the previous year (2021: €530 million).

The principal sources of income were service fees in the Corporate Banking business line (in particular, from lending business including guarantees and international business), in the Capital Markets business line (mainly from securities issuance and brokerage business, agents' fees, transactions on futures and options exchanges, financial services, and the provision of information), and in the Transaction Banking business line (primarily from payments processing including credit card processing, safe custody, and gains/losses from the currency service business).

In the Corporate Banking business line, the rise in net fee and commission income was largely attributable to the syndicated loan business, fees and commission on loans in the securitization business, fees and commissions in connection with loan processing, and financial guarantee contracts / loan commitments. The contribution to net fee and commission income in the Capital Markets business line went down due to higher expenses for bonuses on own issues and lower income from securities brokerage business.

Gains and losses on trading activities in the Central Institution and Major Corporate Customers operating segment came to a net gain of €710 million in 2022, up from a net gain of €133 million in the previous year.

Gains and losses on trading activities essentially relate to DZ BANK's business activities in the capital markets.

Gains and losses on operating trading activities amounted to a net gain of €528 million, compared with €616 million in 2021. Widening credit spreads had a substantial adverse impact on gains and losses on trading activities. Income in the business with institutional customers went up year on year across all customer groups. Helping customers to protect their investments against rising interest rates through the use of derivative hedge transactions was a focal topic. The foreign-exchange business improved too in light of volatility in the currency markets. Business in interest-rate structures also picked up in terms of both profitability and volume.

Secondary market business in bonds was weaker than in the previous year due to the market environment. Whereas there had been a significant negative impact from valuation effects in 2021, these effects made a positive contribution to gains and losses on trading activities in the reporting year. One of the primary drivers of such effects in 2022 were changes in fair value gains and losses on own issues in the subcategories 'financial assets and liabilities measured at fair value through profit or loss' (fair value PL) and 'financial assets and liabilities designated as at fair value through profit or loss' (fair value option). Whereas mark-ups had narrowed in the previous year, mainly due to calmer conditions in the bond markets following the COVID-19 crisis (2021: loss of €257 million), these mark-ups widened again in 2022, which gave rise to a net gain of €241 million for these issues under fair value gains and losses. Ineffectiveness in hedge accounting also boosted earnings. This income was matched by an expense in the same amount recognized under other gains and losses on valuation of financial instruments.

Gains and losses on investments deteriorated from a net gain of €225 million in the previous year to a net gain of €37 million in the year under review. This was predominantly due to expenses from the sale of securities, although some of the expenses were offset by gains arising from the unwinding of hedges in the context of portfolio fair value hedge accounting.

In 2022, the gloomy economic outlook resulted in a net addition to **loss allowances** of €93 million in the Central Institution and Major Corporate Customers operating segment (2021: net reversal of €241 million). This was largely a result of factoring in macroeconomic forecasts, which are taken into account when determining the expected losses in stages 1 and 2. Furthermore, loss allowances were increased in stages 2 and 3 owing to geopolitical risks and changes in the credit ratings of individual industries and counterparties.

Other gains and losses on valuation of financial instruments came to a net gain of €41 million in 2022 (2021: net gain of €102 million). Within this figure, there was a deterioration in the valuation of financial instruments measured at fair value through profit or loss, in credit-risk-related measurement effects relating to financial assets measured using the fair value option, and in the gain/loss from ineffectiveness in hedge accounting.

Administrative expenses amounted to €1,915 million in the year under review (2021: €1,851 million). Staff expenses went down, partly due to interest-rate-related measurement effects on provisions for employee benefits. Other administrative expenses increased, largely owing to a rise in IT costs, office expenses, and consultancy expenses.

Other net operating income swelled to €116 million (2021: net expense of €48 million), partly thanks to income from the reversal of provisions and partly because of higher restructuring expenses in the previous year.

Due to the factors described above, **profit before taxes** in the Central Institution and Major Corporate Customers operating segment rose to €1,048 million in the year under review (2021: €717 million). The cost/income ratio was 62.7 percent in 2022 (2021: 79.5 percent).

Real Estate Finance

The **net interest incom**e of the Real Estate Finance operating segment of the Cooperative Financial Network amounted to €2,070 million in 2022 (2021: €1,717 million).

Of this increase, €185 million was attributable to a one-off item in connection with the reversal of provisions relating to building society operations, €95 million to lower additions to provisions relating to building society operations, and €44 million to the lower interest rates applicable to current tariffs at Bausparkasse Schwäbisch Hall. By contrast, there was a further fall in net interest income arising on investments. However, growth in the volume of real estate loans at DZ HYP provided a boost to net interest income.

A net expense is traditionally reported in the Real Estate Finance operating segment under **net fee and commission income** as a result of agents' fees. This net expense amounted to €82 million in the reporting year (2021: €100 million), representing a year-on-year improvement.

Gains and losses on investments in the Real Estate Finance operating segment deteriorated to a net loss of €84 million (2021: net gain of €73 million). The net loss reported for 2022 was predominantly influenced by the sale of bonds at Bausparkasse Schwäbisch Hall and of Portuguese government bonds at DZ HYP.

Loss allowances in the Real Estate Finance operating segment saw a net addition of €161 million in the reporting year (2021: net addition of €43 million). This can largely be explained by the updating of the measurement parameters at DZ HYP on the back of the substantial shift in economic conditions.

Other gains and losses on valuation of financial instruments in the Real Estate Finance operating segment deteriorated year on year, amounting to a net gain of €9 million in 2022 (2021: net gain of €56 million). A narrowing of credit spreads was evident in both 2022 and 2021, although this had resulted in a more positive overall valuation effect in 2021, particularly in respect of the fair value gains and losses on Italian, Spanish, and Portuguese government bonds.

Administrative expenses rose to €930 million in 2022 (2021: €894 million). Staff expenses went up, mainly due to the increase in headcount, higher provisions for pensions and other post-employment benefits, salary increases under collective pay agreements, and an inflation compensation payment.

Profit before taxes in the Real Estate Finance operating segment amounted to €861 million in the year under review (2021: €865 million). The performance of the Real Estate Finance operating segment, as outlined above, meant that the cost/income ratio improved to 47.6 percent (2021: 49.6 percent).

Insurance

Premiums earned came to €18,397 million (2021: €18,994 million), reflecting the integral position held by the R+V subgroup within the Cooperative Financial Network.

Premium income earned in the life insurance and health insurance business fell by a total of €693 million to €8,707 million (2021: €9,400 million).

Premiums earned from the life insurance business declined by €792 million to €7,842 million. Except for the business involving unit-linked products, all product groups recorded a downturn in premium income, with single premiums falling particularly sharply.

In the health insurance business, net premiums earned rose by a total of €99 million to €865 million across all product groups.

In the non-life insurance business, premium income earned grew by €174 million to €6,738 million, with most of this growth being generated from corporate customer business and banks/deposit business.

Premiums earned from the inward reinsurance business diminished by €77 million to €2,952 million. The portfolio in the UK motor vehicle liability division was scaled back. All other product groups, particularly loans and deposits, recorded increases in premium income. While business in the US and Asia improved, Europe and all other regions recorded downturns. Nonetheless, Europe remains the biggest market.

Gains and losses on investments held by insurance companies and other insurance company gains and losses deteriorated by €8,640 million to a net loss of €3,360 million (2021: net gain of €5,280 million). This figure includes the fair value-based gains and losses on investments held by insurance companies in respect of insurance products constituting unit-linked life insurance for the account and at the risk of employees, employers, and holders of life insurance policies (unit-linked contracts). The gains and losses on investments held by insurance companies attributable to unit-linked contract products generally have no impact on profit/loss before taxes, because this line item is matched by an insurance liability addition or reversal of the same amount.

The level of long-term interest rates was significantly higher than in 2021. The 10 year swap rate was 3.20 percent as at December 31, 2022 (December 31, 2021: 0.30 percent). The movement of spreads on interest-bearing securities had a negative impact on gains and losses on investments held by insurance companies and other insurance company gains and losses. In the year under review, spreads continued to widen. A weighted spread calculated in accordance with R+V's portfolio structure stood at 89.8 points as at December 31, 2022 (December 31, 2021: 66.7 points). In the comparative period, this spread had risen from 50.3 points as at December 31, 2020 to 66.7 points as at December 31, 2021.

During the reporting year, equity markets relevant to R+V performed worse than in 2021. For example, the EURO STOXX 50, a share index comprising 50 large listed companies in the eurozone, fell by 504 points over the reporting year to 3,794 points. In 2021, this index had risen by 745 points.

In the reporting year, movements in exchange rates between the euro and various currencies were generally less favorable than in the previous year. For example, the US dollar/euro exchange rate on December 31, 2022 was 0.937 compared with 0.879 as at December 31, 2021. In the previous year, the exchange rate had moved from 0.817 as at December 31, 2020 to 0.879 as at December 31, 2021.

Overall, these trends in the reporting year essentially resulted in a €7,918 million negative change – resulting from the effects of changes in negative fair values – in unrealized gains and losses to a net loss of €5,302 million (2021: net gain of €2,616 million), a €937 decrease in the contribution to earnings from the derecognition of investments to a loss of €866 million (2021: gain of €70 million), a €354 million deterioration in foreign-exchange gains and losses to a net gain of €407 million (2021: net gain of €761 million), and a €25 million decline in the balance of depreciation, amortization, impairment losses, and reversals of impairment losses to a net expense of €101 million (2021: net expense of €76 million). However, net income under current income and expense rose by €133 million to €2,229 million (2021: €2,096 million), while other insurance gains and losses and non-insurance gains and losses improved by €460 million to a net gain of €272 million (2021: net loss of €187 million).

Owing to the inclusion of provisions for premium refunds (particularly in the life insurance and health insurance business) and claims by policyholders in the fund-linked life insurance business, the change in the level of gains and losses on investments held by insurance companies also affected the 'insurance benefit payments' line item presented below.

Insurance benefit payments amounted to €12,127 million, which equated to a fall of €8,229 million compared with the corresponding figure of €20,356 million in 2021. The change in these payments reflected both the trend in net premiums earned and the policyholder participation in gains and losses on investments held by insurance companies.

At the companies offering personal insurance, the changes in insurance benefit payments were in line with the change in premium income and in gains and losses on investments held by insurance companies and other insurance company gains and losses. For example, a large part of the change in gains and losses on investments held by insurance companies from unit-linked life insurance was also reflected in insurance benefit payments in the form of a €5,167 million fall in the expenses (2021: €2,846 million increase in expenses). Another factor in the decrease in insurance benefit payments was the change in premium refunds, which resulted from the change, recognized in profit or loss, in the provision for premium refunds. A reversal of €176 million was made from the supplementary change-in-discount-rate reserve (2021: addition of €730 million).

In the non-life insurance business, the overall claims rate was above the level of the prior year but below the three-year average. There was a major claim of around €71 million from a hotel business in December 2022. Expenses totaled €124 million from storms Nadia, Ylenia, Zeynep, and Antonia and €48 million from storms Emmelinde and Finja, with a corresponding impact on natural disaster claims during the reporting year.

In the inward reinsurance business, the net claims ratio was 73.3 percent (2021: 73.5 percent). The ratios for basic and medium claims were below those of the previous year. By contrast, the ratio for major claims went up. The series of winter storms in Europe resulted in claims incurred of €42 million. The claims in connection with flooding in the South African province of KwaZulu-Natal came to €75 million, while claims in connection with hurricane amounted to €89 million and claims resulting from tornado and hail events in April 2022 totaled €28 million. Moreover, expenses of €51 million associated with derecho storms in the United States were reflected in the ratio (a derecho is a widespread and long-lived straight-line wind storm).

Insurance business operating expenses incurred in the course of ordinary business activities went down by €10 million to €3,173 million (2021: €3,183 million). This change was attributable to the fact that the increase of €70 million in the non-life division was more than offset by decreases of €40 million each in the inward reinsurance and life/health insurance divisions.

Other net operating income decreased by €42 million to a net expense of €5 million (2021: net income of €37 million). The prior-year figure had been significantly boosted by gains on property disposals. This effect was not repeated in the reporting year.

The factors described above resulted in a **loss before taxes** of €268 million (2021: profit before taxes of €772 million).

Management Report 2022

Human Resources and Sustainability

Human resources

Having become increasingly prevalent in recent years, the use of digital media and virtual communications remained firmly established in 2022, irrespective of whether employees are at their workplace in the bank or at home. This is a clear sign of the ability of the Cooperative Financial Network and its employees to adapt to changing conditions and their willingness to adopt new technologies in their day-to-day work. The BVR has observed how managers and employees have come up with new and effective ways of communicating and keeping in touch with each other. Over the course of 2022, the task was to establish a 'new normal' that usefully combines the benefits of being in the office with the positive aspects of working remotely, as experienced in the past few years, and thereby to develop attractive hybrid working models. Human resources management created the necessary framework and was on hand to provide support.

The Cooperative Financial Network's adaptation to digital and societal change also helps to make its institutions more attractive employers. As has been the case for many years, the cooperative banks were once again included in the trendence institute's ranking of the most sought-after employers for school-leavers in 2022.

The institutions in the Cooperative Financial Network remain very aware of their central role as providers of employment and training in their regions. The ratio of trainees to other employees was virtually unchanged year on year at 6.4 percent in 2022 (see chart on page 38), showing that initial vocational training has traditionally been – and will remain – highly important to the cooperative banks and DZ BANK AG in helping to secure the skilled workforce they need.

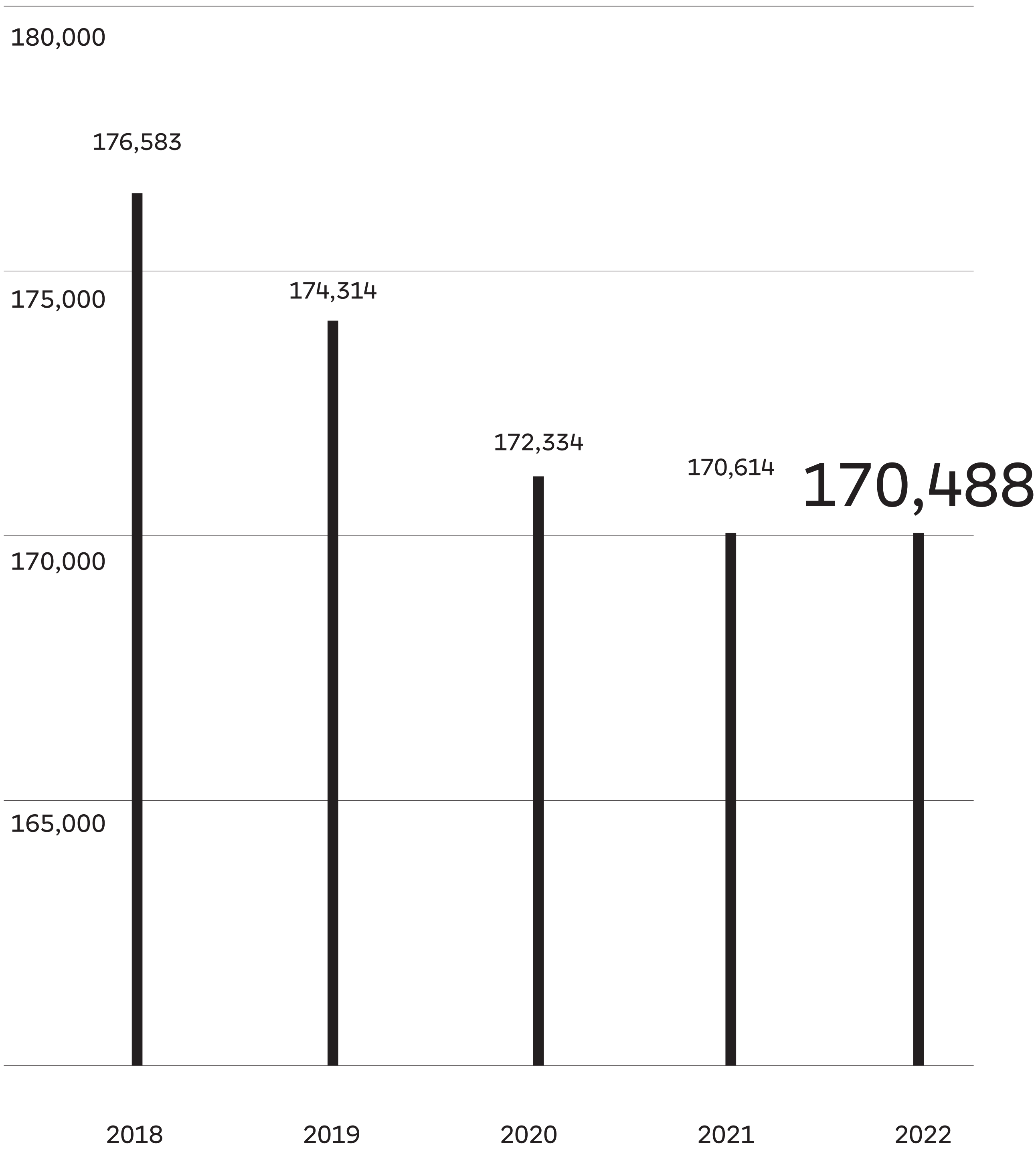
Last year, the ongoing shortage of skilled workers became increasingly acute in the banking industry and wider economy. The human resources management teams in the Cooperative Financial Network's institutions are therefore called upon to counteract this shortage by carrying out innovative recruitment activities and steadily improving the already good working conditions. After all, future success depends on being able to attract new employees and retain existing ones.

The continuing professional development (CPD) opportunities for employees are complemented by a wide range of training and development activities offered by regional associations and academies. These include combined work and degree courses. Many trainees are keen to study for a degree too, and this is encouraged by the cooperative banks and DZ BANK AG. The proportion of trainees undertaking these degree apprenticeships stands at 10.6 percent. The BVR believes that university graduates – particularly those who studied a business-related subject – also view the cooperative banks as an attractive employer. The proportion of employees with a degree increased to 9.3 percent in the reporting year (see chart on page 39).

A company cannot continue to perform strongly over the long term unless it has highly skilled and motivated employees. They lay the foundations for long-term customer relationships. Long periods of service are one of the indications of loyalty and a close bond between employees and their company. The chart on page 37 shows that approximately 68 percent of employees in the cooperative banks and at DZ BANK AG have been working at these organizations for more than 10 years and that over a third of employees have been with their bank for more than 25 years.

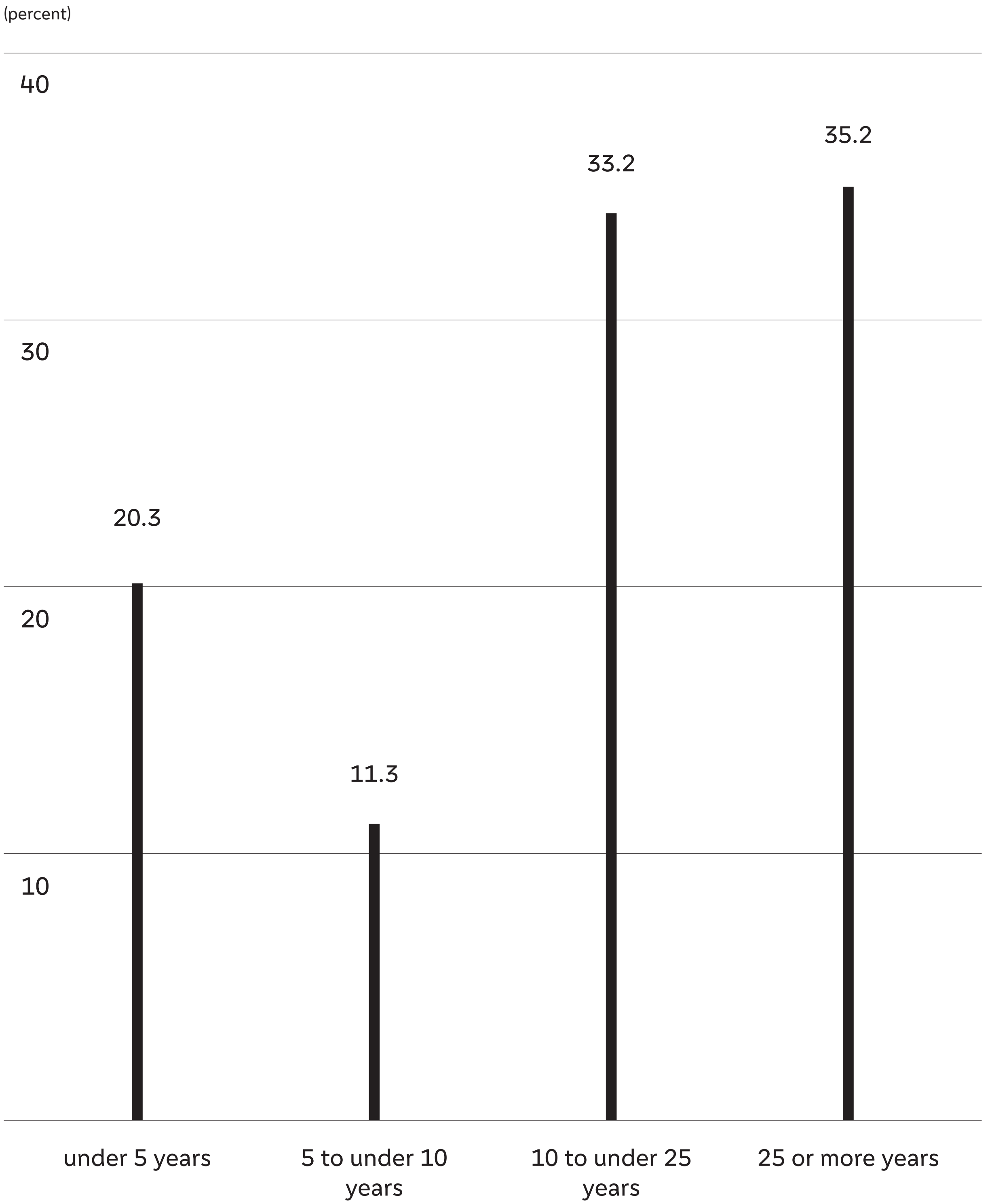
The number of employees in the Cooperative Financial Network fell slightly from 170,614 to 170,488 in 2022 (see chart on page 36).

Number of employees*



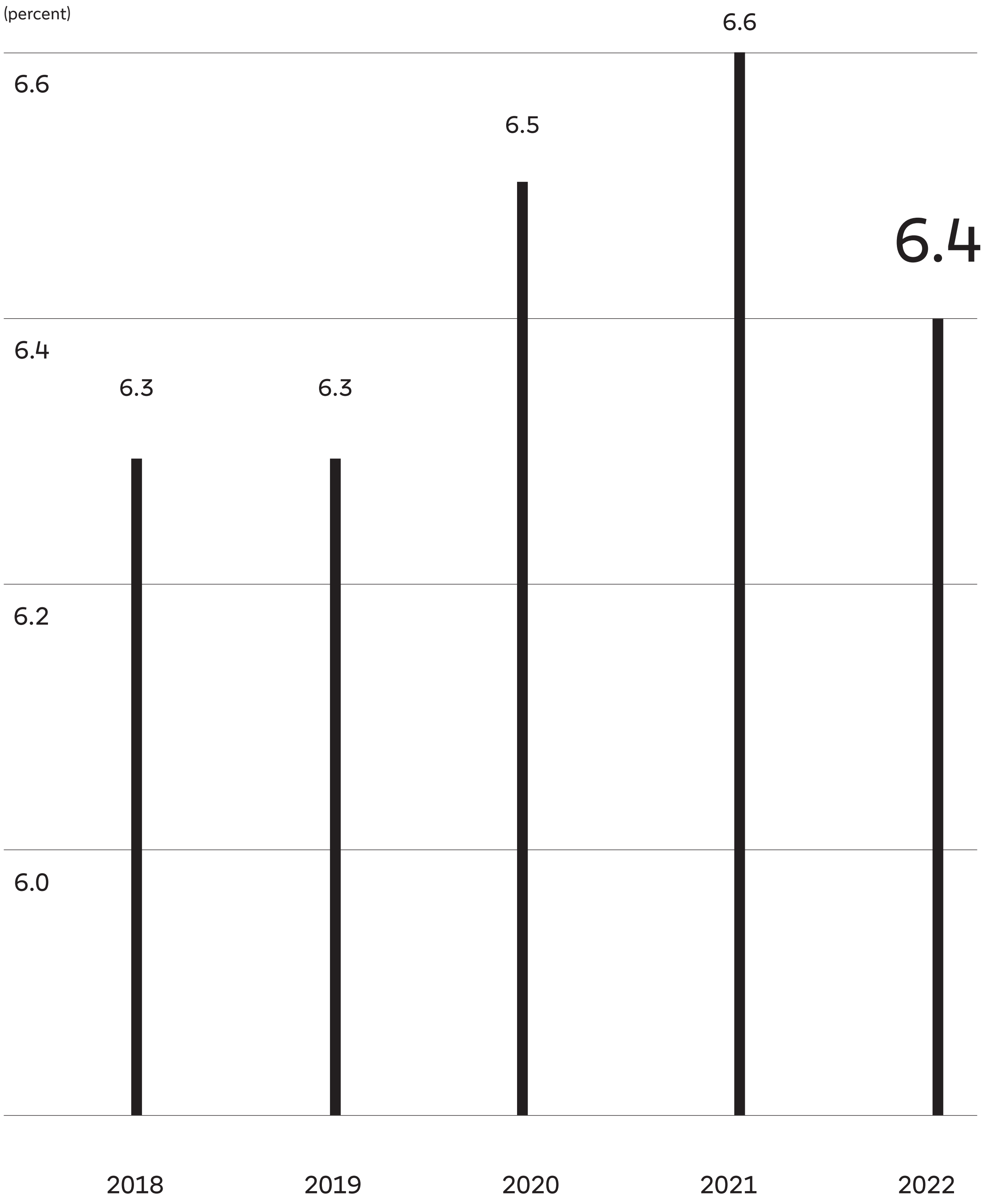
* Volksbanken Raiffeisenbanken Cooperative Financial Network.

Years of service*



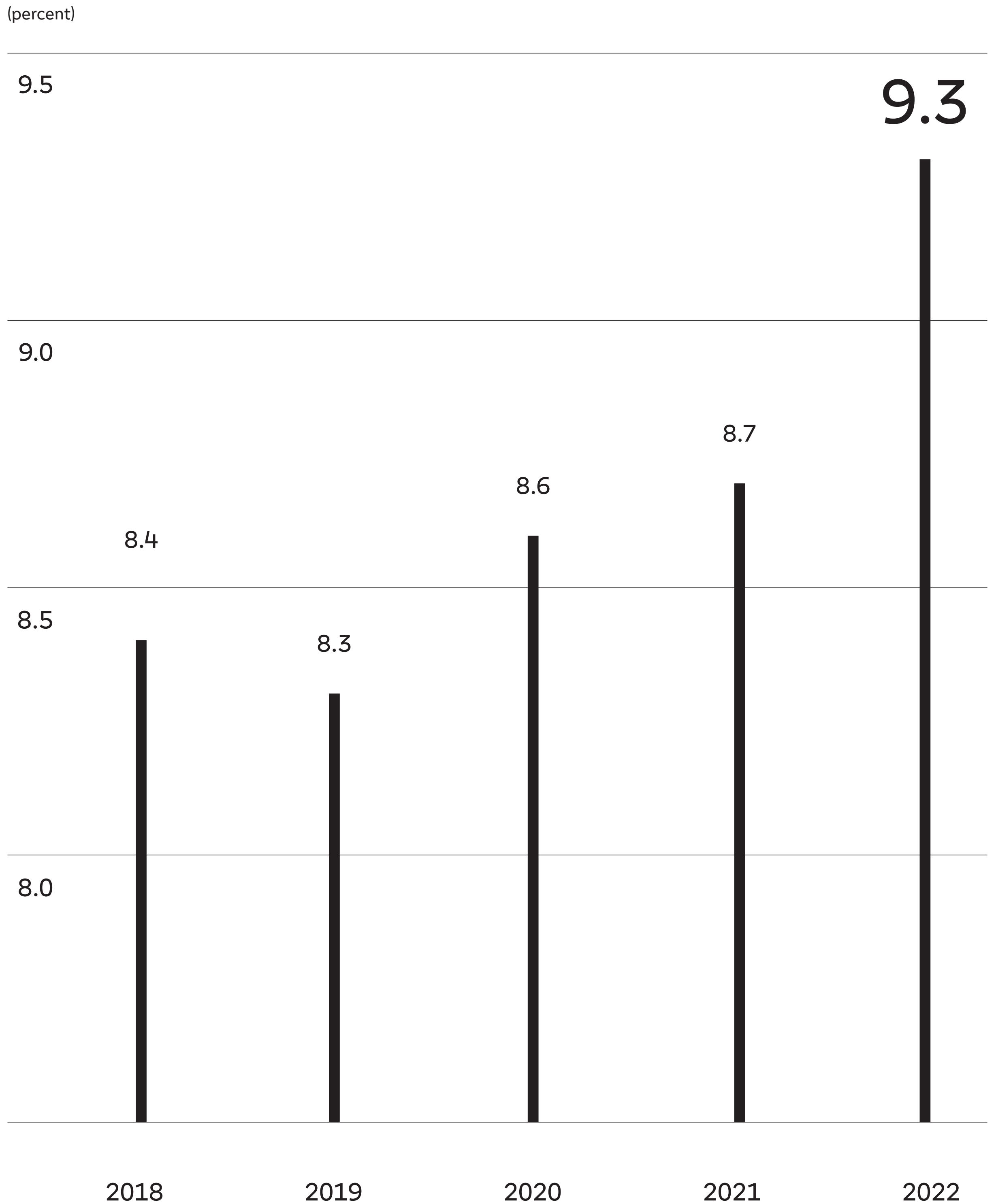
* Cooperative banks and DZ BANK AG.

Ratio of trainees to other employees*



* Cooperative banks and DZ BANK AG.

Proportion of employees with a degree*



* Cooperative banks and DZ BANK AG.

Sustainability

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

Achieving more together

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

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

Regional responsibility

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

The BVR believes that customer proximity and regional roots are what is needed during difficult times involving significant upheaval and uncertainty. The institutions in the Cooperative Financial Network are updating their values-based business model for the future, in dialogue with their members and for their benefit.

Sustainability in management processes

The factors that are driving the member institutions of the Cooperative Financial Network to further enhance the integration of sustainability into their management processes are not purely of a regulatory nature. The focus is not only on sustainability risks that could have an impact on financial performance but also on those emanating from the banks' own operations and investment activities. These complex matters require the member institutions to devote significant resources to transformation. The BVR and the specialized service providers in the Cooperative Financial Network have therefore been stepping up their support services for cooperative banks, for example by launching a network-wide project to address these issues at the end of 2019. The project's milestones included a discussion paper published in November 2020 on integrating sustainability aspects into strategic bank management and risk management, followed in January 2021 by guidelines entitled 'Doing business sustainably – analyses, positions, and strategies for cooperative banks' that are designed to assist the cooperative banks in systematically establishing sustainability management. These guidelines specifically encourage the banks to adopt a proactive position regarding sustainability and to commit to adhering to the UN's sustainable development goals (SDGs). In addition, the BVR submitted a stakeholder endorsement of the UN Principles for Responsible Banking (PRB) in January 2021 in order to underline this positioning.

Holistic approach: facilitating the network's transformation, helping others to transition, seizing market opportunities

The implementation of sustainability requirements calls for effective collaboration between the institutions of the Cooperative Financial Network, associations, and other cooperative partner companies, their service providers, and specialist organizations. To coordinate this collaboration even more efficiently, the BVR established a center of excellence for sustainability in 2022 and thereby completed a key step in updating the Cooperative Financial Network's sustainability strategy.

There are also various project activities aimed at supporting the cooperative banks, including the development of an online sustainability portal that the BVR began offering in conjunction with its partners and associations in June 2022. The portal includes a sustainability cockpit, which is a tool for systematic self-assessments, and numerous sustainability-related offerings from the Cooperative Financial Network, such as product solutions incorporating sustainability aspects, training, and examples of best practice at banks.

Another joint project headed up by the BVR is the sustainability action plan, which aims to develop levels of ambition and certain key performance indicators for the Cooperative Financial Network in the environmental, social, and corporate governance (ESG) dimensions and to provide the cooperative banks with a toolbox so that they can achieve their goals in stages in line with the maturity level chart. This fan-shaped chart shows the levels to be reached in terms of the banks' sustainability efforts. A further aim of the project is to lay the foundations for ensuring consistent ESG data across the entire network.

The BVR's activities also remain focused on incorporating sustainability aspects into the banks' core business. In addition to regulatory requirements, such as implementing the green asset ratio, the BVR has carried out further strategic sales projects, such as a current account with sustainability features, and sustainability in corporate banking.

With regard to the latter, a growing portfolio of sustainability products is becoming established across the Cooperative Financial Network. These products are distributed by the cooperative banks. The entities in the DZ BANK Group have also established various products, concepts, and processes that are based on environmental, social, and ethical criteria. Details can be found in the DZ BANK Group's Sustainability Report.

Corporate social responsibility (CSR)

Every year, the BVR conducts a survey of all member institutions in order to record Germany-wide information on corporate citizenship in the Cooperative Financial Network. This provides tangible proof of how the many different engagement activities in the regions combine to create a force to be reckoned with at national level and highlights the particular contribution that the cooperative banks make to society (CSR reports and CSR portal of the local cooperative banks, vielefuerviele.de).

The latest figures for 2022 show that the Volksbanken Raiffeisenbanken Cooperative Financial Network stepped up its corporate citizenship efforts considerably in the reporting year and thus continued to provide strong support for social issues and initiatives, despite the many difficulties and uncertainties. The institutions of the Cooperative Financial Network provided financial assistance totaling €171 million to people in Germany. Around €116 million was disbursed in the form of donations, of which €41 million was in the form of sponsorship and around €14 million in the form of income for charitable foundations for the benefit of people in local communities. This ever stronger commitment, not just in 2022 but also in the years before, reflects the healthy financial results of the Cooperative Financial Network.

The foundation assets of the Volksbanken Raiffeisenbanken Cooperative Financial Network amounted to €380 million as at December 31, 2022. This sum has been rising steadily for years. To put that into context, the equivalent amount at the end of 2012 was only €201 million. In line with the sustainability and long-term orientation of the Cooperative Financial Network's business philosophy, this commitment to charitable foundations represents a very durable way of backing local projects.

Management Report 2022

Combined Opportunity and Risk Report

Principles

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

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

Risk management in a decentralized organization

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

Institutional protection scheme of the Cooperative Financial Network

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

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

The main responsibilities of BVR-SE are to ensure stability by averting imminent financial difficulties or eliminating any such existing problems at the affiliated institutions and to prevent any negative impact on confidence in the Cooperative Financial Network. So that it can provide the necessary support in securing these aims, BVR-SE has access to a guarantee fund that is funded by contributions from the member banks. If necessary, the institutions will also support each other with additional funding (guarantee obligations).

As can be seen from its annual report, BVR-SE was able to fulfill the responsibilities set out in its articles of association – especially its responsibilities as a bank-protection scheme – in 2022. A total of 744 institutions of the Cooperative Financial Network belonged to BVR-SE as at December 31, 2022 (December 31, 2021: 781 members). The decrease stemmed solely from mergers within the Cooperative Financial Network.

BVR Institutssicherung GmbH (BVR-ISG))
BVR-ISG is an officially recognized deposit guarantee scheme and, since July 1, 2015, has been operating an institutional protection scheme within the meaning of article 113 (7) of Regulation (EU) No. 575/2013 for CRR credit institutions that has been approved by the regulator. By operating the institutional protection scheme, BVR-ISG satisfies its responsibility under its articles of association to avert or eliminate imminent or existing financial difficulties in its member institutions.

To this end, BVR-ISG will initiate any preventive or restructuring action, as required. Where, in accordance with section 10 EinSiG, BaFin identifies a compensation event in relation to a CRR credit institution that is a member of the BVR-ISG protection scheme, BVR-ISG will compensate the customers of the credit institution concerned in accordance with sections 5 to 16 EinSiG. BVR-ISG thus fulfills the statutory requirements regarding deposit protection for customers.

Together, BVR-ISG and BVR-SE form the Cooperative Financial Network's dual protection scheme. The members of the BVR-ISG protection scheme are those CRR credit institutions that also belong to the BVR and are affiliated to BVR-SE. As at December 31, 2022, the membership comprised 742 CRR credit institutions (December 31, 2021: 779), which is all of the banks in the Cooperative Financial Network that are authorized in Germany by BaFin.

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

To the extent possible under EinSiG, BVR-ISG's organizational and decision-making structures match the organizational and decision-making structures of BVR-SE. A service agreement is in place so that BVR-ISG's day-to-day business operations can be carried out by the BVR employees who perform the relevant functions for BVR-SE. These include monitoring and assessing risks for all CRR credit institutions that are members of BVR-ISG.

The activities of BVR-ISG in 2022 related to the fulfillment of its responsibilities as defined by law, the articles of association, and regulatory requirements. These activities centered on the risk-based collection of contributions, which is compliant with the relevant guidance of the European Banking Authority (EBA), the management of funds, extensive operational stress tests, and introduction of the IPS recovery plan in accordance with the Regulation on the Minimum Requirements for the Design of Recovery Plans for Institutions (MaSanV). BVR-ISG can look back on a highly successful year, having not had to take any action to protect depositors or banks or pay any compensation in accordance with section 145 of the German Bank Recovery and Resolution Act (SAG) at any time in 2022.

Risk identification and analysis

Basic structures
The Cooperative Financial Network is a decentralized organization made up of legally independent institutions that are linked – through the dual protection scheme – by their mutual liability. This decentralized element is in contrast with banking groups that have a parent company at the top of a hierarchical structure. Consequently, the power to make business decisions lies with each individual institution and its independent Board of Managing Directors and Supervisory Board. This decentralized structure determines the focus of risk management for the dual protection scheme. The focus is above all on overall analysis of the financial risk carriers – i.e. the institutions – rather than on isolated analysis of individual risk types and their scope. This fundamental methodological approach ensures that, in establishing that each individual institution's financial position and risk position are appropriate and its financial performance is adequate, the entire system – i.e. the entire Cooperative Financial Network – as a unit can be considered to be on a sound economic footing.

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

The results of the classification are supplemented by further analysis and data, in particular evaluations of the data collected as part of an annual comparative analysis. This is a data pool that the BVR compiles from data collected from its member institutions and is predominantly based on information from the institutions' accounting and reporting systems. The data from the annual comparative analysis forms the basis for analyses that use key risk indicators to identify and examine particular abnormalities. In addition, BVR-SE prepares special analyses on specific issues and specific risks, such as examining the effects of interest-rate rises and risks arising on securities investments in 2022.

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

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

BVR-SE classification process

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

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

The classification process in 2022 was based on an analysis of data from the 2021 financial statements, which revealed that the distribution of the classification results was virtually unchanged. The stability of the classifications in 2021 was attributable to the different divisions and key figures as follows. Net assets held steady, albeit with a small decrease. Both the risk-weighted total risk exposure and the volume of business recognized on the balance sheet saw slightly stronger growth than the underlying items of capital. By contrast, the risk situation in respect of the two unsecured loan ratios improved slightly. Financial performance also contributed to the positive trend as the earnings generated in 2021 showed a slight improvement. The administrative expenses ratio was primarily affected by the increase in net fee and commission income, while the risk expenses ratio reflects smaller net additions to specific loan loss allowances.

Classification of the BVR-ISG contributions

The contributions from the CRR credit institutions that are members of BVR-ISG are calculated on a risk-oriented basis in accordance with the BVR-ISG rules on contributions. The risk-weighted contribution is measured using the annual classification results and following a defined procedure. The main structural elements and the details of the calculation methodology are drawn from the EBA's guidelines (EBA/2015/10), in accordance with which deposit guarantee schemes and institutional protection schemes are required to collect risk-related contributions.

Risk management and monitoring

Preventive management
The aim of preventive management is to identify and counteract adverse economic trends in the cooperative banks at an early stage, thereby helping to prevent the need for supporting measures. An analysis is carried out of the available data and other information in order to identify institutions with potential issues. Necessary measures to stabilize and improve business performance are then agreed with the senior management of the banks in the course of supplementary discussions.

The results of the classification process provide an important basis for BVR-SE's systematic preventive management. A bank is brought into the scope of this preventive management approach no later than when it is classified as B− or lower on the basis of its annual financial statements. For some years now, other key figures are added that build on the classification results (e.g. key figures from the banks' reporting systems and from the stress tests that the supervisory authority now regularly conducts even for domestic, not systemically important banks) so that any anomalies at institutions can be identified at an early stage. In 2022, this data included the multi-year planning, the banks' regular reporting, the key figures used in the IPS recovery plan, and the statutory ad hoc disclosures required pursuant to section 24 (1) no. 4 of the German Banking Act (KWG). As a result of Russia's invasion of Ukraine and the subsequent turmoil and tensions in the money markets and capital markets, many banks had to recognize write-downs on their securities portfolios, or they avoided such write-downs using appropriate accounting methods. Analyzing this situation formed a major part of BVR-SE's preventive monitoring activities.

Before the prevention phase, the monitoring of conspicuous institutions plays a significant role in the early analysis of institutions. The particular effect in this area of BVR-SE's work in 2022 is described above. In addition, but of lesser significance, the monitoring program also reached out once again in 2022 to institutions that were not showing any particular indications of risk but that could potentially represent a major risk simply because of the size of their balance sheet. This substantially strengthened the long-term trend in the focus of BVR-SE's work, shifting away from restructuring and toward end-to-end preventive management that also includes monitoring.

Restructuring management
As before, the work of BVR-SE in restructuring member institutions is primarily aimed at ensuring that these institutions' annual financial statements are able to receive an unqualified auditors' opinion, so that regulatory measures against member institutions can be avoided. The next stage is to contractually agree the measures required in order to ensure that the bank's business regains its future viability while accommodating the interests of all members of the Cooperative Financial Network. BVR-SE's statutes provide the legal basis for all of its actions.

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

Despite the highly challenging economic conditions, there was a continued absence of any uptick in recovery activities by BVR-SE in 2022. In particular, there was no negative impact on BVR-SE's resources resulting from valuation effects in the institutions' securities portfolios. Only very minor costs were incurred for legacy cases where risks already covered had materialized or for which a loss allowance had been recognized in BVR-SE's annual financial statements. These legacy cases are being progressively reduced. The total restructuring amounts in need of protection resulting from such legacy cases were significantly lower than expected and there were only a few isolated repayments under debtor warrant obligations and other guarantee release obligations.

The overall business performance meant that the capital base of the dual cooperative institutional protection scheme was not adversely affected by support measures in 2022 and the statutory guarantee fund resources at its disposal were able to be increased again as planned.

Outlook for BVR-SE and BVR-ISG

The main influences on the financial performance of the cooperative institutional protection scheme in 2023 will be the ongoing war in Ukraine – and its impact on the German and the wider European economy – and the ECB's future decisions on interest rates. The slowdown in construction activity and the rise in finance costs for consumer and commercial borrowing also represent a challenge for business performance and financial performance. Taken together, these may result in risks and costs, for example due to new restructuring cases. At the time of preparation of the consolidated financial statements and management report, however, these risks and costs had not materialized / been incurred.

This year, BVR-ISG is again focusing on implementing regulatory requirements. The focus will be on the IPS recovery plan, specifically implementation of the MaSanV requirements in regular operations. This will involve BVR-ISG maintaining and updating the key documents and resources for its member institutions. The EBA is again due to carry out activities in connection with the regular review of the EU Deposit Guarantee Schemes Directive, which was initiated in 2019. BVR-ISG will be supporting these activities by participating in a number of the EBA task force's working groups. A crucial element of this work is the revised assessment of contributions that will be coming into force after July 3, 2024, i.e. after the accumulation period for deposit protection.

Capital management

Regulatory capital management

The consolidated financial statements of the Cooperative Financial Network provide a comprehensive overview of the main capital ratios, particularly the consolidated regulatory capital ratios. These capital ratios are fundamentally calculated in accordance with the CRR provisions using the extended aggregated calculation pursuant to article 49 (3) CRR in conjunction with article 113 (7) CRR. Information concerning the regulatory capital ratios relates to the reporting date of December 31, 2022 and does not include the retention of the profits reported in the 2022 annual financial statements. Profit is retained after the individual institution's relevant committees have given their approval. This retention of profits will further strengthen capital in 2023.

The Tier 1 capital ratio held largely steady at 15.1 percent (December 31, 2021: 15.2 percent). The Cooperative Financial Network's regulatory total capital ratio was also more or less unchanged at 15.7 percent (December 31, 2021: 15.8 percent).

Overall, regulatory own funds increased by €1.8 billion to €121.7 billion (December 31, 2021: €119.9 billion). This growth was influenced by the rise in own funds resulting from the retention of the profits reported in the 2021 financial statements and by negative effects that were attributable to generally temporary, interest-rate-related impairment in the securities portfolio and to the impact of phasing out some components of Tier 2 capital. The Cooperative Financial Network's capital is predominantly held by the cooperative banks and their members.

The total risk exposure as at December 31, 2022 amounted to €775.8 billion (December 31, 2021: €757.7 billion). This 2.4 percent increase was driven by growth in both the retail and the corporate customer lending business.

BVR-SE analyzes the regulatory capital ratios of each member bank on an ongoing basis. The institutions themselves are responsible for fulfilling the regulatory requirements at all times, including in respect of bank-specific SREP surcharges. As shown by the chart on page 54/55, the capital adequacy of the individual institutions in the Cooperative Financial Network was at a healthy level as at the reporting date of December 31, 2022. This had also been the case as at December 31, 2021.

The Cooperative Financial Network has healthy capital adequacy thanks to equity of €127.5 billion (December 31, 2021: €129.5 billion). It has continually boosted its level of capital in recent years by retaining profit. This trend substantiates the Cooperative Financial Network's sustainable business model with its broad diversification of sources of risk and income.

The Cooperative Financial Network's consolidated leverage ratio pursuant to the CRR came to 7.4 percent as at December 31, 2022 (December 31, 2021: 8.0 percent). This is continued proof of the healthy capital adequacy of the Cooperative Financial Network. The decline in the leverage ratio was attributable to the expiry of special arrangements that the supervisory authority had allowed the institutions to apply during the coronavirus pandemic. Since March 31, 2022, exposures to central banks have no longer been excluded from the calculation of the total exposure measure in accordance with article 429a (1) (n) CRR. The leverage ratio is calculated for the Cooperative Financial Network in accordance with the provisions of article 429 CRR. It is based on Tier 1 capital as determined in the extended aggregated calculation in accordance with article 49 (3) CRR. The risk exposures are determined by aggregating the individual leverage ratio submissions of all the member banks and adjusting them for material internal exposures within the joint liability scheme. The leverage ratio total exposure measure increased by 10.6 percent year on year, rising to €1,581.3 billion.

Economic capital management

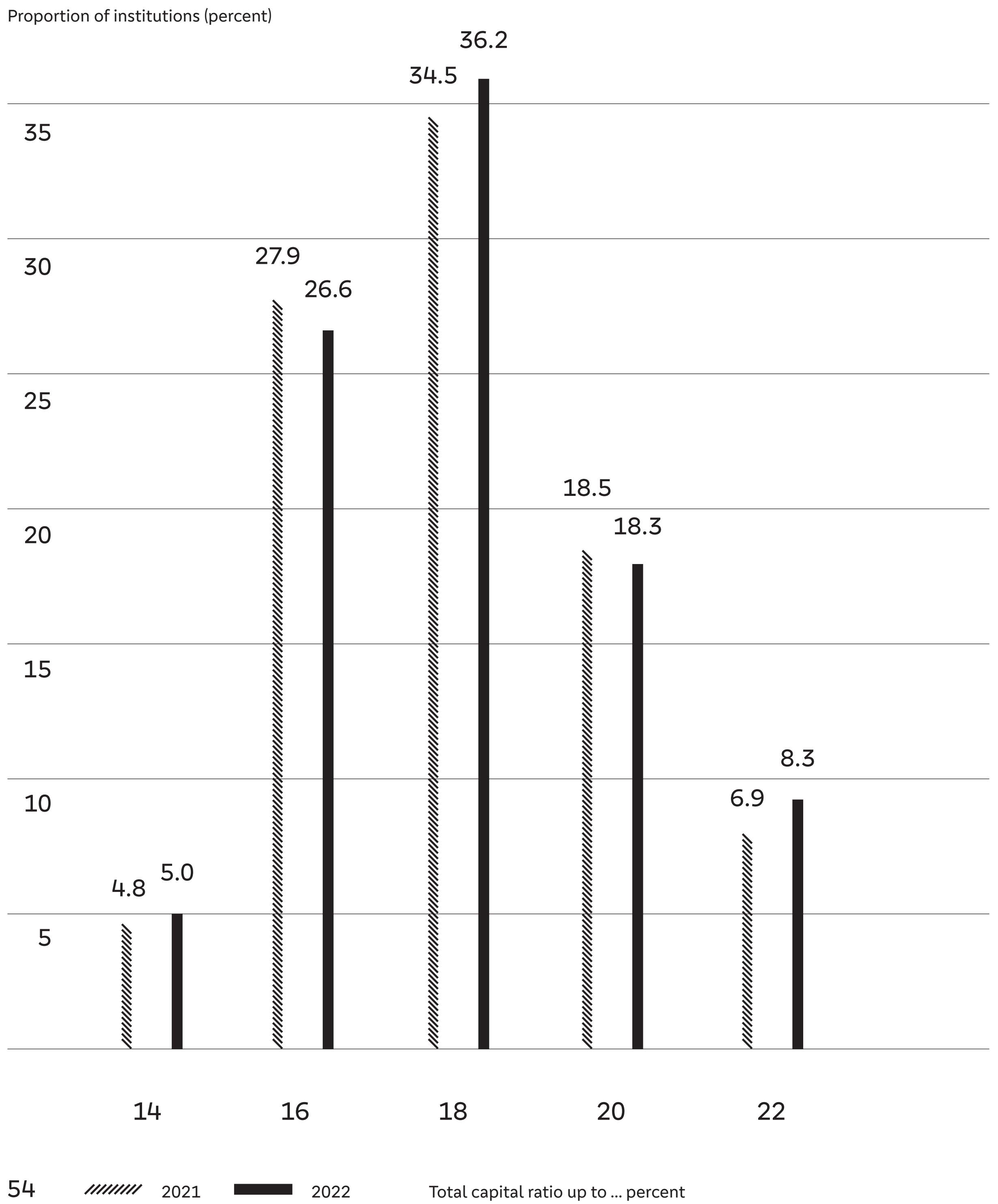
Risk capital management is a core task at each individual institution. Pursuant to the Minimum Requirements for Risk Management (MaRisk), it must be structured according to the complexity, scope of business activities, and size of the bank. The German banking regulator comprehensively revised the previous approach used for the supervisory assessment of bank-internal capital adequacy concepts and, with the aim of harmonization, adapted it to the European banking supervisor's principle of significant institutions (SIs). The concept for risk-bearing capacity consists of both a normative and an economic perspective. The latter is based on complete risk modeling of all material risks from a value-based perspective, in which immaterial risks that, in aggregate, can be classed as a material risk must also be reflected in risk-bearing capacity.

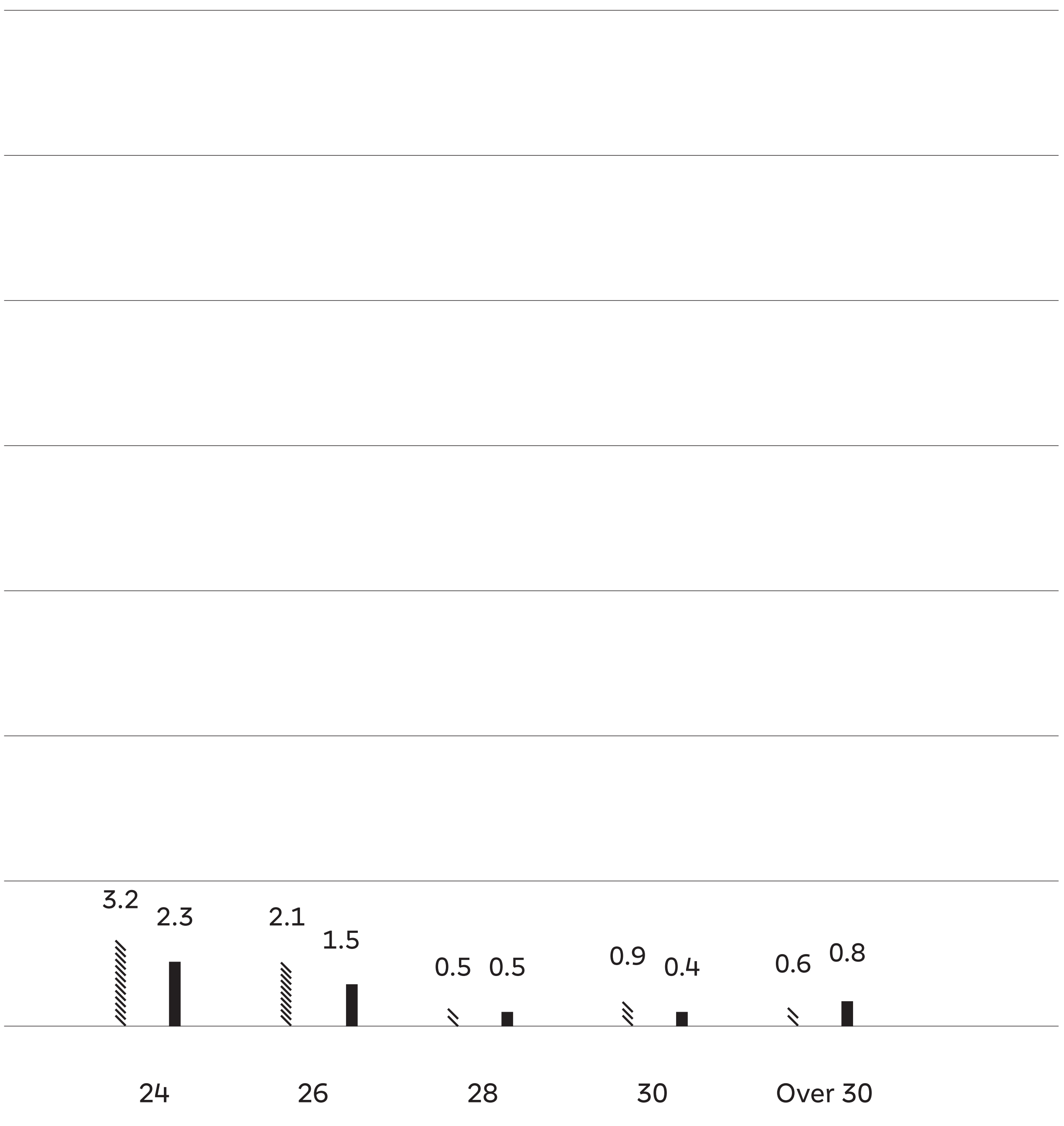
The year under review saw a rapid surge in inflation triggered by the supply price shock in the fossil energy markets. The central banks reverted from their previously very expansionary monetary policy and quickly hiked interest rates by some way. All these risk factors have a direct or delayed, indirect impact on various risk drivers, which made it necessary to analyze how they might affect counterparty risk, market risk, and liquidity risk. The effects on various capital variables and on profitability in the context of capital management therefore had to be examined.

Many institutions used scenario analysis to do so. parcIT, the center of excellence for such matters in the Cooperative Financial Network, developed the necessary parameters for an adverse scenario and a stress scenario, making them available to the cooperative banks. In accordance with the regulatory requirements, the banks must review their capital and earnings situation as part of their internal process for ensuring risk-bearing capacity (internal capital adequacy assessment process, ICAAP). This includes using stress tests covering all types of risk that show the impact on the main risk categories.

Across the banks, it is clear that diversification and hedging are among the possible ways of reducing concentrations of credit risk. In addition, bank-wide cash flows can be managed in order to avoid or mitigate the negative effects on assets that could potentially be produced by interest-rate movements. From an economic perspective, maintaining risk-bearing capacity is based on the efficient allocation of the bank's risk capital across the various risk types: counterparty risk, market risk (including real estate price risk), liquidity risk, and operational risk. This is because this approach enables assets to be increased on the back of a positive performance in the individual risk categories and at overall bank level. The normative perspective is designed to ensure the regulatory capital adequacy of the institutions in the Cooperative Financial Network. The BVR has provided the cooperative banks with guidance on sustainable measures for strengthening their capital base. A particularly important measure is the consideration of the cost of equity when pricing the lending business.

Distribution of total capital ratios in the Cooperative Financial Network




3.2
2.3
2.1
1.5
0.5
0.5
0.9
0.4
0.6
0.8
24
26
28
30
Over 30

Credit ratings of the Cooperative Financial Network

The Cooperative Financial Network has been awarded a credit rating of AA− from Fitch and of A+ from Standard & Poor's, in both cases with a stable outlook. The agencies point to the consistently successful business model focused on retail and corporate banking as the reason for the current credit ratings. Capital adequacy is also judged to be above average in terms of quantity and quality. The rating agencies recognize the Cooperative Financial Network's ability to build up capital from its own resources by retaining profits. The granular credit structure and high proportion of mortgages in the retail business are the hallmarks of the overall high level of quality in the customer lending business. Funding is secured by the use of customer deposits. Liquidity is ensured by means of an extensive and highly diversified portfolio of marketable securities, combined with the cash pooling that takes place within the Cooperative Financial Network. The dual protection scheme is seen by the rating agencies as an important connecting link and a crucial element of the risk management system of the Cooperative Financial Network.

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

Credit risk

Credit risk is the risk of losses that may arise as a result of the default or deterioration in the creditworthiness of a borrower, issuer, counterparty, or equity investment. As at December 31, 2022, the credit risk-weighted assets of the Cooperative Financial Network amounted to €707.2 billion (December 31, 2021: €689.0 billion), which equated to 91.2 percent of total risk-weighted assets (December 31, 2021: 90.9 percent). This means that credit risk is the most significant risk category for the cooperative banks' risk-bearing capacity in the normative perspective.

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

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

The price shock triggered by the war in Ukraine, for example in the gas markets, raised credible concerns that there would be significantly more production outages in the short and medium term. The manufacturing sector was faced with sometimes substantially more expensive products, which greatly squeezed companies' profits. There were also fears of a fall in profits in downstream sectors. Some consumers suffered a sharp drop in disposable income as a result of higher energy costs for heating and hot water combined with elevated inflation. This in turn will have an adverse impact on the allocation of credit ratings as rating migrations and defaults will be more likely in the future. There is also a risk of falling property prices, and thus lower carrying amounts for collateral. Finally, liquidity management may also be affected if dwindling account balances lead to reduced liquidity coverage potential.

Suitable stress scenarios were developed for the cooperative banks in order to analyze the effects on the different metrics in the normative and economic perspectives of risk-bearing capacity. The scenarios showed the banks the economic impact of the aforementioned shock. Using the extensive measurement methods available, the banks were able to quantify this impact for themselves. The assumed default probabilities are based on historical analysis. Increases in write-downs in the real estate market were also simulated. Encouragingly, the economic situation looks set to ease, which means that the scenarios described above have not materialized so far, partly thanks to significant government intervention. However, energy price levels and their impact will still have to be monitored going forward.

The Cooperative Financial Network continued to register significant growth in its lending business in 2022. Loans and advances to customers increased by 5.9 percent year on year (2021: 6.0 percent). Once again, long-term home finance was a key growth driver. The lending volume continued to increase thanks to strong demand for owner-occupied housing in the first half of 2022. Demand for mortgages declined in the second half of the year owing to the rise in lending rates and high construction costs, although this had only a minimum impact on lending growth for the year as a whole.

According to data from the Verband deutscher Pfandbriefbanken (vdp) [Association of German Pfandbrief Banks], prices for owner-occupied housing went up by 9.0 percent in the year under review (2021: 11.3 percent). However, the rapid increase in prices only continued until mid-2022, with the second half of the year seeing a fall in prices. Rising finance costs and high inflation thus appear to have brought the long-standing upswing in the German housing market to an end in 2022.

To help the member institutions to monitor the regional markets, the BVR teamed up with vdpResearch GmbH to develop a concept for measuring market volatility in individual postal code areas: BVR real-estate market monitoring. The measurements from this monitoring provide additional regional information to complement the market volatility concept of Deutsche Kreditwirtschaft (DK) [German Banking Industry Committee]. This enables the member institutions to determine the geographical areas forming their relevant markets and better comply with regulatory requirements.

The growth in the local cooperative banks' corporate banking business was predominantly driven by lending to companies in the service and construction sectors. Because of their regional roots, the local cooperative banks have also established a strong foothold in the renewable energies market and provide financial support to companies in relation to projects for increased energy efficiency and for power generation from renewable sources. The DZ BANK Group's lending business was primarily focused on entities within the Cooperative Financial Network and on real estate finance in the reporting year.

The expense for loss allowances amounted to €1.4 billion in 2022 (2021: net reversal of €0.3 billion) and was mainly attributable to the addition required for parameter-based loss allowances as a result of the gloomier economic conditions. The Cooperative Financial Network's NPL ratio (non-performing loans as a proportion of the total lending volume) decreased again slightly to stand at 1.2 percent as at December 31, 2022 (December 31, 2021: 1.3 percent). This fall in the NPL ratio was attributable to the increase in the total lending volume and an almost unchanged volume of NPLs. In summary, the institutions in the Cooperative Financial Network operate a healthy lending business overall.

Market risk

Market risk is the risk of losses that could arise from adverse changes in market prices or in factors that influence prices. Market risks are generally grouped into the following categories: equity risk, interest-rate risk, currency risk, and commodity risk.

As at December 31, 2022, the risk-weighted assets of the Cooperative Financial Network for market risk amounted to €13.2 billion (December 31, 2021: €14.5 billion), which equated to 1.7 percent of total risk-weighted assets (December 31, 2021: 1.9 percent).

Interest-rate risk has a significant influence on the banks' financial performance. Net interest income in the Cooperative Financial Network rose sharply in 2022, jumping by 12.7 percent year on year. As in previous years, the largest proportion of net interest income was generated from net interest margin contributions in the customer business, primarily the customer lending business.

The reporting year was dominated by elevated inflation and a shift in central bank policy. At the same time, other segments of the financial markets experienced volatility too. One of the most important types of market risk is interest-rate risk because it not only directly affects returns on own-account investments in securities but also has an impact on the customer lending and deposit-taking businesses.

Due to the switch to the new approach to risk-bearing capacity with effect from 2023, the cooperative banks that previously applied the old going-concern approach will now have to measure and manage their market risk using the value-at-risk (VaR) model, as already used by the institutions in the DZ BANK Group and by Münchener Hypothekenbank eG. To this end, parcIT has developed a new process based on the historical simulation method. The institutions are also required to use planning scenarios and adverse stress scenarios to produce capital plans that take account of the relevant interest-rate scenarios.

Liquidity risk

In the Cooperative Financial Network, liquidity risk is managed with the aim of ensuring that a bank can meet its payment obligations at all times. In accordance with the cooperative principle of subsidiarity, each cooperative bank is in charge of its own liquidity and risk management. Compliance with the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), which are Pillar 1 regulatory key figures, is mandatory. The business management tools that are available enable the individual cooperative banks to determine and manage their internal liquidity risk individually.

The reporting year was influenced by the combined effect of a number of crisis components. The resulting movements in the money markets and capital markets made liquidity management more challenging. Monitoring of the LCR at consolidated level, which indicates the Cooperative Financial Network's ability to meet its payment obligations in the short term, revealed a temporary reduction in mid-2022. By December 31, 2022, the median LCR of all cooperative institutions had recovered to 158.5 percent and was thus down only slightly year on year (December 31, 2021: 160.1 percent). Furthermore, the ratio was well above the mandatory minimum level of 100 percent at all times. Once again, the Cooperative Financial Network's decentralized liquidity management proved fundamentally resilient during the crisis conditions of 2022.

For many years, the Cooperative Financial Network has had a reliable liquidity structure that is deemed crisis-resistant. The loan to deposit ratio of the Cooperative Financial Network is 96.8 percent (December 31, 2021: 95.8 percent). The basis for this lies in the diversifying, risk-mitigating effect created by the stable and granular business structure of the cooperative banks and, in particular, in the institutions' traditional method of obtaining funding through customer deposits. Customers therefore recognize and reward the effectiveness of the institutional protection provided by BVR-SE and BVR-ISG, which particularly aim to safeguard deposits.

The liquidity of the Cooperative Financial Network is characterized by the strong portfolio of deposits from retail and corporate customers. This deposit portfolio has an extremely granular structure and is growing steadily. Excess liquidity is invested using the Cooperative Financial Network's internal market system at DZ BANK. As the central institution, DZ BANK is responsible for offsetting liquidity peaks that arise by pooling excess liquidity from individual cooperative banks and balancing out differences in their liquidity levels. Information about the liquidity situation of the individual banks is shared with DZ BANK on an ongoing basis, ensuring that it has a clear picture of the overall situation.

Operational risk

Based on the definition used by the banking regulator, operational risk is the risk of losses arising from inadequate or failed internal processes, personnel, or systems, or from external events. As at December 31, 2022, the risk-weighted assets of the Cooperative Financial Network attributable to operational risk amounted to €51.9 billion (December 31, 2021: €50.9 billion), which equated to 6.7 percent of total risk-weighted assets (December 31, 2021: 6.7 percent).

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

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

Operational risk is measured in consideration of the business model of the individual institution. The dominant method is quantification in the form of a lump sum, although value-at-risk (VaR) approaches are sometimes used too.

Opportunities and opportunity management

Customer membership is a distinctive feature of the cooperative banks' business model and one that is ideally suited to conveying the values of the cooperative idea. It offers the cooperative banks and product suppliers in the Cooperative Financial Network the opportunity to distinguish themselves from rival banking groups. The extensive branch network allows the institutions in the Cooperative Financial Network to stand out from online banks, ensuring they can continue to reach a wide range of customers. Strong customer retention results in measurable economic benefits, e.g. income growth for the institutions in the Cooperative Financial Network and protection of their market share. In our view, the cooperative principle has received a boost – particularly since the coronavirus pandemic and as a result of greater regionalization – that creates new opportunities for the cooperative banks to strengthen their competitive position.

Sustainability has always been enshrined in the DNA of the cooperative banks and is part of their corporate identity. Financial success and socially responsible business are inextricably linked for the cooperative banks and are always geared toward working together to support the common good. In its sustainability guidelines, the Cooperative Financial Network has made a commitment to the Paris climate goals and the UN's global sustainable development goals (SDGs). It has also set itself the objective of playing a significant role in creating sustainable forms of employment in the regions and a climate-friendly economy.

Even in the digital age, the business model of the institutions in the Cooperative Financial Network puts people and their wishes and objectives first. In the years ahead, various activities – mainly through the central IT service provider Atruvia for retail and corporate banking business but also for the back-office functions of the cooperative banks – will enable the Cooperative Financial Network to proactively adapt to the changes in the competitive environment resulting from the digital revolution. The aim is to forge ahead with digitalizing the cooperative banks' products and services and to offer all of the touchpoints that customers want (local branches as well as online and hybrid banking).

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

Digitalization, with its increasing influence on members' behavior, also offers the banks potential to improve their cost structure in the medium term. By marketing new digital payment services, implementing an online inquiry process for all of the main products, and offering digital membership, banks are able to address customer needs and attract new customers. This also enables them to target young, tech-savvy customers and members. The BVR believes that, by establishing the new specialist units Truuco (a smart data company) and Amberra (a company focused on updating the cooperative business models), it has created the structures that will allow it to create highly tailored recommendations for customers based on smart data and to also provide ecosystem offerings that go beyond banking products in the traditional sense.

In view of current interest rates, we believe that the institutions have good potential for generating income in the lending business in the next few years. This can be seen from the rise in interest rates on home finance, which are already helping to stabilize net interest income, even if the absolute volume of new business declines. The introduction of new products that enable customers to benefit from rising interest rates and the capital markets may also have a positive effect on the financial performance of the institutions in the Cooperative Financial Network and help them to secure market share in an increasingly competitive environment. However, the actual impact depends on the materialization of risks as a result of these higher interest rates, in particular with regard to the level and speed of changes in interest rates on liability-side products and – based on the implications for lending demand and credit risk – the geopolitical situation this year.

Management Report 2022

Outlook

Real economy and banking industry

Conditions in the German economy brightened in spring 2023. Supply chain disruptions are waning and energy prices are at a slightly more affordable level, which is stimulating economic growth. Against this backdrop, the economic research institutions that contribute to the Joint Economic Forecast have significantly raised their forecast for the change in Germany's GDP in 2023. Having predicted in autumn 2022 that GDP would contract by 0.4 percent year on year, they forecast a small increase of 0.3 percent in their recent spring report.

One of the main reasons for this improved forecast is that the economic slowdown that had been predicted for winter 2022/2023 last autumn was less pronounced than anticipated. According to the latest data from the Statistisches Bundesamt [German Federal Statistical Office], GDP in the fourth quarter of 2022 was down by 0.5 percent on the previous quarter on an inflation-adjusted, calendar-adjusted, and seasonally adjusted basis, falling by a further 0.3 percent in the first quarter of 2023. The economic research institutions believe that the manufacturing industry will help to prop up the economy in the coming quarters as it will benefit directly from the dissipation of supply-side disruptions. By contrast, construction activity will remain weak, partly because of the rise in finance costs.

The economic research institutions predict that, at 6.0 percent in 2023, consumer price inflation will be only slightly lower than in 2022 (6.9 percent). The rate of inflation is not expected to come down significantly until 2024 (2.4 percent) when energy prices will be lower.

In the labor market, the economic research institutions predict that employment will continue to increase. The average number of people in work in Germany in 2023 will probably rise by 330,000 to 45.9 million, while the unemployment rate is expected to edge down by 0.1 percentage point to 5.4 percent.

The start of 2023 has seen western central banks continue to tighten monetary policy because inflation rates remain high. By May 10, 2023, the ECB had raised its key interest rates by a further 125 basis points in three stages. The rate on the deposit facility thus stands at 3.25 percent, compared with 2.0 percent at the end of 2022. The interest rate for main refinancing operations has climbed from 2.5 percent to 3.75 percent. The US Federal Reserve (Fed) has also made three rate hikes in 2023 and also in three stages, increasing its key rate by a further 75 basis points to a range of 5.00 percent to 5.25 percent. The two central banks have indicated that they have now completed the bulk of the cycle of interest-rate rises and intend to stop them completely this year. Interest rates should then remain at that final level for a while. As the Fed began raising interest rates earlier than the ECB, it is also likely to reach the final level sooner.

Many of the predicted effects on the overall economy also have an impact on the outlook for the banking sector. In 2023, earnings expectations will be particularly affected by the changes in the interest-rate environment. Interest rates have continued to rise in 2023 but growth has slowed down markedly. Although we anticipate growth, it will be at a low level, in particular because inflation is not yet at the targeted level and lowering it is the main aim of these interest-rate rises. Given the prevailing interest-rate situation, we see better earnings potential for the banking industry in 2023 than was the case in 2022. This is clear, for example, from the increase in lending rates that has already taken place and that will help to stabilize net interest income. This prediction applies even though the volume of new business is likely to stagnate or even decline slightly. After all, rising interest rates also increase the obstacles for prospective buyers intending to take out a mortgage. In addition, lower real incomes resulting from persistently high inflation mean reduced demand for real estate and thus increased competition for the remaining customers. However, the widening of margins should more than offset this effect. There will be a negative effect on the liabilities side as the rising interest rates will result in customers wanting to fix the interest rates on their assets at the now higher market rates for longer periods again. The related interest expense will therefore rise dramatically, especially as virtually no interest was available on savings for a long while. We anticipate that the overall effect on net interest income will be positive as the expected growth of interest income is likely to outweigh interest expense, primarily because the usually more sluggish liabilities side and the interest-rate agreements that will be needed to be extended by the banks at higher rates will help to mitigate the slowdown in real estate finance. Substantial negative valuation effects on the banks' own-account investments are not predicted. A negative scenario like that seen in 2022 is extremely unlikely. Risk costs in the lending business are expected to rise only slightly as most fixed lending rates remain extremely low and therefore have barely any adverse impact on debt service capacity. Interest rates tend to be locked in for lengthy periods in Germany, and this model is proving its worth by helping to ensure financial stability. Another risk could arise in connection with corporate customers' financial strength. However, we are anticipating a relatively small impact on credit risk that should remain manageable. We believe that the fallout from geopolitical events will continue to weigh particularly heavily on the cost of living. Although price rises (inflation) are flattening out, price levels are still much higher than they were a year ago. This means, for example, that a significantly larger proportion of household income has to be spent on energy and food. Households whose debt service capacity has only a small buffer may struggle and therefore need to be monitored closely by the institutions. The effects of this scenario may potentially be alleviated for consumers by the compensatory wage settlements that are starting to be reached in some industries. However, these higher wages could take their toll on companies, which may then suffer financial difficulties and find themselves forced to raise prices.

Volksbanken Raiffeisenbanken Cooperative Financial Network

From an operational perspective, the Cooperative Financial Network made a positive start to 2023 following the challenges of 2022. The aforementioned risks posed by macroeconomic conditions and competition based on rates on the liabilities side will have a significant impact on financial performance over the course of the year. Based on current assessments, net interest income will increase in 2023. We anticipate a rise in interest income owing to the shift in interest rates on the assets side, although this will of course also depend on the volume of new business. Interest expense will go up sharply during the year due to the adjustment in rates on liability-side products. In 2023, net fee and commission income will remain at the high level achieved in 2022 and therefore continue to make a significant contribution to earnings. Payments processing will remain a major source of fees and commissions in 2023. Gains and losses on investments will bounce back strongly this year, resulting in a net gain. The previous year was affected by interest-rate-related valuation adjustments, the effects of which will be partly offset in 2023 if interest rates remain unchanged. We still do not anticipate any material credit-quality-related risks in connection with investments. Expenses for loss allowances will climb significantly in 2023 to reflect the likely deterioration in macroeconomic conditions, with high inflation and the knock-on effects from the energy price crisis contributing to an increase in defaults.

Net income from insurance business is predicted to rise sharply in 2023. In respect of the Insurance operating segment, this forecast is rooted not only in expectation of an encouraging level of insurance operating business but also, in particular, in the predicted normalization of gains and losses on investments held by insurance companies and, to a lesser extent, in the expected effects of the transition to the new accounting standards for insurance companies.

Administrative expenses are expected to be considerably higher in 2023 than in 2022 owing to wage increases and general inflation.

As 2022 was a weaker year due to valuation effects, we anticipate a significantly higher profit before taxes for the Cooperative Financial Network in 2023.

Despite the reduced level of profit retention in 2022, the regulatory capital ratios will hold steady this year because the expected slowdown in the growth of new business will probably mean a lower level of risk-weighted assets at the end of 2023.

Consolidated Financial Statements 2022

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Income statement for the period January 1 to December 31, 2022

	Note no.	2022 € million	2021 € million
Net interest income	7	20,546	18,232
Interest income and current income and expense		24,045	20,854
Interest expense		-3,499	-2,622
Net fee and commission income	8	8,646	8,675
Fee and commission income		10,278	10,387
Fee and commission expenses		-1,632	-1,712
Gains and losses on trading activities	9	1,009	339
Gains and losses on investments	10	-6,774	-152
Loss allowances	11	-1,363	337
Other gains and losses on valuation of financial instruments	12	-211	190
Premiums earned	13	18,397	18,994
Gains and losses on investments held by insurance companies and other insurance company gains and losses	14	-3,405	5,233
Insurance benefit payments	15	-12,127	-20,356
Insurance business operating expenses	16	-2,622	-2,578
Administrative expenses	17	-19,078	-18,577
Other net operating income	18	875	186
Profit before taxes		**3,892**	**10,522**
Income taxes	19	-1,790	-3,017
Net profit		**2,102**	**7,505**

Attributable to:			
Shareholders of the Cooperative Financial Network		2,033	7,319
Non-controlling interests		69	186

Statement of comprehensive income for the period January 1 to December 31, 2022

	2022 € million	2021 € million
Net profit	**2,102**	**7,505**
Other comprehensive income/loss	**-5,151**	**133**
Items that may be reclassified to the income statement	***-6,277***	***-941***
Gains and losses on debt instruments measured at fair value through other comprehensive income	-8,978	-1,389
Exchange differences on currency translation of foreign operations	-	-16
Gains and losses on hedges of net investments in foreign operations	-	5
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	1	15
Income taxes	2,700	445
Items that will not be reclassified to the income statement	***1,126***	***1,074***
Gains and losses on equity instruments for which the fair value OCI option has been exercised	-327	473
Gains and losses in relation to financial liabilities for which the fair value option has been exercised, attributable to changes in own credit risk	170	39
Gains and losses arising on remeasurements of defined benefit plans	1,888	864
Income taxes	-605	-303
Total comprehensive income/loss	**-3,049**	**7,638**
Attributable to:		
Shareholders of the Cooperative Financial Network	-2,547	7,496
Non-controlling interests	-502	143

Balance sheet as at December 31, 2022

Assets

	Note no.	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Cash and cash equivalents	20	117,964	156,973
Loans and advances to banks	21	45,292	15,843
Loans and advances to customers	21	999,937	944,028
Hedging instruments (positive fair values)	22	10,169	389
Financial assets held for trading	23	49,015	47,442
Investments	24	240,192	248,390
Loss allowances	25	−10,341	−9,562
Investments held by insurance companies	26	104,763	127,782[1]
Property, plant and equipment, investment property and right-of-use assets	27	17,341	15,742
Income tax assets	28	7,394	4,427
Other assets	29	−622	14,997[1]
Total assets		**1,581,104**	**1,566,451**

1 Amount adjusted.

Equity and liabilities

	Note no.	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Deposits from banks	30	166,002	193,809
Deposits from customers	30	1,032,861	984,926
Debt certificates issued including bonds	31	71,149	63,521
Hedging instruments (negative fair values)	22	442	3,869
Financial liabilities held for trading	32	48,825	40,045
Provisions	33	11,027	13,145
Insurance liabilities	34	103,795	118,863
Income tax liabilities	28	1,625	1,927
Other liabilities	35	11,681	12,048
Subordinated capital	36	6,129	4,755
Equity	37	127,569	129,543
Equity of the Cooperative Financial Network		126,230	127,652
Subscribed capital		*16,485*	*14,938*
Capital reserves		*795*	*783*
Retained earnings		*112,710*	*109,874*[1]
Reserve from other comprehensive income		*−3,940*	*1,947*
Additional equity components		*180*	*110*
Non-controlling interests		1,339	1,891
Total equity and liabilities		**1,581,104**	**1,566,451**

1 Amount adjusted.

Statement of changes in equity

€ million	Subscribed capital	Capital reserves	Retained earnings	Reserves from other comprehensive income	Additional equity components
Equity as at Jan. 1, 2021	**13,614**	**766**	**102,055**	**2,500**	**111**
Net profit	–	–	7,319	–	–
Other comprehensive income/loss	–	–	603	−426	–
Total comprehensive income/loss	**–**	**–**	**7,922**	**−426**	**–**
Issue and repayment of equity	1,325	18	−28	–	−1
Changes in the scope of consolidation	–	–	−19	–	–
Acquisition/disposal of non-controlling interests	–	–	107	−2	–
Reclassifications within equity	–	–	125	−125	–
Dividends paid	–	–	−284	–	–
Distribution on additional equity components	–	–	−4	–	–
Equity as at Dec. 31, 2021	**14,938**	**783**	**109,874**	**1,947**	**110**
Net profit	–	–	2,033	–	–
Other comprehensive income/loss	–	–	1,286	−5,866	–
Total comprehensive income/loss	**–**	**–**	**3,319**	**−5,866**	**–**
Issue and repayment of equity	1,547	11	–	–	70
Changes in the scope of consolidation	–	–	−1	5	–
Acquisition/disposal of non-controlling interests	–	–	−49	3	–
Reclassifications within equity	–	–	30	−30	–
Dividends paid	–	–	−458	–	–
Distribution on additional equity components	–	–	−4	–	–
Equity as at Dec. 31, 2022	**16,485**	**795**	**112,710**	**−3,940**	**180**

€ million	Equity of the Cooperative Financial Network	Non-controlling interests	Total equity
Equity as at Jan. 1, 2021	**119,045**	**2,702**	**121,747**
Net profit	7,319	186	7,505
Other comprehensive income/loss	177	−43	133
Total comprehensive income/loss	**7,496**	**143**	**7,638**
Issue and repayment of equity	1,313	−855	458
Changes in the scope of consolidation	−19	−2	−21
Acquisition/disposal of non-controlling interests	105	−55	50
Reclassifications within equity	–	–	–
Dividends paid	−284	−42	−326
Distribution on additional equity components	−4	–	−4
Equity as at Dec. 31, 2021	**127,652**	**1,891**	**129,543**
Net profit	2,033	69	2,102
Other comprehensive income/loss	−4,579	−572	−5,151
Total comprehensive income/loss	**−2,547**	**−502**	**−3,049**
Issue and repayment of equity	1,629	–	1,629
Changes in the scope of consolidation	4	1	4
Acquisition/disposal of non-controlling interests	−46	3	−43
Reclassifications within equity	–	–	–
Dividends paid	−458	−53	−511
Distribution on additional equity components	−4	–	−4
Equity as at Dec. 31, 2022	**126,230**	**1,339**	**127,569**

The composition of equity is detailed in Note 37.

Statement of cash flows

	2022 € million	2021 € million
Net profit	**2,102**	**7,505**
Non-cash items included in net profit and reconciliation to cash flows from operating activities		
Depreciation, amortization, impairment losses, and reversal of impairment losses on assets, and other non-cash changes in financial assets and liabilities	14,112	−2,483
Non-cash changes in provisions	−228	757
Non-cash changes in insurance liabilities	−13,992	6,620
Other non-cash income and expenses	−1,831	1,082
Gains and losses on the disposal of assets and liabilities	160	−111
Other adjustments (net)	−27,231	−19,115
Subtotal	**−26,908**	**−5,745**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	−85,764	−50,498
Other assets from operating activities	−632	−1,669[1]
Hedging instruments (positive and negative fair values)	1,318	−145
Financial assets and financial liabilities held for trading	8,314	−11,101
Deposits from banks and customers	20,018	80,193
Debt certificates issued including bonds	7,436	5,281
Other liabilities from operating activities	−762	1,135
Interest, dividends and operating lease payments received	24,850	21,976
Interest paid	−3,406	−3,252
Income taxes paid	−1,459	−1,167
Cash flows from operating activities	**−56,995**	**35,008**

1 Amount adjusted.

	2022 € million	2021 € million
Proceeds from the sale of investments	17,079	22,913
Proceeds from the sale of investments held by insurance companies	52,619	23,507
Payments for acquisitions of investments	−15,968	−16,127
Payments for acquisitions of investments held by insurance companies	−35,331	−27,809[1]
Net payments for acquisitions of property, plant and equipment, and investment property (excl. assets subject to operating leases)	−2,372	−1,895
Net payments for acquisitions of intangible non-current assets	−131	−148
Changes in the scope of consolidation	−248	70
of which: proceeds from the disposal of consolidated subsidiaries less cash disposed	–	70
of which: payments for the acquisition of consolidated subsidiaries less cash disposed	−248	–
Cash flows from investing activities	**15,648**	**511**
Proceeds from capital increases by shareholders of the Cooperative Financial Network	1,629	1,313
Dividends paid to shareholders of the Cooperative Financial Network	−458	−284
Dividends paid to non-controlling interests	−53	−42
Distribution on additional equity components	−4	−4
Other payments to non-controlling interests	–	−855
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	1,224	365
Cash flows from financing activities	**2,338**	**493**

	2022 € million	2021 € million
Cash and cash equivalents as at January 1	**156,973**	**120,961**
Cash flows from operating activities	−56,995	35,008[1]
Cash flows from investing activities	15,648	511[1]
Cash flows from financing activities	2,338	493
Cash and cash equivalents as at December 31	**117,964**	**156,973**

1 Amount adjusted.

The statement of cash flows shows the changes in cash and cash equivalents during the financial year. Cash and cash equivalents consist of cash on hand and balances with central banks. The cash reserve does not include any financial investments with a maturity of more than three months at the date of acquisition. Changes in cash and cash equivalents are broken down into operating, investing and financing activities.

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

Notes to the consolidated financial statements

A General information

1. Explanatory information on the consolidated financial statements

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network prepared by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks] are based on the significant financial reporting principles set out in the annex. The cooperative shares and share capital of the local cooperative banks are held by their members. The local cooperative banks own the share capital of the central institution either directly or through intermediate holding companies. The Cooperative Financial Network does not qualify as a corporate group as defined by the International Financial Reporting Standards (IFRS), the German Commercial Code (HGB) or the German Stock Corporation Act (AktG).

These consolidated financial statements have been prepared for informational purposes and to present the business development and performance of the Cooperative Financial Network, which is treated as a single economic entity in terms of its risks and strategies. In addition, the financial statements were prepared in compliance with the provisions set out in article 113(7)(e) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (Capital Requirements Regulation – CRR). These consolidated financial statements are not a substitute for analysis of the consolidated entities' financial statements.

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

The financial year corresponds to the calendar year. The consolidated companies prepare their financial statements as at the reporting date of December 31, 2022. With 18 exceptions (2021: 18 exceptions), the separate financial statements of the entities accounted for using the equity method are prepared using the same balance sheet date as that of the consolidated financial statements.

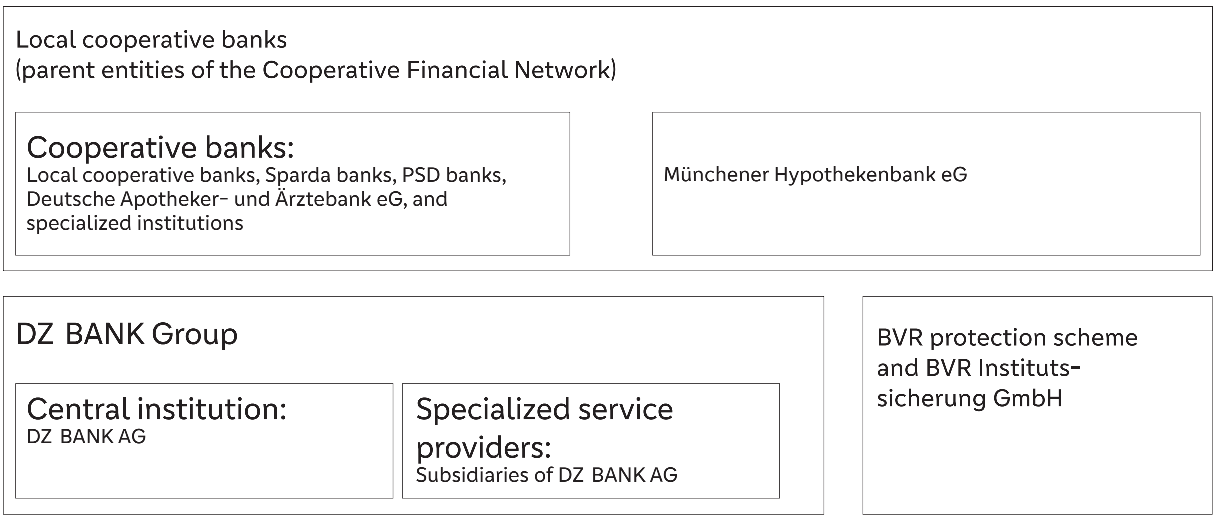
In the interest of clarity, some items on the face of the income statement and the balance sheet have been aggregated and are explained by additional disclosures.

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

2. Scope of consolidation

The consolidated financial statements comprise, as consolidated entities, 735 primary banks (2021: 771) as well as all companies included in the consolidated financial statements of DZ BANK, Münchener Hypothekenbank eG (MHB), the BVR protection scheme, and BVR Institutssicherung GmbH. The consolidated cooperative banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

Volksbanken Raiffeisenbanken Cooperative Financial Network



The cooperative banks and MHB are the legally independent, horizontally structured parent entities of the Cooperative Financial Network, whereas the other companies and the DZ BANK Group are consolidated as subsidiaries. The cooperative central institution and a total of 112 subsidiaries (2021: 151) have been consolidated in the DZ BANK Group. In the year under review, the scope of consolidation of the DZ BANK Group changed primarily due to the merger of DVB Bank SE into DZ BANK AG and the disposal of subsidiaries as well as due to the deconsolidation of subsidiaries of DVB that became immaterial.

The consolidated financial statements include 5 joint ventures between a consolidated entity and at least one other non-network entity (2021: 5) and 25 associates (2021: 24) over which a consolidated entity has significant influence, that are accounted for using the equity method.

B Selected disclosures of interests in other entities

3. Investments in subsidiaries

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

The shares of DZ BANK, with its headquarters in Frankfurt/Main, Germany, are held by the cooperative banks and by MHB, with ownership interests amounting to 95.1 percent (2021: 95.1 percent). The remaining shares of 4.9 percent (2021: 4.9 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 amounted to €69 million (2021: €186 million). The carrying amount of non-controlling interests amounted to €1,339 million (2021: €1,891 million). In the financial year under review, the dividend payment made to non-controlling interests amounts to €53 million (2021: €42 million).

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

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Assets	**107,222**	**105,960**
Loans and advances to banks	523	1,870
Loans and advances to customers	3,297	2,668[1]
Investments	1,614	1,882
Investments held by insurance companies	101,324	99,074
Other assets	464	467
Liabilities	**165,000**	**162,897**
Deposits from banks	1,962	1,755
Deposits from customers	66,318	66,222
Provisions	1,053	1,398
Insurance liabilities	95,667	93,522

1 Amount adjusted.

Nature of the risks associated with interests in consolidated structured entities
In the previous year, risks arising from interests in consolidated structured entities largely resulted from loans to fully consolidated funds within the DZ BANK Group, some of which were extended in the form of junior loans.

4. 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 €298 million as at the balance sheet date (2021: €329 million).

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

	2022 € million	2021 € million
Share of profit/loss from continuing operations	27	54
Share of other comprehensive income/loss	−9	42
Share of total comprehensive income	18	96

Nature, extent and financial effects of interests in associates
The carrying amount of individually immaterial associates accounted for using the equity method totaled €131 million as at the balance sheet date (2021: €72 million).

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

	2022 € million	2021 € million
Share of profit/loss from continuing operations	6	−3
Share of total comprehensive income	6	−3

5. Interests in unconsolidated structured entities

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

Interests in investment funds issued by the Cooperative Financial Network
The interests in the investment funds issued by the Cooperative Financial Network largely comprise investment funds issued by entities in the Union Investment Group in accordance with the contractual form model without voting rights and, to a lesser extent, those that are structured as a company with a separate legal personality.

Furthermore, DVB Bank SE (DVB) made subordinated loans available to fully consolidated funds for the purpose of transport finance. In turn, these funds made subordinated loans or direct equity investments available to unconsolidated entities. The remaining total volume of junior loans at the end of 2022 was immaterial owing to the scaling back and sale of business ahead of DVB's merger into DZ BANK AG, the resulting deconsolidation of DVB's subsidiaries, and the sharp decline in business in the remaining structured entities.

The maximum exposure of the investment funds issued and managed by the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €2,605 million as at the reporting date (2021: €3,452 million, amount adjusted). These investment fund assets resulted in losses of €98 million (2021: losses of €24 million) as well as income of €2,936 million (2021: €3,485 million, amount adjusted).

Moreover, the Cooperative Financial Network holds investment fund assets issued by itself in connection with unit-linked life insurance policies of the R+V Group (R+V) amounting to €4,149 million (2021: €5,053 million) that, however, do not result in a maximum exposure.

Interests in investment funds not issued by the Cooperative Financial Network
The interests in the investment fund assets 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 and investment funds that have been issued by entities outside the Cooperative Financial Network and parts of such investment funds. Their total volume amounted to €38,500 million (2021: €44,013 million). Moreover, loans to investment funds are extended in order to generate interest income. In addition, there are investment funds in connection with unit-linked life insurance of R+V amounting to €12,043 million (2021: €12,778 million, amount adjusted) that were issued by entities outside the Cooperative Financial Network. The unit-linked life insurance policies do not result in a maximum exposure.

The maximum exposure arising from the investment funds not issued by the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €9,672 million as at the reporting date (2021: €10,545 million, amount adjusted). Losses arising from these investment fund assets in the financial year 2022 amounted to €202 million (2021: income of €551 million, amount adjusted). Losses arising from shares in investment funds not held by the Cooperative Financial Network amounted to €8 million (2021: €0 million).

Interests in securitization vehicles

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

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

The maximum exposure of the interests in securitization vehicles in the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €7,613 million as at the reporting date (2021: €6,442 million, amount adjusted). Income generated from these interests in the financial year 2022 amounted to €62 million (2021: €76 million, amount adjusted). Losses recognized outside profit or loss amount to €68 million in the year under review (2021: losses of €2 million).

C Income statement disclosures

6. Information on operating segments

Financial year 2022

€ million	Retail Customers and SMEs	Central Institution and Major Corporate Customers	Real Estate Finance	Insurance	Other/ Consolidation	**Total**
Net interest income	17,771	1,577	2,070	–	–872	**20,546**
Net fee and commission income	8,697	575	–82	–	–544	**8,646**
Gains and losses on trading activities	234	710	–1	–	66	**1,009**
Gains and losses on investments	–6,524	37	–84	–	–203	**–6,774**
Loss allowances	–1,119	–93	–161	–	10	**–1,363**
Other gains and losses on valuation of financial instruments	–118	41	9	–	–143	**–211**
Premiums earned	–	–	–	18,397	–	**18,397**
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	–3,360	–45	**–3,405**
Insurance benefit payments	–	–	–	–12,127	–	**–12,127**
Insurance business operating expenses	–	–	–	–3,173	551	**–2,622**
Administrative expenses	–16,811	–1,915	–930	–	578	**–19,078**
Other net operating income	757	116	40	–5	–33	**875**
Profit/loss before taxes	**2,887**	**1,048**	**861**	**–268**	**–635**	**3,892**
Cost/income ratio (percent)	80.8	62.7	47.6	–	–	**78.4**

Financial year 2021

€ million	Retail Customers and SMEs	Central Institution and Major Corporate Customers	Real Estate Finance	Insurance	Other/ Consolidation	**Total**
Net interest income	16,249	1,385	1,717	–	−1,119	**18,232**
Net fee and commission income	8,843	530	−100	–	−598	**8,675**
Gains and losses on trading activities	218	133	−6	–	−6	**339**
Gains and losses on investments	−427	225	73	–	−24	**−152**
Loss allowances	137	241	−43	–	3	**337**
Other gains and losses on valuation of financial instruments	34	102	56	–	−3	**190**
Premiums earned	–	–	–	18,994	–	**18,994**
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	5,280	−48	**5,233**
Insurance benefit payments	–	–	–	−20,356	–	**−20,356**
Insurance business operating expenses	–	–	–	−3,183	604	**−2,578**
Administrative expenses	−16,369	−1,851	−894	-	537	**−18,577**
Other net operating income	148	−48	62	37	−13	**186**
Profit/loss before taxes	**8,833**	**717**	**865**	**772**	**−667**	**10,522**
Cost/income ratio (percent)	65.3	79.5	49.6	–	–	**64.6**

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

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

The operating segment “Central Institution and Major Corporate Customers” combines the activities of the Cooperative Financial Network in the corporate customers, institutional customers and capital markets businesses. The operating segment focuses on corporate customers. It essentially comprises DZ BANK and the VR Smart Finanz sub-group.

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

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

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

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

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

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

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

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

	2022 € million	2021 € million
Interest income and current income and expense	**24,045**	**20,854**
Interest income from	***22,593***	***19,448***
Lending and money market business	21,304	18,674
of which: Building society operations	1,059	1,110
of which: Finance leases	23	33
Fixed-income securities	1,658	1,586
Other assets	−77	−382
Financial assets with a negative effective interest rate	−293	−429
Current income from	***1,357***	***1,308***
Shares and other variable-yield securities	1,055	1,168
Investments in subsidiaries and equity investments	302	140
Income/loss from using the equity method for	***17***	***19***
Investments in joint ventures	10	28
Investments in associates	6	−9
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***77***	***79***
Interest expense	**−3,499**	**−2,622**
Interest expense on	***−3,352***	***−2,258***
Deposits from banks and customers	−3,435	−3,003
of which: Building society operations	−457	−790
Debt certificates issued including bonds	−723	−555
Subordinated capital	−155	−122
Other liabilities	−62	7
Financial liabilities with a positive effective interest rate	1,023	1,416
Other interest expense	***−147***	***−364***
Total	**20,546**	**18,232**

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.

8. Net fee and commission income

	2022 € million	2021 € million
Fee and commission income	**10,278**	**10,387**
Securities business	4,877	5,351
Asset management	596	681
Payments processing including card processing	3,254	2,983
Lending business and trust activities	192	157
Financial guarantee contracts and loan commitments	200	191
International business	196	157
Building society operations	45	43
Other	918	824
Fee and commission expenses	**−1,632**	**−1,712**
Securities business	−529	−564
Asset management	−154	−230
Payments processing including card processing	−234	−209
Lending business	−104	−92
Financial guarantee contracts and loan commitments	−38	−34
International business	−25	−22
Building society operations	−49	−55
Other	−499	−507
Total	**8,646**	**8,675**

9. Gains and losses on trading activities

	2022 € million	2021 € million
Gains and losses on trading in financial instruments	661	10
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	150	146
Gains and losses on commodities trading	199	184
Total	**1.009**	**339**

10. Gains and losses on investments

	2022 € million	2021 € million
Gains and losses from securities	−6,856	−397
Gains and losses on investments in subsidiaries and equity investments	82	245
Total	**−6,774**	**−152**

11. Loss allowances

	2022 € million	2021 € million
Additions	−4,701	−3,769[1]
Reversals	3,399	4,027[1]
Directly recognized impairment losses	−126	−92
Recoveries on loans and advances previously impaired	197	242
Other	34	49
Changes in the provisions for loan commitments, provisions for financial guarantee contracts and other provisions for loans and advances	−166	−121
Total	**−1,363**	**337**

1 Amount adjusted.

12. Other gains and losses on valuation of financial instruments

	2022 € million	2021 € million
Gains and losses from fair value hedges	−45	20
Gains and losses on derivatives held for purposes other than trading	−6	58
Gains and losses on financial instruments designated as at fair value through profit or loss	−160	111
Total	**−211**	**190**

13. Premiums earned

	2022 € million	2021 € million
Net premiums written	**18,415**	**18,982**
Gross premiums written	18,667	19,184
Reinsurance premiums ceded	−253	−202
Change in provision for unearned premiums	**−18**	**11**
Gross premiums	−19	21
Reinsurers' share	2	−10
Total	**18,397**	**18,994**

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

	2022 € million	2021 € million
Interest income and current income	2,386	2,247
Administrative expenses	−219	−202
Gains and losses on valuation and disposals as well as from additions to and reversals of loss allowances	−5,828	3,372
Other gains and losses of insurance companies	256	−184
Total	**−3,405**	**5,233**

The net amount of additions to and reversals of loss allowances as well as directly recognized impairment losses recorded in the financial year was an expense in the amount of €10 million (2021: income of €8 million).

15. Insurance benefit payments

	2022 € million	2021 € million
Expenses for claims	**−12,866**	**−12,412**
Gross expenses for claims	−12,948	−13,255
Reinsurers' share	82	843
Changes in benefit reserve, reserve for premium refunds, and in other insurance liabilities	**739**	**−7,944**
Changes in gross provisions	725	−7,952
Reinsurers' share	13	8
Total	**−12,127**	**−20,356**

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

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

€ million	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
At the end of the year	5,424	5,782	4,845	4,716	4,551	4,276	4,173	3,856	3,634	3,901	3,345
1 year later		5,665	4,507	4,606	4,471	4,142	4,103	3,767	3,523	3,847	3,336
2 years later			4,351	4,519	4,405	4,067	4,046	3,682	3,457	3,769	3,247
3 years later				4,495	4,409	4,021	4,020	3,647	3,389	3,731	3,220
4 years later					4,373	4,017	3,980	3,625	3,382	3,696	3,189
5 years later						4,013	3,980	3,624	3,389	3,691	3,198
6 years later							3,880	3,549	3,329	3,626	3,126
7 years later								3,509	3,310	3,616	3,118
8 years later									3,283	3,603	3,108
9 years later										3,578	3,098
10 years later											3,086
Settlements	**–**	**117**	**494**	**221**	**178**	**263**	**293**	**347**	**351**	**323**	**259**

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

€ million	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
At the end of the year	5,401	5,750	4,787	4,702	4,518	4,255	4,110	3,827	3,574	3,669	3,313
1 year later		5,635	4,455	4,589	4,438	4,118	4,050	3,736	3,460	3,613	3,300
2 years later			4,297	4,502	4,373	4,044	3,994	3,655	3,393	3,533	3,211
3 years later				4,477	4,376	3,999	3,965	3,624	3,331	3,490	3,180
4 years later					4,340	3,995	3,928	3,601	3,361	3,465	3,139
5 years later						3,992	3,929	3,602	3,369	3,670	3,166
6 years later							3,828	3,526	3,309	3,605	3,095
7 years later								3,487	3,290	3,594	3,087
8 years later									3,263	3,581	3,076
9 years later										3,556	3,066
10 years later											3,055
Settlements	**–**	**115**	**490**	**225**	**178**	**263**	**282**	**340**	**311**	**113**	**258**

Claims rate trend for inward reinsurance business

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

€ million	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Gross provisions for claims outstanding	**5,784**	**5,704**	**5,009**	**4,411**	**3,642**	**3,197**	**2,718**	**2,433**	**1,976**	**1,710**	**1,506**
Cumulative payments for the year concerned and prior years											
1 year later		1,394	1,240	1,082	955	852	569	622	464	481	385
2 years later			1,890	1,627	1,396	1,237	852	867	783	685	630
3 years later				1,993	1,674	1,482	1,062	1,022	919	897	764
4 years later					1,927	1,660	1,189	1,154	1,026	987	930
5 years later						1,838	1,294	1,249	1,117	1,051	996
6 years later							1,405	1,315	1,171	1,114	1,035
7 years later								1,378	1,214	1,155	1,085
8 years later									1,257	1,185	1,117
9 years later										1,214	1,139
10 years later											1,163
Gross provisions for claims outstanding and payments made against the original provision											
At the end of the year	5,784	5,704	5,009	4,411	3,642	3,197	2,718	2,433	1,976	1,710	1,506
1 year later		5,818	5,373	4,313	3,951	3,392	2,654	2,434	2,157	1,840	1,593
2 years later			5,148	4,373	3,651	3,315	2,561	2,271	2,004	1,859	1,569
3 years later				4,337	3,733	3,131	2,486	2,224	1,915	1,779	1,628
4 years later					3,714	3,166	2,361	2,179	1,887	1,720	1,580
5 years later						3,159	2,363	2,088	1,848	1,699	1,550
6 years later							2,355	2,096	1,779	1,677	1,536
7 years later								2,087	1,794	1,627	1,526
8 years later									1,800	1,636	1,490
9 years later										1,639	1,499
10 years later											1,500
Settlements	**–**	**−114**	**−139**	**74**	**−72**	**38**	**363**	**346**	**176**	**71**	**6**

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

€ million	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Gross provisions for claims outstanding	**5,663**	**5,587**	**5,001**	**4,408**	**3,639**	**3,193**	**2,710**	**2,428**	**1,970**	**1,695**	**1,491**
Cumulative payments for the year concerned and prior years											
1 year later		1,389	1,235	1,082	955	851	567	622	464	473	383
2 years later			1,884	1,626	1,396	1,236	849	866	782	677	620
3 years later				1,992	1,674	1,480	1,058	1,020	918	888	754
4 years later					1,926	1,658	1,186	1,153	1,025	978	919
5 years later						1,836	1,290	1,247	1,115	1,042	985
6 years later							1,401	1,313	1,170	1,105	1,024
7 years later								1,376	1,212	1,146	1,074
8 years later									1,255	1,175	1,105
9 years later										1,204	1,128
10 years later											1,151
Gross provisions for claims outstanding and payments made against the original provision											
At the end of the year	5,663	5,587	5,001	4,408	3,639	3,193	2,710	2,428	1,970	1,695	1,491
1 year later		5,698	5,365	4,310	3,950	3,388	2,648	2,429	2,152	1,827	1,576
2 years later			5,141	4,370	3,649	3,312	2,555	2,267	1,999	1,845	1,554
3 years later				4,335	3,732	3,129	2,482	2,219	1,911	1,766	1,612
4 years later					3,713	3,163	2,356	2,176	1,883	1,708	1,566
5 years later						3,157	2,358	2,086	1,845	1,687	1,536
6 years later							2,351	2,093	1,777	1,666	1,522
7 years later								2,084	1,791	1,616	1,513
8 years later									1,797	1,625	1,477
9 years later										1,628	1,486
10 years later											1,487
Settlements	**–**	**−111**	**−140**	**73**	**−74**	**36**	**359**	**344**	**173**	**67**	**4**

16. Insurance business operating expenses

	2022 € million	2021 € million
Gross expenses	−2,650	−2,610
Reinsurers' share	28	32
Total	**−2,622**	**−2,578**

17. Administrative expenses

	2022 € million	2021 € million
Staff expenses	−10,456	−10,402
General and administrative expenses	−7,494	−7,050
Depreciation/amortization and impairment losses	−1,128	−1,125
Total	**−19,078**	**−18,577**

18. Other net operating income

	2022 € million	2021 € million
Gains and losses on non-current assets classified as held for sale and disposal groups	49	70
Other operating income	1,620	954
Other operating expenses	−793	−838
Total	**875**	**186**

19. Income taxes

	2022 € million	2021 € million
Current tax expense	−2,807	−3,084
Income from deferred taxes	1,017	66
Total	**−1,790**	**−3,017**

As in the prior year, current taxes in relation to the German limited companies are calculated using an effective corporation tax rate of 15.825 percent based on a corporation tax rate of 15 percent plus the solidarity surcharge. Also as in the previous year, the effective rate for trade tax is 15.260 percent based on an average trade tax multiplier of 436 percent.

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

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

	2022 € million	2021 € million
Profit before taxes	**3,892**	**10,522**
Notional rate of income tax of the Cooperative Financial Network (percent)	31.085	31.085
Income taxes based on notional rate of income tax	**−1,210**	**−3,271**
Tax effects	**−581**	**254**
Tax effects of tax-exempt income and non-tax deductible expenses	39	176
Tax effects of different tax types, different trade tax multipliers, and changes in tax rates	21	6
Tax effects of different tax rates in other countries	25	13
Current and deferred taxes relating to prior reporting periods	−21	−6
Change in deferred tax assets due to valuation adjustments	21	42
Other tax effects	−665	23
Total	**−1,790**	**−3,017**

D Balance sheet disclosures

20. Cash and cash equivalents

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Cash on hand	6,753	9,536
Balances with central banks	111,192	147,436
Public-sector debt instruments and bills of exchange eligible for refinancing by central banks	19	–
Total	**117,964**	**156,973**

21. Loans and advances to banks and customers

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Loans and advances to banks	**45,292**	**15,843**
Repayable on demand	***32,745***	***8,179***
Other loans and advances	***12,547***	***7,663***
Mortgage loans and other loans secured by mortgages on real estate	58	67
Local authority loans	2,380	3,070
Finance leases	–	1
Other loans and advances	10,109	4,525
Loans and advances to customers	**999,937**	**944,028**
Mortgage loans and other loans secured by mortgages on real estate	404,209	378,127
Local authority loans	31,795	32,739
Home savings loans advanced by building society	63,660	60,439
Finance leases	565	751
Other loans and advances	499,708	471,972

22. Hedging instruments (positive and negative fair values)

The positive fair values of hedging instruments amount to €10,169 million (2021: €389 million), the negative fair values of hedging instruments amount to €442 million (2021: €3,869 million). Both positive and negative fair values of hedging instruments exclusively result from derivative hedging instruments for fair value hedges.

23. Financial assets held for trading

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Derivatives (positive fair values)	**21,474**	**16,188**
Interest-linked contracts	17,779	13,478
Currency-linked contracts	2,956	1,481
Share- and index-linked contracts	547	847
Credit derivatives	187	380
Other contracts	6	2
Securities	**9,011**	**12,586**
Bonds and other fixed-income securities	7,602	10,815
Shares and other variable-yield securities	1,408	1,772
Loans and advances	**18,064**	**18,294**
Inventories and trade receivables	**466**	**372**
Other assets held for trading	**1**	**2**
Total	**49,015**	**47,442**

24. Investments

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Securities	**234,749**	**243,292**
Bonds and other fixed-income securities	152,460	163,582
Shares and other variable-yield securities	82,289	79,710
Investments in subsidiaries	**2,772**	**2,395**
Equity investments	**2,670**	**2,703**
Investments in joint ventures	300	329
Investments in associates	144	75
Other shareholdings	2,226	2,299
Total	**240,192**	**248,390**

25. Loss allowances

Loss allowances for loans and advances to banks

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2021	**22**	**51**	**6**	**–**	**79**
Additions	26[1]	7[1]	7	–	40
Reversals	−24[1]	−39[1]	−5	–	−68
Balance as at Jan. 1, 2022	**22**	**19**	**8**	**–**	**49**
Additions	35	135	46	–	216
Reversals	−30	−16	−24	–	−70
Other changes	−1	−2	2	–	−1
Balance as at Dec. 31, 2022	**26**	**137**	**32**	**–**	**195**

1 Amount adjusted.

Loss allowances for loans and advances to customers

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2021	**573**	**4,146**	**5,103**	**8**	**9,830**
Additions	424[1]	1,088[1]	2,017	19	3,548
Utilizations	–	−1	−731	–	−732
Reversals	−519[1]	−820[1]	−2,203	−16	−3,558
Other changes	192	−254	141	3	82
Balance as at Jan. 1, 2022	**668**	**4,160**	**4,329**	**13**	**9,170**
Additions	337	1,957	2,102	28	4,424
Utilizations	–	−1	−575	−4	−580
Reversals	−536	−816	−1,832	−19	−3,203
Other changes	182	−305	172	1	50
Balance as at Dec. 31, 2022	**651**	**4,994**	**4,196**	**18**	**9,860**

1 Amount adjusted.

Loss allowances for investments

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2021	**86**	**456**	**17**	**–**	**559**
Additions	8[1]	166[1]	–	–	174
Utilizations	–	–	−1	–	−1
Reversals	−36[1]	−345[1]	−12	–	−393
Other changes	14	−14	1	–	1
Balance as at Jan. 1, 2022	**72**	**264**	**5**	**–**	**341**
Additions	13	45	1	–	59
Reversals	−9	−106	−3	–	−118
Balance as at Dec. 31, 2022	**76**	**204**	**4**	**–**	**283**

1 Amount adjusted.

Loss allowances for other assets

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2021	**2**	**–**	**–**	**–**	**2**
Balance as at Jan. 1, 2022	**2**	**–**	**–**	**–**	**2**
Balance as at Dec. 31, 2022	**2**	**–**	**–**	**–**	**2**

26. Investments held by insurance companies

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Investment property	4,028	3,813
Investments in subsidiaries, joint ventures and associates	910	923
Mortgage loans	10,960	13,005
Promissory notes and loans	5,857	7,072
Registered bonds	4,790	7,795
Other loans	764	968
Variable-yield securities	13,023	13,742
Fixed-income securities	47,259	60,951
Derivatives (positive fair values)	278	199
Deposits with ceding insurers and other investments	464	594
Assets related to unit-linked contracts	16,429	18,719[1]
Total	**104,763**	**127,782**

1 Amount adjusted.

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

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Land and buildings	6,963	6,717
Office furniture and equipment	1,308	1,270
Investment property	293	279
Other fixed assets	8,162	6,947
Right-of-use assets	615	530
Total	**17,341**	**15,742**

28. Income tax assets and liabilities

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Income tax assets	**7,394**	**4,427**
Current income tax assets	1,052	838
Deferred tax assets	6,342	3,589
Income tax liabilities	**1,625**	**1,927**
Current income tax liabilities	1,185	1,115
Deferred tax liabilities	440	811

	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2022 € million	Dec. 31, 2021 € million	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Tax loss carryforwards	91	17		
Loans and advances to banks and customers	37	74	446	816
Financial assets and liabilities held for trading, and hedging instruments (positive and negative fair values)	1,145	719	63	4
Investments	1,100	12	9	666
Loss allowances	1,465	1,313	–	–
Investments held by insurance companies	1,463	140	221	1,086
Deposits from banks and customers	219	669	470	136
Debt certificates issued including bonds	2	80	827	23
Provisions	2,686	2,644	90	93
Insurance liabilities	–	83	109	52
Other balance sheet items	310	284	378	379
Total (gross)	**8,517**	**6,034**	**2,615**	**3,256**
Netting of deferred tax assets and deferred tax liabilities	−2,175	−2,445	−2,175	−2,445
Total (net)	**6,342**	**3,589**	**440**	**811**

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.

29. Other assets

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Other assets held by insurance companies	4,376	4,483[1]
Goodwill	171	176
Other intangible assets	696	730
Prepaid expenses	322	242
Other receivables	4,916	5,167
Non-current assets and disposal groups classified as held for sale	19	164
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	−12,763	3,118
Residual other assets	1,642	917
Total	**−622**	**14,997**

1 Amount adjusted.

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

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Intangible assets	**145**	**151**
Reinsurers' share of insurance liabilities	**475**	**782**
Provision for unearned premiums	4	2
Benefit reserves	41	37
Provisions for claims outstanding	431	743
Loans and advances	**1,697**	**1,703**
Receivables arising out of direct insurance operations	427	467
Receivables arising out of reinsurance operations	421	384
Other receivables	848	851
Credit balances with banks, checks and cash on hand	**703**	**713**[1]
Property, plant and equipment	**401**	**399**
Residual other assets	**956**	**736**
Prepaid expenses	47	64
Remaining assets held by insurance companies	909	673
Loss allowances	**–1**	**–2**
Total	**4,376**	**4,483**

1 Amount adjusted.

Property, plant and equipment includes right-of-use assets in the amount of €56 million (2021: €60 million).

30. Deposits from banks and customers

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Deposits from banks	**166,002**	**193,809**
Repayable on demand	13,485	8,559
With agreed maturity or notice period	152,517	185,250
Deposits from customers	**1,032,861**	**984,926**
Savings deposits and home savings deposits	***239,988***	***247,383***
Savings deposits with agreed notice period of three months	169,677	176,841
Savings deposits with agreed notice period of more than three months	4,001	4,347
Home savings deposits	66,310	66,194
Other deposits from customers	***792,873***	***737,543***
Repayable on demand	673,363	644,858
With agreed maturity or notice period	119,510	92,685

31. Debt certificates issued including bonds

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Bonds issued	**56,733**	**50,298**
Mortgage Pfandbriefe	50,579	48,166
Public-sector Pfandbriefe	1,273	1,723
Other bonds	4,880	409
Other debt certificates issued	**14,416**	**13,223**
Total	**71,149**	**63,521**

32. Financial liabilities held for trading

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Derivatives (negative fair values)	**26,642**	**15,402**
Interest-linked contracts	21,218	11,911
Currency-linked contracts	3,148	1,682
Share- and index-linked contracts	1,899	1,577
Credit derivatives	107	82
Other contracts	270	150
Short positions	**1,017**	**1,548**
Bonds issued including share- and index and other debt certificates	**20,014**	**22,245**
Liabilities	**1,104**	**804**
Liabilities from commodities transactions and commodity lending	**48**	**46**
Total	**48,825**	**40,045**

33. Provisions

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Provisions for defined benefit plans	5,276	7,218
Provisions for loan commitments	352	365
Provisions for financial guarantee contracts	199	132
Other provisions for loans and advances	51	38
Provisions relating to building society operations	1,053	1,398
Residual provisions	4,096	3,993
Total	**11,027**	**13,145**

34. Insurance liabilities

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Provision for unearned premiums	1,201	1,179
Benefit reserve	75,200	74,167
Provision for claims outstanding	16,845	16,429
Provision for premium refunds	−4,436	11,237
Other insurance liabilities	70	53
Reserve for unit-linked insurance contracts	14,915	15,799
Total	**103,795**	**118,863**

Due to the changes in interest rates in the reporting period and the related reduction in the fair values of fixed-income securities, a comparison of the carrying amounts and fair values of investments held by insurance companies gave rise to considerable unrealized losses that were recognized in other comprehensive income. Where these investments held by insurance companies relate to life insurance contracts with policyholder participation, a provision for deferred premium refunds was calculated on the basis of these unrealized losses in line with IFRS 4.30. Overall, the provision for deferred premium refunds recognized in the reporting period was negative and, in substance, an asset. At present, we assume that it is reasonably certain that the unrealized losses are a temporary effect and will reverse in future.

Change in provision for unearned premiums

	2022 € million	2021 € million
Balance as at Jan. 1	**1,179**	**1,194**
Additions	1,259	1,238
Utilizations/reversals	−1,240	−1,259
Changes attributable to currency translation	3	6
Balance as at Dec. 31	**1,201**	**1,179**

Change in benefit reserve

	2022 € million	2021 € million
Balance as at Jan. 1	**74,167**	**70,470**
Additions	5,244	7,268
Interest component	944	918
Utilizations/reversals	−5,156	−4,516
Other measurement gains or losses	–	6
Changes attributable to currency translation	–	1
Changes in the scope of consolidation	–	20
Balance as at Dec. 31	**75,200**	**74,167**

Supplementary change-in-discount-rate reserves totaling €5,233 million have been recognized for policies with a discount rate in excess of the reference rate specified in the German Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) (December 31, 2021: €5,451 million).

Change in the provision for claims outstanding

	2022 € million	2021 € million
Balance as at Jan. 1	**16,429**	**14,627**
Claims expenses	7,662	8,424
less payments	−7,194	−6,847
Changes attributable to currency translation	−52	225
Balance as at Dec. 31	**16,845**	**16,429**

Change in the provision for premium refunds

	2022 € million	2021 € million
Balance as at Jan. 1	**11,237**	**12,569**
Additions	1,010	599
Utilizations/reversals	−713	−820
Other measurement gains or losses	−13,712	1,767
Changes resulting from unrealized gains and losses on investments (through other comprehensive income)	−2,273	−2,947
Changes resulting from other remeasurements (through profit or loss)	15	49
Changes attributable to currency translation	–	20
Balance as at Dec. 31	**−4,436**	**11,237**

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

Balance as at Dec. 31, 2022

€ million	≤ 1 year	> 1 year –5 year	> 5 year	Indefinite term
Provision for unearned premiums	996	158	47	–
Benefit reserve	1,436	5,105	13,371	55,288
Provision for claims outstanding	6,452	6,457	3,936	–
Provision for premium refunds	1,003	709	736	-6,884
Other insurance liabilities	22	30	15	3
Total	**9,909**	**12,459**	**18,105**	**48,407**

Balance as at Dec. 31, 2021

€ million	≤ 1 year	> 1 year –5 year	> 5 year	Indefinite term
Provision for unearned premiums	967	164	48	–
Benefit reserve	1,624	5,144	13,366	54,033
Provision for claims outstanding	5,986	6,378	4,065	–
Provision for premium refunds	911	686	637	9,003
Other insurance liabilities	26	10	14	3
Total	**9,514**	**12,382**	**18,130**	**63,039**

35. Other liabilities

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Other liabilities of insurance companies	7,468	7,697
Other liabilities and accruals	3,468	2,671
Liabilities included in disposal groups	–	2
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	−1,062	263
Lease liabilities	631	539
Residual other liabilities	1,176	876
Total	**11,681**	**12,048**

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

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Residual provisions	**354**	**426**
Provisions for employee benefits	311	391
Provisions for share-based payment transactions	3	3
Other provisions	39	31
Payables and residual other liabilities	**7,114**	**7,271**
Subordinated capital	90	80
Deposits received from reinsurers	38	36
Payables arising out of direct insurance operations	1,327	1,398
Payables arising out of reinsurance operations	568	597
Debt certificates issued including bonds	36	31
Deposits from banks	318	473
Derivatives (negative fair values)	223	103
Liabilities from capitalization transactions	3,400	3,592
Lease liabilities from insurance business	72	76
Other liabilities	336	318
Residual other liabilities	706	567
Total	**7,468**	**7,697**

36. Subordinated capital

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Subordinated liabilities	6,113	4,737
Profit-sharing rights	4	6
Share capital repayable on demand	12	12
Total	**6,129**	**4,755**

37. Equity

Breakdown of subscribed capital

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Cooperative shares	16,260	14,704
Share capital	188	186
Capital of silent partners	37	48
Total	**16,485**	**14,938**

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

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

The reserve from other comprehensive income consists of the following items:

€ million	No reclassification to the income statement			Reclassification to the income statement	
	Reserve from equity instruments for which the fair value OCI option has been exercised	Reserve from gains and losses in relation to financial liabilities for which the fair value option has been exercised, attributable to changes in own credit risk	Reserve from debt instruments measured at fair value through other comprehensive income	Cash flow hedge reserve	Currency translation reserve
Equity as at Jan. 1, 2021	**428**	**−72**	**2,083**	**1**	**60**
Other comprehensive income/loss	411	26	−863	−1	2
Total comprehensive income/loss	**411**	**26**	**−863**	**−1**	**2**
Acquisition/disposal of non-controlling interests	–	–	−1	–	−1
Reclassifications within equity	−120	−5	–	–	–
Equity as at Dec. 31, 2021	**719**	**−51**	**1,218**	**–**	**61**
Other comprehensive income/loss	−265	113	−5,720	–	6
Total comprehensive income/loss	**−265**	**113**	**−5,720**	**–**	**6**
Changes in the scope of consolidation	4	–	–	–	1
Acquisition/disposal of non-controlling interests	–	–	3	–	–
Reclassifications within equity	−24	−5	–	–	–
Equity as at Dec. 31, 2022	**434**	**56**	**−4,498**	**–**	**67**

The additional equity components include AT1 capital issued by MHB, reduced by shares held by companies included in the consolidated financial statements. The AT1 capital was issued in the previous years in a nominal amount of CHF 125 million in order to generate additional regulatory Tier 1 capital. In the financial year 2022, the AT1 capital was increased following the issue of further capital in a nominal amount of CHF 75 million.

The non-controlling interests include the shares in the equity of consolidated companies that are not attributable to the Cooperative Financial Network.

E Financial instruments disclosures

38. Fair value of financial instruments

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

	Dec. 31, 2022 € million		Dec. 31, 2021 € million	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Cash and cash equivalents[1,2]	111,211	111,206	147,436	147,436
Loans and advances to banks[1]	45,096	35,071	15,792	17,608[4]
Loans and advances to customers[1]	990,077	974,419	934,859	940,988[4]
Hedging instruments (positive fair values)	10,169	10,169	389	389
Financial assets held for trading[2]	48,549	48,563	47,071	47,128
Investments[1,3]	239,480	239,255	247,649	248,294[4]
Investments held by insurance companies[1,2,3]	100,271	100,397	123,374[4]	123,332[4]
Other assets[1,2]	−6,300	−2,127	9,846[4]	8,926[4]
Liabilities				
Deposits from banks	166,002	157,037	193,809	195,481[4]
Deposits from customers	1,032,861	1,030,913	984,926	986,273[4]
Debt certificates issued including bonds	71,149	65,775	63,521	63,818[4]
Hedging instruments (negative fair values)	442	442	3,869	3,869
Financial liabilities held for trading[2]	48,777	48,703	39,999	39,985
Provisions[5]	551	1,095	498	498
Other liabilities[2]	3,516	4,663	3,793	3,643
Subordinated capital	6,129	5,605	4,755	4,827

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

In addition, there are the following differences, all of which were determined using simplified procedures. At BSH, there are net unrealized gains in the amount of €10.0 billion from collective building society operations, which result from the balance of the carrying amounts recorded for the home savings business of €-64.4 billion (surplus of liabilities) and the present value of the home savings pool of €-54.4 billion calculated using simulation models for building society operations. In addition, there are net unrealized losses in the amount of €6.8 million from the investments of the cooperative banks and of MHB.

39. Maturity analysis

Balance as at Dec. 31, 2022

€ million	≤ 3 months	> 3 months – 1 year	> 1 year	Indefinite term
Loans and advances to banks	21,562	4,577	24,375	339
Loans and advances to customers	54,143	76,464	875,615	16,537
Deposits from banks	41,139	21,638	105,312	610
Deposits from customers	889,598	26,514	53,837	66,683
Debt certificates issued including bonds	8,347	8,361	59,380	–

Balance as at Dec. 31, 2021

€ million	≤ 3 months	> 3 months – 1 year	> 1 year	Indefinite term
Loans and advances to banks	7,283	1,426	10,211	176
Loans and advances to customers	44,489	73,568	824,225	15,040
Deposits from banks	45,565	11,371	138,628	841
Deposits from customers	852,986	15,645	54,103	66,698
Debt certificates issued including bonds	8,162	4,937	58,466	–

The contractual maturities shown in the table do not match the estimated actual cash inflows and cash outflows and include undiscounted cash flows as well as partially also discounted carrying amounts.

F Other disclosures

40. Capital requirements and regulatory indicators

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Total capital	**121,697**	**119,861**
Tier 1 capital	117,102	114,799
of which: Common Equity Tier 1	116,876	114,649
of which: Additional Tier 1 capital	226	150
Tier 2 capital	4,595	5,061
Total risk exposure	**775,783**	**757,719**
Common Equity Tier 1 capital ratio (percent)	15.1	15.1
Tier 1 capital ratio (percent)	15.1	15.2
Total capital ratio (percent)	15.7	15.8
Leverage ratio (percent)	7.4	8.0

The capital ratios as well as the leverage ratio have been calculated on the basis of IFRS-based rules. The disclosure of the consolidated leverage ratio of the bank-specific protection system is determined using the transitional definition for Tier 1 capital pursuant to article 429 (2) CRR in conjunction with article 499 (1) CRR.

41. Financial guarantee contracts and loan commitments

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Financial guarantee contracts	24,039	22,588
Loan commitments	126,765	123,577
Total	**150,804**	**146,165**

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

42. Trust activities

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Trust assets	**3,579**	**3,830**
of which: trust loans	3,355	3,540
Trust liabilities	**3,579**	**3,830**
of which: trust loans	3,355	3,540

43. Defined benefit obligations

Funding status of defined benefit obligations

	Provisions		Other liabilities	
	Dec. 31, 2022 € million	Dec. 31, 2021 € million	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Present value of defined benefit obligations not funded by plan assets	4,888	6,613	58	203
Present value of defined benefit obligations funded by plan assets	2,963	3,906	1,439	1,888
Present value of defined benefit obligations	**7,851**	**10,519**	**1,497**	**2,091**
less fair value of plan assets	−2,722	−3,358	−1,653	−2,006
Asset ceiling	126	54	275	118
Defined benefit obligations (net)	**5,256**	**7,215**	**119**	**203**
Recognized surplus	19	3	–	–
Provisions for defined benefit plans	**5,276**	**7,218**	**119**	**203**

€ million	Defined benefit obligations (net)			
				Provisions
	Present value of defined benefit obligations	Fair value of plan assets	Asset ceiling	Defined benefit obligations (net)
Balance as at Jan. 1, 2021	**10,653**	**−2,535**	**–**	**8,118**
Current service cost	201	–	–	201
Interest income/expense	79	−19	–	60
Income from plan assets (excl. interest income)	–	−836	–	−836
Actuarial gains (−)/losses (+)	−69	–	–	−69
Changes in the effect from the asset ceiling	–	–	54	54
Contributions to plan assets	6	−30	–	−24
Pension benefits paid including plan settlements	−367	75	–	−292
Past service cost	−1	–	–	−1
Other changes	17	−13	–	4
Balance as at Jan. 1, 2022	**10,519**	**−3,358**	**54**	**7,215**
Current service cost	135	–	–	135
Interest income/expense	110	−37	–	73
Income from plan assets (excl. interest income)	–	696	–	696
Actuarial gains (−)/losses (+)	−2,579	–	–	−2,579
Changes in the effect from the asset ceiling	–	–	72	72
Contributions to plan assets	8	−112	–	−104
Pension benefits paid including plan settlements	−405	97	–	−308
Past service cost	3	–	–	3
Other changes	60	−8	–	52
Balance as at Dec. 31, 2022	**7,851**	**−2,722**	**126**	**5,256**

Other liabilities

€ million	Present value of defined benefit obligations	Fair value of plan assets	Asset ceiling	Defined benefit obligations (net)
Balance as at Jan. 1, 2021	**443**	**−217**	**–**	**226**
Current service cost	6	–	–	6
Interest income/expense	3	−1	–	2
Income from plan assets (excl. interest income)	–	−1,790	–	−1,790
Actuarial gains (–)/losses (+)	1,659	–	–	1,659
Changes in the effect from the asset ceiling	–	–	118	118
Contributions to plan assets	1	−10	–	−9
Pension benefits paid including plan settlements	−21	12	–	−9
Balance as at Jan. 1, 2022	**2,091**	**−2,006**	**118**	**203**
Current service cost	44	–	–	44
Interest income/expense	23	−22	1	2
Income from plan assets (excl. interest income)	–	352	–	352
Actuarial gains (–)/losses (+)	−596	–	–	−596
Changes in the effect from the asset ceiling	–	–	156	156
Contributions to plan assets	1	−34	–	−33
Pension benefits paid including plan settlements	−66	57	–	−9
Balance as at Dec. 31, 2022	**1,497**	**−1,653**	**275**	**119**

Actuarial assumptions used for defined benefit obligations

	Provisions		Other liabilities	
(percent)	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Weighted discount rate	3.70	1.10	3.70	1.10
Weighted salary increase	2.24	1.82[1]	2.50	2.25
Weighted pension increase	2.21	1.75[1]	2.30	1.80

1 Amount adjusted.

44. Asset management by the Union Investment Group

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Fund assets	**376,835**	**410,304**
Other types of asset management	**51,683**	**61,263**
Unit-linked asset management	6,080	7,245
Institutional asset management	6,090	7,366
Advisory and outsourcing	39,513	46,652
Accounts managed by third parties	**−15,403**	**−17,467**
Total	**413,115**	**454,100**

As at the balance sheet date, the Union Investment Group (through Union Asset Management Holding AG) had total assets under management of €413,115 million (December 31, 2021: €454,100 million). The fund assets comprise equity funds, fixed-income funds, money market funds, mixed funds, other securities funds, capital preservation funds, real estate funds, alternative investment funds and hybrid funds issued by Union Investment Group.

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

45. Leases

Finance leases with the Cooperative Financial Network as lessor

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Gross investment	**595**	**789**
Up to 1 year	225	314
More than 1 year and up to 2 years	149	207
More than 2 years and up to 3 years	93	125
More than 3 years and up to 4 years	65	68
More than 4 years and up to 5 years	32	40
More than 5 years	31	34
less unearned finance income	**−29**	**−37**
Net investment	**565**	**752**
less present value of unguaranteed residual values	**−17**	**−17**
Present value of minimum lease payment receivables	**548**	**735**

The VR Smart Finanz sub-group is also active as finance lessor in the Cooperative Financial Network. The entities of the VR Smart Finanz sub-group enter into leases for motor vehicles, machinery used in production, and photovoltaics, among other things. Apart from office equipment, leases also refer to software.

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

Home savings sum (€ million)	Not allocated		Allocated		Total	
	Number of contracts	Home savings sum	Number of contracts	Home savings sum	Number of contracts	Home savings sum
Balance as at Dec. 31, 2021	**7,170,309**	**298,032**	**489,553**	**14,121**	**7,659,862**	**312,153**
Additions in 2022 as a result of						
New contracts (redeemed contracts)[1]	381,990	26,689	–	–	381,990	26,689
Transfers	14,574	518	452	15	15,026	534
Allocation waivers and cancellations	5,925	265	–	–	5,925	265
Splitting	111,136	–	17	–	111,153	–
Allocations and acceptance of allocations	–	–	470,558	13,827	470,558	13,827
Other	77,793	3,815	22	2	77,815	3,817
Total	**591,418**	**31,287**	**471,049**	**13,845**	**1,062,467**	**45,132**
Disposals in 2022 as a result of						
Allocations and acceptance of allocations	−470,558	−13,827	–	–	−470,558	−13,827
Reductions	–	−1,066	–	–	–	−1,066
Termination	−390,764	−12,645	−368,322	−9,600	−759,086	−22,245
Transfers	−14,574	−518	−452	−15	−15,026	−534
Pooling[1]	−57,622	–	–	–	−57,622	–
Expiration	–	–	−86,785	−2,512	−86,785	−2,512
Allocation waivers and cancellations	–	–	−5,925	−265	−5,925	−265
Other	−77,793	−3,815	−22	−2	−77,815	−3,817
Total	**−1,011,311**	**−31,870**	**−461,506**	**−12,395**	**−1,472,817**	**−44,266**
Net addition/disposal	−419,893	−583	9,543	1,449	−410,350	866
Balance as at Dec. 31, 2022	**6,750,416**	**297,449**	**499,096**	**15,570**	**7,249,512**	**313,019**

1 Including increases.

Volume of unredeemed contracts

Home savings sum € million	Number of contracts	Home savings sum
Contracts signed prior to Jan. 1, 2022	39,579	3,400
Contracts signed in 2022	194,028	16,072

47. Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2022 € million
Additions	
Amounts carried forward from 2021 (surplus)	
Amounts not yet disbursed	64,355
Additions in 2022	
Savings deposits (including credited residential construction bonuses)	10,052
Repayable amounts (including credited residential construction bonuses)[1]	1,211
Interest on home savings deposits	728
Total	**76,345**
Withdrawals	
Withdrawals in 2022	
Amounts allocated (if disbursed)	
Home savings deposits	8,308
Home savings loans	1,863
Repayment of deposits on non-allocated home savings contracts	2,589
Building society guarantee fund	226
Surplus of additions	
(Amounts not yet disbursed) at the end of 2022[2]	63,360
Total	**76,345**

1 Repayable amounts are the portion of the loan principal actually repaid.
2 The surplus amounts allocated include:
a) undisbursed home savings deposits from allocated home savings contracts: €122 million
b) undisbursed home savings loans from funds allocated: €2,836 million

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

	Mortgage Pfandbriefe		Public-sector Pfandbriefe	
	Dec. 31, 2022 € million	Dec. 31, 2021 € million	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Ordinary cover	**84,293**	**79,773**	**13,930**	**15,512**
Loans and advances to banks	32	32	202	320
of which: Mortgage loans	32	32	–	–
of which: Local authority loans	–	–	202	320
Loans and advances to customers	84,114	79,594	12,333	12,806
of which: Mortgage loans	84,114	79,594	27	34
of which: Local authority loans	–	–	12,306	12,772
Investments consisting of bonds and other fixed-income securities	–	–	1,395	2,386
Property, plant and equipment	147	147	–	–
Extended cover	**2,271**	**2,148**	**50**	**–**
Loans and advances to banks	225	225	–	–
Investments consisting of bonds and other fixed-income securities	2,046	1,923	50	–
Total cover	**86,564**	**81,921**	**13,980**	**15,512**
Pfandbriefe requiring cover	**–72,579**	**–73,228**	**–10,920**	**–13,679**
Nominal excess cover	**13,985**	**8,693**	**3,060**	**1,833**
Present value of excess cover	**16,286**	**14,420**	**2,895**	**2,758**
Risk-related present value of excess cover	**14,512**	**12,900**	**2,458**	**2,208**

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, 2022 € million	Dec. 31, 2021 € million
Mortgage Pfandbriefe	**72,579**	**73,229**
≤ 6 months	3,474	3,301
> 6 months und ≤ 12 months	2,474	2,696
> 12 months und ≤ 18 months	2,813	3,461
> 18 months und ≤ 2 years	2,456	2,991
> 2 years und ≤ 3 years	5,326	6,195
> 3 years und ≤ 4 years	6,777	6,232
> 4 years und ≤ 5 years	8,009	7,935
> 5 years und ≤ 10 years	24,043	24,010
> 10 years	17,207	16,408
Public-sector Pfandbriefe	**10,920**	**13,679**
≤ 6 months	515	877
> 6 months und ≤ 12 months	383	1,573
> 12 months und ≤ 18 months	588	514
> 18 months und ≤ 2 years	345	395
> 2 years und ≤ 3 years	1,323	1,004
> 3 years und ≤ 4 years	874	1,331
> 4 years und ≤ 5 years	574	911
> 5 years und ≤ 10 years	2,309	2,504
> 10 years	4,009	4,570

Fixed-interest periods of cover assets

	Dec. 31, 2022 € million	Dec. 31, 2021 € million
Mortgage Pfandbriefe	**86,564**	**81,921**
≤ 6 months	3,835	3,121
> 6 months und ≤ 12 months	4,135	3,987
> 12 months und ≤ 18 months	3,915	3,387
> 18 months und ≤ 2 years	3,570	3,573
> 2 years und ≤ 3 years	8,516	7,632
> 3 years und ≤ 4 years	7,554	7,662
> 4 years und ≤ 5 years	7,941	7,355
> 5 years und ≤ 10 years	26,963	26,533
> 10 years	20,135	18,671
Public-sector Pfandbriefe	**13,980**	**15,512**
≤ 6 months	628	583
> 6 months und ≤ 12 months	677	693
> 12 months und ≤ 18 months	572	585
> 18 months und ≤ 2 years	702	630
> 2 years und ≤ 3 years	1,169	1,186
> 3 years und ≤ 4 years	1,161	1,098
> 4 years und ≤ 5 years	879	1,183
> 5 years und ≤ 10 years	3,193	3,492
> 10 years	4,999	6,062

11 properties were in forced administration as at the reporting date (December 31, 2021: 17).

Marija Kolak (President)

Dr. Andreas Martin

Tanja Müller-Ziegler (since April 1, 2023)

Daniel Quinten

Berlin, June 22, 2023

National Association of German Cooperative Banks
BVR

Board of Managing Directors

Marija Kolak Dr. Andreas Martin Tanja Müller-Ziegler Daniel Quinten

Annex:
Significant Financial Reporting Principles

BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE VOLKSBANKEN RAIFFEISENBANKEN COOPERATIVE FINANCIAL NETWORK

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network for the period from January 1 to December 31, 2022, prepared by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR), has to be prepared for a specific purpose pursuant to the significant financial reporting principles set out below. Significant financial reporting principles have to be incorporated only for accounting issues that are material to the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network. They have been prepared for informational purposes and to present the business development and performance of the Volksbanken Raiffeisenbanken Cooperative Financial Network, which is treated as a single economic entity in terms of its risks and strategies. In addition, the financial statements have been prepared in compliance with the provisions set out in article 113(7)(e) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (Capital Requirements Regulation – CRR).

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network, as broadly defined, have to include the following components:

- Consolidated financial statements that have to include the following components:
  - Income statement for the period from January 1 to December 31, 2022 (pursuant to IAS 1.81A, IAS 1.81B and IAS 1.82 (b) to IAS 1.105)
  - Statement of comprehensive income for the period from January 1 to December 31, 2022 (pursuant to IAS 1.81A, IAS 1.81B and IAS 1.82 (b) to IAS 1.105)
  - Balance sheet as at December 31, 2022 (pursuant to IAS 1.54 to IAS 1.80A)
  - Statement of changes in equity for the period from January 1 to December 31, 2022 (pursuant to IAS 1.106 to IAS 1.110)
  - Statement of cash flows for the period from January 1 to December 31, 2022 (pursuant to IAS 7.1 to IAS 7.47)
  - Explanatory information on the consolidated financial statements
- Management report including risk report for the period from January 1 to December 31, 2022

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network have to include prior year comparatives. The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network have to be prepared in euro. Unless stated otherwise, all amounts have to be shown in millions of euros (€ million). This may result in minor discrepancies in the calculation of totals and percentages. If prior year comparatives have to be adjusted, a footnote with the description “Amount adjusted” has to be added to such figures.

STATEMENT OF CASH FLOWS

The cash flows for the sections “operating activities,” “investing activities” and “financing activities” are determined using a simplified procedure. Moreover, non-cash changes of the statement of changes in financial position are fully determined not for all consolidated entities, and cash flows are partially recognized only on a net basis and on higher aggregation levels.

SCOPE OF CONSOLIDATION

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

PROCEDURES OF CONSOLIDATION

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

As 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), it has to be assessed whether control or significant influence within the meaning of IFRS 10 and IFRS 11, respectively, can be assumed to exist or whether interests in companies overall have to be reported as other shareholdings under “Equity investments” in the balance sheet item “Investments.” In particular, this applies to the situation when control or significant influence would result solely from the aggregation of the shareholding ratio of individual consolidated companies without the possibility of control or significant influence being exercised by a consolidated company as a whole through direct or indirect ownership arising from the shareholdings. The following rules apply if there is evidence that control or significant influence exists.

Similar to IFRS 3.4-53 in conjunction with IFRS 10, business combinations have to be accounted for using the purchase method by offsetting the acquisition cost of a subsidiary against the share of the equity that is attributable to the parent entities and remeasured at fair value on the relevant date when control is acquired. Any multiple gearing of eligible own funds and any inappropriate creation of own funds for regulatory purposes between the consolidated entities listed above have to be eliminated through acquisition accounting. Any positive difference has to be recognized as goodwill under other assets and is subject to an annual impairment test in accordance with IAS 36.80-108. Any negative goodwill has to be recognized immediately in profit or loss. Any share of subsidiaries’ net assets not attributable to the parent entities has to be reported as non-controlling interests within equity.

Interests in joint ventures and investments in associates in accordance with IFRS 11.4-19 are generally accounted for using the equity method pursuant to IAS 28.10-15 and reported under investments.

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

FINANCIAL INSTRUMENTS

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FAIR VALUE PL)

Financial assets that are not measured at amortized cost or at fair value through other comprehensive income have to be classified as “financial assets measured at fair value through profit or loss.” This category is broken down into the following subcategories.

<u>Financial assets mandatorily measured at fair value through profit or loss</u>
The subcategory “financial assets mandatorily measured at fair value through profit or loss” has to comprise financial assets that either do not meet the cash flow criteria pursuant to IFRS 9.B.4.1.2C or that are acquired for the purpose of selling them in the near term. To this end, these financial assets must be 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 must be derivatives, except for derivatives that are designated hedging instruments in effective hedging relationships.

The primary financial instruments held by cooperative banks in the trading portfolio under commercial law have to be allocated to this category. This category also includes equity instruments held by cooperative banks outside the trading portfolio under commercial law whose fair value may not exceed their cost.

<u>Contingent considerations in a business combination</u>
Contingent considerations classified by the acquirer in a business combination as financial assets have to be allocated to this subcategory.

<u>Financial assets designated as at fair value through profit or loss (fair value option)</u>
Financial assets have to be assigned to the subcategory “financial assets designated as at fair value through profit or loss” by exercising the fair value option, provided that the application of this option eliminates or significantly reduces measurement or recognition inconsistencies (accounting mismatches).

Any changes in the fair value of instruments allocated to the category “financial assets designated as at fair value through profit or loss” have to be recognized in profit or loss.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FAIR VALUE OCI)

This category is broken down into the following subcategories.

<u>Financial assets mandatorily measured at fair value through other comprehensive income</u>
A financial asset has to be assigned to this subcategory if it is held in accordance with a business model aimed both at collecting contractual cash flows and at selling financial assets. Moreover, the contractual terms of the financial asset must give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (so-called “cash flow criterion”).

Because of the cash flow criterion, only financial assets in the form of debt instruments may be allocated to this category. These financial assets have to be measured at fair value. Interest income, loss allowances, and currency translation effects must be recognized in profit or loss. However, any differences not resulting from impairment or currency translation between the amortized cost and the fair value have to be recognized in other comprehensive income. The amounts recognized in other comprehensive income must be reclassified to the income statement upon derecognition (so-called “recycling”).

Financial assets designated as at fair value through other comprehensive income (fair value OCI option)
There is an irrevocable option to designate equity instruments as "financial assets designated as at fair value through other comprehensive income" (fair value OCI option) upon initial recognition. Changes in fair value have to be recognized in other comprehensive income, except in the case of dividends that do not constitute repayment of capital. The cumulative other comprehensive income must not be recycled subsequently to the income statement, e.g. due to derecognition of the instrument. After derecognition of these equity instruments, the cumulative other comprehensive income has to be reclassified to retained earnings. The general fair value OCI option can only be exercised for equity instruments that are not held for trading and do not constitute contingent consideration recognized by the acquirer in a business combination pursuant to IFRS 3.58.

FINANCIAL ASSETS MEASURED AT AMORTIZED COST (AC)

A financial asset has to be assigned to this category if it is held in accordance with a business model aimed at holding financial assets for the purpose of collecting contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Because of the cash flow criterion, only financial assets in the form of debt instruments may be allocated to this category. Financial assets included in this category have to be measured at amortized cost. Interest income, loss allowances, and currency translation effects must be recognized in profit or loss.

Financial debt instruments of the cooperative banks that are not held in the trading portfolio under commercial law have to be allocated to this category.

FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FAIR VALUE PL)

Financial liabilities that are not measured at amortized cost have to be classified as "financial liabilities measured at fair value through profit or loss." This category has to be broken down into the following subcategories:

Financial liabilities mandatorily measured at fair value through profit or loss
The subcategory "financial liabilities mandatorily measured at fair value through profit or loss" has to include financial liabilities that are acquired for the purpose of selling them in the near term. To this end, these financial liabilities must be 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 must be derivatives, except for derivatives that are designated hedging instruments in effective hedging relationships.

Contingent considerations in a business combination
Contingent considerations classified by the acquirer in a business combination as financial liabilities have to be allocated to this subcategory.

Financial liabilities designated as at fair value through profit or loss (fair value option)
Financial liabilities have to be assigned to the subcategory "financial liabilities designated as at fair value through profit or loss" by exercising the fair value option in the following two cases: firstly, to eliminate or significantly reduce measurement or recognition inconsistencies (accounting mismatches); and secondly, if these financial liabilities are managed as a portfolio on a fair value basis or comprise one or more embedded derivatives required to be separated from the host contract.

In the case of financial liabilities designated as at fair value through profit or loss, any net gain or loss resulting from the changes in the fair value of the financial liability attributable to the changes in that liability's credit risk has to be recorded in other comprehensive income. The rest of the change in the fair value of these liabilities has to be recognized in profit or loss. The amounts recognized in other comprehensive income may not be reclassified to the income statement on derecognition of the relevant financial liability.

FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST (AC)

For measurement subsequent to initial recognition, all financial liabilities have to be categorized generally as "financial liabilities measured at amortized cost," except in the following cases:

- Financial liabilities measured at fair value through profit or loss, financial liabilities that arise when a transfer of a financial asset does not satisfy the condition for derecognition or accounting treatment is based on a continuing involvement, financial guarantee contracts, loan commitments with an interest rate below the market interest rate, and contingent consideration recognized by the acquirer in a business combination pursuant to IFRS 3.39 et seqq.
- In accordance with IAS 32.15-32, shares in partnerships have to be classified normally as debt instruments. Given their subordinated status compared with the liabilities of the partnerships concerned, non-controlling interests in this case have to be reported as subordinated capital. Profit attributable to non-controlling interests and not yet distributed has to be recognized under other liabilities, provided that the resulting liability is not of a subordinated nature. Non-controlling interests in partnerships have to be classified as "share capital repayable on demand" and have to be assigned to the "financial liabilities measured at amortized cost" category.
- This category also has to include liabilities under compensation payment obligations owed to non-controlling interests in consolidated subsidiaries. These liabilities arise if DZ BANK AG or some other entity controlled by DZ BANK AG has concluded a profit transfer agreement with a subsidiary in accordance with section 291 (1) of the German Stock Corporation Act (AktG) under which there are non-controlling interests. Liabilities under compensation payment obligations have to be recognized at the amount of the obligation discounted to the balance sheet date.
- In addition, this category has to include liabilities from capitalization transactions that are not designated as unit-linked insurance products. There is no significant transfer of insurance risk in these transactions and they do not therefore satisfy the criteria for an insurance contract under IFRS 4 Appendix A. As a consequence, such transactions need to be treated as financial instruments in accordance with the above-mentioned principles.

OTHER FINANCIAL INSTRUMENTS

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

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

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

INITIAL RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

IMPAIRMENT OF FINANCIAL ASSETS

Loss allowances are only recognized for financial assets that represent debt instruments as well as for loan commitments and financial guarantee contracts. In contrast, equity instruments and derivatives do not fall within the scope of the impairment provisions set out in IFRS 9. Loss allowances have to be recognized for the following financial assets:

- Financial assets of the category “financial assets measured at amortized cost”
- Financial assets (only debt instruments) of the category “financial assets measured at fair value through other comprehensive income”
- Undrawn loan commitments where there is a current legal obligation to extend credit (irrevocable loan commitments), to the extent that these are not measured at fair value through profit or loss
- Financial guarantee contracts, to the extent that these are not measured at fair value through profit or loss
- Lease receivables that fall within the scope of IFRS 16
- Trade receivables and contract assets that fall within the scope of IFRS 15

The calculation generally has to be made on the basis of the regulatory model (probability of default, loss given default, and expected loan exposure at default), with adjustments made to the model to meet IFRS 9 requirements.

Expected losses have to be determined using a three-stage approach:

- Stage 1: All financial assets have to be assigned to Stage 1 upon initial recognition, with the exception of financial assets that are purchased or originated credit-impaired assets (POCI). Due to the cooperative banks’ business model, the POCI rules must not be applied in this context. The 12-month expected credit losses represent the minimum measurement amount for loss allowances regarding Stage 1 assets.

- Stage 2: As at each reporting date, assets have to be allocated to Stage 2 if their credit risk has increased significantly since initial recognition, but where there is no objective evidence of impairment. The identification of a significant increase in credit risk and thus the definition of the stages for the cooperative banks have to be made on the basis of the current rating grade allocation. For these assets, the impairment has to be measured at the amount of the lifetime expected credit losses. Cooperative banks have to assess the relevant assets by similar risk classes; discounting is not applicable. In addition, portfolio-specific average residual maturities are used, and values of collateral observable as of the relevant reporting date and included in the analysis of loss rates are not extrapolated into the future. The stages have to be defined on the basis of the rating grade allocation.
  Provided that historical probabilities of default for financial instruments are not available without undue effort and, to that extent, there is no original estimate of the probability of default over the remaining term, financial instruments have to be assigned to Stage 2 if the current

credit assessment no longer meets the criteria for a rating equivalent to investment grade.

- Stage 3: Financial assets that are classified as credit-impaired due to objective evidence of impairment have to be assigned to Stage 3 accordingly. The loss allowance for these assets is measured at the amount of the lifetime expected credit losses or, for cooperative banks, at the amount of the specific valuation allowance or the specific valuation allowance assessed on a portfolio basis, both of which determined in accordance with the German Commercial Code (HGB). Financial assets are classified as credit-impaired upon the occurrence of one or more events that have a negative effect on the expected future cash flows of the financial asset or when they are deemed defaulted in accordance with Article 178 of the Capital Requirements Regulation (CRR).

Financial assets that are subject to the impairment provisions set out in IFRS 9.5.5 have to be reviewed at each reporting date to ascertain whether one or more events have occurred that have a negative effect on the expected future cash flows of the relevant financial asset.

Purchased or originated credit-impaired (POCI) financial assets have to be recognized, upon initial recognition, at their carrying amount reduced by lifetime expected credit losses and have to be amortized, accordingly, using a risk-adjusted effective interest rate. At the reporting date, only the cumulative changes in lifetime expected credit losses since initial recognition have to be recorded as a loss allowance. There is no transfer between individual stages for these assets. Due to the cooperative banks' business model, the POCI rules must not be applied in this context.

The modification rules set out in IFRS 9.5.4.3 have to be applied, except for non-substantial modifications at the cooperative banks.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a hybrid contract that also includes a non-derivative financial instrument (host contract), with the effect that some of the cash flows of the combined financial instrument vary in a way similar to those of a stand-alone derivative. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.

If a hybrid contract contains a host contract that is a financial asset, the categorization rules for financial assets have to be applied to the entire hybrid contract.

If a hybrid contract contains a host contract that is a financial liability, an embedded derivative has to be separated from the host contract and accounted for separately if:

- the economic characteristics and risks of the derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms would meet the definition of a derivative, and
- the hybrid contract is not measured at fair value through profit or loss.

If the embedded derivative does not meet all of these conditions, it may not be separated from the host contract. When an embedded derivative is separated, the host contract has to be accounted for in accordance with the measurement principles presented regarding financial instruments.

If a contract includes one or more embedded derivatives and the host contract is not a financial asset, the entire hybrid contract can be categorized as measured at fair value through profit or loss. This is not the case where embedded derivatives only have an insignificant impact on the contractually specified cash flows or, upon initial comparison with similar hybrid instruments, it is evident without – or with only minor – analysis that separation of the embedded derivative(s) is not permitted.

HEDGE ACCOUNTING

FAIR VALUE HEDGES

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

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

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

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

Cooperative banks may only designate hedging relationships on a portfolio basis. In this respect, the balance of derivatives not held in the trading portfolio has to be reported as either positive or negative fair value from hedging instruments. The hedging gains or losses attributable to hedged items of the cooperative banks represent a countervailing adjustment related to the fair value changes of the hedging instruments and have to be recorded as fair value changes from portfolio hedges of financial assets/liabilities in other assets/liabilities.

CURRENCY TRANSLATION

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

If the functional currency of companies included in the consolidated financial statements is different from the reporting currency (euros), all assets and liabilities have to be translated at the exchange rate at the reporting date. Equity (except for the reserve from other comprehensive income) has to be translated at the historical rate. Income and expenses have to be translated at the relevant spot rate on the date of the transaction or, for simplification, at average rates. To the extent that there are no material effects compared with the application of average rates, the rate on the reporting date can be used. Any differences arising from currency translation have to be reported in the currency translation reserve.

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

SALE AND REPURCHASE AGREEMENTS AND SECURITIES LENDING TRANSACTIONS

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

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

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

COLLATERAL

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

INSURANCE BUSINESS

GENERAL INFORMATION ON THE ACCOUNTING TREATMENT OF INSURANCE BUSINESS

Insurance contracts have to be recognized in accordance with the requirements of IFRS 4.13-35. Capitalization transactions have to be classified as financial instruments and are recognized in accordance with the mentioned principles. Service contracts are subject to the revenue recognition requirements specified in IFRS 15.9–104.

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

INVESTMENT PROPERTY

The investment property included in the investments held by insurance companies has to be measured at amortized cost in accordance with the cost model. In the following financial years, investment property has to be depreciated on a straight-line basis over the useful life on the basis of the cost. Any expenditure that increases value and extends the useful life of real estate or results in a significant improvement in the fabric of a building has to be capitalized. Maintenance and repair costs have to be expensed as incurred.

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

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

INSURANCE LIABILITIES

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

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

The provision for unearned premiums from direct non-life insurance operations has to be calculated from the gross premiums using the 360-day system. Non-transferable income components have to be taken into account appropriately.

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

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

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

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

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

The calculation of the benefit reserve for all signed contracts generally has to be based on the Zillmer method. For new business for individual insurance policies entered into in the financial years 2015 to 2020, the Zillmer method had not to be applied in most of the cases.

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

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

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

In accordance with the German Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV), supplementary change-in-discount-rate reserves have to be recognized for new policies with a discount rate in excess of the reference rate. Subject to the approval of the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin), the supplementary change-in-discount-rate reserve has to be increased for existing policies. Entity-specific probabilities for cancellation and lump-sum payments are to be used for both new and existing policies.

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

The provision for claims outstanding in direct non-life insurance business has to be determined on a case-by-case basis for all known claims. Recourse claims, excess proceeds, and claims under loss sharing agreements have to be netted. Based on claims reports in the previous years, an additional claims provision has to be recognized for claims that occur or are caused before the balance sheet date but have not yet been reported by this date. Statistical estimates have to be used in this measurement. The provision for claims outstanding may not be discounted, except in the case of the pension benefits reserve. The calculation of the provisions for claims settlement expenses, which are also included in this item, has to include claims incurred but not reported (IBNR).

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

In health insurance, the provision for claims outstanding has to be determined on the basis of the costs paid out in the financial year in connection with claims during the year. The calculation has to be based on claims experience over the previous 3 financial years. Recourse claims have to be deducted from the provision for claims outstanding, as are reimbursements due under the German Act on the Reform of the Pharmaceuticals Market (AMNOG). The recognized provision includes the costs of settling claims. The reinsurers' share of the provision has to be determined in accordance with reinsurance agreements. Where appropriate, provisions for claims outstanding have to be recognized on a case-by-case basis for claims relevant to reinsurance.

<u>Provision for premium refunds</u>
The provision for premium refunds has to include obligations not yet due for settlement on the balance sheet date relating to premium refunds to

insured parties. It has to include amounts allocated to policyholders under statutory or contractual arrangements for bonuses and rebates. In addition, the provision for premium refunds has to include expenses for deferred premium refunds resulting from time-restricted cumulative recognition and measurement differences between items in the financial statements prepared in accordance with these significant financial reporting principles and those prepared in accordance with HGB. In the case of measurement differences recognized in other comprehensive income, such as unrealized gains and losses on financial assets measured at fair value through other comprehensive income, corresponding provisions for deferred premium refunds have to be recognized in other comprehensive income; otherwise, changes in the provision are recognized in profit or loss.

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

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

If, as a result of a decline in the fair values of fixed-income securities relating to life insurance contracts with policyholder participation, there are unrealized losses based on the comparison of the carrying amounts and the corresponding fair values of the investments that have to be recognized directly in equity, the provision may, under certain circumstances, be negative and, in substance, an asset; thus a provision for deferred premium refunds may have to be recorded, provided it can be assumed with reasonable certainty that the unrealized losses are a temporary effect and will reverse in future. In such a case, the provision has to be reported on a net basis on the liability side of the balance sheet. Provisions for deferred premium refunds have to be tested for impairment.

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

Other insurance liabilities

Other insurance liabilities relating to non-life insurance have to include obligations arising from membership of the Verein Verkehrsopferhilfe e.V. (VOH) [road casualty support organization], Berlin, in line with the object of this organization and the provision for unearned premiums under dormant vehicle insurance policies, the provision being determined on an individual policy basis. The cancellation provision has to be calculated on the basis of past experience. The provision for onerous contracts in the insurance business has to be calculated on the basis of prior-year figures and a forecast of other insurance gains and losses, taking into account interest income and residual maturities.

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

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

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

Reserve for unit-linked insurance contracts
The reserve for unit-linked insurance contracts is an item largely corresponding to assets related to unit-linked contracts. This item has to be used to report policyholders' entitlements to their individual investment fund units where the related investments arise out of contracts to be reported in accordance with IFRS 4. The reserve has to be measured at fair value on the basis of the underlying investments. Gains and losses on the fund assets have to result in corresponding changes on the equity and liabilities side of the balance sheet.

ADEQUACY TEST FOR INSURANCE LIABILITIES

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

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

LEASES

COOPERATIVE FINANCIAL NETWORK AS LESSOR

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

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

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

COOPERATIVE FINANCIAL NETWORK AS LESSEE

The lessee has to recognize a right-of-use asset in a leased asset as well as a corresponding lease liability for all leases. The only exceptions are short-term leases (term of less than one year from the commencement date) and leases for low-value assets (cost of new purchase of up to €5,000 net); in these cases, the lease payments are recognized as an expense.

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

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

INCOME

INTEREST AND DIVIDENDS RECEIVED

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

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

Interest income and interest expense arising in connection with derivatives that were not entered into for trading purposes or are used to hedge financial instruments for which the fair value option was exercised, have to be reported under net interest income.

In contrast to interest income, current income does not have to be recorded on an accrual basis but has to be recognized in its full amount at the date of realization. Current income represents actually received income that does not result from interest-bearing financial instruments and not from non-interest-bearing financial instruments. Dividends have to be recognized as soon as a legal entitlement to the payment of such a dividend is established.

The basic interest from the ECB's TLTRO III program has to be recognized in net interest income pro rata temporis. Income from the interest-rate benefit granted by the ECB upon fulfilling certain requirements has to be recognized pro rata temporis in profit or loss under net interest income if there is reasonable assurance that such requirements will be met.

REVENUE FROM CONTRACTS WITH CUSTOMERS

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

Fee and commission income from the securities business, from payments processing including card processing as well as fee and commission income from the lending business and trust activities have to be recognized immediately after the provision of the service. Fees for administration and safe custody as part of the securities business and asset management as well as for the provision of financial guarantees are recognized over the period in which the related service is performed.

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

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

INSURANCE BUSINESS

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

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

CASH AND CASH EQUIVALENTS

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

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

LOANS AND ADVANCES TO BANKS AND CUSTOMERS

All receivables attributable to registered debtors that are categorized as “financial assets measured at amortized cost,” “financial assets measured at fair value through profit or loss,” “financial assets measured at fair value through other comprehensive income” or “financial assets designated as at fair value through profit or loss” (fair value option) have to be recognized as loans and advances to banks and customers. In addition to fixed-term receivables and receivables payable on demand in connection with lending, lease, and money market business, loans and advances to banks and customers have to include promissory notes and registered bonds.

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

Interest income on loans and advances to banks and customers has to be recognized as interest income from lending and money market business. This also includes gains and losses on the sale of loans and advances to banks and customers classified as "financial assets measured at amortized cost" and the amortization of hedge adjustments to the carrying amounts arising on the accounting for fair value hedges.

HEDGING INSTRUMENTS (POSITIVE AND NEGATIVE FAIR VALUES)

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

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES HELD FOR TRADING

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

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

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

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

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

INVESTMENTS

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

In general, investments have to be recognized initially at fair value. Joint ventures and associates accounted for using the equity method in accordance with IAS 28.10-15 have to be recorded at cost upon initial recognition. These investments have to be subsequently measured in accordance with the principles applicable to the relevant measurement category. In the case of investments in joint ventures and associates, the equity method has to be used generally for subsequent measurement.

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

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

LOSS ALLOWANCES

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY AND RIGHT-OF-USE ASSETS

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

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

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

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

INCOME TAX ASSETS AND LIABILITIES

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

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

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

OTHER ASSETS

Other assets comprise, among others, intangible assets and assets held for sale.

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

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

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

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

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

DEPOSITS FROM BANKS AND CUSTOMERS

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

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

Interest expenses on deposits from banks and customers have to be recognized separately under net interest income. Interest expense also includes gains and losses on early repayment and on the amortization of hedge adjustments to carrying amounts due to fair value hedges. Hedge adjustments to the carrying amount due to fair value hedges have to be reported within other gains and losses on valuation of financial instruments under gains and losses from hedge accounting.

DEBT CERTIFICATES ISSUED INCLUDING BONDS

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

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

PROVISIONS

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

The provisions have to be recognized and measured based on the best estimate of the present value of their anticipated utilization, taking into account risks and uncertainties associated with the issues concerned as well as future events.

PROVISIONS FOR DEFINED BENEFIT PLANS

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

Under a defined benefit plan, the employer promises a specific benefit and bears all the risks arising from this commitment. Defined benefit obligations are measured on the basis of the projected unit credit method. The measurement depends on various actuarial assumptions. These have to include, in particular, assumptions about long-term salary and pension trends and average life expectancy. Assumptions about the salary trend have to be based on past trends and take account of expectations about future labor market trends; the assumptions about the pension trend are based on changes in the inflation rate. In Germany, the 2018 G mortality tables published by Professor Dr. Klaus Heubeck have to be used to estimate average life expectancy; the applicable mortality tables have to be used in foreign countries. 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. The discount rate depends on the obligation structure (duration) and must be determined using a portfolio of high-quality corporate bonds that must satisfy certain quality criteria. One of the notable quality criteria is a credit rating of AA from at least one of the two rating agencies with the greatest coverage in the currency area in question. For the eurozone, these are Moody's Investors Service and Standard & Poor's, both New York. Bonds with existing call options in the form of embedded derivatives are not included in this process.

Plan assets in accordance with IAS 19 include both the amount determined for the consolidated financial statements of DZ BANK and the amount that is offset against the pension obligations at the cooperative banks which are settled by R+V Pensionsversicherung a.G. The remaining plan assets reported by the cooperative banks is not used for the consolidated financial statements, as they cannot be subjected to a review in accordance with IAS 19.8.

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

The cooperative banks have indirect obligations which are allowed to be recognized as liabilities under HGB, but must be recognized as liabilities under IFRS. A valid determination of the amounts of all obligations cannot be made at the moment. Therefore, the indirect obligations – with the exception of those of R+V Pensionsversicherung a.G. – are currently not taken into account; we are currently analyzing how to implement this in future.

PROVISIONS FOR LOAN COMMITMENTS AND PROVISIONS FOR FINANCIAL GUARANTEE CONTRACTS

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

OTHER PROVISIONS FOR LOANS AND ADVANCES

Other provisions for loans and advances have to factor in the usual sector-specific level of uncertainty. Other provisions represent all provisions that arise within the context of loans and advances, rather than loan commitments under the scope of IAS 37. The underlying assumptions and estimates used have to include figures based on past experience as well as expectations and forecasts relating to future trends and developments.

PROVISIONS RELATING TO BUILDING SOCIETY OPERATIONS

Provisions relating to building society operations have to be recognized to cover the payment of any bonuses that may have been agreed in the terms and conditions of home savings contracts. These bonuses may take the form of a reimbursement of some of the sales charges or interest bonuses on deposits. In order to measure provisions relating to building society operations, building society simulations (collective simulations) that forecast home savings customers' future behavior are used that are available for evaluation of the options. These options available to home savings customers include, for example, drawing down the home savings loan, waiving the loan after allocation, or continuing with the home savings contract.

RESIDUAL PROVISIONS

The residual provisions have to include, among others, additional provisions for employee benefits, such as provisions for other long-term employee benefits in accordance with IAS 19.153-158 (e.g. for semi-retirement arrangements, Altersteilzeit), provisions for termination benefits in accordance with IAS 19.159-170 (e.g. early retirement arrangements) and provisions for short-term employee benefits in accordance with IAS 19.9-12.

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

SUBORDINATED CAPITAL

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

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

EQUITY

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

TRUST ACTIVITIES

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

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

EXPLANATORY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

- The disclosures required in accordance with IFRS 12 "Disclosure of Interests in Other Entities" have to be made
- Disclosure of a segment report in accordance with IFRS 8.5-19 "Operating Segments"
- Further explanations and breakdowns of the material components of income statement and balance sheet items
- Presentation of the changes in the development of loss allowances (balance sheet and income statement; reconciliation of opening balance to closing balance)
- Reconciliation in accordance with IAS 12.81(c) to present the relationship between notional income taxes and recognized income taxes, based on application of the current tax law in Germany
- Changes in the present value of defined benefit obligations as well as changes in plan assets in accordance with IAS 19.140
- Disclosures on financial instruments in accordance with IFRS 7.25 and IFRS 7.39(a)
- Disclosures on capital requirements and regulatory indicators:
  - The disclosures have to refer to the institutional protection system (cooperative joint liability scheme). The disclosures in relation to own funds and capital requirements have to be based on the information of the extended aggregated calculation (EAC) in accordance with article 49 (3) CRR in conjunction with article 113 (7) CRR
  - As at December 31, 2022, the presentation of the leverage ratio of the bank-specific protection system of the Cooperative Financial Network has to comply with the requirements set out in article 429 CRR. Tier 1 capital has to be used as the capital measure pursuant to the extended aggregated calculation in accordance with article 49 (3) CRR, adjusted by any Tier 1 capital items of the members of the bank-specific protection system held internally within the Cooperative Financial Network. The exposure values have to be determined by aggregating the individual figures reported for the leverage ratio of all member institutions and adjusted by material items held internally within the Cooperative Financial Network.
  - The cooperative banks and Münchener Hypothekenbank have to be included on an individual basis using the respective reports. DZ BANK has to be taken into account based on its own reporting on a consolidated basis. The report submitted by the DZ BANK Group has to be based on the regulatory scope of consolidation.
- The underlying report forms of the members of the Institutional Protection Scheme (IPS) as at December 31, 2022 have to comply with the Commission Implementing Regulation (EU) No. 680/2014, which was amended by Commission Implementing Regulation (EU) No. 2021/451 to the amendments of Regulation (EU) No. 2019/876 dated May 20, 2019 (CRR II).
- Breakdowns of the composition of financial guarantee contracts and loan commitments,

trust activities, asset management of Union Investment Group, changes in the contract portfolios as well as changes in the allocation assets of Bausparkasse Schwäbisch Hall, cover statement for the mortgages and local authority loans extended by the mortgage banks
- Disclosures on leases in accordance with IFRS 16.94
- A list of the members of BVR's Board of Managing Directors
- The signing of the consolidated financial statements by the Board of Managing Directors, including the signature date.

MANAGEMENT REPORT INCLUDING RISK REPORT

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

Ratings	Fitch Ratings (network rating)	Standard & Poor's
Long-term issuer default rating	AA–	A+
Short-term issuer default rating	F1+	A–1
Support rating	no support	*
Outlook	stable	stable
Individual Rating	aa–	a+

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

Footnotes, front inside cover:
1 Gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments.
2 Premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance benefit payments, insurance business operating expenses.
3 Amount restated.
4 Ratio of profit before taxes to average equity.
5 Ratio of net profit to total assets.

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