BVR

Consolidated Financial Statements 2017

of the Volksbanken Raiffeisenbanken
Cooperative Financial Network

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Ratings	Fitch Ratings (network rating)	Standard & Poor's
Long-term issuer default rating	AA–	AA–
Short-term issuer default rating	F1+	A–1+
Support rating	5	*)
Outlook	Stable	Stable
Individual rating	aa–	aa–

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

Volksbanken Raiffeisenbanken Cooperative Financial Network	2017 € million	2016 € million	Change (percent)
Financial performance			
Net interest income	18,638	18,826	–1.0
Allowances for losses on loans and advances	–576	–522	10.3
Net fee and commission income	6,491	5,963	8.9
Gains and losses on financial and commodities activities[1]	854	942	–9.3
Net income from insurance business[2]	1,283	1,119	14.7
Profit before taxes	8,916	8,308	7.3
Net profit	6,073	5,898	3.0
Net assets			
Loans and advances to banks	51,042	41,433	23.2
Loans and advances to customers	761,880	733,155	3.9
Allowances for losses on loans and advances	–7,363	–7,520	–2.1
Financial assets held for trading	38,107	48,270	–21.1
Investments	243,732	251,965	–3.3
Investments held by insurance companies	95,431	89,435	6.7
Remaining assets	60,487	59,042	2.4
Financial position			
Deposits from banks	113,065	103,282	9.5
Deposits from customers	801,031	774,302	3.5
Debt certificates issued including bonds	64,807	71,122	–8.9
Financial liabilities held for trading	36,760	44,139	–16.7
Insurance liabilities	89,324	84,125	6.2
Remaining liabilities	33,891	40,241	–15.8
Equity	104,438	98,569	6.0
Total assets/total equity and liabilities	**1,243,316**	**1,215,780**	**2.3**
Volume of business[3]	**1,662,773**	**1,599,431**	**4.0**
Profitability/efficiency			
Cost/income ratio (percent)	65.3	67.0	
Return on equity (percent)[4]	8.8	8.7	
Average equity	101,504	95,788	
Return on capital employed (percent)[5]	0.5	0.5	
Regulatory capital ratios			
Tier 1 capital ratio (percent)	13.4	13.1	
Total capital ratio (percent)	16.0	16.1	
Common equity Tier 1 capital ratio incl. sec. 340f HGB reserves (percent)	15.4	15.2	
Employees as at reporting date	**177,248**	**181,740**	**–2.5**

(See back inside cover for footnotes 1–5)

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In brief

In 2017, the Volksbanken Raiffeisenbanken Cooperative Financial Network generated a healthy consolidated profit before taxes of €8.9 billion, a rise of 7.3 percent. At the same time, it significantly increased its equity to €104.4 billion. The Cooperative Financial Network is thus well equipped to cope with possible threats to global economic growth.

The consolidated financial statements of the Cooperative Financial Network provide information on the financial year of the 915 local cooperative banks, Sparda banks, PSD banks, and other cooperative specialized institutions as well as DZ BANK and the main product specialists, i.e. the mortgage banks, Bausparkasse Schwäbisch Hall, R+V Versicherung, Union Investment, VR Leasing (in the future: VR Smart Finanz), TeamBank, and DZ PRIVATBANK. The Cooperative Financial Network's loans and advances to customers rose by 3.9 percent to €762 billion. There was a similar increase of 3.5 percent in deposits from customers, which reached €801 billion. Growth in lending to retail customers was driven by private home loans; the main growth factor in corporate customer business was lending to the service and construction industries.

The strong growth of the customer business played a key part in boosting profits, even though the interest-rate environment remains challenging. In 2017, the Cooperative Financial Network's net interest income came to €18.6 billion, which was almost at the prior-year level of €18.8 billion. Net fee and commission income climbed by a substantial 8.9 percent to just under €6.5 billion. Customers were evidently responding to the low level of interest rates and increasingly opting to invest in securities and funds.

After taxes, the Cooperative Financial Network posted a consolidated net profit of €6.1 billion, which was 3.0 percent more than in 2016. There was a small rise in consolidated total assets, which grew by €27.5 billion to €1.24 trillion.

The Cooperative Financial Network's equity broke through the €100 billion threshold for the first time, advancing by 6.0 percent to €104.4 billion as at December 31, 2017. The primary institutions held around 87 percent of this total. As in previous years, the increase was largely due to the retention of profits generated in a challenging market environment. In addition, the cooperative banks have issued new shares to cooperative members totaling almost half a billion euros (€0.46 billion), a further rise of 4.0 percent.

Management Report 2017

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.

The Volksbanken Raiffeisenbanken Cooperative Financial Network consists of 915 primary banks (2016: 972), the DZ BANK Group, Münchener Hypothekenbank eG (MHB), the BVR protection scheme, and BVR Institutssicherung GmbH as consolidated entities. The consolidated primary banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

The primary banks and MHB are the legally independent, equally ranked parent entities of the Cooperative Financial Network, whereas the other entities and the DZ BANK Group are consolidated as subsidiaries.

The Volksbanken Raiffeisenbanken Cooperative Financial Network's institutional protection scheme (IPS) is set up as a dual cooperative scheme that comprises the BVR protection scheme and the BVR-ISG protection scheme. The two institutional protection schemes are mutually complementary.

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

Definition of the main operating segments

The definitions of the operating segments Bank, Retail, Real Estate Finance, and Insurance, which are covered by the section on business performance, can be found in the notes to the consolidated financial statements starting on page 67.

* Institutional protection scheme.

Management Report 2017

Business Performance

Economic conditions

The economic upturn in Germany, which began back in 2013, continued in 2017 and again resulted in above-average economic growth. The latest official figures show that gross domestic product (GDP) adjusted for inflation rose by 2.2 percent year on year, a slightly higher rate than in 2016 (1.9 percent).

During the upturn to date, economic growth has seen relatively little fluctuation from quarter to quarter, and this was again the case in 2017. Global uncertainties, such as the announcement of a hard exit from the EU by the UK, evidently hampered Germany's economic growth only slightly. A key reason for this is likely to be that the domestic economy was a greater growth factor than foreign trade.

Once again, the main drivers of economic growth were government and consumer spending in 2017. Trends in the labor market were again favorable, wages continued to rise, and consumer price inflation remained moderate, which meant consumer spending increased at a similarly strong rate to the previous year.

Capital expenditure and foreign trade also contributed to the growth of GDP. Exports rose at a faster rate than in 2016. However, as imports also went up significantly, foreign trade did not provide much additional impetus for overall economic growth in absolute terms. Investing activities gained a little momentum. As a result of increasing capacity utilization in industry, there was a sharper rise in spending on capital equipment than before. The pace of growth in construction investment remained high.

Consumer prices increased at a faster rate in 2017, with the rate of inflation advancing from 0.5 percent in 2016 to 1.8 percent in 2017. The main driver was the sharp rise in energy prices, which had been on a steady downward trajectory in recent years. Consumers were also faced with much higher food prices than before.

The favorable trends in the labor market continued. The number of people employed in Germany rose by 633,000 year on year to around 44.3 million, while the number of people out of work fell from just under 2.7 million people in 2016 to roughly 2.5 million. Compared with 2016, the unemployment rate dropped by 0.4 percentage points to 5.7 percent.

Volksbanken Raiffeisenbanken Cooperative Financial Network

Business situation

In a difficult market environment that was predominantly characterized by extremely low interest rates, fierce competition, and demanding regulatory requirements, the Volksbanken Raiffeisenbanken Cooperative Financial Network had yet another successful year in 2017. Profit before taxes amounted to €8,916 million, exceeding the prior-year figure of €8,308 million by €608 million. With its focus on value creation and customers, the regionally oriented business model of the Cooperative Financial Network again proved robust and reliable in these difficult operating conditions.

In 2017, the cooperative banks generated strong and stable growth in their lending business with retail and corporate customers. Overall, lending to retail and corporate customers increased by 5.6 percent, which was 1.1 percentage points above the 2016 growth rate of 4.5 percent. Once again, the main driver of this sustained growth in the lending business was brisk customer demand for personal home loans. The cooperative banks slightly increased their share of the retail customer market once again compared with the previous year. Their share of the corporate customer market was also slightly higher. This was attributable to a buoyant level of lending to the service and construction industries. The cooperative banks are market leaders for lending to agriculture and forestry. The deposit-taking business of the Cooperative Financial Network also saw steady growth, allowing the sharp rise in lending to be funded in full by the increase in deposits from customers.

Equity advanced by 6.0 percent to €104.4 billion as at December 31, 2017 (December 31, 2016: €98.6 billion), thereby breaking through the €100 billion threshold for the first time. This substantial year-on-year increase was achieved despite the persistently difficult operating conditions, once more underlining the sustainability of the Cooperative Financial Network's successful business model and strengthening its future viability. The sound level of capital adequacy provides the Cooperative Financial Network with a sufficient risk buffer while at the same time enabling it to expand its lending business with retail and corporate customers.

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

The popularity of the Cooperative Financial Network in the market was once again clearly demonstrated in 2017 by the sustained growth in its membership. Since 2007, the membership base of the local cooperative banks has grown by more than 2.4 million members. As at December 31, 2017, the cooperative banks had a total of 18.5 million members. The average number of members per local cooperative bank increased to nearly 20,000.

Financial performance

Net interest income for 2017 again decreased slightly year on year to €18,638 million (2016: €18,826 million). This figure was primarily influenced by the low-interest-rate policy of the European Central Bank (ECB) and the resulting deterioration of margins. The local cooperative banks' net interest income, the biggest source of income for the Cooperative Financial Network, also declined year on year, from €16,052 million in 2016 to €15,917 million in 2017.

Allowances for losses on loans and advances grew slightly, from €522 million in 2016 to €576 million in 2017.

Net fee and commission income improved significantly, by 8.9 percent, from €5,963 million in 2016 to €6,491 million in 2017. The increase mainly resulted from the rise in agency and brokerage income in the securities and fund business as a result of strong market conditions.

The Cooperative Financial Network's **gains and losses on trading activities** fell by €390 million to a net gain of €709 million, having reached a high net gain of €1,099 million in 2016. Gains and losses on trading activities are largely influenced by the DZ BANK Group.

Gains and losses on investments declined to a net loss of €144 million in 2017 (2016: net gain of €33 million). The prior-year figure had received a particular boost from a positive non-recurring item resulting from the sale of shares in VISA Europe.

Other gains and losses on valuation of financial instruments improved from a net loss of €190 million in 2016 to a net gain of €289 million in the reporting year. The main cause of this increase was the narrowing of credit spreads on bonds from the peripheral countries of the eurozone. By contrast, the previous year had seen a widening of these credit spreads.

Net income from insurance business climbed by 14.7 percent to €1,283 million in 2017 (2016: €1,119 million). This year-on-year change in net income arose from the combination of an increase in premium income and a slight decline in insurance benefit payments, which more than offset a fall in the gains and losses on investments held by insurance companies and other insurance company gains and losses, and a rise in the insurance business operating expenses.

Administrative expenses decreased slightly, by 0.3 percent or €60 million, to €17,884 million (2016: €17,944 million). This was primarily due to the cooperative banks' active management of costs in 2017. The bulk of the administrative expenses were attributable to staff expenses, which came to €10,138 million in 2017 (2016: €10,318 million).

Income taxes amounted to €2,843 million in 2017 (2016: €2,410 million), with most of this amount (€2,649 million) attributable to current income taxes. This underscores the particular importance of the Cooperative Financial Network for Germany's regional authorities by virtue of it being one of the largest municipal tax payers.

Net profit after tax rose by 3.0 percent to €6,073 million in 2017, compared with €5,898 million in 2016.

The Cooperative Financial Network's **cost/income ratio** came to 65.3 percent in 2017 (2016: 67.0 percent).

Financial position

The consolidated **total assets** of the Volksbanken Raiffeisenbanken Cooperative Financial Network had risen by €27.5 billion to €1,243.3 billion as at December 31, 2017 (December 31, 2016: €1,215.8 billion). The **volume of business** increased from €1,599.4 billion in 2016 to €1,662.8 billion in 2017.

Of the total assets before consolidation, 61.7 percent was attributable to the primary banks (December 31, 2016: 60.6 percent) and 35.3 percent to the DZ BANK Group (December 31, 2016: 36.4 percent). The remaining 3.0 percent was attributable to Münchener Hypothekenbank, the BVR protection scheme, and BVR Institutssicherung GmbH.

On the assets side of the balance sheet, loans and advances to customers grew by 3.9 percent to €761.9 billion (December 31, 2016: €733.2 billion). In 2017 again, this rise was predominantly attributable to the primary banks, whose loans and advances to customers climbed by 5.6 percent and thus outstripped the 2016 growth rate of 4.5 percent. As anticipated, personal home loans were the main growth driver in the retail customer business. The increase in lending to corporate customers (loans to non-financial companies and self-employed people) by the local cooperative banks was mainly attributable to lending to the service and construction industries.

Financial assets held for trading contracted by €10.2 billion or 21.1 percent to €38.1 billion as at December 31, 2017 (December 31, 2016: €48.3 billion). This decline in financial assets held for trading resulted largely from a decrease in derivatives (positive fair values) of 27.5 percent to €17.1 billion as well as a decrease in bonds and other fixed-income securities of 3.3 percent or €0.3 billion to €9.0 billion.

On the **equity and liabilities** side of the balance sheet, deposits from customers grew again, from €774.3 billion as at December 31, 2016 to €801.0 billion as at December 31, 2017. Deposits from banks also increased significantly, climbing by 9.5 percent to €113.1 billion (December 31, 2016: €103.3 billion).

Financial performance

	2017 € million	2016 € million	Change (percent)
Net interest income	18,638	18,826	–1.0
Allowances for losses on loans and advances	–576	–522	10.3
Net fee and commission income	6,491	5,963	8.9
Gains and losses on trading activities	709	1,099	–35.5
Gains and losses on investments	–144	33	>100.0
Other gains and losses on valuation of financial instruments	289	–190	>100.0
Net income from insurance business	1,283	1,119	14.7
Administrative expenses	–17,884	–17,944	–0.3
Other net operating income/expense	110	–76	>100.0
Profit before taxes	**8,916**	**8,308**	**7.3**
Income taxes	–2,843	–2,410	18.0
Net profit	**6,073**	**5,898**	**3.0**

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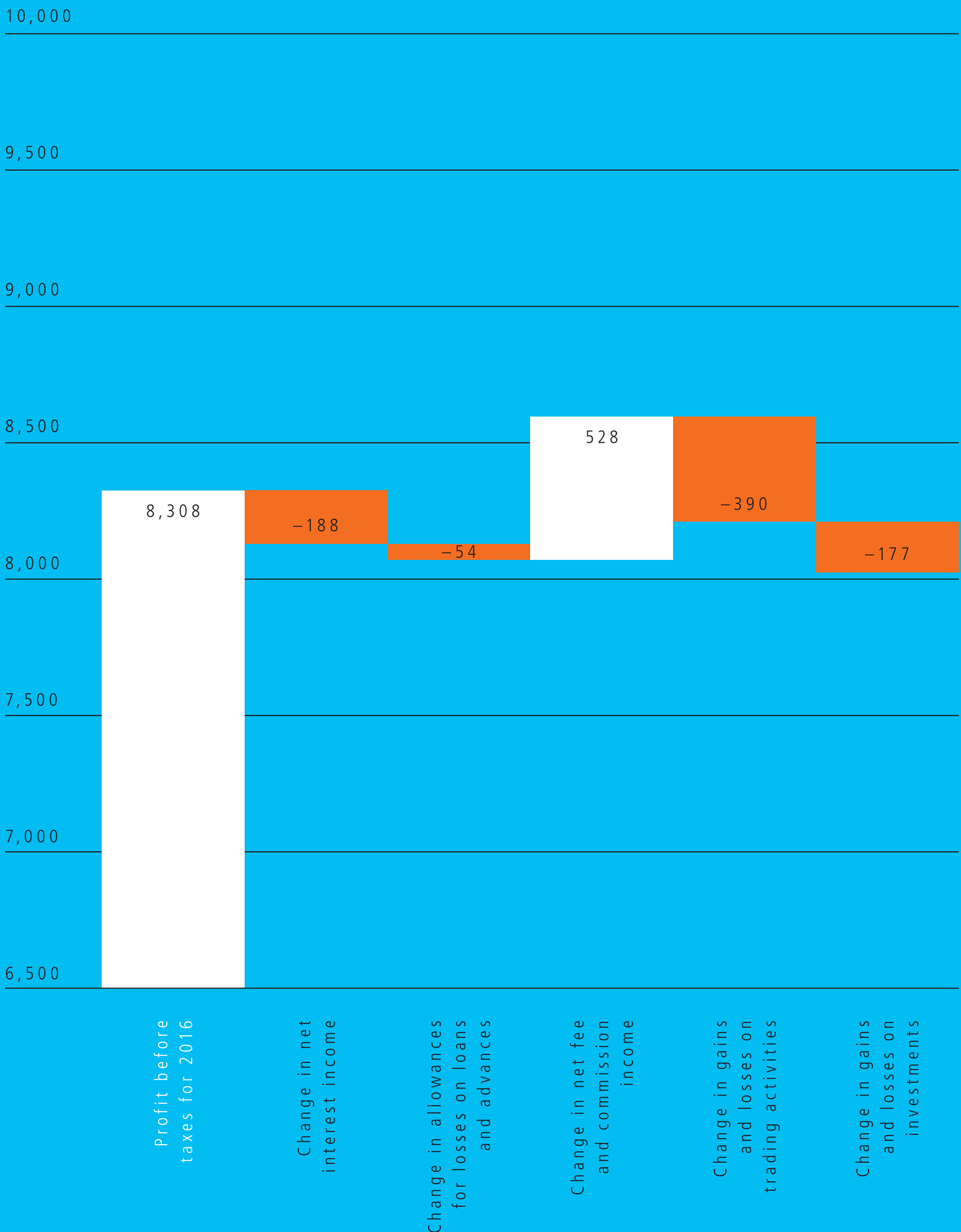
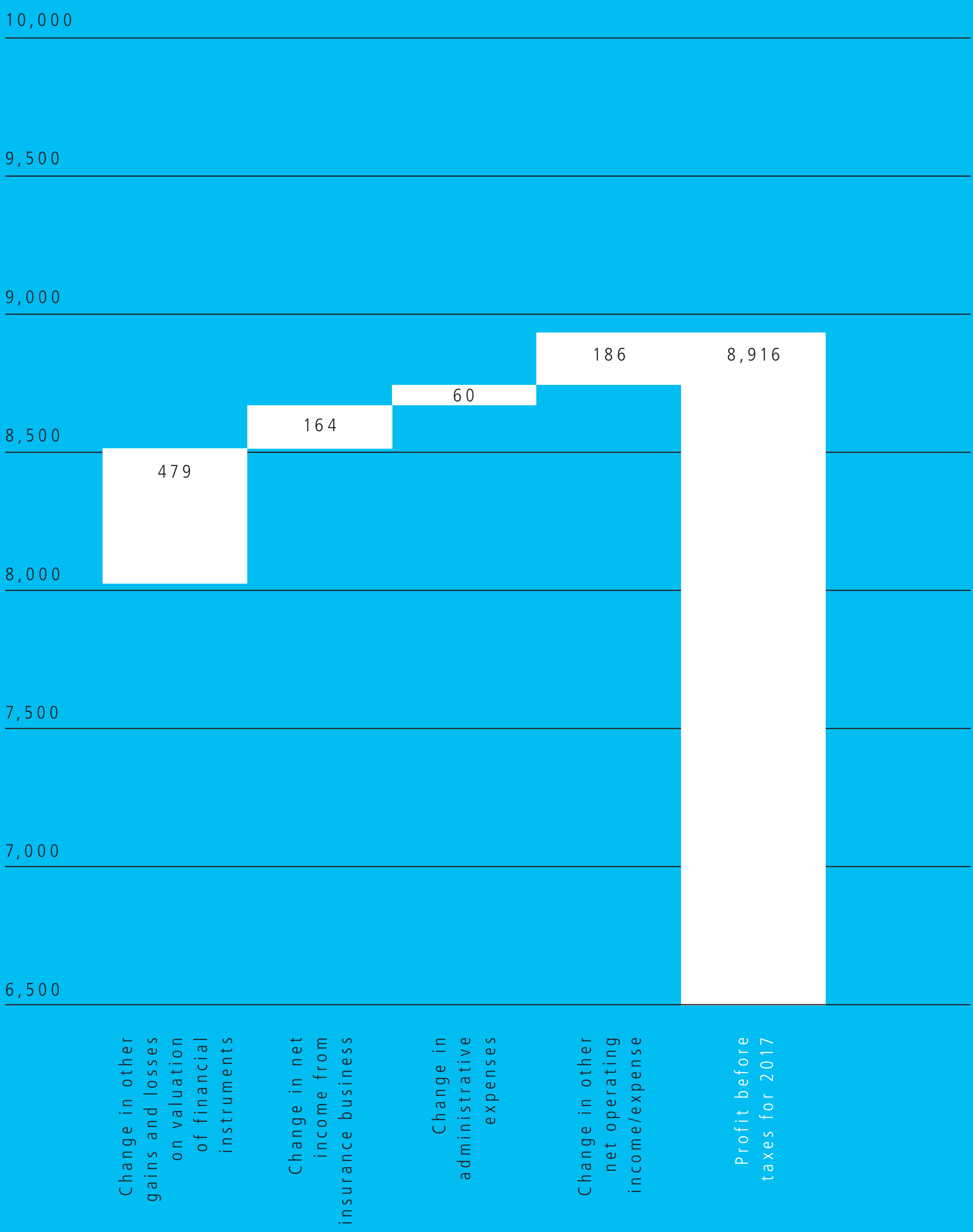
Breakdown of change in profit before taxes by income statement item

€ million




10,000
9,500
9,000
8,500
8,000
7,500
7,000
6,500
479
164
60
186
8,916
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/expense
Profit before taxes for 2017

Corresponding to the change in financial assets held for trading, financial liabilities held for trading fell by €7.4 billion or 16.7 percent to €36.8 billion (December 31, 2016: €44.1 billion). This fall was due, in particular, to an €8.3 billion decline in derivatives (negative fair values) to €16.8 billion. Also within financial liabilities held for trading, however, the volume of bonds issued and other debt certificates issued rose by 1.0 percent to €13.0 billion (December 31, 2016: €12.9 billion).

There was a further strong increase in the Cooperative Financial Network's equity, which advanced by 6.0 percent to €104.4 billion (December 31, 2016: €98.6 billion). The main reason for this rise was the appropriation of profits generated in 2017 to boost reserves.

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.

The consolidation carried out as part of the extended aggregated calculation demonstrates that by far the greatest proportion of the consolidated own funds consists of the own funds of the primary institutions. The growth in own funds therefore arises primarily from the profits generated by the primary banks and network institutions. Rights issues by the network institutions are for the most part subscribed internally and consolidated within the Cooperative Financial Network.

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

The impact of consolidation on the level of the risk-weighted exposure amounts is therefore negligible, whereas own funds decrease. The method by which the consolidation is carried out results in a total capital ratio for the institutional protection scheme that is lower than the corresponding ratio for the sum of all primary institutions.

As at December 31, 2017, the own funds of the Cooperative Financial Network amounted to €97.7 billion (December 31, 2016: €92.1 billion). The Tier 1 capital ratio including reserves in accordance with section 340f of the German Commercial Code (HGB) was 15.6 percent (December 31, 2016: 15.4 percent). Due to the high quality of the capital, the common equity Tier 1 (CET1) ratio calculated in accordance

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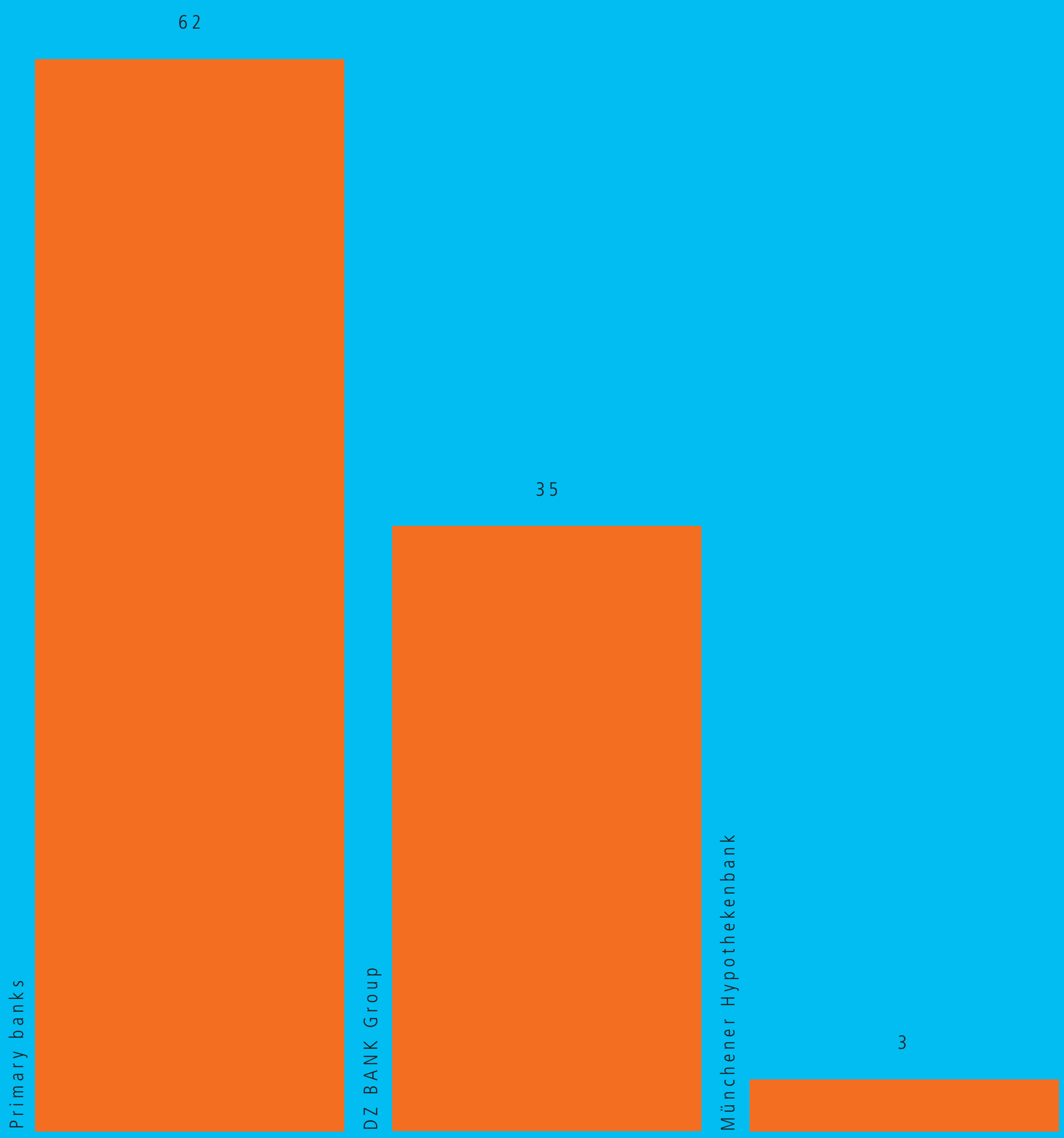
Breakdown of the total assets held in the Volksbanken Raiffeisenbanken Cooperative Financial Network as at December 31, 2017

Percent



with full application of the new CRR provisions was only slightly lower at 15.5 percent (December 31, 2016: 15.2 percent). As had been the case a year earlier, the bulk (89.5 percent) of the total risk exposure of €611.5 billion (December 31, 2016: €572.5 billion) subject to capital charges (see the table on page 19) was attributable to counterparty risk.

The leverage ratio for the Cooperative Financial Network as at December 31, 2017 was reported for information purposes using the methodology specified in article 429 CRR. This was based on Tier 1 capital as determined in the extended aggregated calculation in accordance with article 49 (3) CRR, which is adjusted for all internal Tier 1 capital positions within the joint liability scheme of the Cooperative Financial Network. The risk exposures were 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.

Using Tier 1 capital (including reserves in accordance with section 340f HGB and applying the new CRR provisions in full) as the capital basis, the leverage ratio was 7.7 percent (December 31, 2016: 7.3 percent). This ratio underlines the sound capital adequacy of the Cooperative Financial Network.

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Breakdown of the total risk exposure

€ million

	Dec. 31, 2017	Dec. 31, 2016
Risk-weighted exposure amounts for credit, counterparty, and dilution risk, and for free deliveries	547,241	510,093
Risk exposure amount for settlement and delivery risk	0	3[1]
Total exposure amount for position, foreign-exchange, and commodities risk	11,184	10,193
Total amount of risk exposures arising from operational risk (OpR)	49,853	49,707
Additional risk exposure amount relating to overheads	0	0
Total amount of risk exposures for credit valuation adjustment (CVA)	2,175	2,463
Total amount of risk exposures relating to large exposures in the trading book	0	0
Other exposure amounts	1,037	0
Total risk exposure after adjustment	**611,490**	**572,458**

1 Prior-year figure restated.

Operating segments of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Bank operating segment

The **net interest income** of the Bank operating segment declined by €98 million to €1,525 million in 2017 (2016: €1,623 million).

The net interest margin contribution in the corporate banking business increased again in 2017. Germany's large and medium-sized companies continued to show a high level of willingness to commit to capital investment in the year under review. By some distance, bank loans remained these companies' preferred means of covering their financing requirements, which arose principally from the need for expansion investment and funding to cover a rising volume of business. Nevertheless, a sound capital and liquidity position enabled the vast majority of large and medium-sized companies to meet their capital investment requirements from their own cash flows or reserves.

The net interest margin contribution from the development lending business in the Investment Promotion division went up year on year even though the significant downward pressure on margins continued. The main areas of development activity within traditional investment finance were business start-ups and the implementation of energy efficiency measures in both the residential real estate and agriculture sectors. In spite of this fiercely competitive environment, the aforementioned development lending portfolios expanded.

The main year-on-year changes in the net interest margin contribution from each of the product fields in the Structured Finance division were as follows. In the syndicated business/renewable energies product field, another rise in the net interest margin contribution was achieved, in particular in connection with the funding of wind turbines, in an increasingly competitive environment. The product field also received a boost from spending brought forward in anticipation of consequences from the amendment of the German Renewable Energy Sources Act (EEG 2017). In acquisition finance, large numbers of customers once again made use of the high degree of liquidity in bond markets to redeem their loans. However, a selective approach to the granting of new loans helped to generate a year-on-year rise in the net interest margin contribution. There was a slight decrease in the project finance product field's net interest margin contribution in 2017. The net interest margin contribution from international trade and export finance business increased year on year.

In the transport finance business, the decrease in net interest income was largely attributable to higher special accelerated depreciation allowances on assets subject to operating leases and to substantially narrower margins as a result of fierce competition around the globe to provide financing, especially in the aviation and land transport markets, in 2017. A smaller volume of new business and contraction of the portfolio following further early repayments of loans also had an adverse impact on net interest income.

The international transport industry experienced overcapacity within some segments of the international maritime shipping market, resulting in sharply falling freight rates and considerable pressure on shipping prices. The crisis also affected offshore business, which suffered from the uncertainty about likely movements in the price of Brent crude. Although this oil price was considerably more stable in the year under review compared with 2016 (average for 2017: US$ 55; average for 2016: US$ 45), the price was still well below the level in the period 2011 to 2014 (average for 2011–2014: US$ 108).

The leasing business saw a slight contraction in net interest income in 2017. This year-on-year fall was attributable to a reduction in net income from equity investments and, in particular, a decline in net interest income in the real-estate leasing, automotive trade, and vehicle fleet businesses, which, together with international business, have been defined as non-core business and are being scaled back. However, the increase in net interest income in the core business largely offset the decrease in the non-core business.

Allowances for losses on loans and advances in the Bank operating segment increased from €523 million in 2016 to €693 million in 2017. This was mainly due to the spiraling of the crisis in some sections of the shipping industry, the resulting excess capacity, and the challenging situation in offshore finance created by the uncertainty about likely movements in the price of Brent crude going forward.

Net fee and commission income came to €519 million in 2017 and therefore fell short of the prior-year level (2016: €603 million). The service contribution from the corporate banking business declined owing to a reduction in new business. The Investment Promotion division failed to reach the prior-year figure. The main factor influencing the reduction in net fee and commission income in the acquisition finance, project finance, and international trade and export finance product fields was the much fiercer level of competition. By contrast, international documentary business improved markedly. In the asset securitization product field, however, the service contribution was down significantly. The service contribution generated by the Operations/Services division in 2017 was higher than the equivalent figure reported for 2016 as a result of a rise in the income from securities custody business. Net fee and commission income from lending in the transport finance business was lower in 2017 than it had been in 2016.

The Bank operating segment's **gains and losses on trading activities** in 2017 came to a net gain of €485 million, down by €366 million compared with the figure of €851 million for 2016. The markedly larger gain in 2016 was mainly attributable to a positive effect on earnings resulting from liabilities recognized at fair value. Moreover, interest-rate-related changes in the fair value of cross-currency basis swaps used to hedge other transactions amounted to a substantial loss in 2017, whereas they had amounted to a small gain in 2016. In 2016, there had also been income from the reversal of provisions to cover the cost of legal proceedings and attorneys.

Key influences on capital markets during the year under review were the continuation of the ECB's program of quantitative easing and the three interest-rate hikes by the Fed described earlier.

The level of **gains and losses on investments** again declined, falling from a net gain of €77 million in 2016 to a net loss of €17 million in the reporting year. Gains and losses on investments mainly consisted of income from the disposal of liquidity-pool securities. The decline in gains and losses on investments was partly attributable to write-downs recognized in 2017 on the carrying amounts of entities accounted for under the equity method.

The positive contribution to earnings in 2016 had included income from the disposal of the equity investment in VISA Europe Ltd., London. The asset-backed securities (ABS) business had also generated a positive contribution to earnings, largely from disposals of ABSs that had been impaired in previous periods.

Other gains and losses on valuation of financial instruments improved to a net loss of €10 million in 2017 (2016: net loss of €106 million) as a result of market conditions.

Administrative expenses went down by €90 million to €1,969 million in the period under review (2016: €2,059 million). Increased project-related consultancy and IT expenses pushed up costs, but this was offset by a reduction resulting from the implementation of cost saving measures.

The Bank operating segment's **profit before taxes** fell by €517 million year on year to a loss of €93 million (2016: profit of €424 million) due to the factors described above. The cost/income ratio rose from 68.5 percent in 2016 to 76.6 percent in the reporting year.

Retail operating segment

The **net interest income** generated by the Retail operating segment amounted to €16,489 million in 2017 and was therefore again slightly lower than the prior-year amount of €16,618 million. In the Retail operating segment, volume growth only partly offset the sustained negative effects of the ECB's low-interest-rate policy. Moreover, lower contributions to income from LuxCredit foreign currency lending reduced the level of net interest income in 2017. Despite unrelentingly fierce competition and the challenging interest-rate environment, net interest income from consumer finance business increased thanks to buoyant consumer demand throughout the year.

Allowances for losses on loans and advances improved from a net addition of €51 million in 2016 to a net reversal of €95 million in 2017. The risk situation in the Retail operating segment remained stable because the macroeconomic environment was positive.

Net fee and commission income in the Retail operating segment rose significantly, advancing from €6,034 million in 2016 to €6,646 million in the year under review. Net fee and commission income in this segment in 2017 was once again primarily influenced by income from payments processing and strong customer demand in the securities and funds business. As a result of the sustained period of low interest rates, retail investors are increasingly turning to investment products with higher expected returns. The volume-related income contribution generated from the average assets under management rose again year on year and was one of the key drivers for net fee and commission income in the Retail operating segment. There was also an increase in income from performance-related management fees during the reporting period. The contribution to income from the fund services business also improved slightly year on year.

The Retail operating segment's **gains and losses on trading activities** were virtually unchanged year on year, amounting to a net gain of €213 million (2016: €211 million). Gains and losses on trading activities are 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 level of **gains and losses on investments** deteriorated by a substantial €80 million to a net loss of €174 million in the reporting year (2016: net loss of €94 million) due to a reduced level of price gains and of reversals of write-downs on securities.

In terms of costs, the cooperative banks made further efforts to become even more efficient. Overall, **administrative expenses** in the Retail operating segment decreased slightly, by 0.2 percent, to reach €15,245 million in the year under review (2016: €15,276 million). The main influences on this segment's administrative expenses were appointments to new and vacant positions and average pay rises. An increase in regulatory requirements and charges and, in particular, higher costs for public relations/marketing, IT, and consulting had a negative impact on administrative expenses in the Retail operating segment.

As a result of the factors described above, the Retail operating segment's **profit before taxes** improved from €7,197 million in 2016 to €8,088 million in 2017. Consequently, the cost/income ratio fell by 2.2 percent to 65.6 percent (2016: 67.8 percent).

Real Estate Finance operating segment

The **net interest income** of the Real Estate Finance operating segment amounted to €1,492 million in 2017 (2016: €1,322 million) and was again adversely affected by the sustained low level of interest rates in the capital markets. In the case of loans issued under advance or interim financing arrangements, the Cooperative Financial Network's Real Estate Finance operating segment managed to strengthen its non-collective income base in terms of volume on the back of a marked expansion in business over the last few years and despite a fall in average returns. This growth largely offset the decline in income from home savings loans and other building loans. The increased customer demand for home savings reflects the extent to which customers value ownership of their own home as a secure investment. Furthermore, when customers sign a home savings contract at the moment, they are guaranteed that the future loan finance will also be at the low interest rates currently prevailing. The German investment market for commercial real estate also performed well in 2017. The increase in the level of competition in previous years, combined with higher demand caused by pressure from investors, led to a further rise in the prices of commercial real estate in the year under review. Other factors contributing to the uptrend in prices included a greater level of activity in the market, especially by insurance companies and pension funds, and a further shortage of commercial real estate. The upshot was significant downward pressure on commercial real estate margins in 2017, particularly in relation to real estate in prime locations.

The net reversal posted under **allowances for losses on loans and advances** in the Real Estate Finance operating segment decreased from €45 million in 2016 to a net reversal of €12 million in the year under review.

The net expense traditionally reported for this operating segment under **net fee and commission income** dropped by €30 million to a net expense of €122 million (2016: net expense of €152 million).

The level of **gains and losses on investments** in the Real Estate Finance operating segment declined slightly, by €11 million, to reach a net gain of €25 million (2016: net gain of €36 million). The net gain in 2016 was predominantly attributable to the reversal of an impairment loss on a bond of HETA ASSET RESOLUTION AG, Klagenfurt.

Other gains and losses on valuation of financial instruments in the Real Estate Finance operating segment improved significantly year on year, amounting to a net gain of €292 million in 2017 (2016: net loss of €46 million). This increase was mainly caused by a narrowing of credit spreads on bonds from the peripheral countries of the eurozone, whereas credit spreads had widened in 2016.

Administrative expenses rose to €804 million in 2017 (2016: €754 million), mainly due to additional expenses relating to regulatory requirements and strategic projects. Staff expenses fell slightly.

Profit before taxes in the Real Estate Finance operating segment rose by a substantial €436 million to €928 million in the reporting year (2016: €492 million). The performance of the Real Estate Finance operating segment, as outlined above, meant that the cost/income ratio decreased to 46.7 percent (2016: 62.8 percent).

Insurance operating segment

Net premiums earned went up by €523 million to €15,181 million (2016: €14,658 million), reflecting the integral position held by R+V within the Cooperative Financial Network. This exceeded the level of premiums earned in 2016 by 3.6 percent. Gross premiums written increased again to reach €15,338 million in 2017, up by 3.9 percent on the high level of premiums generated in 2016 of €14,767 million.

Premium income in the life insurance and health insurance business grew by a total of 0.6 percent to €7,626 million.

In the life insurance business, premium income remained virtually unchanged year on year with just a marginal decline of €1 million to €7,066 million, although there was an increase in premiums outside Germany, contrasting with a fall in premiums within Germany. Premium income went up in both the bAV and pV Fonds businesses, but premium income from pV Klassisch went down. Premium income from health insurance rose by 8.9 percent to €560 million, largely due to an encouraging uptrend, primarily in regular premiums.

In the non-life insurance business, premium income grew by 4.2 percent to €5,521 million, with most of this growth being generated from vehicle insurance business and corporate customers.

Premium income from the inward reinsurance business rose by 14.3 percent to €2,034 million. The reasons for this increase were mainly the upward trends in the vehicle insurance business, especially in the UK and Israel, and in the fire and non-life insurance sectors, primarily in South Africa and the United States.

Gains and losses on investments held by insurance companies and other insurance company gains and losses fell by 9.1 percent to a net gain of €3,531 million (2016: net gain of €3,885 million). Long-term interest rates went up from the beginning of the year under review, whereas they had fallen sharply in the prior year. Over the course of 2017, equity markets relevant to R+V performed better than in 2016. In the reporting year, movements in exchange rates between the euro and various currencies were more unfavorable overall than in the previous year. However, there was a positive impact on operating profit in the life/health insurance segment arising from the reform of the German Investment Tax Act (InvStG).

Overall, these developments led, in particular, to lower net foreign exchange gains and a deterioration in unrealized gains and losses. These negative effects were offset mainly by an improvement in realized gains and losses and a fall in impairment losses.

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 on investments held by insurance companies also affected the 'insurance benefit payments' line item presented below.

Net insurance benefit payments decreased by 0.6 percent from €15,400 million in 2016 to €15,312 million in 2017.

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, additions were made to insurance liabilities at companies offering personal insurance. Furthermore, an amount of €827 million was added to the supplementary change-in-discount-rate reserve (2016: €626 million).

In inward reinsurance, the discount rate used by courts in the UK to determine the lump-sum payments for insured personal injury claims was lowered significantly during 2017. This led to a negative impact of €111 million. The inward reinsurance business also had to absorb additional expenses totaling €205 million arising from natural disasters (Hurricanes Harvey, Irma, and Maria) and the earthquake in Mexico.

On the other hand, the non-life insurance business experienced a modest increase in the claims rate in 2017.

Insurance business operating expenses went up by a total of 5.7 percent to €2,595 million (2016: €2,454 million) in the course of ordinary business activities in all three divisions.

The factors described above meant that **profit before taxes** for the reporting year increased by €114 million to €795 million (2016: €681 million).

Management Report 2017

Human Resources Report and Sustainability Report

Human resources report

The increasingly rapid pace of digitalization, which is pervading almost all areas of life, makes it necessary to continually adapt the Cooperative Financial Network's successful business model. In the years ahead, dealing professionally with new media and IT tools will be included in the job profiles of all bank staff, which means managers and employees need to prepare for the new skill set required in an omnichannel banking environment. New tasks will come to the fore in banks, while others will become less important or even disappear completely. Banks therefore need to plan how many employees they will need, and with what skills, so that they can meet these changing requirements. In view of the evolving job profiles, and also the need to optimize the branch network, systematic personnel management will become a core element of HR work within the individual cooperative banks. This will mean taking account of the banks' responsibilities as major local employers while also ensuring that they are fully focused on the future.

Anticipatory HR planning was begun in 2016 and continued in 2017. The number of employees fell by roughly 2.5 percent. This was achieved through natural wastage whereby retiring employees were deliberately not replaced. As at December 31, 2017, the number of people employed by the entities in the Cooperative Financial Network (DZ BANK: excluding trainees) totaled 177,248 (see the chart on page 28).

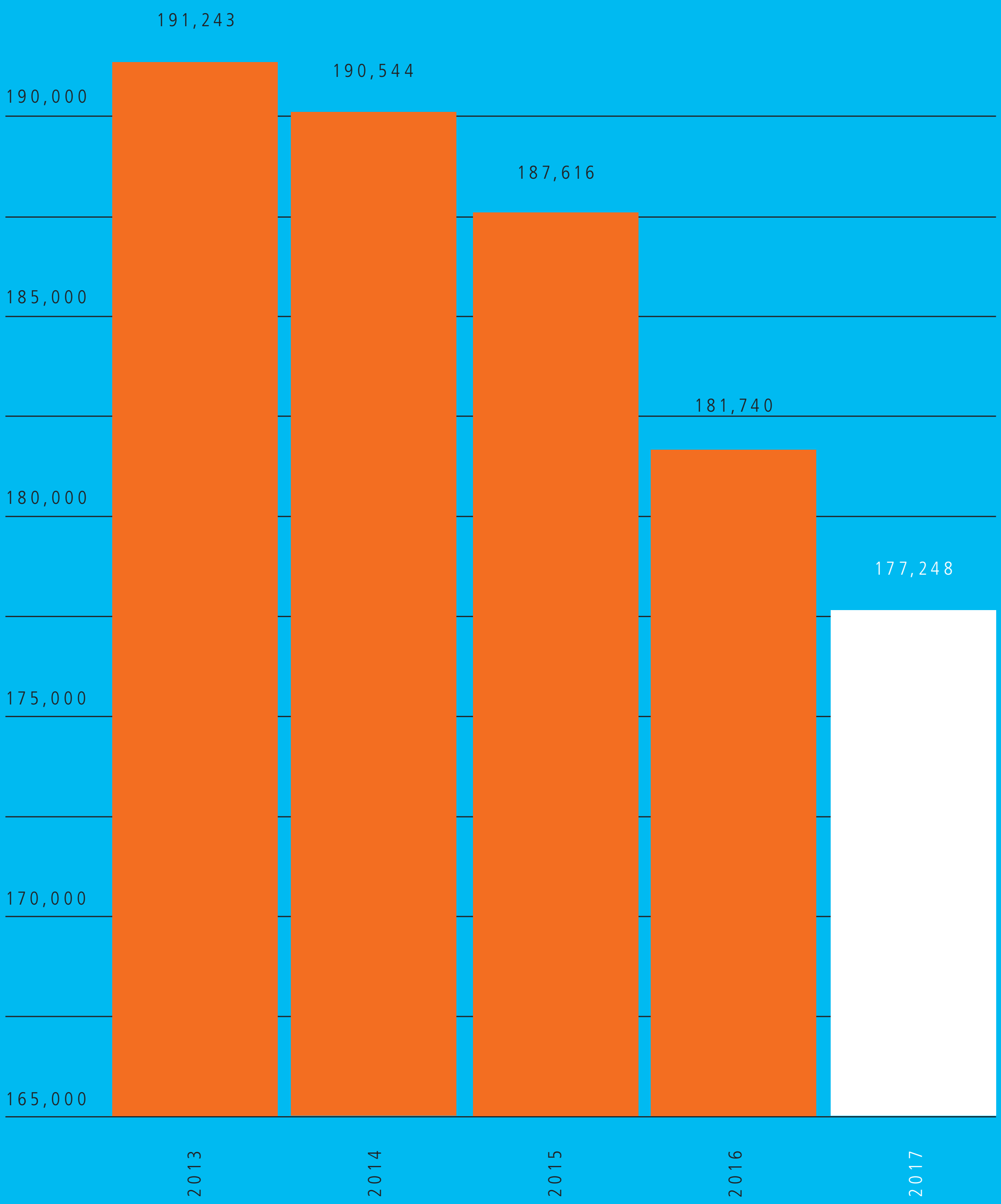
With regard to the digital transformation of the Cooperative Financial Network, an important factor in preparing for the future is the provision of robust inhouse training and continuing professional development (CPD) for trainees. Attracting tech-savvy school leavers to join the banks' vocational training programs is also crucial. The cooperative banks maintained a good ratio of trainees to other employees of 6.7 percent in 2017 (see the chart on page 30). Launched in 2016, the 'next' network for trainees became well-established in 2017. As well as enabling trainees to swap ideas and experiences, the 'next' network also serves to recruit new trainees.

The proportion of trainees in the Cooperative Financial Network stood at the high level of 6.3 percent in 2017. The range of apprenticeships and other training offered by the Cooperative Financial Network enables it to compete well with other companies in what is becoming, from the perspective of employers, an increasingly small market of potential trainees. For many years, the Cooperative Financial Network has been one of the most sought-after employers in Germany for school leavers and has held the seal of approval awarded to companies included in 'Germany's top 100 employers'. Its appeal has been confirmed by the 2017/18 School Leavers Barometer, a representative survey carried out throughout Germany by the Berlin-based trendence Institute. Many young people see the possibility of obtaining a degree after or alongside their vocational training as an important factor in their choice of employer. For interested young employees, the bachelor degree programs offered through the training providers in the Cooperative Financial Network are a particularly attractive way of gaining further qualifications.

The local cooperative banks and the central institution also offer university graduates diverse and attractive roles and career opportunities. And the list of Germany's top 100 employers in the trendence graduate barometer indicates that the local cooperative banks have a good reputation among students, too. The survey results again put the banks among the 100 top employers in 2018. This is also evidenced by the stable proportion of employees with a degree, which stood at 8.0 percent in 2017 (see the chart on page 31).

The Cooperative Financial Network is aware that the provision of targeted skills training for employees is very important to its future business success. This training puts in place the prerequisites that will enable the banks to make the most of opportunities presented by change. In light of this, suitable CPD activities have been developed that address the changes to employees' tasks and areas of responsibility. New processes and technologies make it more pressing than ever to devise a concept for lifelong, self-organized learning. Employees are supported by a wide range of training and development activities offered by regional associations and cooperative academies. This collaboration has borne fruit, demonstrated not least by employees' long periods of service. Almost a third of employees have worked for 'their bank' for more than 25 years (see the chart 'Years of service' on page 29). Going forward, the Cooperative Financial Network will continue to pursue the objective of increasing its appeal as a modern, forward-looking employer so that it can attract the committed and motivated employees needed for the digital transformation at all levels of the Cooperative Financial Network.

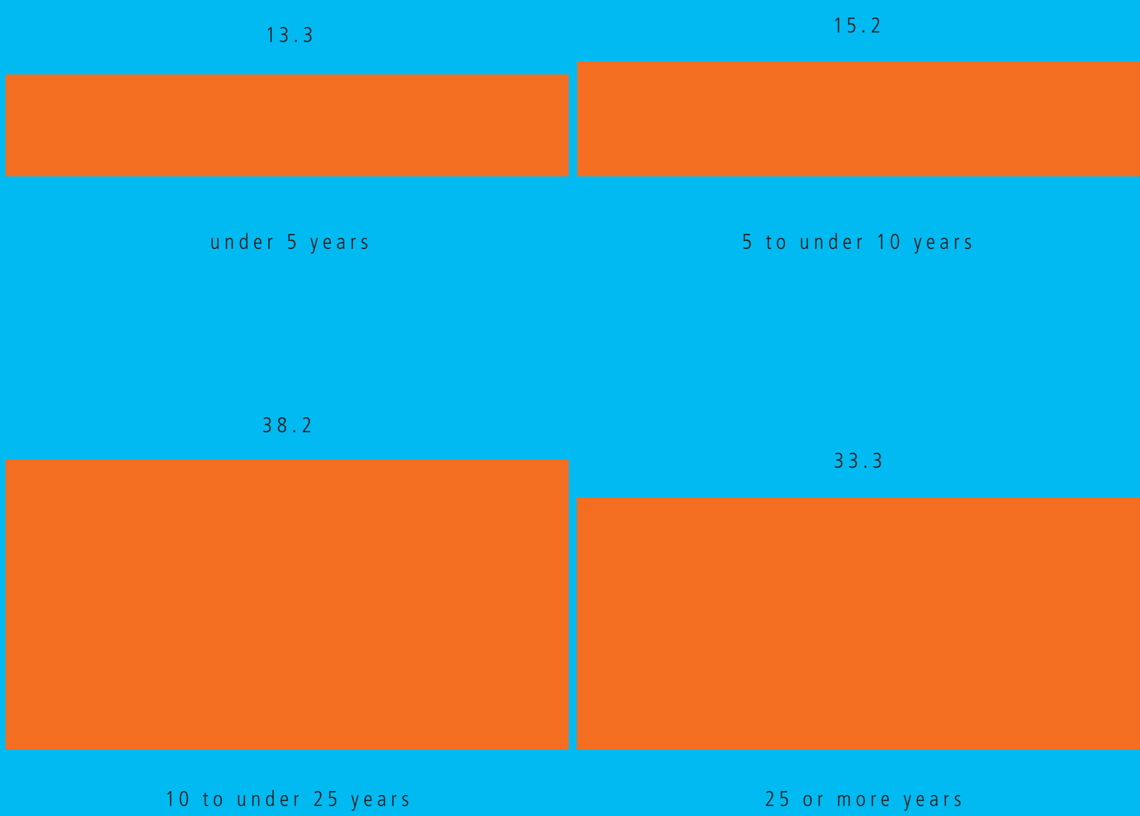
Number of employees*



* Volksbanken Raiffeisenbanken Cooperative Financial Network.

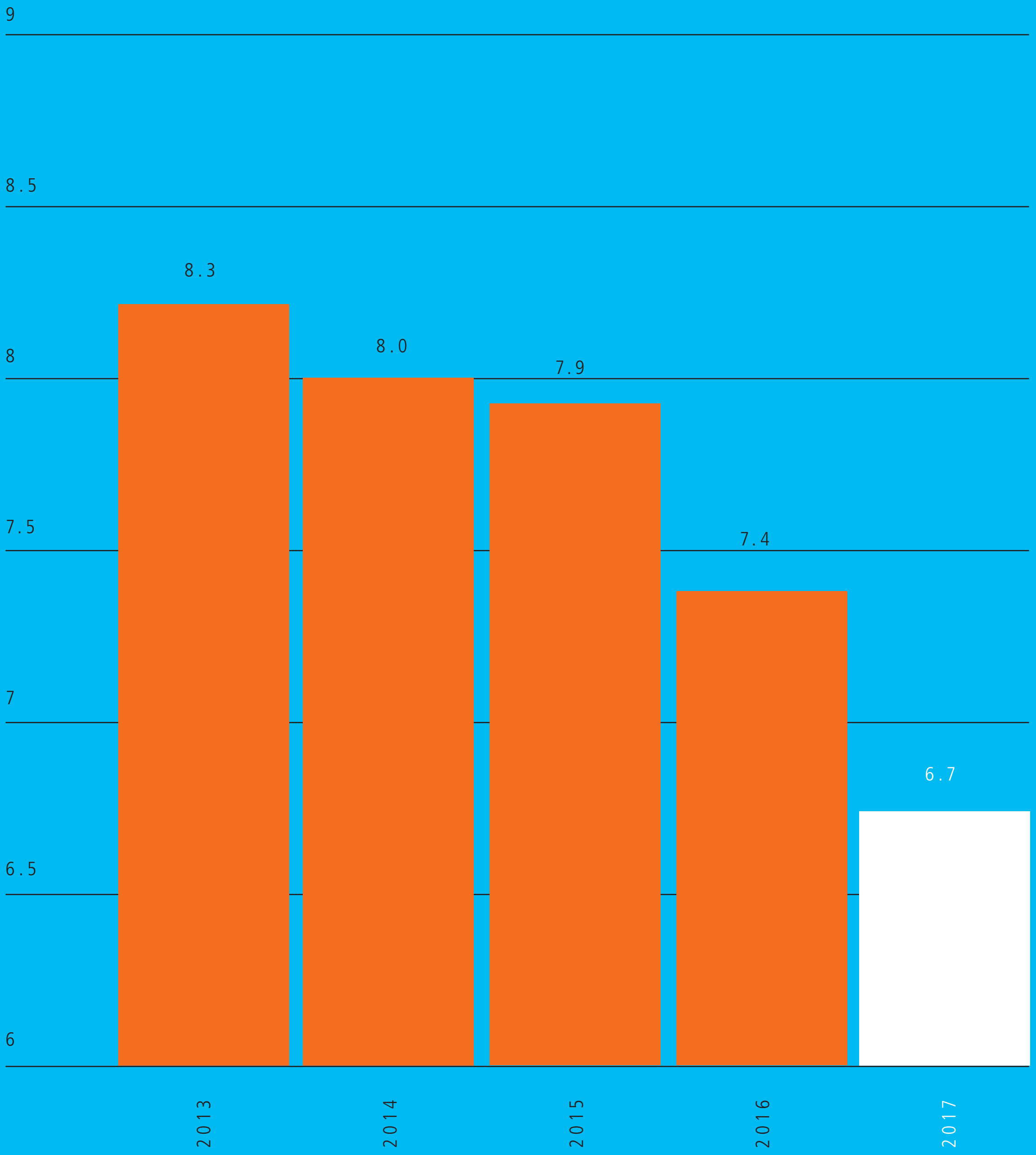
Years of service

Percent



Ratio of trainees to other employees*

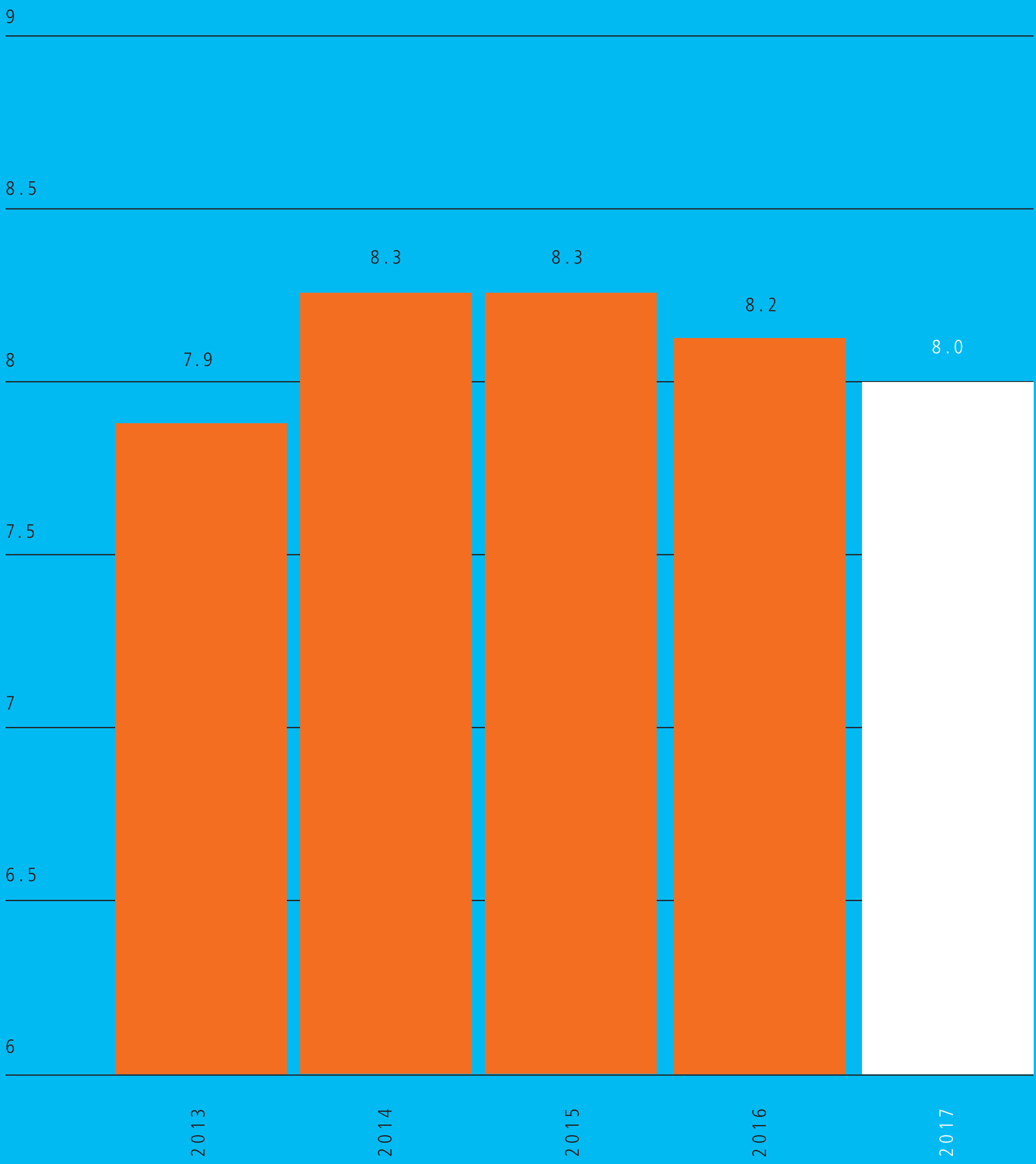
Percent



* Local cooperative banks, central institution, Sparda, PSD.

Proportion of employees with a degree*

Percent



* Local cooperative banks, central institution, Sparda, PSD.

Sustainability report

Sustainability – what is it exactly?

Back in 1987, the World Commission on Environment and Development came up with the following definition: "Sustainable development is development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs and to choose their lifestyle." However, rather than having a one-dimensional focus on the future, sustainability encompasses a number of dimensions, as expressed in the guidelines for the German Sustainability Code: "Sustainable business management means looking to the future while balancing social, environmental and economic goals."

The cooperative principle and self-image

The cooperative banks were founded around 170 years ago on the basis of the cooperative principles of self-help, self-management, and self-responsibility, which were devised by Hermann Schulze-Delitzsch and Friedrich Wilhelm Raiffeisen. To the present day, the cooperative banks have continued to pursue their founding fathers' principles as widely engaged sponsors and promoters of their regions with utmost commitment and a close connection to their local communities. In memory of their distinguished founder Friedrich Wilhelm Raiffeisen and to honor the values that he promoted, all cooperative banks are commemorating the 200th anniversary of his birth in 2018, which has been designated Raiffeisen Year. After all, Raiffeisen's ideas are now more alive and relevant than ever before.

Acting in a sustainable manner is a defining characteristic of the cooperative culture. It includes the consideration not only of economic perspectives but also of the environment, community, and society as a whole. Cooperative banks are deeply rooted in society and in their local regions, acting as dependable partners in the establishment of stable economic success over the long term. They have set themselves the goal of combining financial success with a responsible approach to business, in other words assuming responsibility for the development of a positive social framework. Principles such as respect, solidarity, partnership, democracy, decentralization, regionalism, self-responsibility, and helping people to help themselves play a particularly important role in this context. In terms of helping people to help themselves, the cooperative movement has been focused since the outset on improving its members' financial and thus social circumstances.

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

Economic perspective

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

Social integration

The cooperative banks have seen their membership base grow steadily for many years. At the end of 2017, they had approximately 18.5 million members in total, having gained more than two million new members in the past ten years. The concept of being not only a customer but also a shareholder of their bank is becoming increasingly popular with individuals and companies alike. As a result, the cooperative banks in Germany operate on a very broad membership base, maintaining strong links with the local communities in their region. The cooperative business model continues to be based primarily on a network of local bank branches and proximity to customers and members, combined with a comprehensive, high-performance internet presence. This commitment to accessibility is reflected in the extensive branch network: The 915 primary banks operate 11,108 branches across the country. Customers can visit their local primary bank when they need to, where they will be offered direct and personal support – not just where finances are concerned.

The large number of cooperative members in Germany shows that the model of cooperative self-help and personal responsibility brings people together, promotes individual commitment, and enables them to get involved in social, cultural, and economic issues and thereby contribute something themselves. The core of the cooperative idea is to generate value for members, provide comprehensive support for associations and foundations, and provide funding for small and medium-sized regional businesses. In addition to support for members and the regional economy, Germany's local cooperative banks are also strongly committed to the things that matter to their respective regions. Every year, the cooperative banks voluntarily give financial aid of more than €140 million back to their local communities, e.g. by way of donations and sponsorship. The lion's share of these funds goes toward projects for children and young people and to clubs and associations in the region.

The diverse range of clubs and associations, which have a broad membership base, fits well with the regional focus of the local cooperative banks. In many regions, clubs and associations are the focal point for social interaction and are at the heart of the local community. Nearly all the local cooperative banks also provide regular and extensive support to public-sector institutions such as schools and kindergartens as well as churches and other religious communities.

The total foundation assets of the cooperative banks amount to more than €300 million. Of these funds, €30 million is invested in community and citizens' foundations. The establishment and promotion of foundations enable the local cooperative banks to create reliable and sustainable funding structures. They are also a particularly durable way of supporting local projects. This commitment fits in seamlessly with the self-image of the local cooperative banks, which have tripled their engagement in this area since 2005. Moreover, nearly half of all local cooperative banks encourage and support projects that their employees engage in during their working hours. Well over a third of all employees of the Volksbanken Raiffeisenbanken Cooperative Financial Network are actively involved in community life on a voluntary basis in their free time. Many of them therefore personally identify with their region in a way that goes beyond their work in the regional financial institutions.

Responsibility for the environment

In the field of loans in the agricultural and forestry sectors, the Cooperative Financial Network is by far the market leader. Renewable energies were one of the main drivers of demand for credit. Cooperative banks are heavily involved in energy cooperatives, including by providing support to those getting started. A number of cooperative banks have launched their own crowdfunding platforms in order to finance regional projects with social relevance.

Cooperative banks thus contribute to local employment and social integration and provide support for the specific causes and concerns of their respective regions. They are local employers for local people and thereby create career opportunities for many people, including in rural areas.

Management Report 2017

Combined Opportunity and Risk Report

The Volksbanken Raiffeisenbanken Cooperative Financial Network again enjoyed a successful year in 2017, enabling it to remain a significant and stable part of the German financial sector. The positive course of business was attributable in large part to the business model with its unwavering focus on customers. The protection scheme run by the BVR (BVR-SE) and BVR Institutssicherung GmbH (BVR-ISG) ensure the stability of the entire Cooperative Financial Network and confidence in the creditworthiness of all its members. Both schemes together, and each in its respective functions and area of responsibility, guarantee institutional protection and form the backbone of risk management in the Cooperative Financial Network.

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 in the scope of consolidation for the purposes of commercial law. The scope of consolidation for the consolidated financial statements therefore goes beyond the companies consolidated for regulatory purposes and is not limited to those required to be members of the protection scheme by law.

Risk management in a decentralized organization

Institutional protection scheme of the Cooperative Financial Network

BVR protection scheme
The BVR protection scheme is Germany's oldest deposit guarantee fund for banks and is financed entirely without government support. Since its creation in the 1930s in the wake of the global economic and banking crisis, it has always ensured that all affiliated banks have been able to meet their financial obligations, particularly with regard to the deposits of retail customers. The protection scheme of the Cooperative Financial Network is therefore the world's oldest exclusively privately funded and operated deposit guarantee fund for banks. It 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, the protection scheme has been continued as an additional voluntary institutional protection scheme in accordance with section 2 (2) and section 61 EinSiG.

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

In 2017, the protection scheme met, without qualification, all its responsibilities as a bank-protection scheme in accordance with the articles of association. A total of 926 institutions of the Cooperative Financial Network belonged to the BVR protection scheme as at December 31, 2017 (December 31, 2016: 983 members). The decrease stemmed solely from mergers within the Cooperative Financial Network.

BVR Institutssicherung GmbH
Since July 1, 2015, BVR Institutssicherung GmbH (BVR-ISG) has been operating an institutional protection scheme within the meaning of article 113 (7) of Regulation (EU) No. 575/2013 for CRR credit institutions 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 the institutional protection scheme's member credit institutions as defined by article 4 (1) no. 1 of Regulation (EU) No. 575/2013. To this end, BVR-ISG will initiate any preventive or restructuring action, as required. Where, in accordance with section 10 EinSiG, BaFin identifies a compensation event in relation to a CRR credit institution that is a member of the BVR-ISG protection scheme, BVR-ISG will compensate the customers of the credit institution concerned in accordance with sections 5 to 16 EinSiG. BVR-ISG thus fulfills the statutory requirements regarding deposit protection for customers.

Together with the BVR protection scheme, BVR-ISG forms 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, are affiliated to the BVR protection scheme, and have joined the BVR-ISG scheme by giving an appropriate undertaking regarding participation and commitment. As at December 31, 2017, the membership comprised 924 CRR credit institutions (December 31, 2016: 981 institutions) and therefore all the cooperative banks authorized in Germany by BaFin.

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

To the extent possible under EinSiG, BVR-ISG's organizational and decision-making structures match the proven organizational and decision-making structures of the BVR protection scheme. Dual employment contracts and a service agreement are in place so that BVR-ISG's day-to-day business operations can be carried out by the BVR employees who perform the corresponding functions for the BVR protection scheme. Given the long-established successful operation of the BVR protection scheme, this ensures that BVR-ISG can properly carry out its duties as an institutional protection scheme (including classification, collection of contributions, etc.). BVR-ISG has also engaged a third-party service provider to carry out the processing of potential compensation procedures, although such procedures have as yet never been required, nor are any currently identifiable.

In 2017, the focus of the activities of BVR-ISG was on fulfilling its responsibilities as defined by law, the articles of association, and regulatory requirements. The activities centered on the risk-based collection of contributions, which is compliant with the relevant guidance of the European Banking Authority (EBA), the management of funds, the first extensive operational stress tests, and preparations for the IPS recovery plan in accordance with the Minimum Requirements for the Design of Recovery Plans (MaSan). 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 2017.

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

The results of the classification are supplemented by further analysis 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, the BVR prepares special analyses on specific issues and specific risks, such as determining the impact of sustained low interest rates.

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

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

Classification process and contributions to the protection scheme
The classification system uses eight key figures relating to financial position, financial performance, and risk position to assign the banks to one of 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. The protection scheme receives this data electronically from the regional auditing association responsible for the individual bank.

All institutions covered by the protection scheme are included in the classification system. The only exceptions are the small number of institutions that are rated separately by an external rating company, e.g. the central institution and its subsidiaries as well as Münchener Hypothekenbank.

The classification process in 2017 was based on an analysis of data from the 2016 financial statements. There was a small year-on-year improvement in the class distribution based on the 2016 financial statements, primarily due to a slight rise in net assets and a virtually unchanged financial performance. Net interest income went down slightly, whereas net fee and commission income held steady. Fair value gains and losses on the measurement of loans and advances persisted at an exceptionally low level. Non-recurring items in 2016 included the increased reversal of impairment losses on the carrying amount of investments following the merger of the central institutions and the reduced expense for the unwinding of discounts on pension obligations. The net profit generated was used to strengthen the financial position, in particular Tier 1 capital.

For the institutions that are also members of BVR-ISG, the 2017 rate for contributions to the guarantee fund of the protection scheme was set at 0.036 percent of the assessment basis (2016: 0.04 percent), taking account of any individual discounts or surcharges resulting from the classification. For the other member institutions, the contribution rate was 0.0828 of the assessment basis.

Risk management and monitoring

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

The results of the classification process provide the basis for the BVR protection scheme's systematic preventive management. Preventive management is used whenever a bank is classified as B– or lower on the basis of its annual financial statements. In addition, other key figures and data have increasingly been used over the past few years so that any anomalies at institutions can be identified at an early stage. In 2017, this data included information from the banks' reporting systems and from the second survey conducted by Deutsche Bundesbank on the effect of low interest rates, all of which was made available to the BVR protection scheme.

Before the prevention phase, the monitoring of conspicuous institutions is playing an ever more significant role in the early analysis of institutions. In 2017, the monitoring once again also included institutions that were not showing any particular indications of risk but that could potentially represent a major risk simply because of the size of their balance sheet. This underpins the long-term trend of shifting the focus of the protection scheme's work away from restructuring and toward end-to-end preventive management that also includes monitoring.

Restructuring management
As before, the work of the protection scheme in restructuring member institutions is firstly aimed at ensuring that these institutions' annual financial

statements are able to receive an unqualified auditors' opinion, which it does by providing restructuring assistance. The next stage is to contractually agree appropriate measures in order to ensure that the bank's business regains its future viability while accommodating the interests of all members of the Cooperative Financial Network.

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. The protection scheme's manual is also specifically aimed at banks undergoing preventive measures and any institutions that have themselves identified the need for reorganization. BVR-SE finished revising this manual in mid-2017 and all institutions have received the new version.

The BVR protection scheme continued to perform well in the year under review in terms of its restructuring activities. Once again, no new first-time support measures were required in 2017. Costs were therefore incurred solely in connection with legacy cases, where risks already covered had become acute or loss allowances were recognized in the protection scheme's annual financial statements. As the BVR protection scheme also focused on dealing with and finalizing legacy cases in 2017, the level of restructuring activity fell to an almost immaterial level in the reporting year. The total restructuring amounts in need of protection were not only significantly lower than expected, they were also – on a net basis – again far smaller than the repayments under debtor warrant obligations and other guarantee release obligations. This once more meant that the capital base of the dual cooperative institutional protection scheme (comprising the BVR protection scheme and BVR-ISG) was further strengthened in 2017 and the statutory guarantee fund resources at its disposal could be expanded yet again.

Outlook for the BVR protection scheme and BVR Institutssicherung GmbH

In financial terms, the protection scheme expects to maintain its positive performance in 2018. At present, there is no sign of any scenarios resulting from the BVR protection scheme's remit – as defined in its statutes – that might present a material threat to the stability of the scheme. Given the continued robust state of the German economy, the level of support and assistance provided by the protection scheme is not expected to increase in 2018. For this reason, the BVR protection scheme is also not planning to make any significant changes to its guarantee fund capital in 2018, especially as the accumulation of funds in the dual cooperative protection scheme will be primarily focused for the time being on the BVR-ISG protection scheme in order to achieve the required target funding level in accordance with section 17 (2) EinSiG.

At its meeting on November 21, 2017, the BVR Association Council approved a resolution to set the rate for contributions to the guarantee fund of the protection scheme in 2018 at 0.036 percent of the assessment basis for the institutions that are also members of the BVR-ISG protection scheme. For the other member institutions, the contribution rate was set at 0.0828 percent of the assessment basis or 2.07 times the basic contribution rate of 0.04 percent. The contribution rates have thus been left unchanged.

This year, BVR-ISG again faces the task of implementing new regulatory requirements, such as preparing recovery plans within the meaning of sections 12 to 20 SAG; we anticipate that the corresponding MaSan regulation will come into force in 2018. It is also likely that new disclosure requirements will arise as a result of indirect and sectoral supervision by the ECB, in particular broader and stricter requirements at the level of the Cooperative Financial Network. The BVR protection scheme expects yet more issues to emerge in this regard, involving national and international institutions such as the Bundesanstalt für Finanzmarktstabilisierung (FMSA) [German Federal Agency for Financial Market Stabilization], the European Single Resolution Board (SRB), the EBA, and the European Commission. Such issues could affect the BVR protection scheme and/or BVR-ISG.

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 calculated in accordance with the provisions of the CRR 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, 2017 and does not include the retention of the profits reported in the 2017 annual financial statements. Profit is retained after the individual institution's relevant committees have given their approval. This retention of profits will significantly strengthen the Network's capital basis still further.

The Cooperative Financial Network's regulatory total capital ratio was 16.0 percent as at December 31, 2017 (December 31, 2016: 16.1 percent). Overall, regulatory own funds increased by €5.5 billion to €97.7 billion. The increase in own funds was largely attributable to the retention of profits by the primary banks.

The Tier 1 capital ratio improved to 13.4 percent (December 31, 2016: 13.1 percent). If the reserves pursuant to section 340f HGB are classified as Tier 1 capital, the Tier 1 capital ratio is 15.6 percent (December 31, 2016: 15.4 percent). The Cooperative Financial Network's capital is predominantly held by the primary institutions.

The total risk exposure as at December 31, 2017 amounted to €611.5 billion (December 31, 2016: €572.5 billion). This 6.8 percent increase was driven by growth in the customer lending business, in both the retail and the corporate banking segments.

The protection scheme 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 surcharges (e.g. based on interest-rate risk, other material risks, and/or stress test results). As shown by the chart on page 44, the capital adequacy of the individual institutions in the Cooperative Financial Network as at the reporting date of December 31, 2017 was at a healthy level. This had also been the case as at December 31, 2016.

The Cooperative Financial Network has healthy capital adequacy thanks to equity of €104.4 billion (December 31, 2016: €98.6 billion). It has continually boosted its level of capital in recent years by retaining profit. This trend substantiates the Cooperative Financial Network's sustainable business model with its broad diversification of sources of risk and income.

The leverage ratio, which is determined independently of risk and calculated at the level of the institutional protection scheme, came to 6.8 percent as at December 31, 2017 (December 31, 2016: 6.3 percent). This is further proof of the above-average capital adequacy within the Cooperative Financial Network. If the reserves pursuant to section 340f HGB are classified as Tier 1 capital and the pertinent CRR provisions are applied in full, the leverage ratio is 7.7 percent (December 31, 2016: 7.3 percent). The leverage ratio total exposure increased by 2.0 percent year on year, rising to €1,218.5 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 banks receive procedural support through the VR Control concepts and VR Control software.

Risk capital management is influenced by two factors: firstly the business necessity of optimally allocating risk capital to various risk categories while taking account of risk/reward considerations and, secondly, the new requirements of the Internal Capital Adequacy Assessment Process (ICAAP). The BVR drew up the necessary integrated concept in the VR Control update project, and it will be made available to the banks in 2019.

At business level, the interest-rate and credit risk categories – usually the main risk categories for the local cooperative banks – are included in the optimization calculation. According to the basic concept of capital market theory, where there are given risk/return figures in each class and each correlation, combinations can be found that ensure an optimum ratio in the overall portfolio at overall bank level.

Alongside these business considerations, the banking regulator has supplemented risk measurement in Pillar 1 with its own Supervisory Review and Evaluation Process (SREP) and worked out a system of bank-specific surcharges for interest-rate risk and other material risks as well as a stress scenario surcharge. The surcharges were again at a manageable level for the banks in 2017, and the surcharges for other material risks fell sharply compared with 2016.

The calculation of risk-bearing capacity, which has previously been mainly based on the going-concern approach in Pillar 2, is undergoing significant changes. Risk-bearing capacity will consist of two pillars in the future. In the normative perspective, the bank needs to identify all applicable statutory provisions on risk-bearing capacity and draw up multi-year capital planning with an adverse scenario. In Pillar 2, the bank's capital will be measured from a purely economic perspective and compared with the relevant risk profile. The two pillars should communicate with each other. The aim is to secure the bank's continued existence as a going concern.

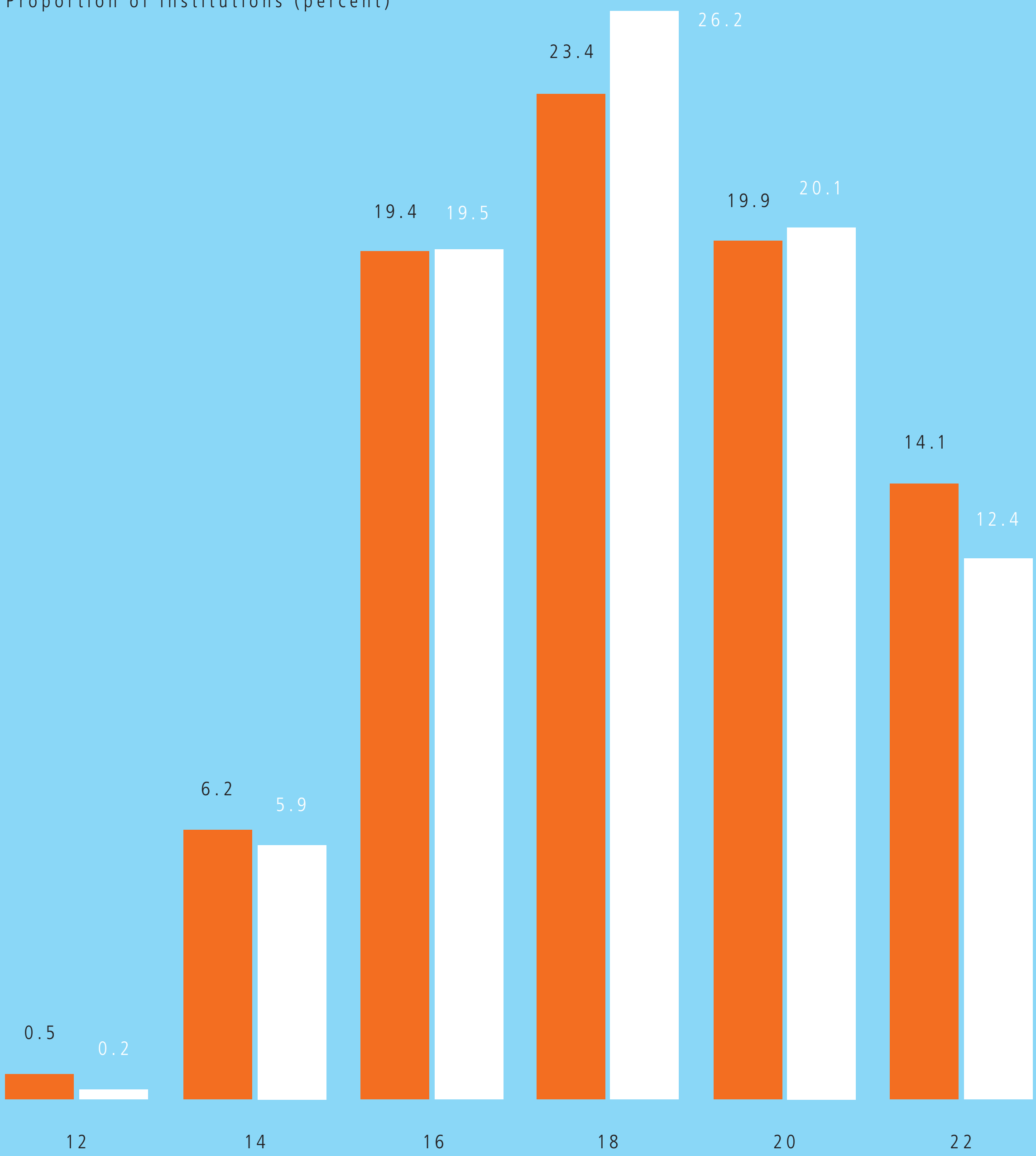
Bank management and risk management in the institutions will change as a result of the German banking regulator's new guidelines, which are based on the ECB's approach for the Single Supervisory Mechanism (SSM). As well as carrying out additional calculations, the institutions will have to develop a new integrated view of their individual risks by reconciling the two pillars. Only a small proportion of the institutions have used the economic, value-based perspective until now. The associations, computing center, and DZ BANK will support the banks' migration process.

Credit ratings of the Cooperative Financial Network

The high credit ratings of the Cooperative Financial Network remained stable and unchanged in 2017. Credit rating agencies Standard & Poor's and Fitch Ratings have each given the Cooperative Financial Network a rating of AA–. These sound credit ratings are based solely on the economic strength of the Cooperative Financial Network and do not assume any external support. The rating agencies point to the consistently successful business model focused on retail and corporate banking as the reason for their positive assessment. The funding of the business model is based on customer deposits, so it is structurally secured for the long term. Liquidity is ensured at all times by means of an extensive and highly diversified portfolio of marketable securities, combined with the cash pooling that takes place within the Cooperative Financial Network. Capital adequacy is also judged to be above average. The rating agencies emphasize the ability and propensity of the Cooperative Financial Network to build up capital from its own resources by retaining profits. The granular credit structure and proportion of mortgages in the retail business are the hallmarks of the overall high level of quality in the customer lending business. The BVR protection scheme is seen by the rating agencies as an important connecting link and a crucial element of the risk management system within the Cooperative Financial Network.

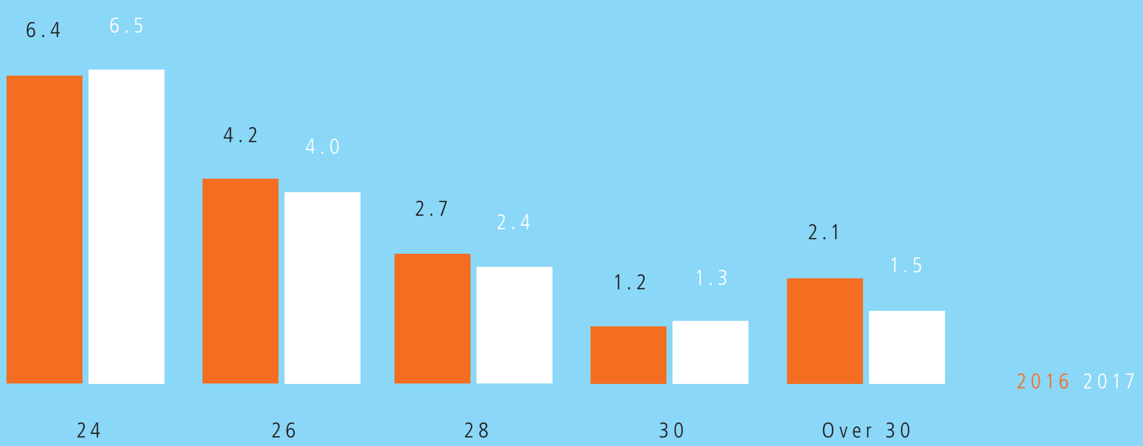
Distribution of total capital ratios in the Cooperative Financial Network*

Proportion of institutions (percent)



Total capital ratio up to ... percent

* As at December 31, 2017.


6.4
6.5
4.2
4.0
2.7
2.4
1.2
1.3
2.1
1.5
2016 2017
24
26
28
30
Over 30

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

Credit risk

Credit risk is the most important risk category in the cooperative banks due to the high volume of lending in the customer business. The cooperative banks manage their credit risk efficiently and sustainably using extensive, high-quality methods of risk measurement. To assess the creditworthiness of individual borrowers, the cooperative banks use the relevant segment-specific VR rating systems, which are validated centrally on an ongoing basis in accordance with high market standards. The vast majority of the banks, particularly when analyzing risk-bearing capacity, use portfolio models to measure risk at portfolio level. These models are also constantly reviewed 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 cautious lending policy. The cooperative banks are conservative in their lending decisions. Their knowledge of customers plays a central role, as does the capacity of customers to meet their obligations. Overall, the Cooperative Financial Network's customer lending business has a granular credit structure and a high proportion of mortgages. The granularity and extensive regional diversification of the Cooperative Financial Network's business activities limit the formation of risk clusters.

The Cooperative Financial Network registered significant growth in its lending business in 2017. Loans and advances to customers increased by 3.9 percent year on year. Once again, long-term home finance was a key growth driver. Home finance lending by the cooperative banks benefited from the favorable economic conditions. The combination of low interest rates, a healthy level of employment, and rising household incomes fueled strong demand for real-estate loans. However, residential real-estate prices in Germany continued to go up in 2017. On average across all 402 municipal and rural administrative districts, prices for residential properties rose by 5.4 percent (2016: 4.8 percent). The strongest price surges were recorded in urban centers, whereas prices moved only moderately in rural areas, so the housing market can be described as stable overall.

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

The growth in corporate banking was predominantly driven by lending to service sector companies, the construction sector, and companies from the energy and mining industries. Because of their regional roots, the local cooperative banks have established a strong foothold in the renewable energies market and provide financial support to companies in relation to projects for increased energy efficiency and for power generation from renewable sources.

Allowances for losses on loans and advances rose slightly to reach €576 million in 2017 (2016: €522 million). This increase was primarily due to the recognition of higher allowances for legacy exposures in ship and offshore financing in view of the continuing downturn in many shipping industry segments, and to strained economic conditions in offshore markets caused by the oil price. Despite these adverse effects, allowances for losses on loans and advances remained low at 0.07 percent of the volume of loans and advances to customers and banks (total volume: €812,922 million). In summary, the cooperative banks operate a healthy lending business overall.

Market risk

Interest-rate risk has a significant influence on the banks' financial performance. Due to the persistently low interest rates, the Cooperative Financial Network's net interest income reduced by 1.0 percent in 2017. According to analysis, the largest proportion of net interest income was generated from the net interest margin contributions in the customer business, as was the case in prior years. Given the persistently low level of interest rates and growing competition for deposits, the banks expect interest margins to be narrower in the future. There is also still the risk that funding costs will rise when interest rates in the financial markets start to climb again.

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

The protection scheme monitors the appropriateness of the member institutions' level of interest-rate risk, for example by using simulations to calculate net interest income. These simulations show that the local cooperative banks will continue to generate an adequate level of income going forward, not least as a result of the control mechanisms that they have in place.

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

Liquidity risk

For many years, the Cooperative Financial Network has had a reliable liquidity structure that is deemed crisis-resistant. The loan to deposit ratio of the Cooperative Financial Network is 95 percent. The basis for this lies in the diversifying, risk-mitigating effect created by the stable business structure of the banks, which tends to be divided into small units, and, in particular, in the institutions' traditional method of obtaining funding through customer deposits. Customers therefore recognize and reward the effectiveness of the institutional protection provided by the BVR protection scheme and BVR Institutssicherung GmbH, which particularly aim to safeguard deposits.

The primary institutions transfer surplus liquidity from their customer deposits to the central institution, DZ BANK AG. On the one hand, this gives DZ BANK indirect access to a stable source of funding based on retail deposits. On the other, primary institutions requiring liquidity can obtain it from their central institution. DZ BANK thus pools the liquidity surpluses of the individual institutions and is able to balance out the structural differences in the individual primary institutions' liquidity levels. In its role as the cooperative central institution, DZ BANK ensures cash pooling within the network of primary banks and specialized service providers.

The degree to which a bank is able to guarantee its ability to meet its payment obligations in the short term is measured using the liquidity coverage ratio (LCR). Banks are required to maintain a sufficiently high level of liquidity. As at December 31, 2017, the median LCR of all cooperative institutions was 161 percent (December 31, 2016: 156 percent).

Operational risk

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

A variety of measures are taken to address operational risk, including clear procedural instructions, separation of functions, the use of standardized contract templates that have been reviewed by a legal expert, and the appointment of security, compliance, data protection, and anti-money-laundering officers. In addition, business continuity plans for failure of technical equipment and unexpected staff absences are in place.

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

Operational risk is measured in consideration of the business model of the individual institution. The dominant method is quantification by means of a plausible lump sum or based on historical loss event data, sometimes supplemented by value-at-risk approaches. Based on the analysis, the limits set by the institutions as part of their individual risk management are regularly met.

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 the opportunity to distinguish themselves from rival banking groups. The cooperative banks' distinctive characteristics are reflected in their continued ability to reach a wide range of customers. Strong customer retention results in measurable economic benefits, e.g. income growth for the cooperative banks and the protection of their market share.

Even in the digital age, the business model of the cooperative banks puts people and their wishes and objectives first. In the years ahead, the Cooperative Financial Network's digitalization initiative in the retail and corporate banking businesses will enable it to proactively adapt to the changes in the competitive environment resulting from the digital revolution.

Measures derived from the KundenFokus 2020 (customer focus 2020) project have been implemented in order to take account of the changes in customer behavior and to adjust and strengthen the business model accordingly. Personal contact will remain a key component of the customer relationship, alongside high-quality advice and the possibility for customers to choose how they would like to communicate with their bank. The Cooperative Financial Network is therefore establishing efficient 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 and its increasing influence on members' behavior also offer the banks potential to improve their cost situation. By marketing new digital payments processing services, such as contactless payments, paydirekt, and kwitt, and implementing an online inquiry process for financing, leasing, and investment plans, banks will be able to address customer needs and attract new customers. To this end, they are specifically targeting young, tech-savvy customers and members with their digital products and services.

Consumer spending is expected to be boosted further by the positive trends in employment and disposable income. This will stabilize demand for banking products and services. Given the current low level of interest rates, the cooperative banks will continue tapping into potential in the real estate business. Should there be a sustained rise in interest rates, opportunities will open up in connection with the sale of interest-bearing financial products.

Management Report 2017

Outlook

Real economy and banking industry

Germany's economic upturn is likely to continue in 2018. In this year's spring report, experts at the leading economic research institutions predict that GDP adjusted for inflation will rise by 2.2 percent, the same rate as 2017.

The spring report's forecast for the performance of the German economy as a whole is based on various assumptions. Firstly, it assumes that global trade will grow at a slightly faster pace in 2018 than in 2017, the oil price will increase a little, and the euro/US dollar exchange rate will remain unchanged at around US$ 1.20. The second assumption is that the measures agreed in the new German government's coalition agreement, for example the planned lowering of the contribution rate for unemployment insurance, will stimulate growth.

According to the spring report, the global economic environment will continue to boost German exports. Domestic demand is also likely to maintain its momentum. In the labor market, the economists anticipate that the increase in employment levels will slow down due to the growing shortage of workers. They predict that the number of people in employment will go up by 585,000 in 2018, while the unemployment rate will fall to 5.2 percent. Consumer prices are forecast to continue rising moderately, leading to a probable inflation rate of 1.7 percent.

The economists believe that the main risks to the economic conditions outlined above are at international level. A particularly significant risk is the concern about growing protectionism, which could have a marked adverse impact on the growth of the global and thus the German economy. In June 2018, for example, the US government began applying the tariffs on steel and aluminum from EU member states that it had announced at the start of the year. This led to considerable uncertainty about future trade policies and dampened economic sentiment. However, it is also conceivable that the trade conflict will not escalate or may even be quickly resolved. In this case, the uncertainty could dissipate rapidly and global economic growth could pick up.

With regard to the monetary policy of the ECB, the experts at the economic research institutions expect the central bank to incrementally scale back its highly expansionary approach. The ECB has announced that it will terminate its bond-buying program at the end of 2018. However, it does not anticipate raising the key interest rate, which has stood at 0.0 percent since March 2016, until the end of 2019. Consequently, yields on German government bonds with long maturities will probably remain very low by historical standards.

For many years now, the main influences on the banking industry have been the sustained low level of interest rates and the substantial increase in regulatory requirements. As a result, the forecast for this year is in essence similar to that for previous years. No significant changes to the low-interest-rate environment are anticipated in the eurozone in the short term. To some extent, the positive economic forecasts will offset the impact of this on business performance in the financial sector. Nevertheless, income from interest-earning business will still be affected by the level of interest rates in the eurozone, which is not appropriate to the economic conditions, and margins will continue to be squeezed. The ECB is not expected to alter this interest-rate environment in the short term, particularly in view of the high levels of government debt in some eurozone countries.

In 2018, banks are continuing to address the ever-increasing pressure on earnings and the strict regulatory requirements with intensive efforts to improve their cost efficiency and review their value chains, including optimizing processes and products. This will lead to further mergers and an ongoing review of the appropriateness of the branch networks. At present, there is still a downward trend in the number of people working in the financial sector, due in large part to the continued influence of digitalization and the change in customer behavior. As before, the banks will attempt to hold their position against competitors, including fintechs, by aiming for an even greater focus on customer requirements, for example by expanding digital products and services.

An interest-rate hike – particularly a very swift one – continues to pose a genuine threat for the banking industry, even though banks have generally improved their capital adequacy. The European sovereign debt crisis and uncertainties in foreign policy and foreign trade could again have a negative impact. The short-term effects on German exports and the financial sector's corporate banking business resulting from US trade protectionism and from the UK's imminent departure from the EU remain modest. From the current perspective, however, the longer-term risks of these two uncertainties should not be underestimated.

Volksbanken Raiffeisenbanken Cooperative Financial Network

Since the financial crisis, the financial sector has faced considerable pressure in terms of both adjustment and costs caused by the need to comply with regulatory reforms – involving higher capital requirements and changes to regulatory systems – and implement structural change to adapt to competitive conditions.

In addition to the new regulatory environment, new competitors with approaches based on the use of data and technology are presenting the financial sector with the challenge of scrutinizing its existing business models, adapting them as required, and substantially improving its efficiency by digitalizing business processes and IT processes. The resulting capital investment is initially likely to lead to substantial costs before the anticipated profitability gains can be realized.

Moreover, the outlook for the business performance of the Cooperative Financial Network shows that 2018 will also be influenced by the low level of interest rates.

The expected growth in large swathes of the global economy should provide a boost for the financial performance of the Cooperative Financial Network. In this context, however, it is important not to disregard the negative factors for global economic growth resulting not only from Brexit but also from current trade restrictions and possible new ones in the future. These factors could also depress the heavily export-oriented German economy, although small and medium-sized enterprises have less of a focus on exports.

These factors may thus limit the growth of the Cooperative Financial Network's income and thus its latitude for accumulating capital in 2018. Nevertheless, the Cooperative Financial Network is expected to generate a satisfactory level of earnings this year by exploiting market opportunities in its core business areas and, at the same time, actively managing costs. This will enable it to further strengthen its reserves.

Among the significant changes for 2018 are the rules and regulations coming into force regarding the application of the financial reporting standard IFRS 9 on the accounting treatment of financial instruments, which will have implications for financial reporting and the calculation of regulatory ratios, and the implementation of the Markets in Financial Instruments Directive (MiFID II), together with the accompanying Markets in Financial Instruments Regulation (MiFIR), with stricter requirements regarding the provision of investment services in relation to a large number of financial instruments as well as comprehensive transparency and disclosure requirements for transactions involving these products. Net interest income will remain under pressure in 2018, above all as a consequence of the persistently low interest rates.

Following the recognition of some negative non-recurring items in 2017, allowances for losses on loans and advances will return to their normal level in 2018 and should be in line with the lending portfolio and the envisaged volume of new business. The possible implications of uncertain political and macroeconomic developments for credit markets could have a detrimental impact on allowances for losses on loans and advances.

The Cooperative Financial Network anticipates a further substantial rise in net fee and commission income in 2018 thanks to growth in the volume of assets under management and the associated volume-related income. Any lasting uncertainty in capital and financial markets could have a negative impact on confidence among retail and institutional investors, thereby depressing net fee and commission income.

In 2018, gains and losses on trading activities, which are particularly influenced by those of the Bank operating segment, will be at a similar level to 2017. Customer-driven capital markets business may again provide impetus in 2018. The main prerequisite for a steady level of net gains under gains and losses on trading activities continues to be a stable financial and capital markets environment.

Net gains under gains and losses on investments in 2018 are predicted to make a modest contribution to profit before taxes because the non-recurring items recognized in 2017 will not be repeated.

Other gains and losses on valuation of financial instruments are expected to follow a positive trend in 2018, mainly due to the potential that exists to reverse impairment losses in the portfolios of instruments from government issuers in the Real Estate Finance segment. Volatility in capital markets and the widening of credit spreads on securities from government issuers could have an adverse impact on the forecast improvement in these gains and losses.

Net income from insurance business is expected to contract in 2018. Given the expected growth in the gross premiums from the different divisions, the decline in net income is expected to be caused by a deterioration in gains and losses on investments held by insurance companies, reflecting the current environment of low interest rates. Exceptional events in financial and capital markets, changes in underwriting practices, or potential changes in the regulatory requirements faced by insurers may mean that net income from insurance business falls short of expectations.

Administrative expenses are projected to rise slightly in 2018. One of the main factors in this increase will be unit-linked asset management business, particularly in view of the associated capital spending requirements.

Although costs will continue to be tightly managed, the predicted income growth will not entirely make up for the increase in expenses that is expected, in particular due to the challenging conditions described above. Consequently, the cost/income ratio is likely to rise in 2018.

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

Consolidated Financial Statements 2017

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Income statement for the period January 1 to December 31, 2017

	Note no.	2017 € million	2016 € million	Change (percent)
Net interest income	2.	18,638	18,826	−1.0
Interest income and current income and expense		*25,227*	*26,926*	*−6.3*
Interest expense		*−6,589*	*−8,100*	*−18.7*
Allowances for losses on loans and advances	3.	−576	−522	10.3
Net fee and commission income	4.	6,491	5,963	8.9
Fee and commission income		*7,811*	*7,313*	*6.8*
Fee and commission expense		*−1,320*	*−1,350*	*−2.2*
Gains and losses on trading activities	5.	709	1,099	−35.5
Gains and losses on investments	6.	−144	33	>100.0
Other gains and losses on valuation of financial instruments	7.	289	−190	>100.0
Premiums earned	8.	15,181	14,658	3.6
Gains and losses on investments held by insurance companies and other insurance company gains and losses	9.	3,447	3,783	−8.9
Insurance benefit payments	10.	−15,312	−15,400	−0.6
Insurance business operating expenses	11.	−2,033	−1,922	5.8
Administrative expenses	12.	−17,884	−17,944	−0.3
Other net operating income/expense	13.	110	−76	>100.0
Profit before taxes		**8,916**	**8,308**	**7.3**
Income taxes	14.	−2,843	−2,410	18.0
Net profit		**6,073**	**5,898**	**3.0**
Attributable to:				
Shareholders of the Cooperative Financial Network		5,958	5,748	3.7
Non-controlling interests		115	150	−23.3

Statement of comprehensive income for the period January 1 to December 31, 2017

	2017 € million	2016 € million	Change (percent)
Net profit	**6,073**	**5,898**	**3.0**
Other comprehensive income/loss	**–208**	**296**	**>100.0**
Items that may be reclassified to the income statement	***–53***	***313***	***>100.0***
Gains and losses on available-for-sale financial assets	–26	336	>100.0
Gains and losses on cash flow hedges	20	–5	>100.0
Exchange differences on currency translation of foreign operations	–43	17	>100.0
Gains and losses on hedges of net investments in foreign operations	23	–1	>100.0
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	–12	–14	–14.3
Income taxes relating to components of other comprehensive income/loss	–15	–20	–25.0
Items that will not be reclassified to the income statement	***–155***	***–17***	***>100.0***
Gains and losses arising on remeasurement of defined benefit plans	–231	–30	>100.0
Income taxes relating to components of other comprehensive income/loss	76	13	>100.0
Total comprehensive income	**5,865**	**6,194**	**–5.3**
Attributable to:			
Shareholders of the Cooperative Financial Network	5,759	6,027	–4.4
Non-controlling interests	106	167	–36.5

Balance sheet as at December 31, 2017

Assets	Note no.	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Cash and cash equivalents	15.	32,594	25,421	28.2
Loans and advances to banks	16.	51,042	41,433	23.2
Loans and advances to customers	16.	761,880	733,155	3.9
Allowances for losses on loans and advances	17.	–7,363	–7,520	–2.1
Derivatives used for hedging (positive fair values)	18.	1,096	1,549	–29.2
Financial assets held for trading	19.	38,107	48,270	–21.1
Investments	20.	243,732	251,965	–3.3
Investments held by insurance companies	21.	95,431	89,435	6.7
Property, plant and equipment, and investment property	22.	11,731	11,385	3.0
Income tax assets	23.	2,980	3,480	–14.4
Other assets	24.	12,086	17,207	–29.8
Total assets		**1,243,316**	**1,215,780**	**2.3**

Equity and liabilities	Note no.	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Deposits from banks	25.	113,065	103,282	9.5
Deposits from customers	25.	801,031	774,302	3.5
Debt certificates issued including bonds	26.	64,807	71,122	−8.9
Derivatives used for hedging (negative fair values)	18.	7,086	12,956	−45.3
Financial liabilities held for trading	27.	36,760	44,139	−16.7
Provisions	28.	12,562	13,109	−4.2
Insurance liabilities	29.	89,324	84,125	6.2
Income tax liabilities	23.	1,183	1,056	12.0
Other liabilities	30.	8,874	8,140	9.0
Subordinated capital	31.	4,186	4,980	−15.9
Equity		104,438	98,569	6.0
Equity of the Cooperative Financial Network		101,783	95,886	6.2
Subscribed capital		*11,930*	*11,443*	*4.3*
Capital reserves		*722*	*696*	*3.7*
Retained earnings		*81,446*	*76,215*	*6.9*
Revaluation reserve		*1,676*	*1,720*	*−2.6*
Cash flow hedge reserve		*5*	*−10*	*>100.0*
Currency translation reserve		*46*	*74*	*−37.8*
Unappropriated earnings		*5,958*	*5,748*	*3.7*
Non-controlling interests		2,655	2,683	−1.0
Total equity and liabilities		**1,243,316**	**1,215,780**	**2.3**

Statement of changes in equity

€ million	Subscribed capital	Capital reserves	Equity earned by the Cooperative Financial Network	Revaluation reserve	Cash flow hedge reserve	Currency translation reserve	Equity of the Cooperative Financial Network	Non-controlling interests	Total equity
Equity as at Jan. 1, 2016	**10,922**	**784**	**76,883**	**1,444**	**–7**	**62**	**90,088**	**2,919**	**93,007**
Net profit	–	–	5,748	–	–	–	5,748	150	5,898
Other comprehensive income/loss	–	–	–10	279	–3	13	279	17	296
Total comprehensive income	**–**	**–**	**5,738**	**279**	**–3**	**13**	**6,027**	**167**	**6,194**
Issue and repayment of equity	521	–88	–	–	–	–	433	226	659
Changes in the scope of consolidation	–	–	–2	1	–	–	–1	–2	–3
Acquisition/disposal of non-controlling interests	–	–	–127	–4	–	–1	–132	–579	–711
Dividends paid	–	–	–529	–	–	–	–529	–48	–577
Equity as at Dec. 31, 2016	**11,443**	**696**	**81,963**	**1,720**	**–10**	**74**	**95,886**	**2,683**	**98,569**
Net profit	–	–	5,958	–	–	–	5,958	115	6,073
Other comprehensive income/loss	–	–	–156	–30	15	–28	–199	–9	–208
Total comprehensive income	**–**	**–**	**5,802**	**–30**	**15**	**–28**	**5,759**	**106**	**5,865**
Issue and repayment of equity	487	26	–	–	–	–	513	–1	512
Changes in the scope of consolidation	–	–	14	–14	–	–	–	–	–
Acquisition/disposal of non-controlling interests	–	–	39	–	–	–	39	–80	–41
Dividends paid	–	–	–414	–	–	–	–414	–53	–467
Equity as at Dec. 31, 2017	**11,930**	**722**	**87,404**	**1,676**	**5**	**46**	**101,783**	**2,655**	**104,438**

The table below gives a breakdown of subscribed capital:

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Cooperative shares	11,672	11,220	4.0
Share capital	178	138	29.0
Capital of silent partners	80	85	–5.9
Total	**11,930**	**11,443**	**4.3**

Statement of cash flows

	2017 € million	2016 € million
Net profit	**6,073**	**5,898**
Non-cash items included in net profit and reconciliation to cash flows from operating activities		
Depreciation, amortization, impairment losses, and reversals of impairment losses on assets, and other non-cash changes in financial assets and liabilities	−1,390	−1,747
Non-cash changes in provisions	−546	546
Changes in insurance liabilities	7,732	8,493
Other non-cash income and expenses	239	66
Gains and losses on the disposal of assets and liabilities	124	−78
Other adjustments (net)	−16,122	−16,614
Subtotal	**−3,890**	**−3,436**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	−38,556	−41,478
Other assets from operating activities	200	−863
Derivatives used for hedging (positive and negative fair values)	−617	441
Financial assets and financial liabilities held for trading	3,944	5,159
Deposits from banks and customers	36,961	39,260
Debt certificates issued including bonds	−6,111	753
Other liabilities from operating activities	−1,690	−2,611
Interest, dividends and operating lease payments received	26,808	27,825
Interest paid	−8,022	−8,500
Income taxes paid	−1,637	−1,642
Cash flows from operating activities	**7,390**	**14,908**
Proceeds from the sale of investments	20,184	34,670
Proceeds from the sale of investments held by insurance companies	20,224	20,330
Payments for acquisitions of investments	−12,629	−37,296
Payments for acquisitions of investments held by insurance companies	−25,778	−25,613

	2017 € million	2016 € million
Net payments for acquisitions of property, plant and equipment, and investment property (excl. assets subject to operating leases)	–1,525	–1,222
Net payments for acquisitions of intangible non-current assets	–40	–73
Changes in the scope of consolidation	7	21
Cash flows from investing activities	**443**	**–9,183**
Proceeds from capital contributions by shareholders of the Cooperative Financial Network	513	433
Proceeds from capital contributions by non-controlling interests	–	226
Dividends paid to shareholders of the Cooperative Financial Network	–414	–529
Dividends paid to non-controlling interests	–53	–48
Other payments to non-controlling interests	–1	–
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	–705	–922
Cash flows from financing activities	**–660**	**–840**
Cash and cash equivalents as at January 1	**25,421**	**20,536**
Cash flows from operating activities	7,390	14,908
Cash flows from investing activities	443	–9,183
Cash flows from financing activities	–660	–840
Cash and cash equivalents as at December 31	**32,594**	**25,421**

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 and other government institutions. The cash and cash equivalents do not include any financial investments with maturities 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-producing activities of the Cooperative Financial Network and other activities that cannot be classified as investing or financing activities. Cash flows related to the acquisition and disposal of non-current assets are allocated to investing activities. Cash flows from financing activities include cash flows arising from transactions with equity owners and from other borrowings to finance business activities.

Notes to the Consolidated Financial Statements

A General disclosures

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 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 information purposes and to present the business 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 order to comply with the provisions set out in article 113 (7) letter e) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (Capital Requirements Regulation, CRR). These consolidated financial statements are not a substitute for analysis of the consolidated entities' financial statements.

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

The financial year corresponds to the calendar year. The consolidated entities have generally prepared their financial statements on the basis of the financial year ended December 31, 2017. There is one subsidiary (2016: 1 subsidiary) included in the consolidated financial statements with a different reporting date for its annual financial statements. With 40 exceptions (2016: 42 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 in the income statement and on the balance sheet have been aggregated and are explained by additional disclosures.

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

Scope of consolidation

The consolidated entities included in these consolidated financial statements are all 915 primary banks (2016: 972), all entities included in the consolidated financial statements of DZ BANK, Münchener Hypothekenbank eG (MHB), the BVR protection scheme, and BVR Institutssicherung GmbH. The consolidated primary banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

The primary banks and MHB are the legally independent, equally ranked parent entities of the Cooperative Financial Network, whereas the other entities and the DZ BANK Group are consolidated as subsidiaries. The cooperative central institution and a total of 434 subsidiaries (2016: 476) have been consolidated in the DZ BANK Group. Further information on the shareholdings can be found in the list of shareholdings included in the annual report of the DZ BANK Group.

The consolidated financial statements include 21 joint ventures between a consolidated entity and at least one other non-network entity (2016: 22) and 44 associates (2016: 37) over which a consolidated entity has significant influence. These joint ventures and associates are accounted for using the equity method.

Volksbanken Raiffeisenbanken Cooperative Financial Network

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

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

DZ BANK Group

Central institution DZ BANK AG	**Specialized service providers** Subsidiaries of DZ BANK AG	BVR protection scheme and BVR Institutssicherung GmbH

B Selected disclosures on interests in other entities

Investments in subsidiaries

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

DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK) and its subsidiaries are included together in the consolidated financial statements as a subgroup. DZ BANK's core functions as a central institution, corporate bank, and holding company mean that it focuses closely on the local cooperative banks, which are its customers and owners. The objective of this focus is to solidify and enhance the position of the Cooperative Financial Network as one of the leading financial services providers in Germany on a long-term basis.

Of the total shares in DZ BANK, which is headquartered in Frankfurt am Main, Germany, 94.5 percent are held by the primary banks and MHB (December 31, 2016: 94.6 percent). The remaining 5.5 percent of the shares (December 31, 2016: 5.4 percent) are attributable to shareholders that are not part of the Cooperative Financial Network. The net profit attributable to non-controlling interests amounted to €115 million (2016: €150 million). The carrying amount of non-controlling interests was €2,655 million (December 31, 2016: €2,683 million). The dividend distributed to the non-controlling interests came to €53 million in 2017 (2016: €48 million).

Nature and extent of significant restrictions

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

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Assets	**81,559**	**78,322**	**4.1**
Loans and advances to customers	2,812	3,345	–15.9
Investments	5	308	–98.4
Investments held by insurance companies	78,738	74,665	5.5
Other assets	4	4	–
Liabilities	**132,474**	**126,234**	**4.9**
Deposits from banks	1,776	1,903	–6.7
Deposits from customers	56,642	53,771	5.3
Provisions	983	915	7.4
Insurance liabilities	73,073	69,645	4.9

Nature of the risks associated with interests in consolidated structured entities

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

Interests in joint arrangements and associates

Nature, extent, and financial effects of interests in joint arrangements

The carrying amount of the equity-accounted joint ventures that, individually, are not material totaled €522 million on the balance sheet date (December 31, 2016: €540 million).

Aggregated financial information for equity-accounted joint ventures that, individually, are not material:

	2017 € million	2016 € million	Change (percent)
Share of profit/loss from continuing operations, net of tax	83	109	−23.9
Share of other comprehensive income/loss	−36	−14	>100.0
Share of total comprehensive income	47	95	−50.5

Nature, extent, and financial effects of investments in associates

The carrying amount of the equity-accounted associates that, individually, are not material totaled €315 million on the balance sheet date (December 31, 2016: €349 million).

Aggregated financial information for equity-accounted associates that, individually, are not material:

	2017 € million	2016 € million	Change (percent)
Share of profit/loss from continuing operations, net of tax	−44	18	>100.0
Share of other comprehensive income/loss	6	–	–
Share of total comprehensive income	−38	18	>100.0

Interests in unconsolidated structured entities

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

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

Interests in investment funds issued by the Cooperative Financial Network

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

The maximum exposure of the investment funds issued and managed by the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounted to €10,051 million as at the reporting date (December 31, 2016: €10,628 million). In 2017, these investment funds resulted in losses of €77 million (2016: €22 million) and income of €1,984 million (2016: €1,670 million).

Interests in investment funds not issued by the Cooperative Financial Network

The interests in the investment funds not issued by the Cooperative Financial Network above all comprise investment funds managed by entities in the Union Investment Group within the scope of their own decision-making powers 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 €37,852 million (December 31, 2016: €32,059 million). Moreover, loans are extended to investment funds in order to generate interest income. In addition, there are investment funds issued by entities outside the Cooperative Financial Network in connection with unit-linked life insurance of the R+V Group (R+V) amounting to €7,498 million (December 31, 2016: €7,031 million). However, the unit-linked life insurance does not result in a maximum exposure.

The maximum exposure of the investment funds not issued by the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounted to €4,022 million as at the reporting date (December 31, 2016: €2,511 million). In 2017, income generated from these investment funds amounted to €133 million (2016: €111 million).

Interests in securitization vehicles

The interests in securitization vehicles are interests in vehicles where the Cooperative Financial Network's 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. DZ BANK acts as sponsor and program agent for both programs. It is also the program administrator for AUTOBAHN.

The maximum exposure of the interests in securitization vehicles in the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounted to €3,983 million as at the reporting date (December 31, 2016: €4,380 million). In 2017, income generated from these interests amounted to €56 million (2016: €64 million).

Interests in asset-leasing vehicles

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

The actual maximum exposure of the interests in asset-leasing vehicles in the Cooperative Financial Network is determined as a gross value, excluding deduction of any available collateral, and amounted to minus €13 million as at the reporting date (December 31, 2016: minus €12 million). In 2017, interest income and current income and expense generated from these interests amounted to €5 million (2016: €4 million).

C Income statement disclosures

1. Information on operating segments

2017 € million	Bank	Retail	Real Estate Finance	Insurance	Other/ Consolidation	Total
Net interest income	1,525	16,489	1,492	–	–868	18,638
Allowances for losses on loans and advances	–693	95	12	–	10	–576
Net fee and commission income	519	6,646	–122	–	–552	6,491
Gains and losses on trading activities	485	213	11	–	–	709
Gains and losses on investments	–17	–174	25	–	22	–144
Other gains and losses on valuation of financial instruments	–10	20	292	–	–13	289
Premiums earned	–	–	–	15,181	–	15,181
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	3,531	–84	3,447
Insurance benefit payments	–	–	–	–15,312	–	–15,312
Insurance business operating expenses	–	–	–	–2,595	562	–2,033
Administrative expenses	–1,969	–15,245	–804	–	134	–17,884
Other net operating income/expense	67	44	22	–10	–13	110
Profit/loss before taxes	**–93**	**8,088**	**928**	**795**	**–802**	**8,916**
Cost/income ratio (percent)	76.6	65.6	46.7	–	–	65.3

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

Definition of operating segments

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

The Bank operating segment brings together the activities of the Cooperative Financial Network in its corporate banking, institutional customers, and capital markets businesses. The operating segment focuses on corporate customers and essentially comprises DZ BANK, the VR Leasing Group, and the DVB Bank Group.

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

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

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

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

Presentation of the information 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 largely result from the consolidation of dividends paid within the Cooperative Financial Network.

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

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

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

2. Net interest income

	2017 € million	2016 € million	Change (percent)
Interest income and current income and expense	**25,227**	**26,926**	**–6.3**
Interest income from	***23,929***	***25,752***	***–7.1***
Lending and money market business	22,204	23,253	–4.5
of which: building society operations	1,032	1,036	–0.4
finance leases	126	150	–16.0
Fixed-income securities	2,456	3,139	–21.8
Other assets	–624	–566	10.2
Financial assets with a negative effective interest rate	–107	–74	44.6
Current income from	***1,197***	***1,061***	***12.8***
Shares and other variable-yield securities	1,168	947	23.3
Investments in subsidiaries and equity investments	92	135	–31.9
Operating leases	–63	–21	>100.0
Income/loss from using the equity method for	***41***	***31***	***32.2***
Investments in joint ventures	40	17	>100.0
Investments in associates	1	14	–92.9
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***60***	***82***	***–26.8***
Interest expense	**–6,589**	**–8,100**	**–18.7**
Interest expense on	***–6,279***	***–7,811***	***–19.6***
Deposits from banks and customers	–5,336	–6,258	–14.7
of which: building society operations	–822	–959	–14.3
Debt certificates issued including bonds	–993	–1,384	–28.3
Subordinated capital	–224	–254	–11.8
Other liabilities	172	12	>100.0
Financial liabilities with a positive effective interest rate	102	73	39.7
Other interest expense	***–310***	***–289***	***7.3***
Total	**18,638**	**18,826**	**–1.0**

The interest income from other assets and the interest expense on other liabilities result from gains and losses on the amortization of fair value changes of the hedged items in portfolio hedges of interest-rate risk. Owing to the current low level of interest rates in the money markets and capital markets, there may be a negative effective interest rate for financial assets and a positive effective interest rate for financial liabilities.

3. Allowances for losses on loans and advances

	2017 € million	2016 € million	Change (percent)
Additions	–2,636	–2,337	12.8
Reversals	1,881	1,747	7.7
Directly recognized impairment losses	–155	–148	4.7
Recoveries on loans and advances previously impaired	289	277	4.3
Changes in the provisions for losses on loans and advances and in the liabilities from financial guarantee contracts	45	–54	>100.0
Impairment losses on loans and advances available-for-sale	–	–7	100.0
Total	**–576**	**–522**	**10.3**

4. Net fee and commission income

	2017 € million	2016 € million	Change (percent)
Fee and commission income	**7,811**	**7,313**	**6.8**
Securities business	3,609	3,203	12.7
Asset management	397	332	19.6
Payments processing including card processing	2,627	2,481	5.9
Lending business and trust activities	158	246	–35.8
Financial guarantee contracts and loan commitments	173	182	–4.9
International business	129	125	3.2
Building society operations	25	11	>100.0
Other	693	733	–5.5
Fee and commission expense	**–1,320**	**–1,350**	**–2.2**
Securities business	–481	–449	7.1
Asset management	–124	–104	19.2
Payments processing including card processing	–243	–285	–14.7
Lending business and trust activities	–97	–80	21.3
Financial guarantee contracts and loan commitments	–17	–13	30.8
International business	–28	–25	12.0
Building society operations	–60	–81	–25.9
Other	–270	–313	–13.7
Total	**6,491**	**5,963**	**8.9**

5. Gains and losses on trading activities

	2017 € million	2016 € million	Change (percent)
Gains and losses on trading in financial instruments	217	528	–58.9
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	311	385	–19.2
Gains and losses on commodities trading	181	186	–2.7
Total	**709**	**1,099**	**–35.5**

6. Gains and losses on investments

	2017 € million	2016 € million	Change (percent)
Gains and losses on securities	–239	–61	>100.0
Gains and losses from investments in subsidiaries and equity investments	95	94	1.1
Total	**–144**	**33**	**>100.0**

7. Other gains and losses on valuation of financial instruments

	2017 € million	2016 € million	Change (percent)
Gains and losses from hedge accounting	**–27**	**–42**	**–35.7**
Fair value hedges	***–27***	***–42***	***–35.7***
Gains and losses on hedging instruments	4,999	–2,856	>100.0
Gains and losses on hedged items	–5,026	2,814	>100.0
Gains and losses on derivatives used for purposes other than trading	**–15**	**18**	**>100.0**
Gains and losses on financial instruments designated as at fair value through profit or loss	**331**	**–166**	**>100.0**
Total	**289**	**–190**	**>100.0**

8. Premiums earned

	2017 € million	2016 € million	Change (percent)
Net premiums written	**15,235**	**14,668**	**3.9**
Gross premiums written	15,338	14,767	3.9
Reinsurance premiums ceded	–103	–99	4.0
Change in provision for unearned premiums	**–54**	**–10**	**>100.0**
Gross premiums	–59	–8	>100.0
Reinsurers’ share	5	–2	>100.0
Total	**15,181**	**14,658**	**3.6**

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

	2017 € million	2016 € million	Change (percent)
Interest income and current income	2,521	2,534	–0.5
Administrative expenses	–131	–132	–0.8
Gains and losses on valuation and disposals	773	1,244	–37.9
Other gains and losses of insurance companies	284	137	>100.0
Total	**3,447**	**3,783**	**–8.9**

10. Insurance benefit payments

	2017 € million	2016 € million	Change (percent)
Expenses for claims	**–10,138**	**–10,601**	**–4.4**
Gross expenses for claims	–10,161	–10,670	–4.8
Reinsurers’ share	23	69	–66.7
Changes in the benefit reserve, the provision for premium refunds, and other insurance liabilities	**–5,174**	**–4,799**	**7.8**
Changes in gross provisions	–5,171	–4,796	7.8
Reinsurers’ share	–3	–3	–
Total	**–15,312**	**–15,400**	**–0.6**

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	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
At the end of the year	4,276	4,173	3,856	3,634	3,901	3,345	3,341	3,324	2,953	2,704	2,672
1 year later	–	4,103	3,767	3,523	3,847	3,336	3,359	3,135	2,901	2,623	2,601
2 years later	–	–	3,682	3,457	3,769	3,247	3,279	3,160	2,763	2,527	2,531
3 years later	–	–	–	3,389	3,731	3,220	3,254	3,139	2,756	2,533	2,472
4 years later	–	–	–	–	3,696	3,189	3,241	3,122	2,756	2,505	2,487
5 years later	–	–	–	–	–	3,198	3,250	3,139	2,768	2,513	2,478
6 years later	–	–	–	–	–	–	3,183	3,080	2,710	2,469	2,434
7 years later	–	–	–	–	–	–	–	3,065	2,685	2,466	2,422
8 years later	–	–	–	–	–	–	–	–	2,680	2,449	2,426
9 years later	–	–	–	–	–	–	–	–	–	2,447	2,419
10 years later	–	–	–	–	–	–	–	–	–	–	2,412
Settlements	**–**	**70**	**174**	**245**	**205**	**147**	**158**	**259**	**273**	**257**	**260**

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

€ million	2017	2016	2015	2014	2013	2012	2011	2010
At the end of the year	4,255	4,110	3,827	3,574	3,669	3,313	3,298	3,254
1 year later	–	4,050	3,736	3,460	3,613	3,300	3,317	3,056
2 years later	–	–	3,655	3,393	3,533	3,211	3,236	3,077
3 years later	–	–	–	3,331	3,490	3,180	3,208	3,057
4 years later	–	–	–	–	3,465	3,139	3,194	2,939
5 years later	–	–	–	–	–	3,166	3,191	3,049
6 years later	–	–	–	–	–	–	3,144	2,957
7 years later	–	–	–	–	–	–	–	2,981
Settlements	**–**	**60**	**172**	**243**	**204**	**147**	**154**	**273**

Claims rate trend for inward reinsurance business

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

€ million	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Gross provisions for claims outstanding	**3,197**	**2,718**	**2,433**	**1,976**	**1,710**	**1,506**	**1,409**	**1,190**	**892**	**712**	**596**
Cumulative payments for the year concerned and prior years											
1 year later	–	569	622	464	481	385	463	437	282	232	127
2 years later	–	–	867	783	685	630	640	632	399	347	203
3 years later	–	–	–	919	897	764	345	739	468	410	250
4 years later	–	–	–	–	987	930	891	856	516	447	282
5 years later	–	–	–	–	–	996	1,029	922	588	475	307
6 years later	–	–	–	–	–	–	1,072	1,043	626	528	324
7 years later	–	–	–	–	–	–	–	1,067	652	555	366
8 years later	–	–	–	–	–	–	–	–	658	574	384
9 years later	–	–	–	–	–	–	–	–	–	585	396
10 years later	–	–	–	–	–	–	–	–	–	–	409
Gross provisions for claims outstanding and payments made against the original provision											
At the end of the year	3,197	2,718	2,433	1,976	1,710	1,506	1,409	1,190	892	712	596
1 year later	–	2,654	2,434	2,157	1,840	1,593	1,536	1,401	1,026	779	583
2 years later	–	–	2,271	2,004	1,859	1,569	1,472	1,343	872	765	529
3 years later	–	–	–	1,915	1,779	1,628	1,014	1,338	826	696	518
4 years later	–	–	–	–	1,720	1,580	1,528	1,360	837	680	479
5 years later	–	–	–	–	–	1,550	1,501	1,396	858	691	470
6 years later	–	–	–	–	–	–	1,486	1,379	870	709	480
7 years later	–	–	–	–	–	–	–	1,368	876	719	498
8 years later	–	–	–	–	–	–	–	–	873	725	504
9 years later	–	–	–	–	–	–	–	–	–	725	505
10 years later	–	–	–	–	–	–	–	–	–	–	509
Settlements	**–**	**64**	**162**	**61**	**–10**	**–44**	**–77**	**–178**	**19**	**–13**	**87**

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

€ million	2017	2016	2015	2014	2013	2012	2011	2010
Net provisions for claims outstanding	**3,193**	**2,710**	**2,428**	**1,970**	**1,695**	**1,491**	**1,389**	**1,164**
Cumulative payments for the year concerned and prior years								
1 year later	–	567	622	464	473	383	461	432
2 years later	–	–	866	782	677	620	636	625
3 years later	–	–	–	918	888	754	333	729
4 years later	–	–	–	–	978	919	878	839
5 years later	–	–	–	–	–	985	1,016	904
6 years later	–	–	–	–	–	–	1,059	1,025
7 years later	–	–	–	–	–	–	–	1,049
Net provisions for claims outstanding and payments made against the original provision								
At the end of the year	3,193	2,710	2,428	1,970	1,695	1,491	1,389	1,164
1 year later	–	2,648	2,429	2,152	1,827	1,576	1,519	1,377
2 years later	–	–	2,267	1,999	1,845	1,554	1,454	1,321
3 years later	–	–	–	1,911	1,766	1,612	997	1,314
4 years later	–	–	–	–	1,708	1,566	1,510	1,337
5 years later	–	–	–	–	–	1,536	1,484	1,372
6 years later	–	–	–	–	–	–	1,470	1,357
7 years later	–	–	–	–	–	–	–	1,346
Settlements	**–**	**62**	**161**	**59**	**–13**	**–45**	**–81**	**–182**

11. Insurance business operating expenses

	2017 € million	2016 € million	Change (percent)
Gross expenses	−2,049	−1,944	5.4
Reinsurers' share	16	22	−27.3
Total	**−2,033**	**−1,922**	**5.8**

12. Administrative expenses

	2017 € million	2016 € million	Change (percent)
Staff expenses	−10,137	−10,318	−1.8
General and administrative expenses	−6,793	−6,679	1.7
Depreciation/amortization and impairment losses	−954	−947	0.7
Total	**−17,884**	**−17,944**	**−0.3**

13. Other net operating income/expense

	2017 € million	2016 € million	Change (percent)
Gains and losses on non-current assets and disposal groups classified as held for sale	126	83	51.8
Other operating income	979	816	20.0
Other operating expenses	−995	−975	2.1
Total	**110**	**−76**	**>100.0**

14. Income taxes

	2017 € million	2016 € million	Change (percent)
Current tax expense	–2,649	–2,497	6.1
Income from/expense on deferred taxes	–194	87	>100.0
Total	**–2,843**	**–2,410**	**18.0**

Current taxes in relation to the German limited companies are calculated using an effective corporation tax rate of 15.825 percent based on a corporation tax rate of 15 percent plus the solidarity surcharge. The tax rate applied in 2017 was unchanged on 2016. The effective rate for trade tax is 14.35 percent (2016: 14.0 percent) based on an average trade tax multiplier of 410 percent (2016: 400 percent).

Deferred taxes must be calculated using tax rates expected to apply when the tax asset is recovered or liability settled. 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.

	2017 € million	2016 € million	Change (percent)
Profit before taxes	**8,916**	**8,308**	**7.3**
Notional rate of income tax of the Cooperative Financial Network (percent)	30.175	29.825	
Income taxes based on notional rate of income tax	**–2,690**	**–2,478**	**8.6**
Tax effects	**–153**	**68**	**>100.0**
Tax effects of tax-exempt income and non-tax-deductible expenses	192	312	–38.5
Tax effects of different tax types, different trade tax multipliers, and changes in tax rates	–8	8	>100.0
Tax effects of different tax rates in other countries	–74	–47	57.4
Current and deferred taxes relating to prior reporting periods	–3	147	>100.0
Change in deferred tax assets due to impairment losses	–92	–28	>100.0
Other tax effects	–168	–324	–48.1
Total	**–2,843**	**–2,410**	**18.0**

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

D Balance sheet disclosures

15. Cash and cash equivalents

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Cash on hand	7,672	7,047	8.9
Balances with central banks and other government institutions	24,922	18,374	35.6
of which: with Deutsche Bundesbank	18,712	13,279	40.9
Total	**32,594**	**25,421**	**28.2**

16. Loans and advances to banks and customers

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Loans and advances to banks	**51,042**	**41,433**	**23.2**
Repayable on demand	***40,006***	***27,786***	***44.0***
Other loans and advances	***11,036***	***13,647***	***−19.1***
Mortgage loans and other loans secured by mortgages on real estate	60	61	−1.6
Local authority loans	6,783	7,045	−3.7
Finance leases	22	14	57.1
Other loans and advances	4,171	6,527	−36.1
Loans and advances to customers	**761,880**	**733,155**	**3.9**
Mortgage loans and other loans secured by mortgages on real estate	308,329	284,637	8.3
Local authority loans	34,889	37,738	−7.5
Home savings loans advanced by building society	41,005	37,253	10.1
of which: from allotment (home savings loans)	2,668	3,031	−12.0
for advance and interim financing	36,311	32,219	12.7
other building loans	2,026	2,003	1.1
Finance leases	2,918	3,153	−7.5
Other loans and advances	374,739	370,374	1.2

17. Allowances for losses on loans and advances

	Specific loan loss allowances € million	Portfolio loan loss allowances € million	Total € million
Balance as at Jan. 1, 2016	**6,639**	**992**	**7,631**
Additions	2,103	234	2,337
Utilizations	–702	–1	–703
Reversals	–1,546	–218	–1,764
Changes in the scope of consolidation	14	–28	–14
Other changes	22	11	33
Balance as at Dec. 31, 2016	**6,530**	**990**	**7,520**
Additions	2,410	226	2,636
Utilizations	–795	–1	–796
Reversals	–1,589	–305	–1,894
Changes in the scope of consolidation	–28	–	–28
Other changes	–79	4	–75
Balance as at Dec. 31, 2017	**6,449**	**914**	**7,363**

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

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Derivatives used for hedging (positive fair values)	**1,096**	**1,549**	**–29.2**
for fair value hedges	1,086	1,545	–29.7
for cash flow hedges	8	2	>100.0
for hedges of net investments in foreign operations	2	2	–
Derivatives used for hedging (negative fair values)	**7,086**	**12,956**	**–45.3**
for fair value hedges	7,083	12,940	–45.3
for cash flow hedges	3	16	–81.3

19. Financial assets held for trading

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Derivatives (positive fair values)	**17,101**	**23,587**	**−27.5**
Interest-linked contracts	14,749	20,440	−27.8
Currency-linked contracts	813	1,794	−54.7
Share- and index-linked contracts	256	298	−14.1
Credit derivatives	367	244	50.4
Other contracts	916	811	12.9
Securities	**10,429**	**10,378**	**0.5**
Bonds and other fixed-income securities	9,013	9,321	−3.3
Shares and other variable-yield securities	1,416	1,057	34.0
Loans and advances	**10,242**	**13,963**	**−26.6**
Inventories and trade receivables	**334**	**342**	**−2.3**
Other financial assets held for trading	**1**	**–**	**–**
Total	**38,107**	**48,270**	**−21.1**

20. Investments

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Securities	**239,819**	**248,491**	**−3.5**
Bonds and other fixed-income securities	179,296	191,003	−6.1
Shares and other variable-yield securities	60,523	57,488	5.3
Investments in subsidiaries	**1,471**	**1,265**	**16.3**
Equity investments	**2,442**	**2,209**	**10.5**
Investments in joint ventures	525	543	−3.3
Investments in associates	318	355	−10.4
Other shareholdings	1,599	1,311	22.0
Total	**243,732**	**251,965**	**−3.3**

21. Investments held by insurance companies	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Investment property	2,539	2,470	2.8
Investments in subsidiaries, joint ventures and associates	715	621	15.1
Mortgage loans	9,142	9,049	1.0
Promissory notes and loans	7,342	7,667	−4.2
Registered bonds	8,800	9,102	−3.3
Other loans	721	768	−6.1
Variable-yield securities	9,276	8,430	10.0
Fixed-income securities	44,808	40,769	9.9
Derivatives (positive fair values)	299	360	−16.9
Deposits with ceding insurers and other investments	240	188	27.7
Assets related to unit-linked contracts	11,549	10,011	15.4
Total	**95,431**	**89,435**	**6.7**

22. Property, plant and equipment, and investment property	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Land and buildings	6,756	6,839	−1.2
Office furniture and equipment	1,403	1,378	1.8
Assets subject to operating leases	138	388	−64.4
Investment property	254	253	0.4
Other fixed assets	3,180	2,527	25.8
Total	**11,731**	**11,385**	**3.0**

23. Income tax assets and liabilities

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Income tax assets	**2,980**	**3,480**	**–14.4**
Current income tax assets	896	1,306	–31.4
Deferred tax assets	2,084	2,174	–4.1
Income tax liabilities	**1,183**	**1,056**	**12.0**
Current income tax liabilities	813	731	11.2
Deferred tax liabilities	370	325	13.8

	Deferred tax assets as at Dec. 31, 2017 € million	Deferred tax assets as at Dec. 31, 2016 € million	Deferred tax liabilities as at Dec. 31, 2017 € million	Deferred tax liabilities as at Dec. 31, 2016 € million
Tax loss carryforwards	103	59		
Loans and advances to banks and customers (net)	51	82	139	203
Financial assets and liabilities held for trading, derivatives used for hedging (positive and negative fair values)	525	787	20	29
Investments	298	328	518	549
Investments held by insurance companies	53	147	676	589
Deposits from banks and customers	374	485	198	169
Debt certificates issued including bonds	46	119	6	11
Provisions	2,138	1,941	38	183
Insurance liabilities	75	73	399	395
Intangible assets	–	–	25	24
Other balance sheet items	182	102	112	122
Total (gross)	**3,845**	**4,123**	**2,131**	**2,274**
Netting of deferred tax assets and deferred tax liabilities	–1,761	–1,949	–1,761	–1,949
Total (net)	**2,084**	**2,174**	**370**	**325**

Deferred tax assets and liabilities are recognized for temporary differences in respect of the balance sheet items shown in the table as well as for tax loss carryforwards.

24. Other assets

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Other assets held by insurance companies	3,090	3,719	–16.9
Goodwill	58	58	–
Other intangible assets	463	423	9.5
Prepaid expenses	162	170	–4.7
Other receivables	3,485	3,115	11.9
Non-current assets and disposal groups classified as held for sale	84	182	–53.8
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	4,128	9,098	–54.6
Residual other assets	616	442	39.4
Total	**12,086**	**17,207**	**–29.8**

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

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Intangible assets	**151**	**156**	**–3.2**
Reinsurers' share of insurance liabilities	**168**	**224**	**–25.0**
Provision for unearned premiums	11	6	83.3
Benefit reserves	60	63	–4.8
Provisions for claims outstanding	97	155	–37.4
Receivables	**679**	**633**	**7.3**
Receivables arising out of direct insurance operations	305	362	–15.7
Receivables arising out of reinsurance operations	294	203	44.8
Other receivables	80	68	17.6
Credit balances with banks, checks and cash on hand	**110**	**738**	**–85.1**
Residual other assets	**1,982**	**1,968**	**0.7**
Property, plant and equipment	387	418	–7.4
Prepaid expenses	31	23	34.8
Remaining assets held by insurance companies	1,564	1,527	2.4
Total	**3,090**	**3,719**	**–16.9**

25. Deposits from banks and customers

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Deposits from banks	**113,065**	**103,282**	**9.5**
Repayable on demand	7,664	6,156	24.5
With agreed maturity or notice period	105,401	97,126	8.5
Deposits from customers	**801,031**	**774,302**	**3.5**
Savings deposits and home savings deposits	***242,345***	***240,802***	***0.6***
Savings deposits with agreed notice period of three months	175,547	174,621	0.5
Savings deposits with agreed notice period of more than three months	10,156	12,411	–18.2
Home savings deposits	56,642	53,770	5.3
Other deposits from customers	***558,686***	***533,500***	***4.7***
Repayable on demand	450,264	417,210	7.9
With agreed maturity or notice period	108,422	116,290	–6.8

26. Debt certificates issued including bonds

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Bonds issued	**47,696**	**44,813**	**6.4**
Mortgage Pfandbriefe	30,390	27,229	11.6
Public-sector Pfandbriefe	3,548	5,058	–29.9
Other bonds	13,758	12,526	9.8
Other debt certificates issued	**17,111**	**26,309**	**–35.0**
Total	**64,807**	**71,122**	**–8.9**

27. Financial liabilities held for trading

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Derivatives (negative fair values)	**16,813**	**25,123**	**–33.1**
Interest-linked contracts	13,848	19,568	–29.2
Currency-linked contracts	871	1,171	–25.6
Share- and index-linked contracts	742	791	–6.2
Credit derivatives	77	101	–23.8
Other contracts	1,275	3,492	–63.5
Short positions	**617**	**508**	**21.5**
Bonds and other debt certificates issued	**13,028**	**12,905**	**1.0**
Liabilities	**6,255**	**5,558**	**12.5**
Liabilities from commodities transactions and commodity lending	**47**	**45**	**4.4**
Total	**36,760**	**44,139**	**–16.7**

28. Provisions

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Provisions for defined benefit plans	7,630	8,225	–7.2
Provisions for losses on loans and advances	419	456	–8.1
Provisions relating to building society operations	983	915	7.4
Residual provisions	3,530	3,513	0.5
Total	**12,562**	**13,109**	**–4.2**

Funding status of defined benefit obligations	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Present value of defined benefit obligations not funded by plan assets	6,924	7,064	–2.0
Present value of defined benefit obligations funded by plan assets	2,722	2,400	13.4
Present value of defined benefit obligations	**9,646**	**9,464**	**1.9**
less fair value of plan assets	–2,016	–1,239	62.7
Defined benefit obligations (net)	**7,630**	**8,225**	**–7.2**
Provisions for defined benefit plans	**7,630**	**8,225**	**–7.2**

Changes in the present value of defined benefit obligations	2017 € million	2016 € million	Change (percent)
Present value of defined benefit obligations as at Jan. 1	**9,464**	**9,387**	**0.8**
Current service cost	136	133	2.3
Interest expense	165	206	–19.9
Pension benefits paid including plan settlements	–353	–330	7.0
Unrecognized past service cost	–2	6	>100.0
Actuarial gains (-)/losses (+)	243	51	>100.0
Other changes	–7	11	>100.0
Present value of defined benefit obligations as at Dec. 31	**9,646**	**9,464**	**1.9**

Changes in plan assets	2017 € million	2016 € million	Change (percent)
Fair value of plan assets as at Jan. 1	**1,239**	**1,201**	**3.2**
Interest income	24	26	–7.7
Contributions to plan assets	814	43	>100.0
Pension benefits paid	–65	–62	4.8
Return on plan assets (excluding interest income)	14	35	–60.0
Other changes	–10	–4	>100.0
Fair value of plan assets as at Dec. 31	**2,016**	**1,239**	**62.7**

Actuarial assumptions used for defined benefit obligations	Dec. 31, 2017 (percent)	Dec. 31, 2016 (percent)
Weighted discount rate	1.75	1.75
Weighted salary increase	1.99	1.83
Weighted pension increase	1.93	1.75

29. Insurance liabilities

Insurance liabilities	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Provision for unearned premiums	1,169	1,119	4.5
Benefit reserve	58,670	55,167	6.3
Provision for claims outstanding	11,064	10,071	9.9
Provision for premium refunds	8,446	8,918	–5.3
Other insurance liabilities	68	65	4.6
Reserve for unit-linked insurance contracts	9,907	8,785	12.8
Total	**89,324**	**84,125**	**6.2**

Change in provision for unearned premiums	2017 € million	2016 € million	Change (percent)
Balance as at Jan. 1	**1,119**	**1,104**	**1.4**
Additions	1,235	1,180	4.7
Utilizations/reversals	–1,176	–1,172	–0.3
Changes attributable to currency translation	–9	7	>–100.0
Balance as at Dec. 31	**1,169**	**1,119**	**4.5**

Change in benefit reserve	2017 € million	2016 € million	Change (percent)
Balance as at Jan. 1	**55,167**	**52,634**	**4.8**
Additions	6,255	6,158	1.6
Interest component	1,067	1,128	−5.4
Utilizations/reversals	−3,818	−4,753	19.7
Changes attributable to currency translation	−1	–	–
Balance as at Dec. 31	**58,670**	**55,167**	**6.3**

Supplementary change-in-discount-rate reserves totaling €2,998 million (December 31, 2016: €2,162 million) have been recognized for policies with a discount rate in excess of the reference rate specified in the Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV).

Change in the provision for claims outstanding	2017 € million	2016 € million	Change (percent)
Balance as at Jan. 1	**10,071**	**9,257**	**8.8**
Claims expenses	6,175	5,827	6.0
less payments	−5,078	−4,983	−1.9
Changes attributable to currency translation	−104	−30	>−100.0
Balance as at Dec. 31	**11,064**	**10,071**	**9.9**

Change in the provision for premium refunds	2017 € million	2016 € million	Change (percent)
Balance as at Jan. 1	**8,918**	**7,923**	**12.6**
Additions	672	670	0.3
Utilizations/reversals	−1,290	−760	−69.7
Changes resulting from unrealized gains and losses on investments (through other comprehensive income)	−136	367	>−100.0
Changes resulting from other remeasurements (through profit or loss)	316	718	−56.0
Changes attributable to currency translation	−34	–	–
Balance as at Dec. 31	**8,446**	**8,918**	**−5.3**

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

Balance as at December 31, 2017	≤ 1 year € million	> 1 year – 5 years € million	> 5 years € million	Indefinite € million
Provision for unearned premiums	1,011	124	34	–
Benefit reserve	1,677	6,601	13,258	37,134
Provision for claims outstanding	4,764	3,608	2,692	–
Provision for premium refunds	763	632	754	6,297
Other insurance liabilities	46	14	5	3
Total	**8,261**	**10,979**	**16,743**	**43,434**
Balance as at December 31, 2016				
Provision for unearned premiums	1,011	83	25	–
Benefit reserve	1,654	6,983	12,129	34,401
Provision for claims outstanding	4,297	3,273	2,501	–
Provision for premium refunds	701	646	754	6,817
Other insurance liabilities	43	15	3	4
Total	**7,706**	**11,000**	**15,412**	**41,222**

30. Other liabilities

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Other liabilities of insurance companies	5,464	4,948	10.4
Other liabilities and accruals	2,318	2,150	7.8
Liabilities included in disposal groups classified as held for sale	–	25	–100.0
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	335	431	–22.3
Residual other liabilities	757	586	29.2
Total	**8,874**	**8,140**	**9.0**

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

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Residual provisions	**354**	**329**	**7.6**
Provisions for employee benefits	317	303	4.6
Provisions for share-based payment transactions	1	1	–
Other provisions	36	25	44.0
Payables and residual other liabilities	**5,110**	**4,619**	**10.6**
Subordinated capital	85	76	11.8
Deposits received from reinsurers	75	85	–11.8
Payables arising out of direct insurance operations	1,465	1,523	–3.8
Payables arising out of reinsurance operations	269	239	12.6
Debt certificates issued including bonds	30	30	–
Deposits from banks	596	613	–2.8
Derivatives (negative fair values)	39	105	–62.9
Liabilities from capitalization transactions	1,861	1,345	38.4
Other liabilities	199	197	1.0
Residual other liabilities	491	406	20.9
Total	**5,464**	**4,948**	**10.4**

31. Subordinated capital

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Subordinated liabilities	3,774	4,800	–21.4
Profit-sharing rights	391	158	>100.0
Share capital repayable on demand	21	22	–4.5
Total	**4,186**	**4,980**	**–15.9**

E Financial instruments disclosures

32. Fair value of financial instruments

	Carrying amount as at Dec. 31, 2017 € million	Fair value as at Dec. 31, 2017 € million	Carrying amount as at Dec. 31, 2016 € million	Fair value as at Dec. 31, 2016 € million
Assets				
Cash and cash equivalents	24,922	24,922	18,374	18,374
Loans and advances to banks[1]	51,023	52,273	41,397	43,366
Loans and advances to customers[1]	754,536	756,447	725,671	728,364
Derivatives used for hedging (positive fair values)	1,096	1,096	1,549	1,549
Financial assets held for trading[2]	37,773	37,773	47,928	47,928
Investments[3]	242,889	243,064	251,067	251,142
Investments held by insurance companies[2, 3]	81,086	81,936	76,749	77,787
Other assets[2]	7,575	7,849	13,018	13,042
Liabilities				
Deposits from banks	113,065	114,502	103,282	105,325
Deposits from customers	801,031	802,258	774,302	776,260
Debt certificates issued including bonds	64,807	64,849	71,122	70,626
Derivatives used for hedging (negative fair values)	7,086	7,086	12,956	12,956
Financial liabilities held for trading[2]	36,713	36,713	44,094	44,094
Other liabilities[2]	2,653	2,542	2,810	2,630
Subordinated capital	4,186	4,365	4,980	5,717

1 Carrying amounts less allowances for losses on loans and advances.
2 Fair values and carrying amounts are only disclosed for financial instruments.
3 Excluding investments in joint ventures and associates.

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

33. Maturity analysis

Balance as at December 31, 2017	≤ 3 months € million	> 3 months – 1 year € million	> 1 year € million	Indefinite € million
Loans and advances to banks	25,818	3,858	25,622	553
Loans and advances to customers	36,444	57,180	666,093	19,531
Deposits from banks	31,076	10,266	80,021	680
Deposits from customers	660,963	19,084	70,079	57,023
Debt certificates issued including bonds	12,252	7,869	45,840	236
Balance as at December 31, 2016				
Loans and advances to banks	19,512	3,272	23,076	501
Loans and advances to customers	37,800	56,874	636,339	19,599
Deposits from banks	27,553	8,148	69,347	962
Deposits from customers	627,400	24,076	73,794	54,042
Debt certificates issued including bonds	14,569	12,811	45,521	–

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

F Other disclosures

34. Capital adequacy and regulatory ratios

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Total own funds	**97,680**	**92,134**	**6.0**
Tier 1 capital	82,191	75,006	9.6
of which: common equity Tier 1 capital	81,463	74,170	9.8
additional Tier 1 capital	728	836	−12.9
Tier 2 capital	15,489	17,128	−9.6
Total risk exposure	**611,490**	**572,458**	**6.8**
Common equity Tier 1 capital ratio (percent)	**13.3**	13.0	
Tier 1 capital ratio (percent)	**13.4**	13.1	
Total capital ratio (percent)	**16.0**	16.1	
Common equity Tier 1 capital ratio incl. sec. 340f HGB reserves (percent)[1]	**15.4**	15.2	
Tier 1 capital ratio incl. sec. 340f HGB reserves (percent)[1]	**15.6**	15.4	
Leverage ratio (percent)[2]	**6.8**	6.3	
Leverage ratio incl. sec. 340f HGB reserves (percent)[1, 3]	**7.7**	7.3	

1 The balance of reserves pursuant to section 340f HGB is based on the data as at the balance sheet date in the financial statements of the consolidated institutions before additions and reversals within the 2017 and 2016 financial statements.
2 Disclosure of the leverage ratio of the institutional protection scheme using the transitional definition for Tier 1 capital in accordance with article 429 (2) CRR in conjunction with article 499 (1) CRR.
3 Disclosure of the ratio after full application of the new CRR provisions, subject to the assumption of full reclassification and inclusion of reserves pursuant to section 340f HGB in Tier 1 capital from a business point of view.

The disclosures relate to the institutional protection scheme (cooperative joint liability scheme) and the respective reporting date. The disclosures relating to own funds and capital requirements are based on the outcome of the extended aggregated calculation in accordance with article 49 (3) CRR in conjunction with article 113 (7) CRR.

35. Financial guarantee contracts and loan commitments

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Financial guarantee contracts	18,436	18,259	1.0
Loan commitments	75,634	71,528	5.7
Total	**94,070**	**89,787**	**4.8**

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

36. Trust activities

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Trust assets	**1,468**	**1,592**	**–7.8**
of which: trust loans	477	595	–19.8
Trust liabilities	**1,468**	**1,592**	**–7.8**
of which: trust loans	477	595	–19.8

37. Asset management by the Union Investment Group

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Fund assets	**286,295**	**258,956**	**10.6**
Other types of asset management	**49,833**	**44,839**	**11.1**
Unit-linked asset management	1,489	909	63.8
Institutional asset management	9,654	10,951	–11.8
Advisory and outsourcing	38,690	32,979	17.3
Accounts managed by third parties	**–12,209**	**–11,523**	**6.0**
Total	**323,919**	**292,272**	**10.8**

As at the balance sheet date, the Union Investment Group (through Union Asset Management Holding AG) had total assets under management of €323,919 million (December 31, 2016: €292,272 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 the Union Investment Group.

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

38. Leases

Finance leases with the Cooperative Financial Network as lessor

	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Gross investment	**3,203**	**3,498**	**–8.4**
Up to 1 year	1,007	1,111	–9.4
More than 1 year and up to 5 years	1,929	2,072	–6.9
More than 5 years	267	315	–15.2
less unearned finance income	**–263**	**–328**	**–19.8**
Net investment	**2,940**	**3,170**	**–7.3**
less present value of unguaranteed residual values	**–57**	**–70**	**–18.6**
Present value of minimum lease payment receivables	**2,883**	**3,100**	**–7.0**
Up to 1 year	882	971	–9.2
More than 1 year and up to 5 years	1,763	1,853	–4.9
More than 5 years	238	276	–13.8

As at the balance sheet date, the accumulated allowance for uncollectable minimum lease payments at lessor companies amounted to €26 million (December 31, 2016: €32 million).

The DVB Bank Group and the VR Leasing Group act as finance lessors in the Cooperative Financial Network. The entities in the DVB Bank Group primarily enter into leases for ships and ship containers; in 2016, there had also been leases for aircraft. The entities in the VR Leasing Group predominantly enter into leases with customers for equipment.

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

	Not allocated Number of contracts	Not allocated Home savings volume € million	Allocated Number of contracts	Allocated Home savings volume € million	Total Number of contracts	Total Home savings volume € million
Balance as at Dec. 31, 2016	**7,830,134**	**273,597**	**742,321**	**20,176**	**8,572,455**	**293,773**
Additions in 2017 as a result of						
New contracts (redeemed contracts)[1]	554,882	26,107	–	–	554,882	26,107
Transfers	21,983	638	841	21	22,824	659
Allocation waivers and cancellations	9,141	397	–	–	9,141	397
Splitting	161,022	–	44	–	161,066	–
Allocations and acceptance of allocations	–	–	374,146	9,680	374,146	9,680
Other	80,216	2,653	27	1	80,243	2,654
Total	**827,244**	**29,795**	**375,058**	**9,702**	**1,202,302**	**39,497**
Disposals in 2017 as a result of						
Allocations and acceptance of allocations	−374,146	−9,680	–	–	−374,146	−9,680
Reductions	–	−905	–	–	–	−905
Termination	−312,404	−8,255	−316,532	−8,191	−628,936	−16,446
Transfers	−21,983	−638	−841	−21	−22,824	−659
Pooling[1]	−60,404	–	−1	–	−60,405	–
Expiration	–	–	−136,906	−3,570	−136,906	−3,570
Allocation waivers and cancellations	–	–	−9,141	−397	−9,141	−397
Other	−80,216	−2,653	−27	−1	−80,243	−2,654
Total	**−849,153**	**−22,131**	**−463,448**	**−12,180**	**−1,312,601**	**−34,311**
Net addition/disposal	−21,909	7,664	−88,390	−2,478	−110,299	5,186
Balance as at Dec. 31, 2017	**7,808,225**	**281,261**	**653,931**	**17,698**	**8,462,156**	**298,959**

1 Including increases.

Volume of unredeemed contracts	Number of contracts	Home savings volume € million
Contracts signed prior to Jan. 1, 2017	47,543	2,523
Contracts signed in 2017	177,025	11,019

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Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2017 € million
Additions	
Amounts carried forward from 2016 (surplus)	
Amounts not yet disbursed	52,258
Additions in 2017	
Savings deposits (including credited homebuyer subsidies)	9,019
Repayable amounts (including credited homebuyer subsidies)[1]	1,359
Interest on home savings deposits	711
Total	**63,347**
Withdrawals	
Withdrawals in 2017	
Amounts allocated (if disbursed)	
Home savings deposits	5,519
Building loans	988
Repayment of deposits on non-allocated home savings contracts	1,309
Fund for home savings risk	425
Surplus of additions	
(Amounts not yet disbursed) at the end of 2017[2]	55,106
Total	**63,347**

1 Repayable amounts are the portion of the loan principal actually repaid.
2 The surplus of additions includes:
a) undisbursed home savings deposits from allocated home savings contracts €90 million
b) undisbursed home savings loans from funds allocated €3,723 million

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

	Mortgage Pfandbriefe as at Dec. 31, 2017 € million	Mortgage Pfandbriefe as at Dec. 31, 2016 € million	Change in mortgage Pfandbriefe (percent)	Public-sector Pfandbriefe as at Dec. 31, 2017 € million	Public-sector Pfandbriefe as at Dec. 31, 2016 € million	Change in public-sector Pfandbriefe (percent)
Ordinary cover	**53,757**	**51,148**	**5.1**	**23,367**	**26,319**	**−11.2**
Loans and advances to banks	28	33	−15.2	489	741	−34.0
of which: mortgage loans	28	33	−15.2	–	–	–
local authority loans	–	–	–	489	741	−34.0
Loans and advances to customers	53,582	50,969	5.1	18,624	20,934	−11.0
of which: mortgage loans	53,582	50,969	5.1	57	74	−23.0
local authority loans	–	–	–	18,567	20,860	−11.0
Investments consisting of bonds and other fixed-income securities	–	–	–	2,577	2,603	−1.0
Property, plant and equipment	147	146	0.7	1,677	2,041	−17.8
Extended cover	**2,253**	**1,784**	**26.3**	**132**	**187**	**−29.4**
Loans and advances to banks	–	–	–	17	18	−5.6
Investments consisting of bonds and other fixed-income securities	2,253	1,784	26.3	115	169	−32.0
Total cover	**56,010**	**52,932**	**5.8**	**23,499**	**26,506**	**−11.3**
Pfandbriefe requiring cover	**−50,360**	**−46,344**	**8.7**	**−20,289**	**−23,275**	**−12.8**
Nominal excess cover	**5,650**	**6,588**	**−14.2**	**3,210**	**3,231**	**−0.6**
Present value of excess cover	**9,312**	**10,199**	**−8.7**	**3,879**	**3,938**	**−1.5**
Risk-related present value of excess cover	**8,257**	**9,095**	**−9.2**	**3,416**	**3,498**	**−2.3**

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, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Mortgage Pfandbriefe	**50,360**	**46,344**	**8.7**
≤ 6 months	1,919	1,735	10.6
> 6 months to ≤ 12 months	1,799	1,937	–7.1
> 12 months to ≤ 18 months	2,023	1,368	47.9
> 18 months to ≤ 2 years	2,718	1,981	37.2
> 2 years to ≤ 3 years	3,630	4,207	–13.7
> 3 years to ≤ 4 years	3,458	3,574	–3.2
> 4 years to ≤ 5 years	4,482	3,424	30.9
> 5 years to ≤ 10 years	17,316	16,131	7.3
> 10 years	13,015	11,987	8.6
Public-sector Pfandbriefe	**20,289**	**23,275**	**–12.8**
≤ 6 months	716	1,909	–62.5
> 6 months to ≤ 12 months	1,941	1,112	74.6
> 12 months to ≤ 18 months	637	711	–10.4
> 18 months to ≤ 2 years	1,370	1,950	–29.7
> 2 years to ≤ 3 years	2,091	2,064	1.3
> 3 years to ≤ 4 years	1,285	2,209	–41.8
> 4 years to ≤ 5 years	798	1,390	–42.6
> 5 years to ≤ 10 years	4,788	5,234	–8.5
> 10 years	6,663	6,696	–0.5

Fixed-interest periods of cover assets	Dec. 31, 2017 € million	Dec. 31, 2016 € million	Change (percent)
Mortgage Pfandbriefe	**56,010**	**52,932**	**5.8**
≤ 6 months	2,799	1,896	47.6
> 6 months to ≤ 12 months	2,304	2,978	−22.6
> 12 months to ≤ 18 months	2,170	2,225	−2.5
> 18 months to ≤ 2 years	2,183	2,624	−16.8
> 2 years to ≤ 3 years	4,841	4,688	3.3
> 3 years to ≤ 4 years	5,069	4,695	8.0
> 4 years to ≤ 5 years	5,031	4,423	13.7
> 5 years to ≤ 10 years	19,812	19,331	2.5
> 10 years	11,801	10,072	17.2
Public-sector Pfandbriefe	**23,499**	**26,506**	**−11.3**
≤ 6 months	1,110	1,492	−25.6
> 6 months to ≤ 12 months	902	1,575	−42.7
> 12 months to ≤ 18 months	917	1,128	−18.7
> 18 months to ≤ 2 years	988	916	7.9
> 2 years to ≤ 3 years	1,721	2,002	−14.0
> 3 years to ≤ 4 years	1,381	1,780	−22.4
> 4 years to ≤ 5 years	1,246	1,378	−9.6
> 5 years to ≤ 10 years	5,896	6,443	−8.5
> 10 years	9,338	9,792	−4.6

A total of 85 properties were in forced administration as at the reporting sheet date (December 31, 2016: 124). The mortgage loans held as cover include past-due payments for interest to be paid in the amount of €1 million (December 31, 2016: €1 million).

42. Board of Managing Directors of the BVR

Uwe Fröhlich (President until October 31, 2017)
Marija Kolak (President since January 1, 2018)
Gerhard P. Hofmann
Dr. Andreas Martin

Berlin, July 2, 2018

National Association of German Cooperative Banks
BVR

The Board of Managing Directors

Marija Kolak Gerhard P. Hofmann Dr. Andreas Martin

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Annex:
Significant Financial Reporting Principles

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Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network for the period January 1 to December 31, 2017, prepared by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks], have to be prepared for a specific purpose in accordance with the financial reporting principles set out below. They have been prepared for information purposes and to present the business 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 order to comply with the provisions set out in article 113 (7) letter e) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (Capital Requirements Regulation, CRR).

The consolidated financial statements have to include the following components:

- Income statement for the period January 1 to December 31, 2017 (pursuant to IAS 1.81A to IAS 1.105)
- Statement of comprehensive income for the period January 1 to December 31, 2017 (pursuant to IAS 1.81A to IAS 1.105)
- Balance sheet as at December 31, 2017 (pursuant to IAS 1.54 to IAS 1.80A)
- Statement of changes in equity for the period January 1 to December 31, 2017 (pursuant to IAS 1.106 to IAS 1.110)
- Statement of cash flows for the period January 1 to December 31, 2017 (pursuant to IAS 7.1 to IAS 7.47)
- Explanatory information on the consolidated financial statements
- Management report, including risk report, for the period January 1 to December 31, 2017.

The consolidated financial statements have to include comparative figures for the prior year. The consolidated financial statements have to be prepared in euros. Unless stated otherwise, all amounts have to be shown in millions of euros (€ million). All figures have to be rounded to the nearest whole number.

Scope of consolidation

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

Procedures of consolidation

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

As required by IFRS 3.4 et seq. in conjunction with IFRS 10, business combinations have to be accounted for using the acquisition 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 date at which control is acquired. This eliminates the multiple gearing of eligible elements of own funds and any inappropriate creation of own funds for regulatory purposes between the consolidated entities listed above. Any positive difference between these two amounts has to be recognized as goodwill under other assets and subjected 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.

Investments in joint ventures and associates pursuant to IFRS 11.4–19 generally have to be accounted for using the equity method in accordance with IAS 28.3 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 for the relevant category. The following categories have been defined:

Financial instruments at fair value through profit or loss
Financial instruments in this category have to be recognized at fair value through profit or loss. This category has to be broken down into the following subcategories:

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

<u>Contingent considerations in a business combination</u>
Contingent considerations that the acquirer has classified as financial assets or financial liabilities in the context of a business combination have to be assigned to this subcategory.

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

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity can be assigned to the 'held-to-maturity investments' category. These assets have to be measured at amortized cost. The premiums and discounts have to be allocated over the expected life of the instrument.

Loans and receivables
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market have to be assigned to the 'loans and receivables' category. Loans and receivables have to be measured at amortized cost. The premiums and discounts have to be allocated over the expected life of the instrument.

Available-for-sale financial assets
Financial assets that cannot be classified in any other category have to be categorized as 'available-for-sale financial assets'. They have to be measured at fair value. Any changes in fair value between two balance sheet dates have to be recognized in other comprehensive income. The changes in fair value reported on the balance sheet have to be included in the revaluation reserve as part of equity. When financial assets in this category are sold, gains and losses recognized in the revaluation reserve have to be reclassified to the income statement. Equity instruments in this category have to be measured at cost if their fair value cannot be reliably determined.

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

In accordance with IAS 32.15–32, shares in partnerships normally have to be classified 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 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 assigned to the 'financial liabilities measured at amortized cost' category.

Liabilities under compensation payment obligations owed to non-controlling interests in consolidated subsidiaries have to be assigned to this category. These liabilities arise if another entity controlled by the Cooperative Financial Network 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 discounted obligation.

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

Other financial instruments
Insurance-related financial assets and financial liabilities, receivables and liabilities arising from finance leases, and liabilities from financial guarantee contracts have to be categorized as other financial instruments.

Insurance-related financial assets and financial liabilities as well as receivables and liabilities from finance leases have to be recognized and measured in accordance with the principles set out in this section and in the corresponding sections entitled 'Insurance business' and 'Leases'.

Liabilities from financial guarantee contracts must be recognized as a liability at fair value by the issuer of the guarantee at the date of issue. The fair value normally has to be equivalent to the present value of the consideration received for issuing the financial guarantee contract. In any subsequent measurement, the obligation must be measured at the higher of the provision amount determined and the amount initially recognized less any cumulative amortization.

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

Initial recognition and derecognition of financial assets and financial liabilities
Derivatives initially have to be recognized on the trade date. Regular way purchases and sales of non-derivative financial assets 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 that subsequently do not have to be measured at fair value through profit or loss, initial recognition has to include transaction costs directly attributable to the acquisition of the asset or issue of the liability concerned.

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 losses and reversals of impairment losses on financial assets
Financial assets not measured as at fair value through profit or loss must be tested at each balance sheet date to establish whether there is any objective evidence that these assets are impaired.

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

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

There are indications that financial assets may be impaired if the fair value falls by more than 20 percent of average cost or if the fair value remains below average cost for more than six months.

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

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

Hedge accounting

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

Hedged items categorized as 'loans and receivables', 'financial liabilities measured at amortized cost', or receivables under finance leases have to be measured in accordance with the measurement principles presented for financial instruments. The values have to be adjusted for the change in fair value attributable to the hedged risk. Hedged items categorized as 'available-for-sale financial assets' 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 under other liabilities depending on whether the portfolio comprises financial assets or financial liabilities.

Cash flow hedges
Hedging instruments have to be measured at fair value. Changes in fair value attributable to the effective portion of the hedge have to be recognized in other comprehensive income. Changes in fair value attributable to the ineffective portion of the hedge have to be recognized in profit or loss. Hedged items have to be recognized and measured in accordance with the general principles for the relevant measurement category. At the end of a hedging relationship, any changes in fair value recognized in other comprehensive income must be reclassified to profit or loss on the date on which the hedged items or transactions are also recognized in profit or loss.

Hedges of net investments in foreign operations
Hedges of net investments in foreign operations have to be accounted for in the same way as cash flow hedges.

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 entity. 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 entities consolidated in the financial statements is different from the reporting currency (euros), all assets and liabilities have to be translated at the closing rate. Equity has to be translated at the historical rate, while income and expenses have to be translated at average rates. Any differences arising from currency translation have to be reported in the currency translation reserve.

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 recognized in accordance with the aforementioned principles. Service contracts are subject to the revenue recognition requirements specified in IAS 18.20–28.

The insurance business of the Cooperative Financial Network has to be generally reported under specific insurance items in the income statement and on the balance sheet.

Financial assets and financial liabilities
Financial assets and financial liabilities held or acquired as part of insurance business have to be accounted for in accordance with the accounting principles for financial instruments presented above. These 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. Any impairment losses related to financial assets reported under investments held by insurance companies or other assets held by insurance companies are applied directly to the carrying amount.

The benefit obligations under capitalization transactions for which no material insurance risk is assumed when the policy is concluded have to be included in other liabilities of insurance companies. 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. Non-interest-bearing, low-interest or forgivable loans have to be recognized in the same way as government grants. The amount of financial assistance or any government grant has to be deducted when the carrying amount of the asset is identified and then has to be recognized in profit or loss over the period covered by the assistance or grant by means of a reduced depreciation charge.

Recoverable amounts have to be determined for real estate so that this information can be used in impairment tests in accordance with the provisions of IFRS 13.27–33. For this purpose, standard valuation methods have to be used that are based on the requirements of the German Real Estate Valuation Regulation (ImmoWertV), the German Real Estate Valuation Guidelines (WertR 2006), and the German Building Code (BauGB). Accordingly, the current value of real estate 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 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.

Insurance liabilities
Insurance liabilities have to be recognized and measured in accordance with the German Commercial Code (HGB) and other German accounting provisions 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. Calculation of non-transferable income components has to be based on the letter from the Bundesministerium der Finanzen (BMF) [German Federal Ministry of Finance] dated April 30, 1974.

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.

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

Benefit reserve

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

The benefit reserve for life insurance and casualty insurance with premium refund generally has to be 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. These interest rates are generally determined by the legally prescribed maximum discount rates. The calculation assumptions apply from the date on which the policy is written until the policy expires.

For policies entered into before or in 2014, calculation of the benefit reserve generally has to be based on the Zillmer method. Following the introduction of the German Life Insurance Reform Act (LVRG), zillmerizing has not had to be applied to most new business entered into since 2015. In particular, zillmerizing has not had to be applied to subsidized pension insurance policies under the German Personal Pension Plan Act (AVmG) or to pension insurance policies under reinsured pension plans.

The benefit reserve implicitly 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 and positive benefit reserves have to be netted. The parameters for the computation of the reserves involve, in particular, assumptions regarding rates of return on investment, mortality, cancellations, and costs.

When the benefit reserves are prospectively calculated, the parameters used have to be 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.

Since 2011, supplementary change-in-discount-rate reserves have had to be recognized for policies with a discount rate in excess of the reference rate. For new policies, this has to be carried out in accordance with the provisions of the German Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV). A supplementary change-in-discount-rate reserve has to be recognized for policies with a discount rate in excess of the reference rate specified in the DeckRV. With the approval of BaFin, the supplementary change-in-discount-rate reserve has to be increased for existing policies. Entity-specific probabilities for cancellation and lump-sum payments have had to be used since 2016.

Provision for claims outstanding

The provision for claims outstanding has to cover 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 known claims. Recourse claims, excess proceeds, and claims under loss sharing agreements have to be netted. Based on the level of delayed claims reports observed in 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 does not have to be discounted, except in the case of the pension benefits reserve. The provisions for claims settlement expenses, which are also included in this item, have to be calculated in accordance with the requirements set out in the coordinated regulations issued by the German federal states on February 2, 1973 and in accordance with formula 48 (German Insurance Association [GDV] formula) as specified in a letter dated March 20, 1973. Under these arrangements, internal costs likely to be incurred in connection with the settlement of future claims have to be projected using an overall rate applied to the present level of expenses.

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.

A provision for settlement expenses has to be recognized in an amount equivalent to 1 percent of the claims provision to cover claims incurred and reported by the balance sheet date (excluding maturing policies) and also IBNR losses.

In health insurance, the provision for claims outstanding 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 three financial years. Recourse claims have to be deducted from the provision for claims outstanding, as do reimbursements due under the German Act on the Reform of the Pharmaceuticals Market (AMNOG). The recognized provision includes the costs of settling claims, calculated in accordance with tax rules. The reinsurers' share of the provision 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.

Provision for premium refunds

The provision for premium refunds has to cover 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 provisions 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 available-for-sale financial assets, corresponding expenses for deferred premium refunds have to be recognized in other comprehensive income; otherwise, changes in the provision have to be 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 these significant financial reporting principles and those in the financial statements prepared in accordance with HGB 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 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. 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 these significant financial reporting principles and those in the financial statements prepared in accordance with HGB net of deferred taxes.

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. 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 these significant financial reporting principles and those in the financial statements prepared in accordance with HGB 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, whereas operational planning has to be used as the basis for measuring the premium deficiency provision.

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 liability to the extent that the investment risk is borne by the policyholders.

A cancellation provision has to be recognized within other insurance liabilities for health insurance. The cancellation provision has to be recognized to take account of expected losses and has to be 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.

Reinsurance business

In the case of reinsurance business, the insurance liabilities have to be recognized in accordance with the requirements specified by the ceding insurers. If no such details are available as at the balance sheet 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. In a few instances, loss provision details provided by ceding insurers are deemed to be too low in the experience of the Cooperative Financial Network; in such cases, appropriate increases have to be applied, the increases having been determined in accordance with prudent business practice, past experience, and actuarial calculation methods.

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 determines, on the basis of a comparison with estimated future cash flows, whether the carrying amount of insurance liabilities needs to be increased.

To review the insurance liabilities in the health insurance companies, a regular comparison 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.

Leases

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 to the lessee. If the risks and rewards remain substantially with the lessor, the lease is an operating lease.

Cooperative Financial Network as lessor

If a lease is classified as a finance lease, a receivable due from the lessee must be recognized. The receivable 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 a 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 included in the current income from operating leases reported under net interest income.

Cooperative Financial Network as lessee
If a lease is classified as a finance lease, the leased asset has to be recognized at the lower of fair value and the present value of the future minimum lease payments. A liability has to be recognized for the future lease payments. The interest expense has to be recognized on an accrual basis.

Lease payments under operating leases have to be recognized on an accrual basis over the term of the leases concerned and reported as administrative expenses.

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 costs incurred that are directly connected with the acquisition or sale of a financial asset or financial liability, and thus can be directly assigned to the transaction, also have to be recognized and allocated over the expected life of the instrument. Such costs include sales charges directly associated with the origination of home savings contracts.

Interest income and interest expense arising in connection with derivatives that were not entered into for trading purposes or are used to hedge financial instruments designated as at fair value through profit or loss have to be reported under net interest income. Interest income and interest expense on overnight money and fixed-term deposits arranged between different organizational units for economic management purposes and timing effects from currency swaps used for economic management of net interest income have to be recognized under net interest income or under gains and losses on trading activities, depending on their economic classification.

In contrast to interest income, current income does not have to be accrued but has to be recognized in full at the time of realization. Dividends have to be recognized as soon as a legal entitlement to the payment of such a dividend is established.

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

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

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 for the duration of the policy or contract concerned in line with the service performed.

Cash and cash equivalents

Cash on hand, balances with central banks and other government institutions, treasury bills, and non-interest-bearing treasury notes have to be recognized as cash and cash equivalents.

Holdings of cash denominated in euros or foreign currencies have to be included in cash on hand. Cash in euros has to be measured at nominal value; foreign currency cash has to be translated at the buying rate. Balances with central banks and other government institutions, treasury bills, and non-interest-bearing treasury notes have to be classified as 'loans and receivables' and measured at amortized cost. 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 not classified as 'financial instruments held for trading' 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, promissory notes and registered bonds have to be included in loans and advances to banks and customers.

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 for the change in fair value attributable to the hedged risk. The resulting hedge adjustments have to be recognized within other gains and losses on valuation of financial instruments under gains and losses arising on hedging transactions. To avoid or significantly reduce accounting mismatches, certain loans and advances have to be designated as 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. Gains and losses on the sale of such loans and advances classified as 'loans and receivables' and the amortization of hedge adjustments to carrying amounts due to fair value hedges also have to be included in interest income. Gains and losses on the valuation of loans and advances designated as at fair value through profit or loss also have to be shown under the same item as part of other gains and losses on valuation of financial instruments.

Allowances for losses on loans and advances

Allowances for losses on loans and advances have to be reported as a separate line item on the assets side of the balance sheet. Additions to allowances for losses on loans and advances, and any reversals of such allowances, have to be recognized under allowances for losses on loans and advances in the income statement.

The recognition of allowances for losses on loans and advances also has to cover changes in the provisions for losses on loans and advances and in the liabilities from financial guarantee contracts. Any additions or reversals under these items also have to be recognized in profit or loss under allowances for losses on loans and advances.

Derivatives used for hedging (positive and negative fair values)

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

These derivatives have to be measured at fair value. Changes in the fair value of hedging instruments in fair value hedges between two balance sheet dates 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 derivative hedging instruments are being used as cash flow hedges or hedges of net investments in foreign operations, changes in fair value attributable to the effective portion of the hedges must be recognized in other comprehensive income. These changes have to be shown in the cash flow hedge reserve or in the currency translation reserve as part of equity. Changes in fair value attributable to the ineffective portion of hedges have to be recognized in other gains and losses on valuation of financial instruments under gains and losses from hedge accounting.

Financial assets and financial liabilities held for trading

Financial assets and financial liabilities held for trading may only comprise financial assets and financial liabilities that fall within the measurement category 'financial instruments 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.

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 valuation of derivatives that are entered into for hedging purposes, but are not recognized as hedging transactions, have to be recognized under other gains and losses on valuation of financial instruments as gains and losses on derivatives used 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', valuation gains and losses on the related derivatives concluded for hedging purposes have to be 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 in which the Cooperative Financial Network has no significant influence, provided that these securities or shares are not held for trading purposes. Investments in non-consolidated subsidiaries and in joint ventures and associates also have to be included in investments.

Investments initially have to be recognized at fair value. Shares and other shareholdings and investments in subsidiaries, joint ventures, and associates that are accounted for using the equity method in accordance with IAS 28.10–19, or for which a fair value cannot be reliably determined, initially have to be recognized at cost. These investments subsequently have to be measured in accordance with the applicable measurement categories described in these principles. In the case of investments in joint ventures and associates, the equity method has to be used for subsequent measurement.

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

Interest and any investment premiums or discounts amortized over the term 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. Impairment losses, reversals of impairment losses, and gains and losses realized on the sale of investments not measured at fair value through profit or loss have to be reported under gains and losses on investments.

Property, plant and equipment, and investment property

Land and buildings as well as office furniture and equipment with an estimated useful life of more than one year used by the Cooperative Financial Network have to be recognized as property, plant and equipment, and investment property. Assets subject to operating leases also have to be included in this item. Real estate held for the purposes of generating rental income or capital appreciation has to be shown under investment property.

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

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

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 income tax liabilities. 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 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 entity-specific tax rates expected to apply at the time of realization.

Other assets

Intangible assets have to be reported under other assets and are recognized at cost. In the subsequent measurement of software, acquired customer relationships, and other intangible assets with a finite useful life, carrying amounts 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 have to be subjected to an impairment test at least once during the financial year in accordance with IAS 36.7–57.

Non-current assets and disposal groups classified as held for sale

The carrying amount of non-current assets or disposal groups for which a sale is planned is recovered principally through a sale transaction rather than through their continuing use. These assets and disposal groups therefore 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 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 as non-current assets and disposal groups classified as held for sale under other assets and as liabilities included in disposal groups classified as held for sale under other liabilities. 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/expense. 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, net of tax’.

Deposits from banks and customers

All liabilities attributable to registered creditors not classified as ‘financial instruments held for trading’ have to be recognized as deposits from banks and customers.

Deposits from banks and customers 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 expense on deposits from banks and customers has to be recognized separately under net interest income. Gains and losses on early redemptions and the amortization of hedge adjustments to carrying amounts due to fair value hedges also have to be included in interest expense. 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 arising on hedging transactions. If liabilities are designated as at fair value through profit or loss, the gains and losses on valuation have to be recognized under the same item as part of other gains and losses on valuation of financial instruments.

Debt certificates issued including bonds

'Pfandbriefe', other bonds, and other debt certificates issued for which transferable bearer certificates have been issued have to be recognized as debt certificates issued including bonds.

Debt certificates issued including bonds and gains and losses thereon 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 using the best estimate of the present value of their anticipated utilization. This estimate has to take account of future events as well as the risks and uncertainties relating to the issue concerned.

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 have to be recognized for these indirect 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 promise. Defined benefit obligations have to be measured on the basis of the projected unit credit method. The measurement has to be based on various actuarial assumptions. In particular, assumptions have to be made about long-term salary and pension trends and average life expectancy. Assumptions about salary and pension trends have to be based on past trends and take into account expectations regarding future changes in the labor market. Generally accepted biometric tables (2005G mortality tables published by Professor Dr. Klaus Heubeck) have to be used to estimate average life expectancy. The discount rate used to discount future payment obligations must be an appropriate market interest rate for investment-grade 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 has to be determined using a portfolio of high-quality corporate bonds that must satisfy certain criteria in terms of quality and volume (outstanding face value). One of the notable quality criteria is an average AA rating from Moody's Investors Service, New York, Standard & Poor's, New York, Fitch Ratings, New York/London, and DBRS, Toronto. Bonds with existing call options in the form of embedded derivatives do not have to be included in this process. The defined benefit obligations of the primary banks and MHB have to be measured in accordance with the aforementioned principles, applying a typical underlying pension entitlement.

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 financial year in which they occur.

Provisions for losses on loans and advances
Provisions for losses on loans and advances have to factor in the usual sector-specific level of uncertainty. 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.

Residual provisions
Further provisions for employee benefits, such as provisions for other long-term employee benefits (e.g. semi-retirement (Altersteilzeit) schemes), provisions for termination benefits (e.g. early retirement schemes), and provisions for short-term employee benefits, have to be included under other provisions.

Residual Provisions for restructuring also have to be included under other provisions, as do provisions for risks arising from ongoing legal disputes. The latter have to be recognized when the reasons indicating that a legal dispute will result in a payment obligation are stronger than those indicating the opposite. The amount in which such provisions are recognized is based on the potential resulting losses.

Subordinated capital

All registered or bearer debt instruments 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 have to be included in subordinated capital.

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 capital in the consolidated financial statements and recognized as equity. Subscribed capital – consisting of cooperative shares or share capital and liabilities to dormant partners – and capital reserves of the local cooperative banks have to be included in equity. The equity earned by the Cooperative Financial Network, the reserve resulting from the fair value measurement of available-for-sale financial assets (revaluation reserve), the cash flow hedge reserve, the currency translation reserve, and the non-controlling interests in the equity of consolidated entities also have to be included.

Trust activities

Trust activities are defined as business transacted in one's own name 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 and fee and commission expenses respectively. Income and expenses resulting from the transmission and administration of trust loans have to be netted and included in the fee and commission income earned from lending and trust activities.

Explanatory information on the consolidated financial statements

The consolidated financial statements have to contain explanatory information in accordance with the following requirements:

– Disclosures in accordance with IFRS 12 'Disclosure of Interests in Other Entities'

– Segment information in accordance with IFRS 8.5–19 'Operating Segments'

– Further analysis and breakdown of the material components of the income statement items and balance sheet items

– Presentation of the change in allowances for losses on loans and advances (balance sheet and income statement; reconciliation of opening balance to closing balance)

– Reconciliation in accordance with IAS 12.81c to show 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 and changes in plan assets in accordance with IAS 19.140

- Disclosures on financial instruments in accordance with IFRS 7.25 and IFRS 7.39a

- Disclosures on capital adequacy and regulatory-ratios:

  - The disclosures have to refer to the institutional protection scheme (cooperative joint liability scheme). The disclosures relating to own funds and capital requirements have to be based on the information from the extended aggregated calculation in accordance with article 49 (3) CRR in conjunction with article 113 (7) CRR.

  - The leverage ratio for the Cooperative Financial Network's institutional protection scheme as at December 31, 2017 has to be reported in accordance with the methodology specified in article 429 CRR. The capital measure used has to be Tier 1 capital as determined in the extended aggregated calculation in accordance with article 49 (3) CRR, which has to be adjusted for all internal Tier 1 capital positions within the joint liability scheme of the members of the institutional protection scheme. The risk exposures have to be determined by aggregating the individual leverage ratio submissions of all the member banks and adjusted for material internal exposures within the joint liability scheme.

  - The primary banks and Münchener Hypothekenbank have to be included individually on the basis of their respective submissions. DZ BANK's submission has to be included on a consolidated basis. The DZ BANK Group's submission has to be based on the regulatory scope of consolidation.

  - The underlying submissions of the members of the institutional protection scheme (IPS) as at December 31, 2017 have to be based on Implementing Regulation (EU) No. 680/2014, which was amended by Implementing Regulation (EU) No. 2016/428 to reflect the changes to Delegated Regulation (EU) No. 2015/62 of October 10, 2014.

- Breakdowns of the composition of financial guarantee contracts and loan commitments, trust activities, asset management by the Union Investment Group, changes in the contract port folios and changes in the allocation assets of Bausparkasse Schwäbisch Hall, and a cover state ment for the mortgages and local authority loans extended by the mortgage banks

- Disclosures on leases in accordance with IAS 17.47

- A list of the members of the Board of Managing Directors of the BVR

- Consolidated financial statements signed and dated by the Board of Managing Directors.

Management report including the risk report

The management report including the risk report has to be prepared in accordance with the principles in section 315 (1) sentences 1 to 4 HGB. Key performance indicators have to be disclosed pursuant to section 315 (3) HGB. The relevant non-financial key performance indicators have to be included in the human resources report. The risk report has to present the disclosures pursuant to section 315 (2) sentence 1 no. 1 HGB as appropriate for the Volksbanken Raiffeisenbanken Cooperative Financial Network as a whole and in its function as an institutional protection scheme. Furthermore, the material opportunities and the risk management of the decentralized Cooperative Financial Network have to be presented, along with an outlook on the expected development of the material components of the income statement.

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1 Gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments.
2 Premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance benefit payments, insurance business operating expenses.
3 Total assets including financial guarantee contracts and loan commitments, trust activities, and assets under management in the Union Investment Group.
4 Ratio of profit before taxes to average equity.
5 Ratio of net profit to total assets.

BVR