Volksbanken Raiffeisenbanken
cooperative financial network

# HALF-YEAR FINANCIAL REPORT 2014

DZ BANK Group

# KEY FIGURES

## DZ BANK GROUP

| € million | Jan. 1-<br>Jun. 30, 2014 | Jan. 1-<br>Jun. 30, 2013 |
|---|---|---|
| **FINANCIAL PERFORMANCE** | | |
| Operating profit[1] | 1,766 | 1,591 |
| Allowances for losses on loans and advances | -66 | -248 |
| Profit before taxes | 1,700 | 1,343 |
| Net profit | 1,283 | 917 |
| Cost/income ratio (percent) | 45.2 | 47.1 |

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| **FINANCIAL POSITION** | | |
| **Assets** | | |
| Loans and advances to banks | 79,497 | 74,214 |
| Loans and advances to customers | 122,296 | 121,726 |
| Financial assets held for trading | 58,261 | 52,857 |
| Investments | 56,828 | 56,875 |
| Investments held by insurance companies | 75,846 | 70,255 |
| Remaining assets | 9,502 | 11,051 |
| **Equity and liabilities** | | |
| Deposits from banks | 89,652 | 91,361 |
| Deposits from customers | 98,911 | 98,548 |
| Debt certificates issued including bonds | 56,716 | 53,953 |
| Financial liabilities held for trading | 54,029 | 45,770 |
| Insurance liabilities | 72,387 | 67,386 |
| Remaining liabilities | 14,857 | 15,806 |
| Equity | 15,678 | 14,154 |
| **Total assets/total equity and liabilities** | **402,230** | **386,978** |
| **Volume of business[2]** | **649,370** | **621,301** |
| **REGULATORY CAPITAL RATIOS** | | |
| Total capital ratio[3] (percent) | 15.1 | 17.9 |
| Tier 1 capital ratio[3] (percent) | 11.9 | 16.4 |
| Core Tier 1 capital ratio[3] (percent) | 10.5 | – |
| **AVERAGE NUMBER OF EMPLOYEES DURING THE PERIOD** | **29,501** | **28,899** |
| **LONG-TERM RATING** | | |
| Standard & Poor's | AA- | AA- |
| Moody's Investors Service | A1 | A1 |
| Fitch Ratings | A+ | A+ |

1 Operating income (total of net interest income, net fee and commission income, gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments, net income from insurance business, and other net operating income) less administrative expenses.
2 Total assets including financial guarantee contracts and loan commitments, trust activities, and assets under management of the Union Investment Group.
3 Jun. 30, 2014: in accordance with CRR, basis: IFRS; Dec. 31, 2013: in accordance with SolvV, basis: HGB. The ratios at June 30, 2014 incorporate interim profit, although its inclusion is still subject to the approval of the regulators.

# CONTENTS

Wolfgang Kirsch, Chief Executive Officer

Dear Shareholders,

For the DZ BANK Group, the first half of 2014 was dominated by the successful implementation of our rights issue. You, our shareholders, have provided the biggest injection of capital – €1.5 billion – in the history of DZ BANK. We would like to offer our special thanks to you, not only for subscribing to the new share capital but also for your support and encouragement throughout the process.

The latest results from the DZ BANK Group for the first half of the year can reassure you that your contribution to our capital increase has been a good investment. The DZ BANK Group increased its profit before taxes to €1.70 billion in the first six months of 2014, which equates to year-on-year growth of 26.6 percent. This very good result was driven primarily by the strong operating performance delivered by the entire DZ BANK Group. All of the main entities in our banking group reported an encouraging level of business.

This good business performance must be viewed against the backdrop of Europe's cautious economic recovery. Overall, the pace of the upturn is slower than expected, but the German economy in particular is in robust health. Another reason for the continued easing of the sovereign debt crisis is expansionary monetary policy. Related risks, such as the declining willingness to implement reforms in the eurozone's peripheral countries and falling interest rates for pensions, give rise to questions about when to move away from such expansionary monetary policy. For us banks, pressure on earnings is rising as a result of historically low interest rates. The general economic climate and the pressures of monetary policy are therefore likely to remain challenging for our industry. This is also compounded by political uncertainties at international level, such as the tensions in the Middle East and Ukraine.

Let us look at our business performance in detail. In the first half of 2014, the DZ BANK Group generated net interest income of €1.50 billion, slightly less than the €1.57 billion reported in the corresponding period of the previous year. This reduction was the result of low interest rates. However, the expansion of TeamBank's consumer finance portfolio had a positive impact. There was also a substantial contribution from DZ BANK AG's corporate banking business thanks to the success of marketing activities carried out with the local cooperative banks. Allowances for losses on loans and advances in the DZ BANK Group fell to €66 million, compared with €248 million in the first half of 2013. Net fee and commission income rose from €498 million to €699 million, not least because of the increase in assets under management at Union Investment. Gains and losses on trading activities improved to €242 million (first half of 2013: €154 million). We were also encouraged to see a significant increase in sales of structured products, which climbed by 14 percent to €2.4 billion, bucking the general market trend. The level of gains and losses on investments improved from a loss of €71 million to a gain of €140 million, primarily due to divestments in the asset-backed securities portfolio and the disposal of the equity investment in Natixis S.A. Other gains and losses on valuation of financial instruments amounted to a gain of €275 million, compared with a gain of €738 million in the first half of last year. The figure for the corresponding period of 2013 had been influenced by one-off items in connection with reversals of impairment losses on DG HYP's bond portfolios; these reversals were considerably smaller in the first half of this year. Net income from insurance business advanced from €82 million to €390 million, having been impacted by claims relating to natural disasters in the first six months of 2013. Administrative expenses grew by 2.6 percent to €1.46 billion due to the increase in regulatory requirements and other factors. This positive business performance was underpinned by the great dedication of our employees, to whom all of us on the Board of Managing Directors would like to express our sincere thanks.

As I mentioned above, all of the main group companies made a positive contribution to the results achieved in the first half of 2014. Here are some examples: Union Investment's assets under management rose to an all-time record of €218.9 billion. R+V Versicherung saw further growth in premiums earned in all three of its divisions, building on the already high level of premiums earned in the first half of 2013. Bausparkasse Schwäbisch Hall signed 400,000 new contracts, generating a volume of €15.7 billion in new home savings business. However, this was below the exceptionally high volume achieved in the first half of 2013. The reason for the reduction was the increase in business in the first half of 2013 before a new scale of rates and charges was introduced. TeamBank continued its successful business trajectory, registering a further improvement in earnings.

This strong operating performance was accompanied by a steady rise in our capital adequacy. In addition to the rights issue, we made further progress in this regard over the past six months by sharpening the focus of our business, carefully managing risk-weighted assets, and retaining profits. Based on the transition rules under the Capital Requirements Regulation, the preliminary core Tier 1 capital ratio had advanced from 9.2 percent at the end of 2013 to 10.5 percent as at June 30, 2014. On a pro-forma basis, this ratio climbs to 12.0 percent if the rights issue (entered in the commercial register in the third quarter of 2014) is taken into account. We therefore believe that we are well equipped to deal with additional regulatory requirements. Against the backdrop of ever stricter capital requirements, we will remain focused on further strengthening our capital base from our own resources as one of our primary management tasks.

Today, we can say with some pride that the cooperative financial network has notched up impressive results over the past months and years. Clearly we are succeeding in translating the traditional cooperative idea of togetherness with individual responsibility into the realities of life today and, by collaborating effectively within the cooperative banking sector, are managing to exploit market potential. A very good example of this is the cooperation on business with small and medium-sized enterprises. The logical consequence of this structural and financial cohesion and stability is the AA- credit rating awarded to us by rating agencies such as Standard & Poor's – a credit rating that has now gained international benchmark status.

Yet despite this success, we cannot allow ourselves to rest on our laurels. We are faced with implementing far-reaching regulatory requirements that are frequently an impediment to existing business processes, make procedures more complicated, and lead to considerable costs. It is therefore more important than ever before that we examine the cost efficiency of our processes and structures and adjust them where necessary.

Going forward, the market environment will require us to demonstrate ever greater flexibility and speed. Digitization is giving customers more choice, market trends are accelerating and demographic changes are altering customer structures and behavior. The cooperative financial network is already on the right track with its 'webErfolg' and 'Beratungsqualität' projects in retail customer business. But the digital evolution is not passing our corporate customers by either. Moreover, this business is characterized by fierce competition and muted demand for loans. We will have to adapt our groupwide portfolio of products and services to both of these trends. In payments processing, a new type of competition is emerging in the shape of non-bank service providers. We must rise to this challenge with solutions that are both innovative and secure.

This simultaneous occurrence of divergent and even countervailing trends is likely to push all of us to our limits. In the future too, effective use of our complementary strengths will remain the only way for our cooperative financial network to achieve business success.

We expect the German economy to provide further momentum for our business in the second half of 2014. Although geopolitical tension is increasingly impacting on global economic growth and on Germany's economic recovery, domestic demand in particular remains healthy. Our economists still expect German gross domestic product to rise by 1.5 percent in 2014 as a whole. Against this background, net profit on a par with last year appears realistic for the DZ BANK Group.

Internal cohesion, a compelling market presence and, as a result, substantial intrinsic earnings power – these are the core elements that characterize the strength of the cooperative banking business today. It is up to us to not only maintain this position of strength but also to constantly renew it. The DZ BANK Group aims to continue to play a major role in achieving this aspiration.

Kind regards,

Wolfgang Kirsch
Chief Executive Officer

# INTERIM GROUP MANAGEMENT REPORT

# I. DZ BANK Group fundamentals

DZ BANK AG Deutsche Zentral-Genossenschafts-bank, Frankfurt am Main, (DZ BANK), as the parent company in the DZ BANK Group, implements the transparency requirements as specified in sections 37w and 37y of the German Securities Trading Act (WpHG) and section315 of the German Commercial Code (HGB) in conjunction with the relevant German accounting standard (GAS 16 Interim Financial Reporting) with the publication of this interim group management report. The opportunity and risk report also satisfies the applicable international requirements of IAS 34 (Interim Financial Reporting) with respect to risk-related disclosure requirements.

The figures in this interim group management report are rounded to the nearest whole number. This may give rise to small discrepancies between the totals shown in the tables and diagrams and totals calculated from the individual values shown.

Fundamental information about the DZ BANK Group is provided in detail on page 28 onwards of the 2013 Annual Report. Those disclosures are also applicable to the first half of 2014.

# II. Business report

## 1. ECONOMIC CONDITIONS

Overall, the German economy rallied significantly in the first 6 months of 2014. Adjusted for inflation, average overall economic output for the first half of the year was 0.8 percent higher than in the second half of 2013.

Compared with the fourth quarter of 2013, German economic output in the first quarter of 2014 went up by 0.7 percent owing to the mild winter. The second quarter saw a reversal of this weather-related growth factor. Consequently, gross domestic product (GDP) declined by 0.2 percent compared with the first quarter of 2014, partly as a result of the fallout from the Ukrainian crisis.

Economic growth also varied significantly from one European country to another in the first half of 2014. Italy registered a drop in economic output in the first 6 months of 2014, while France experienced stagnation. Spain maintained the slight recovery that had begun in the previous year. With an increase of 0.2 percent in the first quarter and flat growth of 0.0 percent in the second quarter, the combined economic output of the countries in the eurozone in the period under review rose by 0.4 percent compared with the second half of 2013.

The United States achieved only slight economic growth in the 6 months under review, owing to the severe winter weather at the start of the year. However, the US economy did receive a boost from the steadily improving situation in the labor market and the recovery of the US real-estate market.

Economic difficulties persisted in some of the emerging economies in Asia and Latin America during the reporting period. These were mostly attributable to structural problems and a reluctance to implement reforms. Political crises and military conflicts also contributed to gloomier international economic prospects.

Nonetheless, demand from the emerging markets continued to bolster exports from Germany, which also benefited from the gradual economic recovery in the eurozone. The simultaneous sharp rise in imports meant that foreign trade did not contribute to overall economic growth in the first half of the year.

An increase in consumer and government spending provided a major boost to the German economy in the first half of 2014. The stability of the labor market and higher disposable income, combined with the low level of interest rates, resulted in consumers showing greater willingness to spend. Construction investment was also a major growth factor at the start of the year but faltered again in the spring.

Given the buoyancy of the economy in the first half of the year, German public finances are likely to finish the current year with only a small funding deficit.

## 2. ONGOING EFFORTS TO OVERCOME THE EUROPEAN FINANCIAL AND SOVEREIGN DEBT CRISIS

The European Union's efforts in the first half of 2014 again focused on stabilizing economic conditions in the eurozone, especially those of countries on the periphery.

The consolidation of economic growth in the eurozone during the reporting period strengthens the hope that the existing economic imbalances in the euro area will gradually decrease. In the eurozone as a whole, however, only limited progress has been made in reducing new and total borrowing. At the end of March 2014, the total borrowing of the 18 eurozone countries equated to almost 94 percent of their GDP – the highest level since the introduction of the single currency.

However, the first signs of easing in the European markets appeared in the wake of the statement made by the President of the European Central Bank (ECB) in mid-2012 that he intended to do whatever it takes to support the euro and the subsequent launch of the Outright Monetary Transactions (OMT) program for the purchase of government bonds. In parallel to this, the required timeframe for starting the necessary reforms and stabilization steps was laid out.

This has enabled the banking system in the eurozone to strengthen its overall capitalization. And yields on government bonds have now fallen to an extent that would hardly have seemed possible just a few months ago. In Spain, Italy, and Ireland, the yields on 1 to 3-year government bonds had dropped to a record low of less than 1 percent at the end of the reporting period.

Nevertheless, these encouraging trends cannot hide the fact that the continued high level of borrowing in the eurozone as a whole poses a considerable danger to its economic stability.

Portugal, Spain, Ireland, and Greece were able to achieve initial progress with their reforms. The rating agency Moody's upgraded Portugal's credit rating from BA3 to BA2 in early May 2014 and then from BA2 to BA1 at the end of July 2014. Citing the positive effect of the reforms undertaken, Standard & Poor's raised Spain's credit rating from BBB- to BBB at the end of May 2014. At the start of June 2014, Ireland's long-term credit rating from Standard & Poor's was increased from BBB+ to A-. The reforms implemented by Greece led Fitch to raise its long-term credit rating from B- to B in late May 2014.

France and Italy – two countries of significance to pan-European growth – continued to suffer from high levels of borrowing, however. In their current state, they are the biggest risk to economic recovery in the eurozone. At the end of the reporting period, both countries were striving to soften the Maastricht criteria ahead of the EU summit of heads of state and government in Brussels on 26 June 2014, but delegates at the summit did not agree to this.

Both a major milestone on the way to overcoming the European financial and sovereign debt crisis and probably the most ambitious project in Europe since the launch of the euro, the decision to introduce banking union was decided upon at EU level in the first half of this year. There are 3 core components: a Single Supervisory Mechanism, a Single Resolution Mechanism, and a common system of deposit protection.

The aims of banking union are to counteract the problematic interdependence between banks and public-sector finance and to stop taxpayers having to bear the burden of failing banks.

In mid-October 2013, EU finance ministers unanimously approved the procedure for the introduction of the regulation governing the Single Supervisory Mechanism (SSM). As a result of this regulation, responsibility for the direct supervision of the largest banks in the eurozone (and in other European countries that join the SSM) will be transferred to the ECB. The change affects approximately 130 banks that have total assets in excess of €30 billion, or that are important to the economy of the European Union or a member state, or that are important at an international level. DZ BANK is among the banks that are expected to be supervised by the ECB from November 4, 2014, following the completion of a comprehensive assessment.

The ECB will begin to oversee the banks under its supervision on November 4, 2014. The Asset Quality Review conducted by the ECB in the half year under review and the stress test coordinated jointly by the ECB and the European Banking Authority (EBA) should provide comparable data on banks' capital adequacy and risk exposure ahead of the changeover so that, if necessary, steps to strengthen individual banks' capital base can be taken beforehand.

At the end of March 2014, the Council of Europe and European Parliament reached a fundamental agreement on the structure of the Single Resolution Mechanism (SRM), which is due to come into effect on January 1, 2015. This agreement resulted in an EU directive on the recovery and resolution of credit institutions and investment firms (BRRD), which was published in mid-June 2014.

This directive not only sets out the decision-making process, from identifying an imminent case of insolvency to developing a resolution plan, it also defines the structure of the national resolution systems and the Single Resolution Fund (SRF) for the eurozone. However, a bank may only draw on the SRF in the event of insolvency if – as decided by the EU parliament and the Council Presidency in mid-December 2013 – its shareholders, creditors, and wealthy savers with balances of more than €100,000 have already helped to rescue it.

The SRF is funded by contributions from all participating banks in the member states and has an initial target volume of €55 billion. In addition, the SRF can generate additional funding through loans, provided this is approved by the entire supervisory authority.

The funds are to be accumulated within an 8-year period, starting from the first collection on January 1, 2016, and should equate to at least 1 percent of the deposits protected. In the 8-year transition period before the SRF has reached its full strength, national subfunds (compartments) are to be set up in the individual member states. It is planned to communitize these compartments in stages. In the first year, 40 percent of the funds already paid in and, in the second year, 20 percent, can be used to provide European-wide coverage.

All banks in the eurozone must contribute to the planned Single Resolution Fund. The European Commission is expected to draw up precise specifications for assessing the levy to be paid by each individual bank in September 2014.

Forming the third pillar of banking union, the harmonized rules on protecting savings deposits were published on June 12, 2014 in the form of the EU directive on deposit guarantee schemes. It does not include the communitization of protection for savers. The systems for protecting deposits, with a guarantee for bank deposits of up to €100,000, will continue to be organized at national level. Savers should be able to access their individual deposits up to a maximum of €100,000 within 7 days of the bank becoming insolvent. In the future, the banks in every EU member state must each fill a protection fund with a target volume averaging 0.8 percent of the deposits covered.

In the first half of 2014, international capital markets continued to be influenced by the expansionary monetary policies of the central banks, with interest rates at historically low levels. There was a marked uptrend in the equity markets, which were also less volatile.

On June 5, 2014, the ECB cut its key lending rate by 10 basis points to 0.15 percent, thereby continuing its strategy of supporting economic growth through monetary policy and attempting to avoid deflationary tendencies in the eurozone. At the same time, the ECB decided to impose a negative deposit rate of minus 0.1 percent on money that banks have parked with the ECB and to stimulate the sluggish lending business in 2014, particularly in southern Europe, with two tenders totaling €400 billion tied to specific lending obligations on the banks.

In the wake of these measures, the German share index (DAX) briefly topped the 10,000 points mark, before falling back below this level at the end of the 6 months under review as a result of deteriorating economic data in light of the crises in Ukraine and Iraq.

The Federal Reserve, the US central bank, retained the target for its key interest rate of close to 0 percent under its new president Yellen but continued with the scaling back of its ultra-expansionary monetary policy that her predecessor Bernanke had initiated in mid-December 2013. By reducing its monthly securities purchases in stages to the current volume of US$ 35 billion, the Fed removed some of the excess liquidity from the market in light of the expected gathering recovery of the US economy.

Almost without exception, the major German banks suffered a contraction in operating income during the period under review, primarily as a consequence of the prevailing low interest rates. In most cases, the allowances for losses on loans and advances recognized by banks were markedly lower than in the corresponding period of 2013. Administrative expenses rose moderately.

## 3. FINANCIAL PERFORMANCE

### 3.1. FINANCIAL PERFORMANCE AT A GLANCE

The DZ BANK Group successfully overcame the tough market conditions and the many challenges facing its business in the first half of 2014.

The year-on-year changes in the key figures that make up the net profit or loss generated by the DZ BANK Group compared with the first half of 2013 were as described below.

**Operating income** in the DZ BANK Group amounted to €3,222 million (first half of 2013: €3,010 million). This figure includes net interest income, net fee and commission income, gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments, net income from insurance business, and other net operating income.

**Operating profit**, i.e. the difference between operating income and administrative expenses, rose by €175 million to €1,766 million (first half of 2013: €1,591 million).

**Net interest income** (including income from long-term equity investments) in the DZ BANK Group decreased by 4.6 percent year on year to €1,499 million (first half of 2013: €1,571 million).

In the Bank operating segment, net interest income rose by €1 million at DZ BANK (excluding income from long-term equity investments), but declined by €15 million in the subgroup DVB BANK SE, Frankfurt am Main, (DVB) and by €24 million in the VR LEASING subgroup (VR LEASING). In the Retail operating segment, net interest income increased by €9 million at TeamBank AG Nürnberg, Nuremberg, (TeamBank), but in contrast decreased by €11 million at DZ PRIVATBANK – comprising the parent company DZ PRIVATBANK S.A., Luxembourg-Strassen, (DZ PRIVATBANK S.A.) and its consolidated subsidiaries. In the Real Estate Finance operating segment, net interest income was down by €9 million at Deutsche Genossenschafts-Hypothekenbank AG, Hamburg, (DG HYP) and by €18 million in the subgroup Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, (BSH).

The DZ BANK Group's income from long-term equity investments came to €38 million, which was €28 million below the income of €66 million reported for the comparable period of 2013. This change was mainly due to the fact that DZ BANK Group's income from long-term equity investments in the period under review no longer included income from the long-term equity investment in 'DG BANK-Turm Frankfurt am Main, Westend' mbH & Co. KG, Frankfurt am Main, (first half of 2013: €18 million) because this company has been included in the DZ BANK Group's scope of consolidation since the start of the year. An amount of €12 million within the decrease in the group's income from long-term equity investments was explained by the year-on-year fall in the share of profit from Deutsche WertpapierService Bank AG, Frankfurt am Main, which is accounted for using the equity method.

**Allowances for losses on loans and advances** amounted to €66 million (first half of 2013: €248 million).

The net addition to specific loan loss allowances for the group amounted to €77 million (first half of 2013: €261 million), contrasting with a net reversal of €16 million in portfolio loan loss allowances (first half of 2013: €14 million).

Further detailed disclosures regarding the risk situation in the DZ BANK Group can be found in this interim group management report in V. Opportunity and risk report.

**Net fee and commission income** in the DZ BANK Group increased by 40.4 percent to €699 million (first half of 2013: €498 million).

In the Bank operating segment, net fee and commission income declined by €9 million at DZ BANK and by €5 million in the DVB subgroup. However, in the Retail operating segment, this figure was up by €88 million in the Union Investment Group and by €11 million at DZ PRIVATBANK, but down by €1 million at TeamBank. In the Real Estate Finance operating segment, net fee and commission income improved by €114 million in the BSH subgroup.

The DZ BANK Group's **gains and losses on trading activities** in the first half of 2014 came to a net gain of €242 million compared with a net gain of €154 million for the corresponding prior-year period.

This was largely attributable to the gains and losses on trading activities at DZ BANK amounting to a net gain of €230 million (first half of 2013: €127 million).

**Gains and losses on investments** in the DZ BANK Group improved, amounting to a gain of €140 million (first half of 2013: loss of €71 million).

In the 6 months under review, there was a gain totaling €39 million from disposals of asset-backed securities (ABSs) and mortgage-backed securities (MBSs) that had been impaired in earlier periods.

In the first half of 2013, however, there had been losses on disposals and impairment losses totaling €53 million in connection with ABSs and MBSs.

**Other gains and losses on valuation of financial instruments** in the DZ BANK Group amounted to a gain of €275 million in the reporting period (first half of 2013: gain of €738 million).

Of the figure reported for the group, a gain of €242 million was accounted for by DG HYP in the Real Estate Finance operating segment (first half of 2013: gain of €700 million).

The DZ BANK Group's **net income from insurance business** comprises premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance benefit payments, and insurance business operating expenses. This income rose by €308 million to €390 million (first half of 2013: €82 million).

The increase in income resulted both from higher premium income and from the improvement in gains and losses on investments held by insurance companies. Moreover, claims expenses stabilized during the reporting period, whereas non-life insurance had been adversely affected by a series of claims for natural catastrophes in the first half of 2013.

FIG. 1 – INCOME STATEMENT

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 | Change (%) |
|---|---|---|---|
| **Net interest income** | **1,499** | 1,571 | -4.6 |
| **Allowances for losses on loans and advances** | **-66** | -248 | -73.4 |
| **Net fee and commission income** | **699** | 498 | 40.4 |
| **Gains and losses on trading activities** | **242** | 154 | 57.1 |
| **Gains and losses on investments** | **140** | -71 | > 100.0 |
| **Other gains and losses on valuation of financial instruments** | **275** | 738 | -62.7 |
| **Net income from insurance business** | **390** | 82 | > 100.0 |
| **Administrative expenses** | **-1,456** | -1,419 | 2.6 |
| Staff expenses | -769 | -753 | 2.1 |
| Other administrative expenses[1] | -687 | -666 | 3.2 |
| **Other net operating income** | **-23** | 38 | > 100.0 |
| Profit before taxes | 1,700 | 1,343 | 26.6 |
| **Income taxes** | **-417** | -426 | -2.1 |
| **Net profit** | **1,283** | 917 | 39.9 |

1 General and administrative expenses plus depreciation/amortization on property, plant and equipment, and investment property, and on other assets.

**Administrative expenses** in the DZ BANK Group rose by 2.6 percent year on year to €1,456 million (first half of 2013: €1,419 million), including an increase in staff expenses of €16 million (2.1 percent) to €769 million (first half of 2013: €753 million) and an increase in other administrative expenses of €21 million (3.2 percent) to €687 million (first half of 2013: €666 million).

The DZ BANK Group's **other net operating income** amounted to a net expense of €23 million (first half of 2013: net income of €38 million).

The net expense of €23 million for the first half of the year included an expense relating to the recognition of a provision by DZ BANK for the expected write-down of €30 million at DZ Beteiligungsgesellschaft mbH Nr. 11, Frankfurt am Main, in

FIG. 2 – SEGMENT INFORMATION

**Information on operating segments for the period January 1 to June 30, 2014**

| € million | Bank | Retail | Real Estate Finance | Insurance | Consoli-dation/ reconciliation | **Total** |
|---|---|---|---|---|---|---|
| Net interest income | 763 | 341 | 621 | – | -226 | 1,499 |
| Allowances for losses on loans and advances | -32 | -47 | 13 | – | – | -66 |
| Net fee and commission income | 222 | 563 | -24 | – | -62 | 699 |
| Gains and losses on trading activities | 241 | 5 | -3 | – | -1 | 242 |
| Gains and losses on investments | 131 | 1 | 9 | – | -1 | 140 |
| Other gains and losses on valuation of financial instruments | 7 | 16 | 242 | – | 10 | 275 |
| Premiums earned | – | – | – | 7,101 | – | 7,101 |
| Gains and losses on investments held by insurance companies and other insurance company gains and losses | – | – | – | 2,089 | -32 | 2,057 |
| Insurance benefit payments | – | – | – | -7,667 | – | -7,667 |
| Insurance business operating expenses | – | – | – | -1,172 | 71 | -1,101 |
| Administrative expenses | -679 | -487 | -295 | – | 5 | -1,456 |
| Other net operating income | -34 | 4 | 24 | -4 | -13 | -23 |
| **Profit before taxes** | **619** | **396** | **587** | **347** | **-249** | **1,700** |
| Cost/income ratio (%) | 51.1 | 52.4 | 33.9 | – | – | 45.2 |

**Information on operating segments for the period January 1 to June 30, 2013**

| € million | Bank | Retail | Real Estate Finance | Insurance | Consoli-dation/ reconciliation | **Total** |
|---|---|---|---|---|---|---|
| Net interest income | 817 | 344 | 647 | – | -237 | 1,571 |
| Allowances for losses on loans and advances | -177 | -52 | -19 | – | – | -248 |
| Net fee and commission income | 235 | 466 | -149 | – | -54 | 498 |
| Gains and losses on trading activities | 143 | 9 | 2 | – | – | 154 |
| Gains and losses on investments | -33 | -3 | -32 | – | -3 | -71 |
| Other gains and losses on valuation of financial instruments | 27 | 10 | 699 | – | 2 | 738 |
| Premiums earned | – | – | – | 6,351 | – | 6,351 |
| Gains and losses on investments held by insurance companies and other insurance company gains and losses | – | – | – | 1,261 | -32 | 1,229 |
| Insurance benefit payments | – | – | – | -6,461 | – | -6,461 |
| Insurance business operating expenses | – | – | – | -1,101 | 64 | -1,037 |
| Administrative expenses | -690 | -452 | -282 | – | 5 | -1,419 |
| Other net operating income | 7 | 8 | 28 | 7 | -12 | 38 |
| **Profit before taxes** | **329** | **330** | **894** | **57** | **-267** | **1,343** |
| Cost/income ratio (%) | 57.7 | 54.2 | 23.6 | – | – | 47.1 |

relation to legal disputes and the threat of mandatory conversion of customer loans denominated in Swiss francs in connection with Volksbank Romania, Bucharest. In addition, DZ BANK incurred restructuring costs of €8 million in connection with the closure of the branch in Poland, which was decided upon in the first half of 2014. Other net operating income also included provisions recognized by VR-LEASING AG, Eschborn, (VR-LEASING AG) for the repayment of margins at Lombard Lizing, Hungary.

The **cost/income ratio** for the DZ BANK Group was 45.2 percent in the first half of 2014 (first half of 2013: 47.1 percent).

**Profit before taxes** for the first 6 months of the year amounted to €1,700 million compared with €1,343 million in the first half of 2013.

The DZ BANK Group's **income taxes** in the first half of the year amounted to €417 million compared with a figure of €426 million for the first half of 2013. This included a deferred tax expense amounting to €103 million (first half of 2013: deferred tax expense of €204 million) and a current tax expense of €314 million (first half of 2013: current tax expense of €222 million).

**Net profit** for the first half of 2014 amounted to €1,283 million compared with €917 million in the first half of 2013.

## 3.2. FINANCIAL PERFORMANCE IN DETAIL

Fig. 2 shows the details of the financial performance of the DZ BANK Group's operating segments in the first half of this year compared with the corresponding period of 2013.

### 3.2.1. Bank operating segment

In the Bank operating segment, **net interest income** declined by 6.6 percent to €763 million (first half of 2013: €817 million).

DZ BANK's net interest income (excluding income from long-term equity investments) rose by 0.4 percent to €265 million (first half of 2013: €264 million).

With the net interest margin contribution in corporate banking down by €6 million to €140 million compared with the first half of 2013, net interest income from group finance fell by €12 million to €57 million. Net interest income from securities in the investment portfolio decreased by €6 million to €47 million as a result of market conditions. Money market business generated net interest income of €21 million, a year-on-year reduction of €17 million that was due to normalization of interest rates at the short end of the yield curve. By contrast, net interest income from hedges in lending and capital markets business was up by €32 million.

Since October 1, 2013, the Corporate Banking business line has comprised four regional corporate customer divisions and the Structured Finance division. Corporate banking is focused on supporting German companies plus foreign companies with links to Germany. These corporate customers are looked after jointly by DZ BANK and the local cooperative banks or directly by DZ BANK, depending on their size, and have access to a comprehensive range of products and services.

The year-on-year change in net operating interest income in this business line compared with the first half of 2013 can be broken down as follows:

Overall, net operating interest income in the Corporate Banking business line came to €140.3 million, which was 4.1 percent down on the figure for the first half of 2013 of €146.2 million.

This change was attributable to growing competition in corporate banking and, above all, to the level of demand for corporate loans, which remained very muted. Against the backdrop of the stable domestic economy and the eurozone's emergence from recession since the second quarter of 2013, there was a substantial increase in capital expenditure in Germany during the first half of 2014. However, this increase did not lead to an upturn in demand for loans. Many companies are still able to finance their capital expenditure from their own resources thanks to their good financial performance and high levels of liquidity.

In the development loans/agriculture product field, net operating interest income amounted to €25.5 million, which was 3.1 percent higher than in the corresponding prior-year period (first half of 2013: €24.7 million).

Following a modest start to the reporting period, the total volume of new development lending business just fell short of the level set in the first 6 months of 2013. Besides rather subdued demand for loans, there was also a negative impact from the scaling back of subsidies in development lending segments, such as energy efficiency and business start-ups. Business in the agriculture sector continued to grow.

In the syndicated business/renewable energies product field, net operating interest income climbed by 6.6 percent to €8.3 million (first half of 2013: €7.8 million). Despite uncertainties arising from the imminent amendment to the German Renewable Energy Sources Act (EEG), there was growth in the renewable energies business, particularly the funding of wind turbines, during the reporting period.

Debt finance to support the acquisition of large and medium-sized companies, primarily in the German-speaking countries, was arranged and structured in the acquisition finance business. Large numbers of customers have made use of the high degree of liquidity in lending and bond markets to fund their loans. Redemptions in combination with a selective approach to the granting of new loans led to a reduction in the size of the portfolio, as a result of which net operating interest income declined year on year by 5.4 percent to €15.0 million (first half of 2013: €15.8 million).

The emphasis in the international trade and export finance business was very much on providing support for both SMEs and large corporate customers in Germany. Net operating interest income advanced from €15.1 million in the first half of 2013 to €15.8 million in the reporting period, an increase of 4.6 percent.

Growth in project finance business during the period under review was encouraging overall, with net operating interest income increasing by 7.1 percent to €10.9 million (first half of 2013: €10.1 million).

Net interest income in the VR LEASING subgroup came to €95 million, which was down by 20.2 percent on the €119 million reported for the first half of 2013.

Net operating interest income (excluding income from long-term equity investments) in Germany declined by €12 million to €80 million (first half of 2013: €92 million), predominantly due to the scaling back of the portfolio of loans and advances in non-core business. In international business, it decreased by €11 million to €8 million (first half of 2013: €19 million). Income from long-term equity investments reduced by €1 million year on year to €7 million.

This net interest income trend reflected the entity's ongoing strategic repositioning efforts in the 6 months under review. VR LEASING has positioned itself within the cooperative banking sector as a service provider for finance solutions focusing on leasing, factoring, centralized settlement, and innovative products aimed at regionally oriented SMEs in Germany.

VR LEASING continued to act as a partner to its SME customers during the reporting period, supporting them with specific advisory campaigns and individual finance products geared to their target industries.

Reflecting the much brighter business climate in Germany and an increase in companies' investing activities, the volume of leases originated by VR LEASING in the first few months of 2014 rose considerably – in line with the trend in the leasing sector as a whole. However, willingness to invest varied significantly from sector to sector at the end of the reporting period. Whereas export-oriented companies were more skeptical about their business prospects in view of the situation in international trouble spots, there was an improvement in the business climate in the retail and construction industries (which have a stronger focus on domestic business) because consumer demand was stable in Germany.

Net interest income in the DVB subgroup fell by 12.3 percent to €107 million (first half of 2013: €122 million), largely due to lower current income from operating leases, which decreased by €20 million to €25 million (first half of 2013: €45 million).

During the period under review, global freight and passenger transport in all areas of the transport sector was influenced by a gradual improvement in economic growth in the eurozone, moderate economic growth in emerging markets, generally muted economic recovery in the United States on the back of the extreme winter conditions at the start of the year and, not least, the negative impact of the Ukrainian crisis.

Given this challenging economic environment and surplus transportation capacity, particularly in some segments of the shipping market, the DVB subgroup intensified the focus of its activities on stable and sustainable new business and on systematic risk management.

Using a highly diversified credit portfolio (based on a number of criteria, including mode of transport, region, and user), the DVB subgroup concluded 78 deals in transport finance business in the first half of 2014 (first half of 2013: 71 deals) with a new business volume of €2.2 billion (first half of 2013: €1.8 billion).

Of the total **allowances for losses on loans and advances** in the Bank operating segment amounting to €32 million (first half of 2013: €177 million), a reversal of €21 million (first half of 2013: addition of €71 million) was attributable to DZ BANK, €28 million (first half of 2013: €28 million) to the DVB subgroup, €12 million (first half of 2013: €35 million) to VR LEASING, and €12 million (first half of 2013: €0 million) to DZ BANK Ireland plc, Dublin, (DZ BANK Ireland).

At DZ BANK, there was a net reversal of €21 million (first half of 2013: net addition of €35 million) in specific loan loss allowances and a net reversal of €4 million (first half of 2013: net addition of €34 million) in portfolio loan loss allowances. In the DVB subgroup, allowances for losses on loans and advances in both the reporting period and the first half of 2013 amounted to €28 million, most of which related to the maritime shipping business segment. VR LEASING's allowances for losses on loans and advances contracted significantly, reducing by €7 million to €15 million (first half of 2013: €22 million) in Germany and improving by €16 million outside Germany (first half of 2014: reversal of €3 million; first half of 2013: addition of €13 million), largely in connection with the Hungarian subsidiary Lombard Lizing. At DZ BANK Ireland, the allowances for losses on loans and advances reported for the first half of the year of €12 million related to the recognition of default risk in respect of the exposure Hypo Alpe-Adria-Bank International AG, Klagenfurt.

In the Bank operating segment, **net fee and commission income** declined by 5.5 percent to €222 million (first half of 2013: €235 million).

**Net fee and commission income** at DZ BANK came to €131 million, which was 6.4 percent below the figure reported for the first half of 2013 of €140 million.

There were year-on-year decreases in the income generated by the securities business and by lending and trust activities. By contrast, the income attributable to payments processing including card processing rose slightly. Income from international business was almost at the same level as reported for the first half of 2013.

The restructured Corporate Banking business line saw its net fee and commission income fall by 4.2 percent to €68.5 million in the first half of 2014 (first half of 2013: €72.5 million).

In the syndicated business/renewable energies product field, net fee and commission income declined from €3.4 million in the first half of 2013 to €2.3 million in the reporting period. This reduction of 31.1 percent was attributable to the decrease in syndicated business.

In the acquisition finance business, the reporting period saw substantially greater competition from banks outside Germany and debt funds, among others. Net fee and commission income in the acquisition finance business went down by 17.4 percent to €10.0 million (first half of 2013: €12.0 million).

Net fee and commission income from international trade and export finance grew at a very encouraging rate in the first half of 2014 due to the expansion of business activities. It climbed by 30.3 percent to €6.4 million (first half of 2013: €4.9 million).

For about 3 years, the number of transactions in the international documentary business (letters of credit, guarantees, collections) has been falling. As a consequence, the net fee and commission income of €5.3 million in the first half of 2014 was down by 12.5 percent on the corresponding figure for the first half of 2013 of €6.0 million.

Net fee and commission income from project finance business decreased by 24.8 percent to €4.0 million as a result of the very subdued market environment (first half of 2013: €5.3 million).

The asset securitization product field comprises structured investments and receivables financing for defined asset types. Net fee and commission income came to €15.6 million in the first half of 2014. This was 18.6 percent below the figure reported for the first half of the previous year of €19.1 million, which had been influenced by the excellent performance of this business.

In the period under review, the comprehensive range of shares and advice available in relation to equity products again proved popular with customers of the primary banks and direct customers of DZ BANK, and they drew on these services frequently. DZ BANK again succeeded in maintaining its position against German and international competitors, despite the fiercely contested market. The primary banks and direct customers appreciate the cooperation with DZ BANK, which provides them with security when acting on their equity needs.

In the DVB subgroup, net fee and commission income came to €51 million, compared with €56 million in the first half of the previous year.

The main components of this net fee and commission income were as follows: €29 million (first half of 2013: €31 million) from new transport finance business, €11 million (first half of 2013: €13 million) from the ongoing lending business, €3 million (first half of 2013: €3 million) from asset management business, and €9 million (first half of 2013: €10 million) from consulting.

Within the transport finance business in the DVB subgroup, the core areas of lending – shipping, aviation, offshore finance, and land transport – in the first half of the year were affected by still muted global growth and the associated impact on international freight and passenger transport markets.

In the Bank operating segment, **gains and losses on trading activities** increased to a gain of €241 million, up by 68.5 percent on the gain of €143 million in the first half of 2013. This figure was predominantly influenced by the gains and losses on trading activities at DZ BANK.

DZ BANK's gains and losses on trading activities in the period under review came to a net gain of €230 million compared with a figure of €127 million for the prior-year period.

Gains and losses on trading activities had been adversely impacted in the first half of 2013 by increases of €77 million in the carrying amounts of DZ BANK's liabilities recognized at fair value as a result of the narrowing of spreads. This was partly offset in the period under review by a gain of €4 million attributable to a decrease in the fair values of liabilities as a result of the widening of spreads.

Further factors influencing the gains and losses on trading activities at DZ BANK in the reporting period included interest-rate-related changes in the value of cross-currency basis swaps amounting to a loss of €4 million (first half of 2013: loss of €28 million).

DZ BANK's gains for the reporting period were also boosted by the balance of unrealized and realized gains and losses relating to ABSs, which amounted to a gain of €14 million (first half of 2013: gain of €37 million).

As in previous years, the gains and losses on trading activities at DZ BANK in the reporting period stemmed mainly from customer-related business in investment and risk management products involving the asset classes of interest rates, equities, loans, foreign exchange, and commodities. In each case, the focus is on the needs of the cooperative banks and the specialized service providers in the DZ BANK Group as well as on those of their retail and corporate customers. The range of products and services is also aligned with the requirements of direct corporate customers as well as national and international institutional clients.

The factors that defined the capital markets in the first half of 2014 were the ECB's monetary policies in response to high levels of borrowing in various European countries, interest rates at yet another record low, the bull market for equities, and the simultaneous and persistent investor uncertainty.

The priority for retail investors continued to be security and capital protection for their investments. Against this background, DZ BANK managed to further expand its share of the investment certificates market – which was in decline overall – thanks to close collaboration with the local cooperative banks in retail banking. The bank achieved a significant increase in the market share of its core product in this area, capital preservation investment certificates, from 53.5 percent as at December 31, 2013 to 57.6 percent at the end of May 2014. In addition, DZ BANK continued to step up its activities in relation to selling exchange-traded derivative securities products and, in June 2014, secured a top-3 position in this business area in Germany.

DZ BANK's new online brokerage applications VR-ProfiBroker (available throughout Germany since June 2014) and VR ProfiTrader (available in areas where Fiducia AG trades) provide the primary banks with cutting-edge e-brokerage platforms that offer independent retail investors comprehensive market data, real-time push prices, and a broad range of stock market expertise from a single source. These applications, which are fully integrated with bank processes, enable the local cooperative banks to operate successfully and position themselves in the highly attractive segment of investors who conduct transactions online.

In order to stabilize their financial performance, the cooperative banks acquired investments with residual maturities of more than 5 years and credit-linked products, particularly corporate bonds and simply structured credit products, as part of their own-account investing activities. At the same time, they aimed for broad diversification in their securities portfolios.

In securities business with corporate customers, major investors continued to be interested in commercial paper issues for their short-term investments, otherwise in corporate bonds. During the reporting period, there was no let-up in demand from the cooperative banks' corporate customers for tailored interest-rate hedging solutions in relation to project finance for renewable energies. By contrast, persistently low volatility in the currency markets led to below-average revenue.

In the capital markets business with institutional customers, investor demand was focused on products with risk premiums. Among other securities, demand rose for corporate and bank bonds. As far as derivative equity products were concerned, the first half of 2014 was dominated by the sustained low level of volatility and high share prices. The associated reluctance to invest was largely offset by signing up new customers and diversifying product usage.

The competition for investment briefs for new bond issues heated up again across the sector in the period under review. In the core asset classes in which DZ BANK positions itself, this trend was mostly attributable to the ongoing decline in the volume to be financed for finance issuers and German industrial customers. Nevertheless, DZ BANK was able to maintain earnings from primary bond markets business at the same level as in the first half of 2013. This was primarily due to its involvement in individual big-ticket transactions.

**Gains and losses on investments** in the Bank operating segment improved, amounting to a gain of €131 million (first half of 2013: loss of €33 million).

The figure for DZ BANK in the reporting period included a gain of €80 million from the disposal of Natixis shares, which had been classified as available-for-sale financial assets.

There was also a gain of €34 million in the Bank operating segment from disposals of ABSs that had been impaired in previous periods. By contrast, the figure for the first half of last year had included losses on disposals (that had been made to optimize capital) and impairment losses totaling €19 million in connection with ABSs in the Bank operating segment.

In addition, the Bank operating segment's gains and losses on investments included a gain of €12 million resulting from the reversal of an impairment loss on the 50 percent stake, accounted for using the equity method, held by VR-LEASING AG in VB-Leasing International Holding GmbH, Vienna, (VBLI) owing to the latest fair value measurement carried out by VR-LEASING AG. The corresponding loss reported in the first half of 2013 included an impairment loss of €8 million recognized by VR-LEASING AG on this long-term equity investment.

**Administrative expenses** in the Bank operating segment declined slightly, falling by €11 million to €679 million (first half of 2013: €690 million).

Administrative expenses at VR LEASING decreased by a total of €7 million to €86 million on the back of lower consultancy costs and a reduction in the workforce outside Germany. The increase of €6 million in administrative expenses in the DVB subgroup to €92 million was largely the consequence of the rise in fees and contributions, which increased by €3 million in the period under review. In the first half of 2013, these had included a one-off reimbursement of €3 million from the guarantee fund of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks]. At DZ BANK, administrative expenses were virtually unchanged year on year at €458 million.

**Profit before taxes** in the Bank operating segment climbed by €290 million in the reporting period to €619 million (first half of 2013: €329 million).

This increase was largely attributable to a year-on-year rise in the profit before taxes at DZ BANK of €261 million to €524 million (first half of 2013: €263 million), which in turn resulted from a marked improvement in allowances for losses on loans and advances (net reversal of €92 million) as well as a significant improvement in gains and losses on trading activities (up by €103 million) and in gains and losses on investments (up by €114 million). Owing to difficult economic conditions in the transport finance business, profit before taxes in the DVB subgroup declined to €34 million, down by €21 million compared with the figure of €55 million reported for the first half of 2013. In the VR LEASING subgroup, profit before taxes amounted to €11 million, which was slightly lower than the €13 million reported for the corresponding period of last year.

### 3.2.2. Retail operating segment

In the Retail operating segment, **net interest income** declined slightly, falling by 0.9 percent to €341 million (first half of 2013: €344 million).

The net interest income generated by TeamBank jumped by 3.6 percent to €258 million in the first half of 2014.

Despite the economy gathering momentum in Germany, the market for consumer finance remained static in the period under review. Moreover, TeamBank continued to be faced with predatory pricing and cut-throat competition during the reporting period.

TeamBank, the leading consumer finance specialist in Germany, was able to overcome these obstacles and in the first half of the year generate exceptional growth in the volume of its easyCredit business (at nominal values) to €6,791 million (December 31, 2013: €6,566 million), an increase of 3.4 percent.

Fairness, a core cooperative value and the essence of TeamBank's brand, remained at the center of market strategy in the first 6 months of the year. The fact that TeamBank was the first company to be awarded the Fairness in Consumer Finance seal of approval is proof positive of the quality of this unique selling proposition of easyCredit.

TeamBank now has a fair, collaborative partnership with 81 percent of all local cooperative banks in Germany and has increased its number of partner banks in Austria to 73 cooperative banks, yet another indicator of the sustainability of this tried-and-tested business model.

In the first 6 months of 2014, TeamBank focused on further extending its market penetration and, by June 30, 2014, had increased its total customer base to 630,000 (December 31, 2013: 621,000 customers). During the same period, it continued to expand its online presence and introduced an online transaction form that is compatible with any end device.

The innovative advisory platform known as 'easyCredit-Liquiditätsberater' enables customers to tailor the scope of borrowing to their exact individual needs. In addition, the 'easyCredit-Liquiditätsberater' promotes the cooperative idea by offering customers attractive member benefits. More than 68,100 members benefited from advice in the first half of 2014, and this included around 15,700 new members for the cooperative financial network.

Net interest income at DZ PRIVATBANK fell by 12.2 percent to €79 million.

DZ PRIVATBANK acts as the competence center for foreign-currency lending and borrowing in the interest-earning business. In LuxCredit foreign-currency lending, the volume of loans guaranteed for the local cooperative banks' clients amounted to €5.8 billion as at June 30, 2014. This year-on-year reduction led to a decline in net interest income.

The main reasons behind this decline were the low level of interest rates and the implementation of a risk-conscious investment strategy. Net interest income in the first half of 2014 no longer included dividends paid by IPConcept (Luxemburg) S.A., Luxembourg-Strassen, and Europäische Genossenschaftsbank S.A., Luxembourg-Strassen, which had been recognized in an amount of €3 million in the first half of 2013, because these companies have been consolidated for the purposes of commercial law since the start of 2014. The companies DZ PRIVATBANK Singapore Ltd., Singapore, and IPConcept (Schweiz) AG, Zurich, have also been consolidated since January 1, 2014.

**Allowances for losses on loans and advances** in the Retail operating segment amounted to €47 million (first half of 2013: €52 million). As had been the case in the first half of 2013, these allowances were entirely attributable to TeamBank.

The €5 million reduction in the net addition required compared with the first half of 2013 was the result of adjustments to payment reminder levels in May 2014. In consequence, there was a year-on-year decrease in the amount added to allowances for losses on loans and advances, not only for May 2014 but also for the entire reporting period January to June 2014.

**Net fee and commission income** in the Retail operating segment amounted to €563 million, up by 20.8 percent year on year (first half of 2013: €466 million).

Net fee and commission income in the Union Investment Group rose by 18.8 percent to €556 million.

The average volume of assets under management went up markedly in the reporting period, climbing by €15.8 billion to €212.2 billion. This exceptional increase was attributable to the net new business generated and the good performance of both the market and the group during the first half of 2014. The contribution generated with the average assets under management in the reporting period accounted for approximately 70 percent of the net fee and commission income.

In the first half of 2014, the recovery of the eurozone's economy continued, although it remained muted overall. At the same time, international equity and bond markets received a boost from the decision made by central banks to maintain their expansionary monetary policy and from a further reduction in interest rates compared with the first 6 months of the previous year.

Against this economic backdrop, Union Investment again achieved substantial inflows from retail clients (net inflows of €2.3 billion) and from institutional investors (net inflows of €4.5 billion).

Supported by the broad-based sales network of the local cooperative banks, Union Investment was one of the most successful players in the retail client business during the reporting period. This reflects its long-standing strategy of focusing strictly on customers' main needs in its product range.

Given the very low level of interest rates at the moment, the three UniImmo real-estate funds are playing an important role. UniImmo: Deutschland, UniImmo: Europa, and UniImmo: Global together achieved net inflows of €0.9 billion in the first 6 months of 2014 with an attractive ratio of risks and returns in the retail client business.

Demand for multi-asset products remained high in the reporting period, impressively demonstrating that the efforts made by Union Investment to inject more balance into retail investors' portfolios are proving popular. The six variants in the range of private-client fund products together attracted €2.0 billion of new money during the first half of 2014 based on their tried-and-tested combination of active asset allocation and risk elements.

There was also increased demand for fund-linked savings plans, the number of which had risen by 7.0 percent to 930,765 at the end of June 2014. The high customer approval levels for this type of investment underline private clients' distinct interest in placing a controlled amount of money in higher-yielding investments, such as equity funds or mixed funds, with the aim of developing a diversified strategy for capital growth.

A cornerstone of long-term private capital preservation and a guarantee for a dependable retirement pension, the Riester products attracted a net investment of €0.6 billion in the first half of 2014. Union Investment maintained its market leadership with the fund-based UniProfiRente, which had a portfolio volume of €10.7 billion as at June 30, 2014.

Given the persistently low interest rates in the reporting period, which had declined even further year on year, institutional investors opted for risk management strategies and diversified their portfolios in order to achieve adequate returns, even in this difficult market environment.

The main area of demand for institutional investors was spread products such as corporate bonds, but they also showed renewed interest in bonds from emerging markets. As far as corporate bonds were concerned, the trend was toward bonds with a lower credit rating and those with a short or long duration. Equity products were also sold. In the equities asset class, demand was mainly focused on strategies with an investment approach aimed at optimizing volatility. Besides the forms of investment mentioned above, there was also demand for convertible bonds and real estate.

Sustainability is an issue that continues to gain in importance. Sustainable assets under management have now grown to more than €7.2 billion, making Union Investment a leading sustainability asset manager in Germany.

Net fee and commission income at DZ PRIVATBANK rose by 25.6 percent to €54 million (first half of 2013: €43 million).

The reasons for this were an increase of €7 million as a result of the consolidation of additional entities from January 1, 2014 and, above all, an increase of €5 million in net fee and commission income resulting from growth in the volume of fund services business.

Collaboration with the partner banks as part of the enhanced market presence in the cooperative private banking business was intensified in the first half of 2014. At the end of the period under review, the funds managed on behalf of high-net-worth individuals totaled €13.7 billion (December 31, 2013: €13.5 billion) despite outflows in connection with regulatory requirements.

DZ PRIVATBANK also expanded its business in services for investment funds in the reporting period. The value of funds under management had grown to €80.6 billion as at June 30, 2014, €3.8 billion more than at December 31, 2013. The number of fund-related mandates as at June 30, 2014 had risen to 591 (December 31, 2013: 580).

**Other gains and losses on valuation of financial instruments** in the Retail operating segment advanced by €6 million to a gain of €16 million (first half of 2013: €10 million).

The corresponding amount in the UMH subgroup climbed by €14 million to a gain of €13 million (first half of 2013: loss of €1 million) due to the higher measurement at fair value of the own-account investments of Union Investment in view of more encouraging trends in the capital markets. By contrast, other gains and losses on valuation of financial instruments reported by DZ PRIVATBANK fell by €7 million to a gain of €4 million (first half of 2013: gain of €11 million). This decrease was primarily attributable to the €4 million reduction in measurement gains on cross-currency swaps to just €2 million.

**Administrative expenses** in the Retail operating segment rose by €35 million to €487 million (first half of 2013: €452 million).

In the UMH subgroup, staff expenses went up by €6 million to €146 million, mainly due to salary adjustments and the filling of vacancies. Other administrative expenses climbed by €16 million to €146 million. This increase mainly related to IT, consultancy, and public relations/marketing. At DZ PRIVATBANK, administrative expenses advanced by €10 million to €104 million, mainly as a result of the first-time consolidation of entities. TeamBank's administrative expenses grew by €3 million to €91 million.

**Profit before taxes** in the Retail operating segment rose substantially, increasing by €66 million to €396 million (first half of 2013: €330 million).

This increase was attributable in particular to a rise in the profit before taxes in the UMH subgroup, which was up by €77 million to €288 million as both the market and the subgroup itself performed well. In addition, a fall in profit before taxes at DZ PRIVATBANK of €19 million to €36 million was offset by an increase at TeamBank of €9 million to €73 million. The latter was mainly due to expansion of the easyCredit consumer finance business.

### 3.2.3. Real Estate Finance operating segment

**Net interest income** in the Real Estate Finance operating segment decreased by 4.0 percent to €621 million (first half of 2013: €647 million).

In the BSH subgroup, net interest income declined by 3.7 percent to €469 million (first half of 2013: €487 million).

Moreover, the renewed fall in the investment interest rate was not entirely offset by the overall increase in the volume of the portfolio resulting from the high level of new business over the past few years. An amount of €4 million within the decrease in net interest income was explained by the year-on-year fall in the share of profit from companies accounted for using the equity method compared with the first 6 months of 2013.

Net interest income for the reporting period was boosted by a small increase in interest income from a higher level of available funds despite the lower interest rates and by a reduction in interest cost resulting from lower interest rates and a slight decline in liabilities. Interest income in the non-collective home finance business rose owing to the larger portfolio of advance and interim financing loans. In the home savings loans business, a smaller portfolio and a drop in average interest rates led to a fall in interest income.

The volume of home savings deposits grew by €1.7 billion to €46.6 billion in the first half of 2014, resulting in a higher interest cost. This impressive volume reflects the strong appeal of home savings. Home savings contracts are a crisis-proof form of finance that not only offer customers maximum reliability, but also enable them to estimate how much capital they will accumulate thanks to a fixed-interest-rate home savings loan.

In the period under review, the sustained market success of the innovative Schwäbisch Hall rates and charges once again confirmed BSH as the market leader in building society operations.

Net interest income at DG HYP of €151 million was down by 5.6 percent compared with the figure of €160 million for the first half of 2013.

This decline was predominantly due to net interest income for the prior-year period being boosted by an extraordinary item of interest collected of €7.3 million in connection with the redemption of a corporate bond guaranteed by an EU country with a nominal volume of €240 million that had been partly impaired. At the same time, the net interest income for the 6 months under review included a loss of €6.2 million resulting from one-off items relating to the repurchase of own issues.

During the reporting period, DG HYP was again able to benefit from the favorable market environment in its business activities. The strong appeal of commercial real estate finance is primarily explained by the stable business and political conditions in Germany coupled with a marked economic recovery and a positive outlook for the economy.

Another factor in the encouraging trend in the German real estate markets are the historically low interest rates.

Over the past few years, a concentration of investor demand on real estate in the seven top locations has been observed and this is leading to an increasing shortage of available properties. As a consequence, investors' interest in provincial locations continued to grow in the first half of the year. Against this background, DG HYP's close cooperation on commercial real estate finance with the regionally oriented local cooperative banks puts it in an impressive market position.

In the first 6 months of 2014, DG HYP – one of Germany's leading providers of commercial real-estate finance – generated new business with a volume of €2,128 million (first half of 2013: €1,746 million) despite heightened competition. This equates to an increase of 21.9 percent. Reflecting the corporate strategy, by far the largest proportion of this amount was accounted for by the core German market, which had a new business volume of €2,053 million (first half of 2013: €1,733 million).

DG HYP continued its close and successful collaboration with the local cooperative banks in the reporting period. The volume of new business generated through this partnership came to €932 million (first half of 2013: €1,078 million). Although this was still a high level, it was slightly lower than in the comparative period of the previous year due to the cut-off at the reporting date.

In the interests of the cooperative financial network, DG HYP also assists the local cooperative banks with public-sector funding inquiries. Taking account of borrowers' credit ratings, DG HYP prepares finance offers that the relevant local cooperative banks then present to local authorities. DG HYP had extended local authority loans with a total volume of €157 million as at June 30, 2014 (June 30, 2013: €180 million).

**Allowances for losses on loans and advances** in the Real Estate Finance operating segment amounted to a net reversal of €13 million (first half of 2013: net addition of €19 million) and were predominantly attributable to a net reversal of allowances for losses on loans and advances at DG HYP of €22 million (first half of 2013: net addition of €19 million).

**Net fee and commission income** in the Real Estate Finance operating segment amounted to a net expense of €24 million, representing an 83.9 percent improvement (first half of 2013: net expense of €149 million).

In the BSH subgroup, net fee and commission income improved by 71.7 percent to a net expense of €45 million (first half of 2013: net expense of €159 million).

BSH pays fees and commissions to the cooperative banks and to the integrated, bank-supported field sales force on the basis of BSH contracts signed with customers. The decline in the volume of new business and a change in the way that accruals are recognized for fees and commissions boosted net fee and commission income in the BSH subgroup by €114 million.

In the home savings business, BSH signed approximately 400,000 new home savings contracts in the reporting period, an impressive level of new home savings business, with a volume of €15.7 billion (down by 31.7 percent on the first half of 2013). This included around 60,000 Fuchs WohnRente contracts (up by 11.1 percent on the first 6 months of 2013). In the first half of last year, steps taken by customers to lock in rates and charges ahead of the new scale of rates and charges introduced on April 1, 2013 had led to an exceptionally high volume of new home savings business.

In the home finance business, the volume of lending to clients jointly brokered with the cooperative banks grew to €6.5 billion in the first half of 2014, representing an increase of 5.3 percent. This figure does not include the €3.2 billion accounted for by cooperative bank home finance supported by a home savings contract from BSH.

Home savings and home finance are becoming increasingly important in view of demographic change because, despite falling birth rates, the number of households is rising. In turn, this is pushing up demand for housing, particularly in urban areas. This is true for new builds and, above all, for existing properties. The German government's goal to cut the energy requirements of residential buildings by at least 80 percent has led to a considerable investment backlog, because almost 70 percent of the housing stock in Germany is roughly 35 years old and does not meet the latest energy efficiency standards.

Furthermore, an increasingly ageing population and the strong preference to remain in one's own home in old age will generate a sharp rise in the supply of accessible homes. The tried-and-tested Riester savings products are available as a form of finance for such housing because, at the start of the year, parliament extended the possible uses of these savings products. They can now be used not only to build or buy a property, but also for the age-appropriate renovation of one's existing home.

By cross-selling supplementary pension products, BSH field sales staff once again sold a large volume of cooperative bank pension products, Union Investment investment funds, and insurance policies from R+V Versicherung AG, Wiesbaden, (R+V).

In the reporting period, **gains and losses on investments** in the Real Estate Finance operating segment amounted to a gain of €9 million (first half of 2013: loss of €32 million) including a gain of approximately €5 million arising from disposals of MBSs in the securities portfolio at DG HYP that had been impaired in earlier periods. The figure reported for the first half of 2013 had included the realization of €27 million of losses in the MBS portfolio at DG HYP and impairment losses of €7 million.

**Other gains and losses on valuation of financial instruments** in the Real Estate Finance segment came to a gain of €242 million and related entirely to DG HYP. This figure was influenced by the further narrowing of credit spreads for bonds from the eurozone's periphery.

The corresponding gain of €699 million reported for the first half of 2013 had comprised a gain of €700 million at DG HYP and a loss of €1 million in the BSH subgroup. This figure had been strongly influenced by gains on DG HYP's portfolio of bonds from the eurozone's periphery. This resulted, in particular, from the narrowing of credit spreads; a further amount of €180 million was attributable to the redemption of a corporate bond guaranteed by an EU country with a nominal volume of €240 million and due to mature at the end of March 2013 that had been partly impaired. The bond had been valued at €60 million as at the maturity date.

The increase of 4.6 percent in **administrative expenses** in the Real Estate Finance operating segment to €295 million (first half of 2013: €282 million) was largely explained by the rise of €12 million to €235 million in the administrative expenses of the BSH subgroup, which were caused in particular by higher staff expenses on the back of increases under collective pay agreements and the filling of vacancies.

**Profit before taxes** in the Real Estate Finance operating segment fell by €307 million to €587 million (first half of 2013: €894 million). The reason behind this decrease was the lower level of gains and losses on valuation of financial instruments at DG HYP as a consequence of the factors described above.

### 3.2.4. Insurance operating segment

The DZ BANK Group's **net income from insurance business** comprises premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance benefit payments, and insurance business operating expenses. This income jumped by €308 million to €390 million in the first half of 2014 (first half of 2013: €82 million). The increase resulted both from higher premium income and from the improvement in gains and losses on investments held by insurance companies.

**Premiums earned** rose by 11.8 percent to €7,101 million (first half of 2013: €6,351 million), exceeding the excellent level of premiums earned in the first half of 2013.

Premium income in the life insurance and health insurance business of R+V grew by 18.1 percent.

Higher premium income in the life insurance business was largely derived from the single-premium pension insurance business, above all the R+V PrivatRente IndexInvest product. R+V Krankenversicherung was again able to substantially increase its premium income from health insurance, largely due to the encouraging uptrend in regular premiums.

In non-life insurance, growth was again mainly driven by vehicle insurance and corporate indemnity insurance.

In the first 6 months of 2014, premiums earned (net) from inward reinsurance also rose sharply year on year.

**Gains and losses on investments held by insurance companies and other insurance company gains and losses** amounted to a net gain of €2,089 million (first half of 2013: gain of €1,261 million).

Long-term interest rates were substantially lower during the period under review than in the corresponding prior-year period. The equity markets relevant to R+V performed better in the first 6 months of 2014 than they had in the first half of 2013. Overall, these trends resulted in higher unrealized gains and to lower write-downs, primarily in the life insurance and health insurance businesses. Furthermore, exchange rate movements were far more favorable for R+V than in the first half of last year.

Owing to the countervailing effects from the recognition of provisions for premium refunds – particularly in the life insurance and health insurance business – and claims by policyholders in the fund-linked life business in the 'insurance benefit payments' line item presented below, however, the associated change in the level of gains on investments held by insurance companies only partially affected the level of net income from insurance business in the period under review.

**Insurance benefit payments** increased by 18.7 percent from €6,461 million in the first half of 2013 to €7,667 million in the first 6 months of 2014.

Higher additions were made to insurance liabilities at companies offering personal insurance, in particular in line with the growth in premium income and the improvement in gains and losses on investments held by insurance companies.

In contrast with the first half of 2013, when non-life insurance had been adversely affected by a series of claims for natural catastrophes, claims expenses stabilized in the first 6 months of 2014.

In inward reinsurance, losses caused by major claims – especially those resulting from natural catastrophes – were within expectations for 2014.

**Insurance business operating expenses** incurred in the course of ordinary business activities rose from €1,101 million in the first half of 2013 to €1,172 million in the first 6 months of 2014.

**Profit before taxes** in the Insurance operating segment climbed by €290 million to €347 million in the first half of the year (first half of 2013: €57 million).

### 3.2.5. Consolidation/reconciliation

The adjustments shown under Consolidation/reconciliation to reconcile operating segment profit/loss before taxes to consolidated profit/loss before taxes were fully attributable to the elimination of intragroup transactions and to the fact that interests in joint ventures and investments in associates were accounted for using the equity method.

The adjustments to net interest income were primarily the result of the elimination of intragroup dividend payments and profit distributions in connection with intragroup liabilities to dormant partners and were also attributable to the early redemption of issued bonds and commercial paper that had been acquired by entities in the DZ BANK Group other than the issuer.

The figure under Consolidation/reconciliation for net fee and commission income largely relates to the fee and commission business of TeamBank and BSH with R+V Versicherung.

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

## 4. NET ASSETS

As at June 30, 2014, the DZ BANK Group's **total assets** had increased by €15.2 billion to €402.2 billion (December 31, 2013: €387.0 billion). This rise was essentially due to the growth in net assets of €9.1 billion at DZ BANK and of €5.4 billion in the R+V Versicherung subgroup.

The DZ BANK Group's **loans and advances to banks** rose to €79.5 billion, an increase of €5.3 billion or 7.1 percent. Loans and advances to domestic banks were virtually unchanged compared with the end of 2013 at €68.8 billion, while loans and advances to foreign banks had grown by €5.2 billion.

**Loans and advances to customers** in the DZ BANK Group had gone up by €0.6 billion, or 0.5 percent, to €122.3 billion as at June 30, 2014. An increase in loans and advances to customers in the BSH subgroup (€1.3 billion) more than offset a decrease in loans and advances to customers at DG HYP (€0.7 billion).

As at June 30, 2014, **financial assets held for trading** amounted to €58.3 billion, a rise of €5.4 billion (10.2 percent) on the figure as at December 31, 2013. Derivatives (positive fair values) were up by €2.2 billion, money market placements by €1.9 billion, and bonds and other fixed-income securities by €1.1 billion, resulting in a total increase of €5.2 billion.

**Investments** declined slightly, falling by €0.1 billion or 0.1 percent to €56.8 billion. Whereas bonds went up by €0.4 billion, the amounts reported for shares and other variable-yield securities and for money market instruments both declined by €0.2 billion.

The DZ BANK Group's **deposits from banks** as at June 30, 2014 amounted to €89.7 billion, which was €1.7 billion (1.9 percent) below the figure reported as at December 31, 2013. As a result of market conditions, deposits from domestic banks declined by €2.8 billion to €79.8 billion while deposits from foreign banks grew by €1.1 billion to €9.9 billion.

**Deposits from customers** advanced by €0.4 billion, or 0.4 percent, to €98.9 billion. In particular, deposits from customers grew by €1.6 billion in the BSH subgroup and by €1.2 billion at DZ PRIVATBANK, but contracted by €2.4 billion at DZ BANK.

At the end of the period under review, the carrying amount of **debt certificates issued including bonds** in the DZ BANK Group had reached €56.7 billion (December 31, 2013: €54.0 billion). The change amounting to an increase of €2.7 billion (5.1 percent) in the group was largely attributable to the growth in debt certificates issued including bonds of €4.7 billion at DZ BANK and a simultaneous decline of €1.9 billion at DG HYP.

**Financial liabilities held for trading** advanced by €8.2 billion, or 18.0 percent, to €54.0 billion. Of this rise, €5.5 billion was attributable to higher money market deposits and €1.6 billion to an increased amount of derivatives (negative fair values).

As at June 30, 2014, the **equity** reported by the DZ BANK Group was €15,678 million (December 31, 2013: €14,154 million). This change essentially reflected the net profit generated during the period under review and the larger revaluation reserve for available-for-sale financial assets, which had risen by €387 million to €763 million (December 31, 2013: €376 million).

The **DZ BANK Group's equity and solvency situation** is described in this interim group management report in V. Opportunity and risk report, section 4. Risk capital management.

## 5. FINANCIAL POSITION

The DZ BANK Group abides by the principle that solvency must be ensured at all times.

In the context of **funding**, the DZ BANK Group distinguishes between operational liquidity (liquidity in the maturity band of up to one year) and structural liquidity (liquidity in the maturity band of more than one year). Dedicated steering committees have been established for both types of liquidity.

The DZ BANK Group has a highly diversified funding base for **operational liquidity**. A considerable portion is accounted for by money market activities resulting from the cash-pooling function with the local cooperative banks. This enables local cooperative banks with available liquidity to invest it with DZ BANK, while primary banks requiring liquidity can obtain it from DZ BANK. Traditionally, this results in a liquidity surplus, which provides the main basis for short-term funding in the unsecured money markets. Corporate customers and institutional clients are another important source of funding for operational liquidity requirements. The DZ BANK Group therefore has a comfortable level of liquidity at its disposal. Funding on the interbank market is not strategically important to the DZ BANK Group.

The DZ BANK Group issues securitized money market products through its main branches in Frankfurt, New York, Hong Kong, London, Luxembourg, and Dublin. DZ BANK has initiated a standardized groupwide multi-issuer euro commercial paper program, which DZ BANK and the subsidiaries DZ PRIVATBANK S.A. and DZ BANK Ireland can draw on.

The DZ BANK Group's main **sources of funding** on the unsecured money markets as at June 30, 2014 were as follows:

**FIG. 3 – UNSECURED SHORT-TERM AND MEDIUM-TERM FUNDING OF THE DZ BANK GROUP**

| (%) | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Local cooperative banks | 41 | 49 |
| Other banks, central banks | 15 | 12 |
| Corporate customers, institutional customers | 21 | 27 |
| Commercial papers (institutional investors) | 23 | 12 |

Money market funding also includes collateralized money market activities, which DZ BANK has centralized in Group Treasury and which form the basis for risk-mitigating cash pooling. To this end, key repo and securities lending activities, together with the collateral management process, are managed centrally in Group Treasury. Group Treasury also has at its disposal a portfolio of investment-grade liquid securities (collateral pool). These securities can be used through repos in connection with market funding activities and are also eligible for central bank borrowing.

**Structural liquidity** is used to manage and satisfy the long-term financing requirements (more than 1 year) of DZ BANK and, in consultation with the group entities, the corresponding requirements of the DZ BANK Group. Both for the DZ BANK Group and each individual group entity, structural liquidity is measured daily on the basis of total cash flows. In addition, the long-term ratio is used at DZ BANK to support the management of structural liquidity. This key figure is also determined on a daily basis. It quantifies the ratio of sources of funds to application of funds with a residual maturity of more than one year on a cash flow basis.

DZ BANK's **long-term ratio** as at June 30, 2014 was 95 percent (December 31, 2013: 102 percent). This meant that the items tying up liquidity with residual maturities of over one year were largely funded by liabilities that also had residual maturities of more than one year.

DZ BANK secures its long-term funding for structural liquidity by using structured and non-structured capital market products that are mainly marketed through the local cooperative banks' own-account and customer-account securities business and through institutional clients. Unsecured long-term funding is secured through systematic integration between the entities in the DZ BANK Group. Options for obtaining covered liquidity through Pfandbriefe or DZ BANK BRIEFE are used on a decentralized basis, in other words based on the different cover assets at DZ BANK, DG HYP, and DVB.

Long-term funding requirements in foreign currencies are covered through the basis swap market, ensuring matching maturities.

To complement the description of the funding structure, further information on **the DZ BANK Group's liquidity risk** can be found in this interim group management report in V. Opportunity and risk report, section 11. Liquidity risk. The year-on-year changes in cash flows from operating activities, investing activities, and financing activities are shown in the **statement of cash flows** in the interim consolidated financial statements.

# III. Events after the balance sheet date

The Board of Managing Directors has used its existing authorizations, with the approval of the Supervisory Board, to adopt a resolution to increase the subscribed capital (share capital) by €486,168,922.20 from €3,160,097,987.80 to €3,646,266,910.00. The implementation of the capital increase by way of an issue of 186,988,047 registered non-par-value shares with a total volume of €1.477 billion at a subscription price per share of €7.90 for cash was entered in the commercial register of the Frankfurt am Main local court on July 29, 2014. Dividends are payable on the new shares from January 1, 2014.

# IV. Outlook

## 1. ECONOMIC CONDITIONS

### 1.1. GLOBAL ECONOMIC TRENDS

Although the global economy had a faltering start to 2014, it is expected to pick up over the course of the year and in 2015. There are uncertainties about the economic stability of the major emerging markets. The crisis in Ukraine and the conflict in the Middle East are also having a negative impact on the economic climate as a whole.

The industrialized countries are the main drivers of the global economy's recovery. Overall, global economic output should rise faster this year than last year, at a rate of just over 3 percent. In 2015, growth is predicted to increase moderately, reaching more than 3.5 percent. Global trade is likely to go up by 4 percent in 2014, which is slightly slower than expected. A much stronger rate of expansion – with growth of more than 5 percent – is not anticipated until 2015.

### 1.2. TRENDS IN THE USA

There was a decline in the momentum of the US economy at the start of 2014, but many indicators suggest that it is now rallying again. The US economy is likely to grow by 2.1 percent in 2014, with higher growth of 2.8 percent expected in 2015.

The latest data shows that the annual rate of inflation has climbed to 2.1 percent owing to increasing pressure on consumer prices. Inflation is expected to remain slightly above the 2 percent mark in the remaining months of 2014.

### 1.3. TRENDS IN THE EUROZONE

The economy of the eurozone had also failed to pick up significant momentum by mid-2014. Growth was weak at the start of the year and was provided almost exclusively by Germany. This year, France and Italy are expected to generate growth of 0 percent to 0.5 percent at best. Both countries suffer from high levels of borrowing. In their current state, France and Italy undoubtedly pose the greatest risk to economic recovery within the euro area.

Available indicators for economic trends in the eurozone point to a continuation of the muted recovery. Sentiment indicators suggest growth in the private sector. Industrial output and construction output were able to maintain their uptrend of recent months. Real GDP will probably rise by around 0.7 percent in the eurozone this year. Economic growth is expected to increase to approximately 1.0 percent in 2015.

The weakness of the economy and persistently high unemployment have held back consumer prices so far this year. The continued strength of the euro also prevented consumer prices going up more significantly. Inflationary pressure on consumer prices will remain muted in the coming months, and they will only rise by around 0.6 percent this year. In 2015, they are predicted to rise at the slightly faster rate of 1.3 percent owing to a somewhat better economic outlook.

### 1.4. TRENDS IN GERMANY

Germany is expected to generate growth of around 1.5 percent this year. While consumer sentiment in the country has climbed to its highest level for a number of years, export-oriented industrial enterprises are more skeptical in view of the situation in international trouble spots. Their business outlook took a severe blow in June. By contrast, retail and construction – two sectors with a greater focus on the domestic market – benefited from strong consumer spending and low interest rates.

Overall, the latest monthly data shows that the German economy has lost a lot of its buoyancy, following a very strong first quarter. Nonetheless, the economic recovery is expected to continue. Growth will be approximately 1.5 percent this year, driven mainly by domestic demand. However, the impact of the Ukrainian crisis could cast a shadow over this encouraging trend. If sanctions against Russia are ratcheted up, many companies in Germany and the rest of Europe are likely to be affected. This would significantly curtail the current momentum in Germany and other eurozone countries.

The growth rate is anticipated to be slightly slower in 2015, because the foreign trade situation remains difficult for German companies. Risks are looming in the eurozone, particularly due to the lack of reforms in France and Italy. In Germany, economic policy will bring some new problems in 2015. Currently well below 1 percent, the rate of inflation in Germany is likely to return to around 2 percent next year.

### 1.5. TRENDS IN THE FINANCIAL SECTOR

Banks and insurance companies remain at the center of public attention as a result of the sovereign debt crisis in the eurozone and judicial investigations into the financial crisis. For the European banking sector, the situation as a whole is still tense. The financial sector continues to attract great interest from the public, particularly in light of the ongoing asset quality review by the banking regulator (the ECB) and the stress test.

That is why a number of regulatory measures have been introduced to ensure the stability of the financial sector. The financial sector as a whole must expect to face additional regulatory requirements and the imposition of further statutory constraints over the coming years. These will be influenced by the outcome of the stress test.

## 2. CHANGES IN FINANCIAL POSITION AND FINANCIAL PERFORMANCE

### 2.1. FINANCIAL PERFORMANCE

The outlook for the business performance of the DZ BANK Group this year and in 2015 is positive, especially in view of the economic situation in Germany. Given this background, and disregarding last year's one-off effects in gains and losses on valuation of financial instruments, DZ BANK is budgeting for a significant overall increase in earnings from operating activities in the current year and in 2015. Against this backdrop, net profit is likely to be at the same level as last year.

The risks to the future earnings performance of the DZ BANK Group will be driven by the general economic climate. Besides the danger of a worsening of the European sovereign debt crisis, a further escalation of the Ukrainian crisis combined with continued economic sanctions could become a major risk factor.

Performance in terms of **net interest income** will be positive in view of the economic prospects, especially given the continued economic recovery in Germany and the slight improvement in the economies of other key eurozone countries. Nevertheless, the figure for 2014 is forecast to be slightly down year on year because of the particularly strong figures reported in 2013. A slight increase in net interest income is expected in 2015, driven by the stronger pace of economic growth, particularly in the eurozone.

Net interest income could be negatively impacted if there is a renewed deterioration in sentiment regarding the prospects for economic growth in the euro area over the next few years.

The specific loan loss allowances included in the **allowances for losses on loans and advances** are expected to remain fairly stable this year based on the forecasts for economic growth and the application of the consistent, long-term risk policy. The anticipated higher reversals, particularly of portfolio loan loss allowances, are having a positive impact on overall allowances for losses on loans and advances and had not been predicted to be so large in the planning for the current financial year. As far as 2015 is concerned, it is expected that allowances for losses on loans and advances will grow in line with net interest income.

Risks would arise if the crisis in Ukraine were to continue to spiral causing a sharp economic downturn in Europe, and Germany were unable to escape the effects. An economic downturn of this nature would have a detrimental impact on the level of allowances for losses on loans and advances.

The **net fee and commission income** earned in 2014 is likely to significantly exceed the figure achieved in 2013. This is due, in particular, to a reduced volume of new business in view of the initiative to peg the scale of rates and charges and changes to fee and commission accruals and deferrals at BSH. The figure will be substantially boosted by strong growth in the volume of assets under management, particularly as a result of income from performance fees.

Net fee and commission income is also expected to rise again fractionally in 2015, partly as a result of an increase in the volume of business in private banking.

Any renewed uncertainty in capital and financial markets could have a negative impact on confidence and sentiment among retail and institutional investors, thereby depressing net fee and commission income.

**Gains and losses on trading activities** are expected to show a year-on-year improvement in 2014, not least because of the negative valuation effects recognized last year. As a result of these negative impacts from funding cap adjustments and expenses in connection with basis spread effects in 2013, a substantial increase in net gains on trading activities is forecast for this year and 2015. Some growth stimulus is expected to come from customer-driven capital market business and from cross-selling activities that were defined as one of the goals of the further development of corporate banking.

The prerequisite for an improvement in gains and losses on trading activities is the forecast long-term economic growth in Europe combined with stability in financial markets.

Any significant renewed volatility in financial markets – including as a result of the crises in Ukraine and the Middle East – could influence future levels of gains and losses on trading activities.

Following the recognition of losses caused by the disposal of securitized investments to optimize capital recovery, DZ BANK expects to see a significant improvement in **gains and losses on investments** this year and in 2015. In addition, further reversals of impairment losses on securitization exposures are expected in 2014, thereby increasing gains on investments.

**Other gains and losses on valuation of financial instruments**, which last year were primarily influenced by the positive effects from the DG HYP portfolio, are expected to be significantly down on the 2013 figure this year and in 2015. The forecast trend in this case reflects the reduced potential for reversing impairment losses.

**Net income from insurance business** is expected to show a significant year-on-year increase in 2014. Premiums earned are again predicted to rise as budgeted (the result of expected premium growth in non-life insurance and life/health insurance).

A further increase in net income from insurance business is also predicted for 2015.

Exceptional events in the capital markets or changes in underwriting practices may affect the level of net income expected to be earned from insurance business.

**Administrative expenses** are expected to rise again moderately this year. This increase will reflect the response of the DZ BANK Group to the tighter regulatory and statutory provisions. One of the main consequences of these provisions will be higher staff expenses. In view of these developments, it will become increasingly important to actively manage costs to counteract the upward trend.

The aim remains to improve the cost/income ratio, despite additional pressures, by rigorously managing costs and accelerating growth in the operating business. The cost/income ratio is expected to fall slightly in 2014 (disregarding the one-off valuation effects).

The DZ BANK Group believes that its firm strategic focus on the cooperative financial network continues to provide it with potential to achieve network-based growth this year and in 2015 in close collaboration with the local cooperative banks. Its objective is to consolidate its position as one of the leading financial services providers in Germany on a long-term basis.

The group's earnings performance could be adversely affected by any resurgence of volatility in capital markets, including as a consequence of geopolitical instability. Finance policies introduced in response to the sustained high levels of sovereign debt and the associated risks for economic growth could also have an effect on profit forecasts.

The entire DZ BANK Group uses a strategic planning process to regularly identify growth potential and track implementation action plans, taking account of risk trends and capital requirements.

Over the last few years, the DZ BANK Group has substantially strengthened its capital base from its own resources. Significant progress has again been made in this regard this year. DZ BANK increased its regulatory capital base by approximately €1.5 billion, mainly by retaining profits for 2013 and reducing securitization exposures.

However, the regulatory requirements in force since January 1, 2014, which gradually introduce tighter regulation over the next few years, will place a significant additional burden on DZ BANK. With this in mind, DZ BANK intends to create an additional capital buffer using the net proceeds of almost €1.5 billion generated from the issue of 186.9 million new shares. The capital increase therefore supports measures to strengthen the capital base from the group's own resources in order to meet the stricter capital requirements imposed by the regulators in Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR).

### 2.2. LIQUIDITY AND FINANCIAL POSITION

DZ BANK anticipates that the local cooperative banks will continue to hold stable levels of deposits this year, which will help with its management of operational liquidity. Corporate customers and institutional investors, both in Germany and abroad, will also continue to make a sustained contribution to the diversification of funding.

The structural funding of the DZ BANK Group is expected to continue to be underpinned by stable sales of secured and unsecured funding products using the broad, well established customer base.

The DZ BANK Group's economic capital adequacy is assured for 2014. This is also expected to be the case for 2015.

# V. Opportunity and risk report

## DZ BANK Group

### 1. SUMMARY

#### 1.1. OPPORTUNITY AND RISK MANAGEMENT SYSTEM

The features of the DZ BANK Group's opportunity and risk management system are described in detail in the opportunity and risk report in the 2013 group management report. Those disclosures are also applicable to the first half of this year, unless otherwise indicated in this report. The main features of the opportunity and risk management system are summarized below.

The DZ BANK Group defines **opportunities** as unexpected positive variances from the forecast financial performance.

**Risks** are adverse developments affecting financial position or financial performance, and essentially comprise the risk of future losses or insolvency.

The **management of opportunities** in the DZ BANK Group is integrated into the annual strategic planning process. Strategic planning enables the group to identify and analyze market discontinuities, trends, and changes, and forms the basis for evaluating opportunities.

**Reports** to the Board of Managing Directors on future business development opportunities are based on the outcome of the strategic planning. As part of the general communication of business strategy, employees are kept up to date about potential opportunities that have been identified.

The DZ BANK Group has a comprehensive **risk management system** that meets its own business management needs and statutory requirements. The management of opportunities and risks forms an integral part of the groupwide strategic planning process. The risk management system is based on risk strategies adopted by the Board of Managing Directors.

The risk management system is more detailed than the system for the management of opportunities because risk management is subject to comprehensive statutory requirements and is also of critical importance to the continued existence of the DZ BANK Group as a going concern. The management of opportunities is based on a qualitative approach and is tightly integrated into the strategic planning process.

The purpose of the groupwide risk capital management system is to ensure that the risks in the risk types backed by capital are calculated consistently. Risk management also covers further types of risk that are not covered by capital owing to the nature of the risk involved. This particularly applies to liquidity risk.

Efficient management and control tools are used in all areas of risk. These tools are subject to gradual further development and refinement. The development of these tools is derived from business management requirements and, in terms of risk management, is based on regulatory requirements. The methods used for the measurement of risk are integrated into the risk management system. Risk model calculations are used for the management of the DZ BANK Group and the entities included within the group.

Given the methods that it has implemented and the organizational arrangements and IT systems that it has put in place, DZ BANK and its subsidiaries are, to the greatest possible extent, in a position to identify material opportunities and risks at an early stage and to initiate appropriate control measures, both at the group level and at the level of the individual group entities. This applies in particular to the early detection of risks that could affect the group's survival as a going concern.

The tools used for the purposes of risk management also enable the DZ BANK Group to respond appropriately to significant market movements. Changes in risk factors, such as a deterioration in credit ratings or the widening of credit spreads on securities, are reflected in adjusted risk parameters in the mark-to-model measurement of credit risk and market risk. Conservative crisis scenarios for short-term liquidity are intended to ensure that liquidity risk management also takes adequate account of market crises. A risk limit system based on risk-bearing capacity, stress testing encompassing all material risk types, and a flexible internal reporting system generally ensure that the management is in a position to initiate targeted corrective action if required.

All DZ BANK Group entities are integrated into the groupwide opportunity and risk management system. DZ BANK and the following subsidiaries – also referred to as **management units** in this opportunity and risk report – represent the core of the financial services group:

– BSH
– DG HYP
– DVB
– DZ BANK Ireland
– DZ PRIVATBANK S.A.
– R+V
– TeamBank
– Union Asset Management Holding AG, Frankfurt am Main, (Union Asset Management Holding)
– VR-LEASING AG.

The management units are deemed to be material in terms of their contribution to the DZ BANK Group's aggregate risk and are therefore directly incorporated into the group's risk management system.

The other subsidiaries and investee entities are recorded and managed indirectly as part of equity risk.

The management units ensure that their respective subsidiaries and investees are also included in the DZ BANK Group's risk management system – indirectly via the majority-owned entities – and meet the minimum standards applicable throughout the group.

## 1.2. RISK FACTORS, RISKS, AND OPPORTUNITIES

### RISK FACTORS

The risk factors described in the opportunity and risk report in the 2013 group management report continued to be relevant to the DZ BANK Group in the first half of this year. There were material developments affecting some risk factors, both during the reporting period and after the balance sheet date, and these are described below.

DZ BANK is one of the institutions included in the comprehensive assessment of banks conducted by the Bundesanstalt für Finanzdienstleistungsaufsicht as part of the implementation of the SSM. The objective of this **comprehensive assessment** is to use a largely standardized assessment procedure throughout Europe to uncover risks on the balance sheets of the banks subject to the assessment and, if needed, determine resulting action plans necessary to strengthen capital adequacy.

The assessment consists of a balance sheet assessment, an asset quality review, and a stress test. The balance sheet assessment was completed in the first half of 2014. The asset quality review and stress test were started during the reporting period and are scheduled to be finished by October 2014. Publication of the results is to take place before the ECB takes over as banking regulator.

Because of the potential for additional capital requirements, the comprehensive assessment represents a **regulatory risk factor** for the DZ BANK Group.

**Risk factors for the economy as a whole** include the risk of a resurgence of the European sovereign debt crisis but also other international crises, as they would impact on economic growth in Germany. Above all, further escalation of the **Ukrainian crisis**, coupled with economic sanctions, could have substantial direct effects (imposition of further export sanctions) and indirect effects (higher energy prices, loss of confidence, second-round economic effects) on Germany's trade and industry and hold back the German economy significantly. Ultimately, the consequent contraction in production and capital expenditure in the companies affected could lead to lower demand for borrowing.

To help life insurance companies and pension funds to permanently meet their obligations toward their customers during this lengthy phase of low interest rates, the Bundestag (first chamber of the German parliament) and the Bundesrat (second chamber) enacted a law to ensure stable and fair benefits for life insurance policyholders (**German Life Insurance Reform Act, LVRG**) on July 4, 2014 and July 11, 2014 respectively. The LVRG consolidates various amendments to various acts and regulations with the intention of reconciling the interests of insurance companies and policyholders. R+V will implement the requirements set out in the LVRG within the specified deadlines.

#### RISKS AND OPPORTUNITIES

The DZ BANK Group remained within its economic **risk-bearing capacity** in the first half of the year and also complied with regulatory requirements at all times. The **solvency** of the DZ BANK Group was never in jeopardy at any point during the reporting period. By holding ample liquidity reserves, the group ensured that it was able to protect its liquidity against any potential crisis-related threats. There are no indications that the continued existence of the DZ BANK Group or individual group entities as a going concern might be at risk.

The opportunities presented by the forecast development of the DZ BANK Group are reasonable in relation to the risks that will be incurred.

## 1.3. MATERIAL DEVELOPMENTS

### 1.3.1. Capital increase

In July 2014, DZ BANK completed a capital increase of almost €1.5 billion. The capital increase supports measures to strengthen the capital base from the group's own resources in order to meet the stricter capital requirements imposed by the regulators in CRD IV and the CRR. It also serves as preparation for potential losses that may arise following the asset quality review and stress test being conducted as part of the comprehensive assessment.

The capital increase is helping to strengthen the aggregate risk cover and thereby to improve the ability of the DZ BANK Group to absorb economic losses.

Further information on the capital increase can be found in note 40 of the interim consolidated financial statements.

### 1.3.2. Sectoral approach

#### OBJECTIVE AND IMPLEMENTATION CONCEPT

To further standardize how the DZ BANK financial conglomerate is managed, the DZ BANK Group introduced a sectoral approach at the start of the year. This approach builds on the enhanced version of R+V's risk management system, which was also implemented at the beginning of the year in view of the new regulatory requirements in **Solvency II**.

The sectoral approach fulfills the specific requirements imposed by the regulator on banks and insurers and takes account of the business models of R+V and the banks in the DZ BANK Group. It enables R+V to be properly integrated into the DZ BANK Group, including in terms of risk management, and helps to ensure that management direction is consistent in the group and internally within R+V.

Implementation of the sectoral approach included eliminating R+V from the key risk indicators for the Bank sector. The risks relating to R+V are now reported entirely within the Insurance sector. For this reason, the prior-year comparative figures given in this report are not directly comparable with the figures as at December 31, 2013 disclosed in the 2013 opportunity and risk report.

The **Bank sector** consists of all of the management units listed in section 1.1 except R+V. R+V forms the **Insurance sector**. Risk measurement and risk management in this sector are modeled on the modules of the standard formula in Solvency II as this approach adequately reflects the features of R+V's business model.

#### RISK MEASUREMENT

The risk capital requirement in the Insurance sector is customarily referred to as the **overall solvency**

**requirement** and is determined as the value-at-risk from the change in the economic capital of R+V with a confidence level of 99.50 percent over a one-year period. As a rule, it is quantified in accordance with the risk types of the standard formula in Solvency II. Risk diversification, which constitutes a significant aspect of an insurer's business model, is taken into consideration to an appropriate extent.

Policyholder bonuses are adequately taken into account in the risk models for determining the overall solvency requirement for the Insurance sector and in the profit calculations. This procedure is relevant to life, health, and casualty insurance products with a bonus, provided that a discretionary participation feature is granted for these products.

Within the Insurance sector, internal transactions are handled in a way that reflects any steps to mitigate risk, e.g. through reinsurance. In addition, intra-group transactions between the Bank and Insurance sectors are incorporated into risk measurement in the Insurance sector.

The results of sector-specific measurement of risk are aggregated to determine the total risk capital requirement at the level of the **DZ BANK Group**. Aggregate risk cover is calculated in the same way. This provides the basis for ensuring the DZ BANK Group's capacity to assume risk across all sectors.

#### 1.3.3. Spread risk and migration risk

As part of the DZ BANK Group's economic capital management, the capital buffer serves to cover the lack of some precision in risk measurement as well as account for risks that are not calculated as part of the risk capital requirement and not managed using risk limits (upper loss limits). Until December 31, 2013, the bulk of the capital buffer was made up of spread risk and migration risk on securities.

At the start of the year, spread risk and migration risk on securities for the Bank sector was separated from the capital buffer and integrated into risk capital management. An upper loss limit and operational limits were introduced in the Bank sector in order to ensure that the associated risk capital for these two forms of market risk is managed effectively. This change resulted in an increase in the aggregate risk cover (after deduction of the capital buffer). Because this increase corresponds to the risk capital requirement for spread risk and migration risk on securities, the DZ BANK Group's risk-bearing capacity is essentially unaffected by this change.

## 2. RISK STRATEGY

The exploitation of business opportunities and the systematic, controlled assumption of risk in relation to target returns form an integral part of corporate control in the DZ BANK Group. The activities resulting from the DZ BANK Group's business model require the ability to identify, measure, assess, manage, monitor, and communicate opportunities and risks.

The need to cover risks with adequate capital and hold appropriate reserves of cash is also recognized as an essential prerequisite for the operation of the business and is of fundamental importance. In all its activities, the DZ BANK Group therefore abides by the principle of only taking on risk to the extent absolutely necessary to achieve business objectives and to the extent that the risk appears manageable.

In order to implement these principles, the Board of Managing Directors of DZ BANK has drawn up risk strategies for each of the material risks using the business strategy as a basis. The individual risk substrategies each encompass the main risk-bearing business activities, the objectives of risk management (including the requirements for accepting or preventing risk), and the action to be taken to attain the objectives.

## 3. POTENTIAL OPPORTUNITIES

### 3.1. CORPORATE STRATEGY

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. All of its activities are divided into four strategic business lines: Retail Banking, Corporate Banking, Transaction Banking, and Capital Markets, which is focused on customers.

DZ BANK's **focus on the cooperative banks** is vital in view of the need to manage scarce resources and meet new regulatory requirements. By focusing more closely on the Volksbanken Raiffeisenbanken cooperative financial network, DZ BANK's aim is to exploit the potential of its core activities more fully, particularly with regard to retail banking and SME business.

Furthermore, it is planned to enhance **corporate governance** in the DZ BANK Group with the aim of integrating the local cooperative banks even more closely. Over the last few years, DZ BANK has also stepped up its collaboration with WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, Düsseldorf, in order to leverage synergies for the entire cooperative financial network, besides improving the range of products and services offered.

The principle of a '**network-oriented central institution and financial services group**' also means that business activities are concentrated on the business areas covered by the cooperative banks and on further enhancing customer satisfaction with the local cooperative banks. To this end, the DZ BANK Group, in its role as financial services provider, supplies decentralized products, platforms, and services.

The strategic focus of the DZ BANK Group, guided by the 'Verbund First' principle, is a significant contributing factor in helping the cooperative banks to strengthen their market position. The local cooperative banks therefore not only receive substantial financial support in the form of fees, commissions, and profit distributions, they also enjoy the transfer of cost benefits and the availability of competitive products and services.

The core activities referred to above are supplemented by **complementary activities** using existing products, platforms, and services for which DZ BANK acts as a corporate bank vis-à-vis third parties. These activities do not compete directly with those of the cooperative banks and they enable further economies of scale to be created for the entire cooperative financial network.

The **Outlook** section of the interim group management report describes expected developments in the market and business environment together with the DZ BANK Group's business strategy and the implications for the earnings performance forecast for the second half of the year. These are crucial factors in the DZ BANK Group's strategic positioning and resulting opportunities for increasing revenue and cutting costs during the remainder of the year.

### 3.2. CREDIT RATINGS

DZ BANK is awarded credit ratings by the three largest rating agencies, Standard & Poor's, Moody's, and Fitch. Individual subsidiaries of DZ BANK are also given their own ratings. In view of the high degree of cohesion within the cooperative financial network, Fitch and Standard & Poor's issue a network rating, for the purposes of which the cooperative financial institutions are analyzed on a consolidated basis. The criteria used by the agencies include factors such as strategy, risk assessment, transparency, and solidarity within the cooperative financial network in addition to business performance and collaboration.

The ratings are critical in determining the funding opportunities available on money and capital markets. They open up additional business options and potential opportunities for the entities in the DZ BANK Group. Figure 4 provides an overview of DZ BANK's credit ratings.

**FIG. 4 – DZ BANK RATINGS**

| | Standard & Poor's | | Moody's | | Fitch | |
|---|---|---|---|---|---|---|
| | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Covered bonds (DZ BANK BRIEFE) | AAA | AAA | – | – | AA | AA |
| Long-term rating | AA- | AA- | A1 | A1 | A+ | A+ |
| Short-term rating | A-1+ | A-1+ | P-1 | P-1 | F1+ | F1+ |

As at June 30, 2014, Standard & Poor's and Fitch had issued long-term credit ratings for the cooperative financial network of AA- and A+ respectively. There were no changes in these credit ratings compared with June 30, 2013.

## 4. RISK CAPITAL MANAGEMENT

### 4.1. ECONOMIC CAPITAL ADEQUACY

#### 4.1.1. Measurement methods

As part of **risk-bearing-capacity analysis**, the risk capital requirement is compared with the aggregate risk cover (reduced by a capital buffer) in order to determine the economic capital adequacy. The Board of Managing Directors determines the upper loss limits for the year on the basis of the aggregate risk cover and bearing in mind the necessary capital buffer. These limits then restrict the risk capital requirement.

**Aggregate risk cover** comprises equity and hidden reserves. It is reviewed on a quarterly basis and also partly updated on a monthly basis. In line with the sectoral approach, the aggregate risk cover is determined on a modular basis:

– The aggregate risk cover from the **Bank sector** is calculated on the basis of IFRS data (as was the case before the sectoral approach was introduced), but now excludes R+V.
– The aggregate risk cover from the **Insurance sector** is based on the capital of the R+V Versicherung AG insurance group in accordance with Solvency II.

The aggregate risk cover from the two sectors is combined to produce the aggregate risk cover of the **DZ BANK Group**. During this process, the effects of consolidation between the Bank and Insurance sectors are taken into account, resulting in a reduction in the available aggregate risk cover.

#### 4.1.2. Risk-bearing capacity

The aggregate risk cover available to the DZ BANK Group for the remainder of the year amounted to €18,704 million as at June 30, 2014 (December 31, 2013: €17,293 million). The aggregate risk cover originally calculated as at December 31, 2013 had amounted to €16,652 million.

Implementation of the sectoral approach has led to changes in the aggregate risk cover as at December 31, 2013 compared with the original figure. This change is essentially attributable to the recognition of parts of the bonus reserve.

The bonus reserve contains accumulated profits that have not yet been declared as available for distribution to policyholders. It mainly consists of non-designated parts of the provision for premium refunds and is therefore allocated to the life insurance business.

The purpose of the **capital buffer** is to cover the lack of some precision in risk measurement as well as account for risks that are not measured as part of the risk capital requirement and not managed using risk limits (upper loss limits). This applies to migration risk on traditional loans, for example. The individual components of the capital buffer are quantified using a method based on scenarios and models with input from experts.

As at June 30, 2014, the capital buffer amounted to €1,051 million (December 31, 2013: €1,123 million). The capital buffer originally determined at December 31, 2013 had stood at €3,001 million. This figure changed owing to the separation of spread risk and migration risk on securities from the capital buffer in the Bank sector and to the introduction of the sectoral approach.

As at June 30, 2014, the **economic capital adequacy ratio** for the DZ BANK Group was calculated at 178.4 percent (December 31, 2013: 158.9 percent). The sharp rise in this ratio of almost 20 percentage points was attributable to the DZ BANK Group's strong earnings performance and to a lower risk capital requirement, particularly for market risk in the Bank sector.

The discrepancy between the prior-year figure and the figure originally measured as at December 31, 2013 (176.1 percent) is explained by the total transition effects. The rise in aggregate risk cover minus the capital buffer was €2.5 billion; the risk capital requirement was €2.4 billion higher. These almost identical increases in the absolute values of the numerator and denominator used in the calculation of the ratio resulted in a greatly reduced capital adequacy ratio as the prior-year base figures were very different.

Fig. 5 provides an overview of the DZ BANK Group's economic capital adequacy.

The upper loss limits and risk capital requirements for the Bank sector, broken down by risk type, are shown in fig. 6.

FIG. 5 – ECONOMIC CAPITAL ADEQUACY OF THE DZ BANK GROUP

| € million | Jun. 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 |
|---|---|---|---|
| Aggregate risk cover | 18,704 | 17,826 | 17,293 |
| Capital buffer | -1,051 | -1,151 | -1,123 |
| Aggregate risk cover after deduction of capital buffer | 17,653 | 16,675 | 16,170 |
| Upper loss limit | 15,234 | 15,234 | 15,277 |
| Risk capital requirement (after diversification) | 9,895 | 10,118 | 10,177 |
| **Economic capital adequacy** | **178.4%** | **164.8%** | **158.9%** |

Fig. 7 sets out the upper loss limits and overall solvency requirements for the Insurance sector, broken down by risk type. The definition of the upper loss limits and determination of overall solvency requirements take into account a favorable effect from the risk-mitigating impact of deferred taxes resulting from the elimination of deferred tax liabilities in the loss scenario. Diversification effects between the risk types are also taken into consideration. Owing to these effects of correlation, the overall solvency requirement and upper loss limits for each risk type are not cumulative.

## 4.2. REGULATORY CAPITAL ADEQUACY

In addition to the management of economic capital – the key figure in the management of business activities – regulatory solvency requirements for the DZ BANK financial conglomerate, the DZ BANK banking group, and the R+V Versicherung AG insurance group are strictly observed.

### 4.2.1. DZ BANK financial conglomerate

The German Supervision of Financial Conglomerates Act (FKAG) in conjunction with the CRR and the regulatory technical standards for the application of the calculation methods of capital adequacy requirements for financial conglomerates (Delegated Regulation (EU) No. 342/2014) form the legal basis for the DZ BANK financial conglomerate. The enhanced regulation affects groups of financial institutions that operate to a large extent across different sectors in the financial services industry. At conglomerate level, it results, among other things, in a more accurate assessment of capital adequacy risks, risk concentrations, and intragroup transactions.

The solvency ratios as at December 31, 2013 were finalized in the first half of this year. The DZ BANK financial conglomerate's eligible capital as at December 31, 2013 amounted to €16,344 million (provisional figure given in the 2013 opportunity and risk report: €16,192 million). On the other side of the ratio, the solvency requirement amounted to €9,060 million (provisional figure given in the 2013 opportunity and risk report: €9,133 million). This produced a final coverage ratio of 180.4 percent (provisional figure given in the 2013 opportunity and risk report: 177.3 percent), significantly in excess of the regulatory minimum requirement. The change to the final solvency ratios compared with the provisional values is primarily attributable to the first-time consolidation of a mutual insurance company.

With effect from January 1, 2014, calculation of the financial conglomerate's solvency was switched from a consolidated calculation in accordance with section 5 of the German Regulation Governing the Capital Adequacy of Financial Conglomerates (FkSolV) to an accounting consolidation method based on article 14 of the aforementioned regulatory technical standards. Reporting on this basis will begin for the period ended December 31, 2014.

FIG. 6 – UPPER LOSS LIMITS AND RISK CAPITAL REQUIREMENT IN THE BANK SECTOR

| | Upper loss limits | | | Risk capital requirement | | |
|---|---|---|---|---|---|---|
| € million | Jun. 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 |
| Credit risk | 3,887 | 3,887 | 3,710 | 3,059 | 3,092 | 2,941 |
| Equity risk | 958 | 958 | 1,115 | 695 | 703 | 750 |
| Market risk[1] | 6,428 | 6,428 | 6,620 | 2,909 | 3,134 | 3,289 |
| Technical risk of a home savings and loan company | 500 | 500 | 600 | 496 | 496 | 576 |
| Operational risk | 693 | 693 | 706 | 628 | 628 | 650 |
| Business risk (including reputational risk) | 451 | 451 | 349 | 356 | 353 | 308 |
| Diversification effect | -1,184 | -1,184 | -1,323 | -1,168 | -1,190 | -1,310 |
| **Total (after diversification)** | **11,734** | **11,734** | **11,777** | **6,976** | **7,217** | **7,204** |

1 Market risk contains spread risk and migration risk.

FIG. 7 – UPPER LOSS LIMITS AND OVERALL SOLVENCY REQUIREMENT IN THE INSURANCE SECTOR

| | Upper loss limits | | | Overall solvency requirement | | |
|---|---|---|---|---|---|---|
| € million | Jun. 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 |
| Life actuarial risk | 450 | 450 | 410 | 397 | 388 | 417 |
| Health actuarial risk | 80 | 80 | 90 | 52 | 57 | 59 |
| Non-life actuarial risk | 2,300 | 2,300 | 2,170 | 2,067 | 2,024 | 2,034 |
| Market risk | 2,350 | 2,350 | 2,520 | 1,919 | 1,896 | 2,048 |
| Counterparty default risk | 80 | 80 | 50 | 53 | 69 | 35 |
| Operational risk | 510 | 510 | 490 | 443 | 440 | 408 |
| Entities in other financial sectors | 80 | 80 | 80 | 68 | 68 | 68 |
| Diversification effect | | | | -1,215 | -1,206 | -1,245 |
| **Total (after diversification)** | **3,500** | **3,500** | **3,500** | **2,919** | **2,901** | **2,973** |

## 4.2.2. DZ BANK banking group

### REGULATORY CAPITAL RATIOS

Since January 1, 2014, the solvency ratios of the DZ BANK banking group have been calculated in accordance with the CRR. The main basis for calculating regulatory capital is therefore the capital reported in the IFRS consolidated financial statements. The CRR also defines an additional category of capital, core Tier 1 capital, which is also used to calculate a new, additional capital ratio. Owing to these changes, the values as at December 31, 2013 given below are not directly comparable with the values shown as at June 30, 2014.

The capital and the capital ratios at June 30, 2014 given below incorporate interim profit, although its inclusion is still subject to the approval of the regulators.

On the new IFRS basis, and applying the new CRR rules for the first time, the DZ BANK banking group's regulatory **capital** amounted to a total of €14,838 million as at June 30, 2014 (at December 31, 2013, it had stood at €15,270 million on the basis of HGB and before application of the CRR rules).

The aforementioned initial application of the CRR, combined with the new provisions on capital deduction and the transition to accounting in accordance with IFRS, caused **Tier 1 capital** at June 30, 2014 to decrease by €2,309 million compared with December 31, 2013. However, there were significant positive countervailing effects from the capital increase achieved by retaining profits reported in the 2013 annual financial statements of €997 million and from the interim profit of €892 million that was eligible for inclusion according to the regulators. This substantial boost to capital adequacy from the group's own resources, achieved by retaining profits from 2013 and the first half of 2014, underlines the DZ BANK Group's good level of profitability. Tier 1 capital comprises core Tier 1 capital of €10,282 million plus other Tier 1 capital of €1,397 million.

The €1,877 million rise in **Tier 2 capital** compared with December 31, 2013 was mainly due to application of the new rules on capital deductions pursuant to the CRR and does not include any additional Tier 2 capital.

Regulatory **capital requirements** were calculated to be €7,869 million as at June 30, 2014 (December 31, 2013: €6,828 million). The increase is primarily attributable to the introduction of the CRR.

The **total capital ratio** fell from 17.9 percent as at December 31, 2013 to 15.1 percent as at the balance sheet date. The **Tier 1 capital ratio** was 11.9 percent as at June 30, 2014 compared with the much higher ratio of 16.4 percent as at December 31, 2013. Calculated in accordance with the new CRR provisions, the **core Tier 1 capital ratio** stood at 10.5 percent as at the balance sheet date; according to internal calculations, the figure at December 31, 2013 would have been 9.2 percent. All these key ratios therefore exceeded the regulatory minimum ratios (8.0 percent for the total capital ratio, 5.5 percent for the Tier 1 capital ratio, and 4.0 percent for the core Tier 1 capital ratio).

Fig. 8 provides an overview of the DZ BANK banking group's regulatory capital ratios.

STRESS TESTS

At banking group level, DZ BANK conducts the quarterly regulatory stress tests that are required to verify that the group satisfies the solvency requirements in crisis situations. In these tests, a deterioration in credit ratings and collateral values is applied, depending on the bank and asset class concerned. In addition to this stress scenario, regulatory capital adequacy is tested by means of a standard scenario in which an even more significant deterioration in credit ratings is assumed.

### 4.2.3. R+V Versicherung AG insurance group

The R+V Versicherung AG insurance group and its companies met the minimum regulatory solvency requirements in the first half of 2014. Analysis of the capital market scenarios applied in the planning shows that the R+V Versicherung AG insurance group's solvency ratio will continue to exceed the minimum statutory requirement as at December 31, 2014.

**FIG. 8 – REGULATORY CAPITAL RATIOS OF THE DZ BANK BANKING GROUP**

| € million | Jun. 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 |
|---|---|---|---|
| **Capital** | | | |
| Core Tier 1 capital | 10,282 | 9,184 | |
| Additional Tier 1 capital | 1,397 | 1,358 | |
| **Total Tier 1 capital** | **11,679** | 10,542 | 13,988 |
| Total Tier 2 capital after capital deductions | 3,159 | 3,421 | 1,282 |
| **Total capital** | **14,838** | **13,963** | **15,270** |
| **Capital requirements** | | | |
| Credit risk (including long-term equity investments) | 6,414 | 6,664 | 5,451 |
| Market risk | 813 | 754 | 692 |
| Operational risk | 642 | 642 | 685 |
| **Total** | **7,869** | **8,060** | **6,828** |
| **Capital ratios** | | | |
| Total capital ratio | 15.1% | 13.8% | 17.9% |
| Tier 1 capital ratio | 11.9% | 10.4% | 16.4% |
| Core Tier 1 capital ratio | 10.5% | 9.1% | |

# Bank Sector

## 5. CREDIT RISK

### 5.1. LENDING VOLUME AND ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES

#### 5.1.1. Lending volume as risk factor

The amount and structure of the lending volume are key factors in determining the credit risk. For the purposes of internal credit risk management in the DZ BANK Group's Bank sector, the lending volume is broken down by credit-risk-bearing instrument – traditional lending, securities business, and derivatives and money market business. This breakdown corresponds to the risk classes required for the external reporting of risks arising from financial instruments.

The credit-risk-bearing instruments are also classified by sector, country group, credit rating, and term to maturity so that volume concentrations can be identified. Particularly in the case of an accumulation of exposures that have longer terms to maturity and a non-investment-grade rating, there is a danger that the credit risk will become serious, causing losses with a considerable negative impact on the financial performance and financial position of the DZ BANK Group.

Owing to the switch to the sectoral approach, R+V has been excluded from the comparative prior-year figures in the following disclosures relating to the Bank sector.

Since January 1, 2014, the lending volume and risk capital requirement have been included in the calculation of credit risk without loans and advances to central banks in the European Union and United States in line with enhancements to the policy of risk-oriented corporate management and in accordance with regulatory reporting requirements (article 114 CRR). As a result, these loans and advances are not included in the figures as at June 30, 2014. For better comparability, the values as at December 31, 2013 have been restated to reflect the changes to the calculation basis.

#### 5.1.2. Change in lending volume

The total lending volume of the DZ BANK Group was calculated as €298.8 billion as at June 30, 2014, which was virtually unchanged compared with December 31, 2013 (€298.2 billion). Fig. 10 shows a breakdown by type of business and average lending volume by type of business.

There was a small reduction in the volume of **traditional lending business**, which had decreased from €203.7 billion as at December 31, 2013 to €202.7 billion at the end of the reporting period. The credit quality breakdown within this type of business was unchanged year on year.

In the **securities business**, the volume expanded slightly, from €82.3 billion as at December 31, 2013 to €82.8 billion as at June 30, 2014. This was largely due to a rise in loans and advances to the public sector.

The €1.1 billion volume increase in **derivatives and money market operations** was mainly attributable to the growth in security financing transactions at DZ BANK. In the unsecured money markets business, there were substantial swings in the volume of lending, although these swings evened themselves out over the course of the first half of 2014. The average for the derivatives and money market business was calculated to be €13.3 billion as at June 30, 2014 (December 31, 2013: €12.2 billion).

#### 5.1.3. Collateralized lending volume

Fig. 9 shows the breakdown of collateralized lending volume at overall portfolio level by type of collateral and class of risk-bearing instrument. In the case of traditional lending business, figures are generally reported before the application of any offsetting agreements, whereas the collateralized exposures in the securities business and derivatives and money market business are shown net.

At €83.6 billion, the collateralized lending volume at June 30, 2014 was at the same level as at the end of last year (€83.2 billion). Because the underlying gross lending volume was also virtually unchanged, the collateralization rate as at June 30, 2014 was identical compared with December 31, 2013 at 28 percent.

In **traditional lending business**, the greatest proportion of collateralized lending volume – 75 percent as at June 30, 2014 (December 31, 2013: 74 percent) – was accounted for by lending secured by charges over physical assets such as land charges, mortgages, and registered ship mortgages. These types of collateral are particularly important for BSH, DG HYP, and DVB. In contrast, charges over physical assets are of lesser importance at DZ BANK because DZ BANK bases its lending decisions primarily on borrower credit quality. Other collateral mostly comprises extended retention of ownership and trade credit insurance in the centralized settlement and factoring business operated by VR-LEASING AG.

In the **securities business**, there is generally no further collateralization to supplement the hedging activities already taken into account. Equally, in **derivatives and money market business**, collateral received under collateral agreements is already factored into the calculation of gross lending volume with the result that only a comparatively low level of collateral (personal and financial collateral) is then additionally reported.

### 5.1.4. Sector structure of the credit portfolio

Fig. 10 shows the breakdown of the credit portfolio by sector, in which the lending volume is classified according to the industry codes used by Deutsche Bundesbank. This also applies to the other sector breakdowns related to credit risk in this opportunity and risk report.

As at June 30, 2014, a significant proportion (unchanged at 39 percent) of the lending volume continued to be concentrated in the financial sector. In addition to the local cooperative banks, the borrowers in this customer segment comprised banks from other sectors of the banking industry and other financial institutions.

In its role as the central institution for the Volksbanken Raiffeisenbanken cooperative financial network, DZ BANK provides funding for the entities in the DZ BANK Group and for the local cooperative banks. For this reason, the local cooperative banks account for one of the largest loans and advances items in the DZ BANK Group's credit portfolio. DZ BANK also supports the local cooperative banks in the provision

FIG. 9 – BANK SECTOR: COLLATERALIZED LENDING VOLUME, BY TYPE OF COLLATERAL

| | Traditional lending business | | Securities business | | Derivatives and money market business | | Total | |
|---|---|---|---|---|---|---|---|---|
| € billion | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Guarantees, indemnities, risk subparticipation | 13.2 | 13.6 | – | – | 0.3 | 0.3 | 13.5 | 13.9 |
| Credit insurance | 1.6 | 1.5 | – | – | – | – | 1.6 | 1.5 |
| Land charges, mortgages, ship mortgages | 61.8 | 61.4 | – | – | – | 0.1 | 61.8 | 61.4 |
| Pledged loans and advances, assignments, other pledged assets | 3.8 | 4.0 | – | – | – | – | 3.8 | 4.1 |
| Financial collateral | 1.1 | 0.8 | – | – | 0.2 | 0.1 | 1.4 | 1.0 |
| Other collateral | 1.4 | 1.4 | – | – | – | – | 1.4 | 1.4 |
| **Collateralized lending volume** | **82.9** | **82.8** | **–** | **–** | **0.6** | **0.4** | **83.6** | **83.2** |
| Gross lending volume | 202.7 | 203.7 | 82.8 | 82.3 | 13.3 | 12.2 | 298.8 | 298.2 |
| **Uncollateralized lending volume** | **119.7** | **120.9** | **82.8** | **82.3** | **12.7** | **11.8** | **215.2** | **215.0** |
| **Collateralization rate** | **41%** | **41%** | **–** | **–** | **5%** | **4%** | **28%** | **28%** |

of larger-scale funding to corporate customers. The resulting syndicated business, DZ BANK, DG HYP and DVB's direct business with corporate customers in Germany and abroad, the retail real-estate business under the umbrella of BSH, and TeamBank's consumer finance business determine the sectoral breakdown of the remainder of the portfolio.

### 5.1.5. Geographical structure of the credit portfolio

Fig. 11 shows the geographical distribution of the credit portfolio by country group. The lending volume is assigned to the individual country groups using the International Monetary Fund's breakdown, which is updated annually. This also applies to the other country-group breakdowns related to credit risk in this opportunity and risk report.

As at June 30, 2014, 94 percent of the total lending volume continued to be concentrated in Germany and other industrialized countries.

### 5.1.6. Residual maturity structure of the credit portfolio

#### RESIDUAL MATURITIES IN THE OVERALL CREDIT PORTFOLIO

The breakdown of the credit portfolio by residual maturity presented in fig. 12 shows that the lending volume in the long-term maturity band rose by €5.2 billion between December 31, 2013 and June 30, 2014. This increase is largely due to long-term investments at BSH and DZ BANK. The decline in the lending volume in the medium-term maturity band predominantly relates to DZ BANK, while the reduction in the exposure in the short-term maturity

**FIG. 10 – BANK SECTOR: LENDING VOLUME, BY SECTOR**

| | Traditional lending business | | Securities business | | Derivatives and money market business | | Total | |
|---|---|---|---|---|---|---|---|---|
| € billion | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Financial sector | 73.3 | 73.9 | 34.2 | 34.6 | 9.6 | 9.0 | 117.2 | 117.5 |
| Public sector | 7.0 | 7.3 | 40.7 | 38.8 | 0.9 | 0.9 | 48.6 | 47.0 |
| Corporates | 76.7 | 77.4 | 2.8 | 3.3 | 1.9 | 1.7 | 81.4 | 82.4 |
| Retail | 42.1 | 41.4 | 3.7 | 4.0 | – | – | 45.8 | 45.4 |
| Industry conglomerates | 2.9 | 2.8 | 1.4 | 1.7 | 0.8 | 0.6 | 5.1 | 5.1 |
| Other | 0.7 | 0.8 | – | – | – | – | 0.7 | 0.8 |
| **Total** | **202.7** | **203.7** | **82.8** | **82.3** | **13.3** | **12.2** | **298.8** | **298.2** |

**FIG. 11 – BANK SECTOR: LENDING VOLUME, BY COUNTRY GROUP**

| | Traditional lending business | | Securities business | | Derivatives and money market business | | Total | |
|---|---|---|---|---|---|---|---|---|
| € billion | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Germany | 165.3 | 166.1 | 54.4 | 52.7 | 8.7 | 7.9 | 228.4 | 226.8 |
| Other industrialized nations | 24.4 | 24.5 | 25.5 | 26.4 | 3.9 | 3.5 | 53.8 | 54.4 |
| Advanced economies | 3.8 | 3.7 | 0.3 | 0.5 | 0.1 | 0.1 | 4.2 | 4.3 |
| Non-industrialized nations | 9.1 | 9.3 | 0.7 | 0.8 | 0.3 | 0.3 | 10.1 | 10.3 |
| Supranational institutions | – | – | 1.9 | 1.9 | 0.4 | 0.6 | 2.2 | 2.4 |
| **Total** | **202.7** | **203.7** | **82.8** | **82.3** | **13.3** | **12.2** | **298.8** | **298.2** |

band is primarily attributable to the contraction of securities portfolios at DG HYP.

LENDING VOLUME PAST DUE BUT NOT IMPAIRED

Fig. 13 and fig. 14 show the portion of the lending volume that is past due but not impaired. The disclosures largely relate to traditional lending business.

No valuation allowances were recognized for these loans because the amounts past due were generally repaid promptly. Furthermore, it can be assumed that the entire amounts due under the lending agreements concerned could be collected by recovering collateral. Because of the conservative risk provisioning policy of the entities in the DZ BANK Group, past-due loans only account for a relatively small proportion of the overall credit portfolio.

The past-due loans in arrears by more than 3 months amounting to €284 million (December 31, 2013: €430 million) were predominantly loans secured by mortgages. The contraction of the lending volume largely related to the corporates sector at DVB.

### 5.1.7. Rating structure of the credit portfolio

Fig. 15 shows the DZ BANK Group's lending volume by **rating class** according to the credit rating master scale. 'Not rated' comprises counterparties for which a rating classification is not required.

The proportion of the total credit portfolio accounted for by rating classes 1A to 3A (investment grade) was 74 percent as at June 30, 2014 (December 31, 2013: 73 percent). The proportion of the total lending volume accounted for by rating classes 3B to 4E

FIG. 12 – BANK SECTOR: LENDING VOLUME, BY RESIDUAL MATURITY

| | Traditional lending business | | Securities business | | Derivatives and money market business | | Total | |
|---|---|---|---|---|---|---|---|---|
| € billion | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| ≤ 1 year | 46.5 | 47.5 | 13.7 | 15.6 | 7.9 | 7.1 | 68.1 | 70.2 |
| > 1 year to ≤ 5 years | 50.3 | 50.8 | 31.5 | 33.0 | 1.8 | 2.2 | 83.5 | 86.0 |
| > 5 years | 105.9 | 105.4 | 37.6 | 33.8 | 3.6 | 2.9 | 147.2 | 142.0 |
| Total | 202.7 | 203.7 | 82.8 | 82.3 | 13.3 | 12.2 | 298.8 | 298.2 |

FIG. 13 – BANK SECTOR: LENDING VOLUME PAST DUE BUT NOT IMPAIRED, BY SECTOR

| | Past due up to 5 days | | Past due > 5 days to 1 month | | Past due > 1 month to 2 months | | Past due > 2 months to 3 months | | Past due > 3 months | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| € million | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Financial sector | 138 | 38 | 1 | 5 | – | 2 | 1 | 1 | 3 | 5 | 143 | 50 |
| Public sector | 95 | 107 | 1 | – | – | 1 | – | – | – | – | 96 | 109 |
| Corporates | 408 | 46 | 222 | 133 | 30 | 70 | 30 | 33 | 254 | 297 | 944 | 679 |
| Retail | 742 | 590 | 21 | 46 | 14 | 16 | 6 | 7 | 26 | 27 | 810 | 686 |
| Industry conglomerates | 30 | – | – | 1 | – | – | – | – | – | – | 31 | 1 |
| Other | – | – | 1 | 1 | – | 1 | – | – | 1 | 1 | 2 | 4 |
| Total | 1,413 | 781 | 247 | 186 | 45 | 90 | 37 | 42 | 284 | 430 | 2,026 | 1,530 |

FIG. 14 – BANK SECTOR: LENDING VOLUME PAST DUE BUT NOT IMPAIRED, BY COUNTRY GROUP

| € million | Past due up to 5 days | | Past due > 5 days to 1 month | | Past due > 1 month to 2 months | | Past due > 2 months to 3 months | | Past due > 3 months | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Germany | 1,243 | 739 | 78 | 77 | 23 | 81 | 34 | 31 | 97 | 142 | 1,475 | 1,069 |
| Other industrialized nations | 157 | 39 | 71 | 24 | – | – | – | 8 | 18 | 114 | 248 | 185 |
| Advanced economies | – | – | – | – | – | 4 | 1 | – | 69 | 83 | 70 | 89 |
| Non-industrialized nations | 13 | 2 | 97 | 86 | 20 | 5 | 2 | 2 | 100 | 91 | 233 | 186 |
| Supranational institutions | – | – | – | – | – | – | – | – | – | – | – | – |
| **Total** | **1,413** | 781 | **247** | 186 | **45** | 90 | **37** | 42 | **284** | 430 | **2,026** | 1,530 |

FIG. 15 – BANK SECTOR: LENDING VOLUME, BY RATING CLASS

| € billion | | Traditional lending business | | Securities business | | Derivatives and money market business | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Investment grade | 1A | 2.2 | 2.2 | 35.3 | 33.6 | 1.8 | 1.9 | 39.3 | 37.7 |
| | 1B | 2.3 | 2.4 | 3.8 | 4.0 | 1.1 | 0.2 | 7.2 | 6.7 |
| | 1C | 65.7 | 67.9 | 11.2 | 11.0 | 3.9 | 3.7 | 80.9 | 82.6 |
| | 1D | 1.6 | 1.4 | 1.5 | 2.1 | 0.1 | 0.2 | 3.2 | 3.8 |
| | 1E | 2.0 | 1.7 | 1.0 | 2.1 | 0.2 | 0.3 | 3.2 | 4.1 |
| | 2A | 7.0 | 6.8 | 2.3 | 1.2 | 1.8 | 1.3 | 11.1 | 9.3 |
| | 2B | 5.9 | 6.0 | 5.3 | 5.5 | 0.7 | 0.9 | 11.9 | 12.4 |
| | 2C | 11.9 | 11.8 | 6.0 | 6.1 | 1.6 | 1.1 | 19.5 | 19.0 |
| | 2D | 9.6 | 9.8 | 2.3 | 2.6 | 0.5 | 1.0 | 12.4 | 13.4 |
| | 2E | 12.9 | 12.5 | 3.8 | 3.7 | 0.6 | 0.5 | 17.2 | 16.7 |
| | 3A | 12.4 | 11.2 | 1.6 | 1.9 | 0.2 | 0.2 | 14.1 | 13.3 |
| Non-investment grade | 3B | 16.1 | 16.4 | 1.0 | 0.8 | 0.1 | 0.1 | 17.2 | 17.2 |
| | 3C | 10.9 | 11.5 | 2.1 | 2.0 | 0.1 | 0.1 | 13.1 | 13.6 |
| | 3D | 8.4 | 8.0 | 1.0 | 1.0 | 0.1 | 0.1 | 9.5 | 9.1 |
| | 3E | 7.7 | 7.2 | 0.6 | 0.8 | – | – | 8.4 | 8.1 |
| | 4A | 1.9 | 2.2 | 0.1 | 0.1 | – | – | 2.1 | 2.3 |
| | 4B | 1.6 | 2.2 | 0.2 | 0.1 | – | – | 1.8 | 2.3 |
| | 4C | 5.1 | 5.1 | 0.3 | 0.3 | – | – | 5.4 | 5.4 |
| | 4D | 4.6 | 4.3 | – | 0.1 | – | – | 4.7 | 4.4 |
| | 4E | 4.4 | 4.9 | 0.2 | 0.4 | 0.1 | 0.1 | 4.7 | 5.4 |
| Default | | 5.5 | 5.6 | 0.2 | 0.2 | – | – | 5.7 | 5.8 |
| Not rated | | 2.6 | 2.5 | 3.0 | 2.8 | 0.4 | 0.3 | 6.0 | 5.7 |
| **Total** | | **202.7** | 203.7 | **82.8** | 82.3 | **13.3** | 12.2 | **298.8** | 298.2 |

(non-investment grade) was 22 percent as at June 30, 2014 (December 31, 2013: 23 percent). Defaults in rating classes 5A to 5E as at June 30, 2014 accounted for 2 percent of the DZ BANK Group's total lending volume and thus remained at the low level of the previous year.

As at June 30, 2014, the ten counterparties associated with the largest lending volumes accounted for 10 percent of the DZ BANK Group's total lending exposure (December 31, 2013: 9 percent). These counterparties comprised exclusively financial-sector and public-sector borrowers. All these exposures consisted of investment-grade lending.

### 5.1.8. Allowances for losses on loans and advances, non-performing exposures

ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES

Fig. 16 shows the change in allowances (specific loan loss allowances, including the specific loan loss allowances evaluated on a group basis and portfolio loan loss allowances), the provisions for loan commitments, and liabilities under financial guarantee contracts in the first half of 2014 and in the corresponding period of 2013 for the entire credit portfolio of the entities in the DZ BANK Group.

The components of the loan-loss allowances shown in the tables are also disclosed in the notes to the interim consolidated financial statements (note 23).

In the first half of this year, the DZ BANK Group decreased its **specific loan loss allowances** by €64 million. There had been a net reduction of €33 million in the corresponding period of 2013.

Given the ongoing crisis in some eurozone countries and the resulting impact on economic and market conditions, the level of specific loan loss allowances is expected to rise over the further course of this year.

**Portfolio loan loss allowances** in the DZ BANK Group saw a net reversal of €17 million (first half of 2013: net reversal of €15 million).

The generally positive macroeconomic trends in the first half of the year meant that there was only a small net addition to provisions at DZ BANK Group level, as had been the case in the corresponding prior-year period.

Provisions for loan commitments are a component of the 'Provisions' balance sheet item. Liabilities under financial guarantee contracts are reported under 'Other liabilities' on the balance sheet.

FIG. 16 – BANK SECTOR: ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES

| | Specific loan loss allowances[1] | | Portfolio loan loss allowances | | Total loan loss allowances | | Provisions for loan commitments and liabilities under financial guarantee contracts | |
|---|---|---|---|---|---|---|---|---|
| € million | 1st half of 2014 | 1st half of 2013 | 1st half of 2014 | 1st half of 2013 | 1st half of 2014 | 1st half of 2013 | 1st half of 2014 | 1st half of 2013 |
| Balance as at Jan. 1 | 2,010 | 1,977 | 530 | 532 | 2,540 | 2,509 | 146 | 145 |
| Additions | 302 | 410 | 46 | 83 | 348 | 493 | 19 | 24 |
| Utilizations | -125 | -223 | – | – | -125 | -223 | – | – |
| Reversals | -225 | -196 | -62 | -97 | -287 | -293 | -18 | -22 |
| Interest income | -17 | -17 | – | – | -17 | -17 | 1 | |
| Other changes | 1 | -7 | -1 | -1 | – | -8 | – | – |
| Balance as at Jun. 30 | 1,946 | 1,944 | 513 | 517 | 2,459 | 2,461 | 148 | 147 |
| Directly recognized impairment losses | 28 | 71 | – | – | 28 | 71 | | |
| Receipts from loans and advances previously impaired | -28 | -24 | – | – | – | -24 | | |

1 Including specific loan loss allowances evaluated on a group basis.

IMPAIRED LENDING VOLUME

Fig. 17 and fig. 18 show the impaired lending volume. The disclosures largely relate to traditional lending business. As at June 30, 2014, the lending volume after allowances and impairment losses stood at €2,680 million (December 31, 2013: €2,792 million), slight decline that was mainly attributable to increases at DZ BANK in the corporates sector.

VOLUME OF NON-PERFORMING LOANS

Fig. 19 shows key figures relating to the volume of non-performing loans. The small decrease in the volume of non-performing loans during the first half of 2014 from €5.8 billion to €5.7 billion meant that the NPL ratio was unchanged year on year at 1.9 percent given the marginal rise in the total lending volume from €298.2 billion to €298.8 billion.

## 5.2. CREDIT PORTFOLIOS WITH INCREASED RISK CONTENT

### 5.2.1. Targeted management action

The following disclosures relating to exposures and adjustments in subportfolios also form part of the above analyses of the entire credit portfolio. However, a separate analysis of these subportfolios has been included because of their significance for the risk position in the DZ BANK Group's Bank sector.

Since the start of the financial crisis, the entities in the Bank sector have stepped up the monitoring of their credit portfolio, with attention focused on exposure to the financial sector and to selected countries and regions of the world. Individual exposures are subject to intensified loan management using standard processes within the workout management system. The risks in subportfolios are monitored and analyzed with the aid of a regular reporting system.

FIG. 17 – BANK SECTOR: IMPAIRED LENDING VOLUME, BY SECTOR

| | Amount before specific loan loss allowances | | Specific loan loss allowances | | Amount after specific loan loss allowances | |
|---|---|---|---|---|---|---|
| € million | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Financial sector | 593 | 590 | 265 | 245 | 328 | 345 |
| Public sector | – | – | – | – | – | – |
| Corporates | 2,807 | 3,129 | 1,008 | 1,219 | 1,799 | 1,910 |
| Retail | 1,039 | 1,024 | 487 | 490 | 552 | 534 |
| Industry conglomerates | – | – | – | – | – | – |
| Other | 186 | 59 | 186 | 56 | – | 3 |
| **Total** | **4,626** | **4,802** | **1,946** | **2,010** | **2,680** | **2,792** |

FIG. 18 – BANK SECTOR: IMPAIRED LENDING VOLUME, BY COUNTRY GROUP

| | Amount before specific loan loss allowances | | Specific loan loss allowances | | Amount after specific loan loss allowances | |
|---|---|---|---|---|---|---|
| € million | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Germany | 2,509 | 2,518 | 1,197 | 1,242 | 1,312 | 1,276 |
| Other industrialized nations | 1,070 | 1,107 | 286 | 270 | 784 | 837 |
| Advanced economies | 387 | 435 | 142 | 151 | 245 | 284 |
| Non-industrialized nations | 660 | 742 | 321 | 347 | 339 | 395 |
| Supranational institutions | – | – | – | – | – | – |
| **Total** | **4,626** | **4,802** | **1,946** | **2,010** | **2,680** | **2,792** |

**FIG. 19 – BANK SECTOR: KEY FIGURES FOR THE VOLUME OF NON-PERFORMING LOANS**

| € billion | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Total lending volume | 298.8 | 298.2 |
| Volume of non-performing loans[1] | 5.7 | 5.8 |
| Balance of allowances for losses on loans and advances[2] | 2.5 | 2.5 |
| Loan loss allowance ratio[3] | 0.8% | 0.8% |
| Risk cover ratio[4] | 43.3% | 42.3% |
| NPL ratio[5] | 1.9% | 1.9% |

1 Volume of non-performing loans excluding securities (non-performing loans – NPL) in accordance with the definition of default in Basel II (corresponds to ratings 5A to 5E on the VR master scale).
2 Total of specific loan loss allowances, portfolio loan loss allowances, provisions for loan commitments, and liabilities under financial guarantee contracts.
3 Balance of allowances for losses on loans and advances as a proportion of total lending volume.
4 Balance of allowances for losses on loans and advances as a proportion of the volume of non-performing loans.
5 Volume of non-performing loans as a proportion of total lending volume.

### 5.2.2. Peripheral European countries

In the first half of this year, the entities in the DZ BANK Group's Bank sector achieved further reductions in their exposure to counterparties in countries directly affected by the European sovereign debt crisis. This exposure contracted from €11,486 million as at December 31, 2013 to €11,477 million as at June 30, 2014.

Fig. 20 shows the borrower structure broken down by credit-risk-bearing instrument.

As at June 30, 2014, the lending volume extended to counterparties in Cyprus, Hungary, and Slovenia in total accounted for less than 1 percent of the DZ BANK Group's total lending volume, a low level similar to that at the end of 2013.

In the first half of the year, there was a net reversal of €1 million in specific loan loss allowances in the Bank sector's portfolio of European sovereign debt (first half of 2013: €0.2 million). Portfolio loan loss allowances saw a net reversal of €9.2 million (first half of 2013: net reversal of €2.0 million). During the first half of 2014, no changes were made to the provisions for loan commitments or liabilities under financial guarantee contracts. There had been a net addition of €0.2 million in the corresponding period of 2013.

### 5.2.3. Shipping finance

As at June 30, 2014, the **DZ BANK Group's** shipping finance portfolio had a value of €9,800 million (December 31, 2013: €10,119 million). Fig. 21 shows the portfolio structure by country group and credit-risk-bearing instrument.

As at June 30, 2014, **DVB's** shipping finance portfolio comprised finance provided for 1,173 vessels and 0.9 million containers (December 31, 2013: 1,220 vessels and 1.4 million containers). The average exposure was unchanged between December 31, 2013 and June 30, 2014 at €31 million. The largest single exposure had a volume of €189 million (December 31, 2013: €193 million).

DVB's total exposure as at June 30, 2014 amounted to €8,866 million (December 31, 2013: €9,203 million). The shipping finance portfolio is broadly diversified in terms of geographical region, type of vessel, borrower, charterer, and shipping activity. The proportion accounted for by tankers had decreased slightly, from 44 percent as at December 31, 2013 to 43.5 percent as at June 30, 2014. This equated to a volume of €3,806 million (December 31, 2013: €4,000 million). The proportion of the portfolio accounted for by crude tankers had also fallen, declining from €1,187 million (13 percent) as at December 31, 2013 to €1,039 million (12 percent) as at June 30, 2014. DVB stopped financing single-hull oil tankers a number of years ago because of the potential threat to the environment. The portfolio is almost fully collateralized in compliance with DVB strategy.

**DZ BANK's** shipping finance exposures amounted to €934 million as at June 30, 2014 (December 31, 2013: €916 million). Broken down by type of ship, the portfolio was focused mainly on multifunctional merchant vessels and, in terms of carrying capacity, comprised almost exclusively small- to medium-sized vessels. DZ BANK's shipping finance portfolio is mainly concentrated in Germany but broadly diversified by type of vessel, borrower, charterer, and shipping activity.

At the DZ BANK Group level, there was a net addition of €21.2 million to specific loan loss allowances for shipping finance in the first half of the year (first

FIG. 20 – BANK SECTOR: LOANS AND ADVANCES TO BORROWERS IN THE COUNTRIES PARTICULARLY AFFECTED BY THE SOVEREIGN DEBT CRISIS

| | Traditional lending business[1] | | Securities business | | Derivatives and money market business | | Total | |
|---|---|---|---|---|---|---|---|---|
| € million | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Portugal | 124 | 129 | 786 | 883 | 1 | 3 | 911 | 1,015 |
| of which: public sector | – | – | 619 | 678 | – | – | 619 | 678 |
| of which: non-public sector | 124 | 129 | 167 | 205 | 1 | 3 | 292 | 337 |
| of which: financial sector | – | – | 45 | 96 | – | 3 | 45 | 99 |
| Italy | 222 | 246 | 3,271 | 3,110 | 39 | 54 | 3,533 | 3,410 |
| of which: public sector | – | – | 2,617 | 2,331 | – | – | 2,617 | 2,331 |
| of which: non-public sector | 222 | 246 | 655 | 779 | 39 | 54 | 916 | 1,079 |
| of which: financial sector | 36 | 36 | 266 | 426 | 35 | 49 | 337 | 512 |
| Ireland | 719 | 861 | 203 | 222 | 123 | 81 | 1,045 | 1,163 |
| of which: public sector | – | – | – | – | – | – | – | – |
| of which: non-public sector | 719 | 861 | 203 | 222 | 123 | 81 | 1,045 | 1,163 |
| of which: financial sector | – | – | 172 | 172 | 123 | 80 | 295 | 253 |
| Greece | 164 | 139 | 5 | 40 | – | – | 170 | 179 |
| of which: public sector | – | – | – | – | – | – | – | – |
| of which: non-public sector | 164 | 139 | 5 | 40 | – | – | 170 | 179 |
| of which: financial sector | – | – | 2 | 2 | – | – | 2 | 2 |
| Spain | 385 | 439 | 5,417 | 5,227 | 18 | 53 | 5,819 | 5,719 |
| of which: public sector | 45 | 53 | 2,802 | 2,537 | – | – | 2,847 | 2,590 |
| of which: non-public sector | 340 | 386 | 2,614 | 2,689 | 18 | 53 | 2,972 | 3,129 |
| of which: financial sector | 27 | 62 | 1,482 | 1,515 | 17 | 53 | 1,526 | 1,630 |
| **Total** | **1,613** | **1,814** | **9,683** | **9,481** | **181** | **191** | **11,477** | **11,486** |
| of which: public sector | 45 | 53 | 6,038 | 5,546 | – | – | 6,083 | 5,599 |
| of which: non-public sector | 1,568 | 1,761 | 3,645 | 3,936 | 181 | 191 | 5,394 | 5,888 |
| of which: financial sector | 64 | 99 | 1,967 | 2,212 | 175 | 185 | 2,205 | 2,496 |

1 Unlike the other presentations of lending volume, traditional lending business in this case includes equity investments.

FIG. 21 – BANK SECTOR: SHIPPING FINANCE LENDING VOLUME, BY COUNTRY GROUP

| | Traditional lending business | | Securities business | | Derivatives business | | Total | |
|---|---|---|---|---|---|---|---|---|
| € million | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 | Dec. 31, 2013 |
| Germany | 1,387 | 1,309 | – | – | 17 | 20 | 1,404 | 1,328 |
| Other industrialized nations | 4,923 | 5,063 | – | – | 26 | 27 | 4,949 | 5,091 |
| Advanced economies | 1,945 | 1,920 | – | – | 2 | 3 | 1,947 | 1,923 |
| Non-industrialized nations | 1,473 | 1,677 | 18 | 90 | 8 | 10 | 1,499 | 1,777 |
| **Total** | **9,729** | **9,969** | **18** | **90** | **53** | **60** | **9,800** | **10,119** |

half of 2013: €20.8 million). Portfolio loan loss allowances saw a net reversal of €8.8 million (first half of 2013: net addition of €11.8 million). The net addition to provisions for loan commitments and liabilities under financial guarantee contracts came to €0.1 million in the reporting period (first half of 2013: net reversal of €0.5 million).

### 5.2.4. Securitizations

The changes in the securitization portfolio in the first half of 2014 were largely in line with expectations, whether in terms of redemptions, rating migrations, or the performance of the portfolio. During the first 6 months of the year, the entities in the DZ BANK Group made greater use of the still benign market environment to focus on disposals with the objective of optimizing capital.

The **fair value** of the DZ BANK Group's securitization exposure as at June 30, 2014 amounted to €7,675 million after having been as high as €8,479 million as at December 31, 2013. This equates to a reduction of 13 percent. The fall in the fair value of the portfolios held by the group was largely the result of redemptions and disposals. The increases in value resulting from the recovery in prices helped to offset these changes. Since December 31, 2008, the securitization exposure has been cut by a total of 69 percent.

As at June 30, 2014, 62 percent (December 31, 2013: 61 percent) of the loans and advances in the reference portfolios were to borrowers in European countries, in particular Germany, the United Kingdom, Spain, and the Netherlands. Of the total borrowers, 33 percent were domiciled in the United States as at the reporting date (December 31, 2013: 34 percent). The credit rating awarded to each securitization was based on the lowest available rating issued by the rating agencies Standard & Poor's, Moody's, and Fitch. As at June 30, 2014, 22 percent (December 31, 2013: 26 percent) of the **securitization exposure on the balance sheet** consisted of AAA tranches according to external credit agency ratings. A total of 82 percent (December 31, 2013: 81 percent) was rated as investment grade (up to BBB-).

Within the total exposure at the end of the 6 months under review, €2,715 million (December 31, 2013: €2,687 million) was related to **exposures to special-purpose entities (SPEs)**. Of this amount, 74 percent had been accounted for by undrawn SPE lines of credit as at December 31, 2013. As at June 30, 2014, 83 percent (December 31, 2013: 81 percent) of securitization exposure to SPEs was in external rating class A or higher. Rating classes BBB+ to B- made up 17 percent (December 31, 2013: 19 percent) of the total exposure to SPEs as at June 30, 2014.

Securitization exposures in the **collateralized debt obligations** (CDOs) product category amounted to €390 million as at June 30, 2014 (December 31, 2013: €548 million). The volume of the **subprime portfolio** totaled €336 million as at the balance sheet date, below the level of €423 million as at December 31, 2013. As at June 30, 2014, the volume of assets insured by **monoliners** remained negligible and was therefore unchanged compared with the end of the previous year.

Fig. 22 summarizes the changes in the securitization portfolio in the first half of the year, broken down by **changes in portfolio composition and changes in fair value**. As at June 30, 2014, there had been an overall increase in fair value of €234 million, largely attributable to the recovery in prices. During the first 6 months of 2013, there had been an increase in fair value of €257 million.

### 5.2.5. Leveraged finance

The DZ BANK Group's lending business covers a number of areas, including the provision of finance in connection with mergers and acquisitions. If this finance is to support a transaction with above-average leverage, this leads to increased risk. Such leveraged finance transactions primarily include the types of acquisition finance listed below, especially for private equity companies whose credit ratings essentially depend on the cash flows expected to be generated by the acquired entity.

The DZ BANK Group distinguishes between the following types of transaction:

– leveraged buyouts by financial sponsors
– recapitalization and funding of acquisitions
– management buyouts and management buyins.

Of all the entities in the DZ BANK Group, only DZ BANK is involved in the leveraged finance product segment, and then only on a small scale.

The following disclosures relate to the gross lending volume of leveraged finance transactions, which is based on carrying amounts and does not include credit risk mitigation techniques or the recognition of loan loss allowances.

The loan commitments granted by DZ BANK in this product segment totaled €1,229 million as at June 30, 2014 (December 31, 2013: €1,216 million). Of this total, loans amounting to €1,025 million (December 31, 2013: €968 million) had already been drawn down and outstanding loan commitments came to €204 million (December 31, 2013: €248 million).

The leveraged finance portfolio was hedged by credit derivatives and guarantees in the amount of €11 million as at the balance sheet date (December 31, 2013: €5 million).

As at June 30, 2014, the exposures in the portfolio revealed a broad sectoral diversification, with over 80 percent relating to entities based in the European Union, as indeed had also been the case at the end of 2013.

In the first half of the year, there was a net addition of €15 million to specific loan loss allowances in the leveraged finance portfolio (first half of 2013: €1 million). Net additions to portfolio loan loss allowances of €0.1 million were recognized (first half of 2013: net reversal of €1.3 million).

### 5.3. RISK POSITION

The amount of capital required to cover credit risk is based on a number of factors, including the size of single-borrower exposures, individual ratings, and the industry sector of each exposure.

As at June 30, 2014, the risk capital requirement in the DZ BANK Group amounted to €3,059 million (December 31, 2013: €2,941 million). The DZ BANK Group also set an upper loss limit of €3,887 million (December 31, 2013: €3,710 million). The risk capital requirement did not exceed the upper loss limit at any point in the first half of the year.

Fig. 23 shows the risk capital requirement together with the average probability of default and expected loss.

FIG. 22 – BANK SECTOR: CHANGES IN THE COMPOSITION AND VALUE OF THE SECURITIZATION PORTFOLIO

| € million | **Fair value as at Jan. 1, 2014 before changes in composition and value** | Changes in composition due to purchases, sales, redemptions, and exchange-rate fluctuations | Changes in value | **Fair value as at Jun. 30, 2014 after changes in composition and value** |
|---|---|---|---|---|
| Receivables from retaM il loans | 3,967 | -486 | 206 | **3,687** |
| of which: RMBSs | 3,704 | -459 | 206 | **3,451** |
| of which: assets classified as subprime | 423 | -104 | 16 | **336** |
| of which: assets classified as Alt-A | 84 | -18 | 5 | **71** |
| Receivables from corporate loans | 522 | -179 | 2 | **346** |
| Receivables from CMBSs | 754 | -237 | 18 | **536** |
| Receivables from CDOs | 548 | -165 | 7 | **390** |
| Total exposure reported on the balance sheet | 5,792 | -1,067 | 234 | **4,959** |
| Exposures to special-purpose entities[1] | 2,687 | 28 | – | **2,715** |
| **Total** | **8,479** | **-1,038** | **234** | **7,675** |

1 Including reported receivables from special-purpose entities, especially ABCP conduits, and liquidity facilities provided for ABCP conduits.

## 6. EQUITY RISK

The **investment carrying amounts** relevant for the measurement of equity risk in the Bank sector amounted to €3,168 million as at June 30, 2014 (December 31, 2013: €3,171 million). R+V has been eliminated from the original prior-year figure of €3,406 million owing to the switch to the sectoral approach. The relevant risks arising on the long-term equity investments of R+V are now included in the market risk module of Solvency II (equity sub-module).

As at June 30, 2014, the **economic capital requirement** for equity risk was measured at €695 million, a decrease on the corresponding figure of €750 million as at December 31, 2013. The upper loss limit as at June 30, 2014 was €958 million (December 31, 2013: €1,115 million).

R+V has been eliminated from the original prior-year figures (risk capital requirement of €783 million; upper loss limit of €1,225 million) owing to the switch to the sectoral approach.

The upper loss limit was not exceeded at any time during the first half of 2014.

## 7. MARKET RISK

### 7.1. RISK CAPITAL REQUIREMENT

As at June 30, 2014, the economic capital requirement for market risk amounted to €2,909 million (December 31, 2013: €3,289 million) with an upper loss limit of €6,428 million (December 31, 2013: €6,620 million). The fall in the risk capital requirement and upper loss limit was due to the decrease in spread volatilities.

R+V has been eliminated from, and spread risk and migration risk on securities have been added to, the original prior-year figures (risk capital requirement of €2,136 million; upper loss limit of €3,495 million) owing to the switch to the sectoral approach.

The risk capital requirement did not exceed the upper loss limit at any point during the reporting period.

### 7.2. VALUE-AT-RISK

As at June 30, 2014, the value-at-risk used for managing short-term risk in the banking business in the DZ BANK Group amounted to €24 million (December 31, 2013: €31 million) for the trading portfolios and €42 million (December 31, 2013: €60 million) for the non-trading portfolios. The significant fall in risk was attributable to the fact that historical market scenarios that had previously been relevant were no longer included in the value-at-risk calculation.

Fig. 24 shows the changes in the total value-at-risk for the DZ BANK Group in the first half of the year.

A groupwide, centralized risk model was introduced in the 6 months under review. For better comparability, the values as at December 31, 2013 shown in fig. 24 have been restated to reflect the new methodology.

Fig. 25 shows the changes in risk and the results of daily backtesting of DZ BANK's trading portfolios. The value-at-risk was mostly stable in the first half

FIG. 23 – BANK SECTOR: FACTORS DETERMINING THE CAPITAL REQUIREMENT FOR CREDIT RISK

| | Average probability of default | | Expected loss (€ million) | | Risk capital requirement (€ million) | |
|---|---|---|---|---|---|---|
| | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Traditional credit risk | 0.7% | 0.6% | 395 | 401 | 1,733 | 1,718 |
| Issuer risk | 0.4% | 0.4% | 101 | 116 | 1,107 | 1,038 |
| Replacement risk | 0.1% | 0.2% | 10 | 10 | 219 | 185 |
| **Total** | | | **505** | **526** | **3,059** | **2,941** |
| **Average** | **0.5%** | **0.6%** | | | | |

of this year. The minor decreases in risk in February and June were attributable to the fact that historical market scenarios that had previously been relevant were no longer included in the calculation of risk. In the period under review, there were no changes in fair value that would have resulted in forecast risk values being exceeded.

## 8. TECHNICAL RISK OF A HOME SAVINGS AND LOAN COMPANY

As at June 30, 2014, the **capital requirement** for the technical risk of a home savings and loan company amounted to €496 million (December 31, 2013: €576 million) with an upper loss limit of €500 million (December 31, 2013: €600 million). The annual revaluation of risk and regular updating of the relevant parameters revealed that the general conditions had improved, which led to a reduction in the risk value.

The risk capital requirement did not exceed the applicable upper loss limit at any point during the first half of 2014.

## 9. BUSINESS RISK AND REPUTATIONAL RISK

As at June 30, 2014, the **economic capital requirement for business risk** amounted to €356 million (December 31, 2013: €308 million). The main reasons for this increase were adjustments to the measurement method used at DZ BANK, lower budgeted costs, and the introduction of the earnings-at-risk approach in other group entities. The upper loss limit for business risk as at June 30, 2014 was €451 million (December 31, 2013: €349 million).

R+V has been eliminated from the original prior-year figures (risk capital requirement of €416 million; upper loss limit of €489 million) owing to the switch to the sectoral approach.

The risk capital requirement did not exceed the applicable upper loss limit at any point during the first 6 months of the year.

**Reputational risk is included** implicitly in risk measurement and risk capitalization through other risk types, above all business risk and technical risk

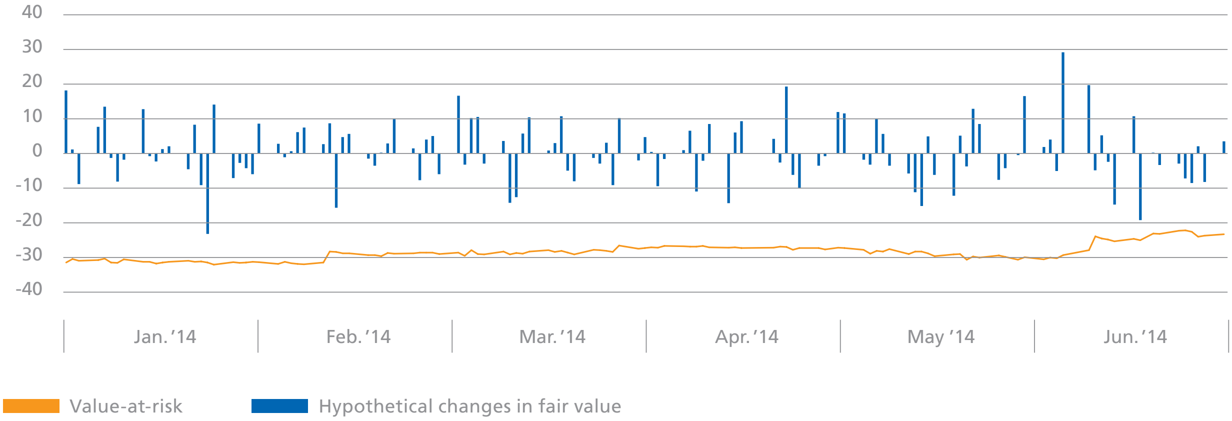
FIG. 24 – BANK SECTOR: VALUE-AT-RISK IN THE BANKING BUSINESS BY TRADING AND NON-TRADING PORTFOLIOS[1]

| € million | Interest-rate risk | Spread risk | Equity price risk | Currency risk | Commodity risk | Diversification effect[2] | Total |
|---|---|---|---|---|---|---|---|
| **Trading portfolios** | | | | | | | |
| **Jun. 30, 2014** | 5 | 21 | 1 | 1 | – | -4 | **24** |
| Average | 6 | 28 | 1 | 1 | – | -6 | 28 |
| Maximum | 8 | 37 | 1 | 1 | – | -15 | 32 |
| Minimum | 5 | 21 | 1 | – | – | -3 | 24 |
| Dec. 31, 2013 | 7 | 34 | 1 | – | – | -12 | 31 |
| **Non-trading portfolios** | | | | | | | |
| **Jun. 30, 2014** | 10 | 41 | 4 | 2 | – | -15 | **42** |
| Average | 14 | 50 | 7 | 4 | – | -18 | 56 |
| Maximum | 19 | 54 | 7 | 6 | – | -23 | 64 |
| Minimum | 10 | 41 | 4 | 2 | – | -15 | 42 |
| Dec. 31, 2013 | 18 | 54 | 7 | 3 | – | -23 | 60 |

1 Value-at-risk with 99.00% confidence level, 1-day holding period, 1-year observation period, based on a central market risk model for the DZ BANK Group. Concentrations and effects of diversification are taken fully into account when calculating the risks.
2 Total effects of diversification between the types of market risk for all consolidated group entities.

**FIG. 25 – BANK SECTOR: VALUE-AT-RISK FOR MARKET RISK AND HYPOTHETICAL CHANGES IN FAIR VALUE IN DZ BANK'S TRADING PORTFOLIOS**

€ million, value-at-risk for 99.00% confidence level, 1-day holding period, 1-year observation period




of a home savings and loan company. In addition, the risk that obtaining funding may become more difficult as a consequence of damage to the group's reputation is specifically taken into account in liquidity risk management.

## 10. OPERATIONAL RISK

### 10.1. LOSS EVENTS

The groupwide collection of loss data in the entities in the Bank sector allows the DZ BANK Group to identify, analyze, and evaluate loss events, highlighting patterns, trends, and concentrations of operational risk. This data-gathering focuses particularly on loss data related to risks that have become critical. The assembled data history also forms the basis for the calculation of economic capital using a portfolio model. Losses are recorded if they are above a threshold value of €1,000.

Fig. 26 shows the losses reported in the first half of 2014 for the Bank sector classified by loss event category. Over the course of time, there are regular fluctuations in the pattern of losses as the frequency of relatively large losses in each individual case is very low. Losses did not reach a critical level relative to the upper loss limit at any point in the first half of the year.

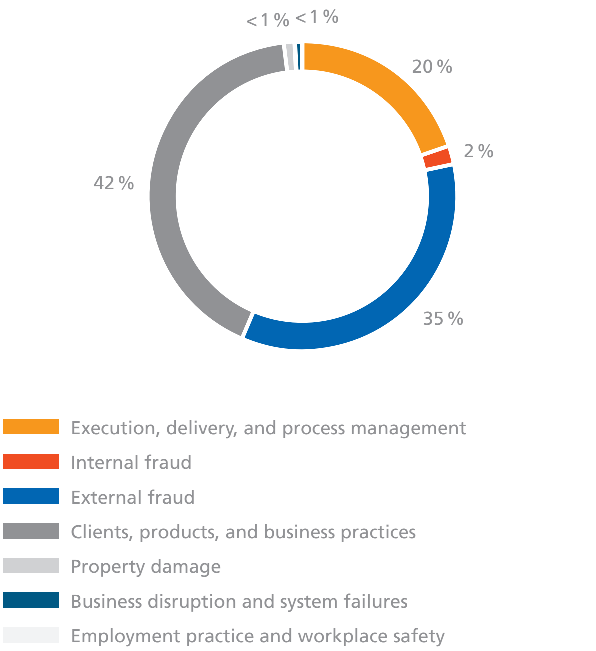
### 10.2. RISK POSITION

As at June 30, 2014, the Bank sector's capital requirement for operational risk was calculated in accordance with the Standardized Approach as specified by the CRR at €628 million (December 31, 2013: €650 million). The Bank sector also set an upper loss limit of €693 million (December 31, 2013: €706 million).

R+V has been eliminated from the original prior-year figures (risk capital requirement of €731 million; upper loss limit of €806 million) owing to the switch to the sectoral approach.

The risk capital requirement did not exceed the applicable upper loss limit at any point during the first 6 months of the year.

FIG. 26 – BANK SECTOR: NET LOSSES BY EVENT CATEGORY IN THE FIRST HALF OF 2014[1]




1 In accordance with the CRR, losses caused by operational risks that are associated with risks such as credit risk are also shown.

## 11. LIQUIDITY RISK

Measurement of liquidity risk involves calculating the forward cash exposure, counterbalancing capacity, and resulting **liquidity surplus** over a forecast period of one year.

The trend in the risk scenario as at June, 30, 2014 is shown in fig. 27. The minimum liquidity surplus indicates the value that occurs on the day on which the forecast liquidity surplus is at its lowest point. Fig. 28 shows the results from the measurement of liquidity risk in the risk scenario and in the stress scenarios on which the limits are based. The overviews take into account the effect on liquidity of the measures that can be implemented to generate liquidity in the individual scenarios.

The DZ BANK Group has also used ‘introductory’ scenarios for limits since June 30, 2014. They replace the scenarios with the same name that were used previously. Under the ‘introductory’ scenarios, the limits are based only on highly liquid securities during the first month of the forecast. The ability to readily convert such securities into cash in private markets (as opposed to the ability to obtain secured funding from central banks) is a focal point for forecasting periods of up to one week.

The minimum liquidity surplus of the DZ BANK Group in the risk scenario measured as at June 30, 2014 amounted to €36.3 billion (December 31, 2013: €27.6 billion). The DZ BANK Group’s liquidity did not fall below the observation threshold of €4.0 billion or the limit of €1.0 billion for the minimum liquidity surplus in any of the scenarios during the reporting period. The observation threshold and limit were unchanged compared with December 31, 2013.

FIG. 27 – BANK SECTOR: LIQUIDITY FORECAST IN RISK SCENARIO

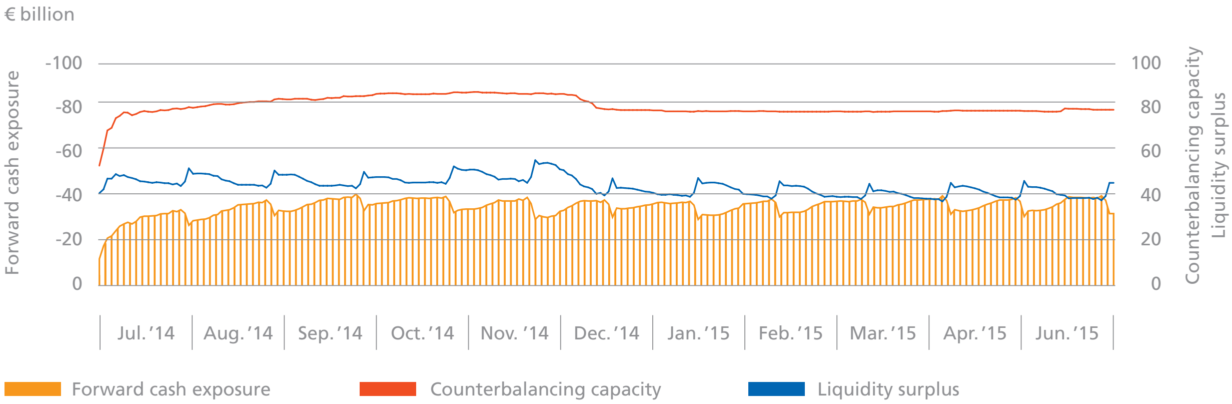


FIG. 28 – BANK SECTOR: LIQUIDITY UP TO 1 YEAR IN RISK SCENARIO AND IN THE STRESS SCENARIOS ON WHICH THE LIMITS ARE BASED (LIMIT SCENARIOS) – FIGURES FOR THE DAY WITH THE LOWEST LIQUIDITY SURPLUS

| | Forward cash exposure | | Counterbalancing capacity | | Liquidity surplus | |
|---|---|---|---|---|---|---|
| € billion | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| Risk scenario (base scenario) | -39.0 | -17.7 | 75.3 | 45.3 | 36.3 | 27.6 |
| **Stress scenarios** | | | | | | |
| Downgrading | -39.9 | -39.4 | 67.5 | 60.4 | 27.6 | 20.9 |
| Corporate crisis | -42.0 | -37.3 | 57.9 | 53.7 | 16.0 | 16.4 |
| Market crisis | -12.2 | -37.3 | 38.7 | 57.9 | 26.5 | 20.7 |
| Combination crisis | -32.0 | -37.4 | 49.5 | 50.4 | 17.5 | 13.0 |

The values as at December 31, 2013 reflect the scenarios on which the limits were previously based.

The level of liquidity risk in the DZ BANK Group is largely determined by the **short- and medium-term funding** structure. Further details are provided in the business report (section II.5. of this interim group management report).

# Insurance Sector

## 12. ACTUARIAL RISK

### 12.1. OVERVIEW OF ACTUARIAL RISK

#### 12.1.1. Definition

According to Solvency II, actuarial risk is broken down into the following categories:

- life actuarial risk
- health actuarial risk
- non-life actuarial risk.

**Life actuarial risk** refers to the risk arising from the assumption of life insurance obligations, in relation to the risks covered and the processes used in the conduct of this business. Life actuarial risk is calculated as the combination of capital requirements for, as a minimum, the following sub-modules:

- mortality risk
- longevity risk
- disability-morbidity risk
- life catastrophe risk
- lapse risk
- life expense risk.

**Health actuarial risk** refers to the risk arising from the assumption of health and casualty insurance obligations, in relation to the risks covered and the processes used in the conduct of this business.

**Non-life actuarial risk** refers to the risk arising from the assumption of non-life insurance obligations, in relation to the risks covered and the processes used in the conduct of this business. It is calculated as the combination of capital requirements for the following sub-modules:

- premium and reserve risk
- non-life catastrophe risk
- lapse risk.

#### 12.1.2. Risk measurement

The measurement of all categories of actuarial risk is based on the method specified in Solvency II and is carried out using the value-at-risk method. To determine the value-at-risk, negative scenarios are examined that have been taken from Solvency II and, in some cases, are supplemented by the group's own parameterization.

Modeling and risk quantification, including on the basis of historical claims data, is carried out for parts of the premium and reserve risk and non-life catastrophe risk. These are based on the group's own portfolio and, in the case of natural catastrophes, on data from third-party providers.

A conservative, simplified approach has been selected for a minor subset of the health actuarial risk portfolio. The adequacy of the risk quantification process is reviewed regularly and, if required, on an ad-hoc basis.

### 12.2. LIFE ACTUARIAL RISK

#### 12.2.1. Definition and risk measurement

##### MORTALITY RISK

Mortality risk describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.

The risk for insurance contracts subject to mortality risk is described as a 15 percent increase in mortality.

##### LONGEVITY RISK

Longevity risk describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.

The risk for insurance contracts subject to longevity risk is described as a 20 percent increase in longevity.

#### DISABILITY-MORBIDITY RISK

Disability-morbidity risk describes the risk of loss or other adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of disability, sickness, or morbidity rates.

The overall solvency requirement for disability-morbidity risk is determined on the basis of a permanent 35 percent rise in the disability rates expected for the next 12 months, a permanent 25 percent rise in the disability rates expected for the period after those 12 months, and a permanent 20 percent decrease in all expected likely cases of policyholders being able to return to work.

#### LIFE CATASTROPHE RISK

Life catastrophe risk describes the risk of loss or adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and assumptions when recognizing provisions related to extreme or unusual events.

The risk for insurance contracts subject to life catastrophe risk is described as an immediate increase of 0.15 percentage points in mortality rates for the next 12 months.

#### LAPSE RISK

Lapse risk describes the risk of loss or other adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, cancellations, renewals, and surrenders.

The risk for insurance contracts subject to lapse risk is described for the following scenarios: for an increase in lapses, a 50 percent rise in the lapse rate; for a decrease in lapses, a 50 percent reduction in the lapse rate; for a mass lapse event, lapse of 40 percent of the contracts.

#### LIFE EXPENSE RISK

Life expense risk describes the risk of loss or other adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.

The overall solvency requirement for life expense risk is based on the following stress scenarios: a permanent 10 percent rise in the measurement of the costs reflected in the insurance liabilities; an increase in the cost inflation rate by one percentage point.

### 12.2.2. Risk position

As at June 30, 2014, the overall solvency requirement for life actuarial risk amounted to €397 million (December 31, 2013: €417 million). The upper loss limit was set at €450 million as at the balance sheet date (December 31, 2013: €410 million).

## 12.3. HEALTH ACTUARIAL RISK

Details about the definition and measurement of health actuarial risk can be found in section 12.1.1 and section 12.1.2.

As at June 30, 2014, the overall solvency requirement for health actuarial risk amounted to €52 million (December 31, 2013: €59 million) with an upper loss limit of €80 million (December 31, 2013: €90 million). The upper loss limit was not exceeded at any time during the first half of the year.

## 12.4. NON-LIFE ACTUARIAL RISK

### 12.4.1. Definition and risk measurement

#### PREMIUM AND RESERVE RISK

Premium and reserve risk describes the risk of loss or an adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency, and severity of insured events, and in the timing and amount of claim settlements.

The capital requirements for these risks are calculated on the basis of risk factors and volume measures forall branches of insurance in which business is conducted. The volume measures take account of geographical diversification. The risk factors (e.g. the standard deviation as a percentage of the volume measure) describe the degree of threat posed by the risk. The volume measures for the premium risk are essentially the net premium income earned in the financial year and in the first and second years after that. The volume measure for the reserve risk constitutes the claims provisions in the form of a best-estimate valuation.

To determine the overall solvency requirement as part of internal modeling, empirical distributions are generated for the relevant parameters for parts of the portfolio, such as the claim amount and the number of claims per sector and claim type (e.g. basic claims, major claims, event claims). The value-at-risk can then be determined with the required confidence level directly from the loss function generated. In non-life insurance, an example of such a loss function would be insurance gains and losses. The parameterization of the distributions taken into account uses historical portfolio data and their planning data and reflects the entity's actual risk position.

#### NON-LIFE CATASTROPHE RISK

Non-life catastrophe risk describes the risk of loss or adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and assumptions when recognizing provisions related to extreme or unusual events.

The overall solvency requirement is determined for natural catastrophe risk (broken down into the following natural hazards: storm, earthquake, flood, hail, and subsidence), the catastrophe risk of non-proportional reinsurance in non-life insurance, risk of catastrophe caused by people, and other catastrophe risk in non-life insurance.

In R+V's direct insurance business, the risk modeling for calculating basic claims and 'small events' relating to the natural hazards hail, storm, and flood is based on mathematical/statistical methods. Only basic claims are modeled for the earthquake hazard. The minimum and maximum event amounts for 'small events' are selected on the basis of the group's own claims history. Modeling is based on the group's own claims data.

The risk modeling for calculating 'large events' relating to the natural hazards hail, storm, flood, and earthquake uses probability-based natural hazard models in R+V's direct insurance business. To this end, event claims are used that have been modeled by external providers for each natural hazard and take account of the entity-specific risk profile of R+V.

In its inward reinsurance business, R+V deploys a simulation tool for stochastic risk modeling. To model the natural catastrophe risk on an individual contract basis, event catalogs from external providers containing predefined scenarios based on historical observations are used. The event catalogs cover the material countries and natural hazards of the risk written for the risks in inward reinsurance. Modeling based on the group's own claims history is also used. This involves generating scenarios for the current portfolio on the basis of historical major claims.

In inward reinsurance, modeling based on the group's own claims history is used to determine the overall solvency requirement for the risk of catastrophe caused by people. This involves generating scenarios for the current portfolio on the basis of the historical major claims.

#### LAPSE RISK

Lapse risk describes uncertainty about the continuation of the direct insurance and reinsurance contracts. It results from the fact that the lapse of contracts that are profitable for the insurance company will lead to a reduction in capital.

The overall solvency requirement for lapse risk is determined on the basis of a stress scenario involving the lapse of 40 percent of those insurance contracts whose lapse would lead to an increase in the best-estimate valuation for the premium provision.

### 12.4.2. Claims rate trend and risk position

In direct non-life insurance, losses relating to natural catastrophes were affected by a summer storm in June 2014 involving heavy losses of approximately €36 million. There was a significant easing in claims occurring in the first half of 2014 compared with the record level of claims in 2013.

Reinsurance cover remained in place to mitigate risk exposure to natural catastrophes in order to protect the group's existing financial strength and earnings power and to enhance its capacity to assume risk. The expenses for major claims were above the 5-year average in the first 6 months of 2014. The reason for this was a higher level of losses in the fire sectors.

The number of high-volume minor claims continued to decline, primarily due to the trend in the vehicle insurance sector. Even though the average cost of claims rose slightly, the underlying cost of claims (excluding natural catastrophe and major losses) was below the figures for comparative prior-year periods. This resulted in an annual claims rate for the reporting year that was lower than rates in the past.

The expected losses in inward reinsurance were at roughly the budgeted level, despite storm Ela in France, Germany, and Belgium.

As at June 30, 2014, the overall solvency requirement for non-life actuarial risk amounted to €2,067 million (December 31, 2013: €2,034 million). The upper loss limit was set at €2,300 million as at the balance sheet date (December 31, 2013: €2,170 million) and was not exceeded at any point during the reporting period.

The changes in the key figures for the various types of non-life actuarial risk are shown in fig. 29.

FIG. 29 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR NON-LIFE ACTUARIAL RISK

| € million | Jun. 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 |
|---|---|---|---|
| Premium and reserve risk | 1,086 | 1,051 | 1,063 |
| Non-life catastrophe risk | 1,508 | 1,486 | 1,489 |
| Lapse risk | 2 | 2 | 23 |
| Diversification effect | -529 | -515 | -540 |
| **Total** | **2,067** | **2,024** | **2,034** |

## 13. MARKET RISK

### 13.1. DEFINITION AND RISK MEASUREMENT

Market risk describes the risk arising from fluctuation in the level or volatility of market prices of financial instruments that have an impact on the value of the assets and liabilities of the entity. It suitably reflects the structural mismatch between assets and liabilities, in particular with respect to their duration. Market risk is calculated as the combination of capital requirements for the following sub-modules:

– interest-rate risk
– spread risk
– equity price risk
– currency risk
– real-estate risk.

According to the Solvency II definition, the bulk of credit risk is assigned to spread risk within market risk. The other parts of credit risk are measured within counterparty default risk and other risk types.

When measuring market risk, negative scenarios are examined that have been taken from Solvency II and, in some cases, are supplemented by the group's own parameterization.

#### INTEREST-RATE RISK

Interest-rate risk describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the term structure of interest rates or in the volatility of interest rates. The capital requirements for interest-rate risk are determined on the basis of the shock scenarios to be calculated for an interest rate rise (upward shift in the term structure) and an interest rate drop (downward shift in the term structure). For maturities for which the market is sufficiently liquid, the overall solvency requirement for interest-rate risk is calculated using the group's own stress factors derived from market data.

SPREAD RISK

Spread risk describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of credit spreads above the risk-free interest rate term structure. Default risk and migration risk are also examined in this sub-module. The capital requirements are calculated using a factor approach based on the relevant lending volume. The level of the stress factor is determined by the security's rating and the modified duration of the investment. With loan securitizations, a distinction is made between single, double, and multiple securitization structures. Depending on which is applicable, different rating-dependent stress factors are used. R+V uses its own stress factors, based on a portfolio model, to calculate the overall solvency requirement.

EQUITY PRICE RISK

Equity price risk describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of the market prices of equities. Equity risk is also a part of equity price risk. The capital requirements for equity price risk are determined on the basis of stress scenarios calculated for a decrease in market value. The stress amounts depend on the equity type, e.g. whether it is listed on a regulated market in a member state of the European Economic Area or Organisation for Economic Co-operation and Development. The capital requirement for equity price risk is determined on the basis of the relevant equity exposure and is carried out using modeling and risk quantification based on observable data. The parameters are increased in order to take account of default risk and concentration risk.

CURRENCY RISK

Currency risk describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of exchange rates. It is calculated using a scenario approach that reflects the impact of a decrease or increase in the exchange rate for a foreign currency. The stress factor for determining the overall solvency requirement is based on the individual currency portfolio of R+V. Lower factors are applied for currencies that are pegged to the euro.

REAL-ESTATE RISK

Real-estate risk describes the sensitivity of the values of assets, liabilities, and financial instruments to changes in the level or volatility of the market prices of real estate. The calculation of real-estate risk looks at both property in the narrower sense (e.g. land and buildings) and real-estate funds. The stress factor for determining the overall solvency requirement for real-estate risk is a stress scenario adapted from the standard formula and results from the division of the portfolio into direct holdings and funds.

CONCENTRATION RISK

Concentration risk contains additional risk for an insurance or reinsurance company stemming either from lack of diversification in the asset portfolio or from a large exposure to default risk by a single issuer of securities or a group of related issuers. The overall solvency requirement for concentration risk is not calculated separately because it is taken into account as part of the calculations for equity price risk and spread risk.

## 13.2. LENDING VOLUME

### 13.2.1. Lending volume as risk factor

The amount and structure of the lending volume are key factors in determining the spread risk within market risk and for determining counterparty default risk. In life, health, and casualty insurance products with a bonus, policyholder bonuses are taken into account as appropriate when determining the overall solvency requirement and in the profit calculations. Unlike in the risk analysis, R+V's lending volume is shown without inclusion of potential policyholder bonuses in the calculation. To identify possible risk concentrations, the volume liable to credit risk is broken down by sector, country group, and rating class. In the Insurance sector, counterparty default risk is of secondary importance compared with market risk and actuarial risk.

### 13.2.2. Change in lending volume

In the first half of the year, the total lending volume of R+V advanced by 8 percent to €67.3 billion as at June 30, 2014 (December 31, 2013: €62.1 billion). The expansion of the investment portfolios was driven by the growth in insurance business.

R+V holds **loan collateral** mainly in respect of construction finance (consumer and commercial home finance and commercial finance). In this type of business, the entire volume disbursed is usually backed by collateral.

The volume of lending in the construction finance business totaled €8.4 billion as at June 30, 2014 (December 31, 2013: €8.1 billion). As at June 30, 2014, 92 percent of this amount was accounted for by loans for less than 60 percent of the value of the property, a situation that was unchanged on the end of 2013. The volume of construction finance was broken down by finance type as at June 30, 2014 as follows:

– consumer home finance: €7.9 billion (December 31, 2013: €7.7 billion)
– commercial home finance: €0.2 billion (December 31, 2013: €0.2 billion)
– commercial finance: €0.3 billion (December 31, 2013: €0.2 billion).

The financial sector and the public sector, which are the dominant **sectors**, together accounted for 74 percent of the total lending volume, as they had at the end of 2013. This lending mainly comprised loans and advances in the form of German and European Pfandbriefe with collateral backed by statute. Loans and advances to the public sector and consumer home finance (retail) highlight the safety of this investment.

Fig. 30 shows the sector structure of the lending volume in the Insurance sector.

Analysis of the **geographical breakdown** of the lending volume reveals that the lion's share – 92 percent – of the total lending volume continued to be concentrated in Germany and other industrialized countries, as it had at the end of 2013. European countries dominated within the broadly diversified exposure in industrialized countries.

The specific business model of an insurance company tends to require investments with long terms to maturity. This is also reflected in the breakdown of **residual maturities**. As at June 30, 2014, 76 percent (December 31, 2013: 75 percent) of the total lending volume had a residual maturity of more than 5 years. By contrast, just 3 percent of the total lending volume was due to mature within a year as at the balance sheet date (December 31, 2013: 4 percent). The increase in long residual maturities was mainly the result of investments in bonds.

The **rating structure** of the lending volume in the Insurance sector is shown in fig. 33. Of the total lending volume as at June 30, 2014, 80 percent continued to be attributable to investment-grade borrowers (December 31, 2013: 80 percent). This reflected regulatory requirements and the safety-oriented business model of R+V. The lending volume that is not rated, which made up 17 percent of the total volume (December 31, 2013: 18 percent), essentially comprised low-risk consumer home finance for which external ratings were not available.

FIG. 30 – INSURANCE SECTOR: LENDING VOLUME, BY SECTOR

| € billion | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Financial sector | 34.4 | 32.0 |
| Public sector | 15.2 | 13.9 |
| Corporates | 9.3 | 8.0 |
| Retail | 7.9 | 7.7 |
| Industry conglomerates | 0.6 | 0.6 |
| Other | – | – |
| **Total** | **67.3** | **62.1** |

FIG. 31 – INSURANCE SECTOR: LENDING VOLUME, BY COUNTRY GROUP

| € billion | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Germany | 31.6 | 30.1 |
| Other industrialized nations | 30.2 | 27.2 |
| Advanced economies | 0.8 | 0.7 |
| Non-industrialized nations | 3.1 | 2.8 |
| Supranational institutions | 1.5 | 1.3 |
| **Total** | **67.3** | **62.1** |

FIG. 32 – INSURANCE SECTOR: LENDING VOLUME, BY RESIDUAL MATURITY

| € billion | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| ≤ 1 year | 2.2 | 2.3 |
| > 1 year to ≤ 5 years | 13.9 | 13.4 |
| > 5 years | 51.2 | 46.5 |
| Total | 67.3 | 62.1 |

FIG. 33 – INSURANCE SECTOR: LENDING VOLUME, BY RATING CLASS

| € billion | | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|---|
| Investment grade | 1A | 18.7 | 17.0 |
| | 1B | 3.9 | 3.7 |
| | 1C | – | – |
| | 1D | 6.5 | 5.2 |
| | 1E | – | – |
| | 2A | 8.2 | 7.0 |
| | 2B | 5.3 | 5.1 |
| | 2C | 3.5 | 3.6 |
| | 2D | 5.2 | 4.2 |
| | 2E | – | – |
| | 3A | 2.6 | 3.7 |
| Non-investment grade | 3B | 0.5 | 0.5 |
| | 3C | 0.7 | 0.3 |
| | 3D | – | – |
| | 3E | 0.1 | 0.4 |
| | 4A | 0.1 | 0.2 |
| | 4B | 0.1 | – |
| | 4C | 0.1 | 0.1 |
| | 4D | – | – |
| | 4E | 0.1 | 0.1 |
| Default | | – | – |
| Not rated | | 11.7 | 11.2 |
| Total | | 67.3 | 62.1 |

To rate the creditworthiness of its lending exposures, R+V uses the external ratings permitted by the German Investment Regulation (AnlV). The external ratings are allocated to the levels in DZ BANK's credit rating master scale on the basis of the tables shown in the 2013 opportunity and risk report of the DZ BANK Group (section 8.4.1.).

As at June 30, 2014, the ten counterparties associated with the largest lending volumes accounted for 35 percent of R+V's total lending volume.

## 13.3. CREDIT PORTFOLIOS WITH INCREASED RISK CONTENT

The following disclosures form part of the above analyses of the entire credit portfolio. However, a separate analysis of R+V's exposure in eurozone periphery countries and in securitizations has been included because of their significance for the risk position in the Insurance sector.

Since the start of the financial crisis, R+V has stepped up the monitoring of its credit portfolio, with attention focused on exposure to the countries directly affected by the **European sovereign debt crisis**. The risks in subportfolios are observed, analyzed, and managed with the aid of a regular reporting system and discussions in the operational decision-making committees.

The investments in this subportfolio totaled €4,556 million as at June 30, 2014 (December 31, 2013: €4,229 million), a rise of 8 percent. This increase was essentially the result of higher market values because there have been sharp declines in the risk premiums for bonds originating in eurozone periphery countries owing to their economic recovery. Fig. 34 shows the country breakdown of the exposure.

Besides the portfolios in fig. 34, R+V also had investment exposures through its Italian subsidiaries Assimoco S.p.A., Segrate, (Assimoco) and Assimoco Vita S.p.A., Segrate, (Assimoco Vita), the majority of whose investments were, like the liabilities, within Italy. These investments were subject to national obligations.

Market values are used to measure R+V's lending volume. The exposure is determined on the basis of the total assets. This has led to discrepancies in the values as at December 31, 2013 reported in the 2013 opportunity and risk report and those reported in the opportunity

FIG. 34 – INSURANCE SECTOR: LOANS AND ADVANCES TO BORROWERS IN THE COUNTRIES PARTICULARLY AFFECTED BY THE SOVEREIGN DEBT CRISIS

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Portugal | 114 | 95 |
| of which: public sector | 86 | 74 |
| of which: government | – | – |
| of which: non-public sector | 27 | 22 |
| of which: financial sector | 20 | 15 |
| Italy | 1,917 | 1,720 |
| of which: public sector | 1,168 | 1,030 |
| of which: government | – | – |
| of which: non-public sector | 749 | 689 |
| of which: financial sector | 496 | 491 |
| Ireland | 748 | 746 |
| of which: public sector | 78 | 73 |
| of which: government | – | – |
| of which: non-public sector | 669 | 673 |
| of which: financial sector | 661 | 663 |
| Greece | 7 | 3 |
| of which: public sector | – | – |
| of which: government | – | – |
| of which: non-public sector | 7 | 3 |
| of which: financial sector | 2 | – |
| Spain | 1,772 | 1,665 |
| of which: public sector | 750 | 625 |
| of which: government | – | – |
| of which: non-public sector | 1,022 | 1,041 |
| of which: financial sector | 804 | 846 |
| **Total** | **4,556** | **4,229** |
| of which: public sector | 2,082 | 1,802 |
| of which: government | – | – |
| of which: non-public sector | 2,474 | 2,427 |
| of which: financial sector | 1,982 | 2,015 |

and risk report in the 2014 interim group management report. In the 2013 opportunity and risk report, R+V's exposure in the eurozone periphery countries was reported as having a carrying amount of €5,443 million. This exposure had a market value of €4,229 million. The carrying amounts as at December 31, 2013 include the exposures of Assimoco and Assimoco Vita.

R+V's **securitization portfolio** consisted entirely of CDOs at the balance sheet date. The fair value amounted to €553 million. Of the total underlying loans and advances, 85 percent came from Europe and 15 percent from the United States. As at June 30, 2014, a total of 71 percent of the exposure was rated as investment grade (up to BBB-). The two highest rating classes (AAA to AA) accounted for 25 percent of the exposure. The credit rating awarded was based on the lowest available rating issued by the rating agencies Standard & Poor's, Moody's, and Fitch.

## 13.4. RISK POSITION

As at June 30, 2014, the overall solvency requirement for market risk amounted to €1,919 million (December 31, 2013: €2,048 million). The Insurance sector also set an upper loss limit of €2,350 million (December 31, 2013: €2,520 million). The reduction in the overall solvency requirement is mainly due to an interest-rate risk effect, which resulted in changes to the correlations of the market risk modules. This change led to an increase in the diversification effect.

The upper loss limit was not exceeded at any time in the reporting period.

Fig. 35 shows the changes in the key figures for the various types of market risk.

FIG. 35 – INSURANCE SECTOR: OVERALL SOLVENCY REQUIREMENT FOR MARKET RISK

| € million | Jun. 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 |
|---|---|---|---|
| Interest-rate risk | 472 | 422 | 465 |
| Spread risk | 636 | 630 | 597 |
| Equity price risk | 1,105 | 1,104 | 1,058 |
| Currency risk | 164 | 167 | 197 |
| Real-estate risk | 92 | 93 | 91 |
| **Diversification effect** | **-550** | **-521** | **-359** |
| **Total** | **1,919** | **1,896** | **2,048** |

## 14. COUNTERPARTY DEFAULT RISK

### 14.1. DEFINITION AND RISK MEASUREMENT

Counterparty default risk reflects possible losses due to unexpected default or deterioration in the credit standing of counterparties and debtors of insurance and reinsurance companies over the following 12 months. It covers risk-mitigating contracts, such as reinsurance arrangements, securitizations and derivatives, and receivables from intermediaries, as well as any other credit risk that is not otherwise covered by risk measurement.

Counterparty default risk takes account of collateral or other security that is held by or for the insurance or reinsurance company and any associated risks.

The capital requirements for counterparty default risk are determined on the basis of the relevant exposure and the expected losses per counterparty.

### 14.2. RISK POSITION

As at June 30, 2014, the overall solvency requirement for counterparty default risk amounted to €53 million (December 31, 2013: €35 million) with an upper loss limit of €80 million (December 31, 2013: €50 million). The increase in the overall solvency requirement was largely attributable to the rise in receivables from intermediaries owing to seasonal effects.

The upper loss limit was not exceeded at any time during the first half of the year.

## 15. OPERATIONAL RISK

### 15.1. DEFINITION AND RISK MEASUREMENT

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel, or systems, or from external events. It includes legal risk.

The risk capital requirement is calculated as a factor of the volume measures of premiums and provisions and, in the case of fund-linked business, as a factor of costs.

In addition, operational risk is identified and quantified using a scenario-based risk self-assessment. The focus is on scenarios that, if they were to occur, would cause material financial risks. Particular attention is paid to operational risks with a low frequency of occurrence that would have a major impact.

### 15.2. RISK POSITION

As at June 30, 2014, the overall solvency requirement for operational risk amounted to €443 million (December 31, 2013: €408 million). The upper loss limit applicable at the balance sheet date was set at €510 million (December 31, 2013: €490 million). The upper loss limit was not exceeded at any time during the first half of the year.

## 16. ENTITIES IN OTHER FINANCIAL SECTORS

The entities in other financial sectors mainly consist of pension funds and occupational pension schemes. Risk is quantified in accordance with the requirements currently specified by the insurance regulator. This means applying the capital requirements in Solvency I, which are essentially calculated as a factor of the volume measures of benefit reserves and capital at risk.

The overall solvency requirement for entities in other financial sectors was unchanged between December 31, 2013 and June 30, 2014 at €68 million. The upper loss limit was €80 million, as had been the case at December 31, 2013. The upper loss limit was not exceeded at any time during the first half of the year.

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# Income statement
# for the period January 1 to June 30, 2014

| € million | (Note) | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|---|
| Net interest income | (5) | 1,499 | 1,571 |
| Allowances for losses on loans and advances | (6) | -66 | -248 |
| Net fee and commission income | (7) | 699 | 498 |
| Gains and losses on trading activities | (8) | 242 | 154 |
| Gains and losses on investments | (9) | 140 | -71 |
| Other gains and losses on valuation of financial instruments | (10) | 275 | 738 |
| Premiums earned | (11) | 7,101 | 6,351 |
| Gains and losses on investments held by insurance companies and other insurance company gains and losses | (12) | 2,057 | 1,229 |
| Insurance benefit payments | (13) | -7,667 | -6,461 |
| Insurance business operating expenses | (14) | -1,101 | -1,037 |
| Administrative expenses | (15) | -1,456 | -1,419 |
| Other net operating income | (16) | -23 | 38 |
| Profit before taxes | | 1,700 | 1,343 |
| Income taxes | (17) | -417 | -426 |
| **Net profit** | | **1,283** | **917** |
| | | | |
| Attributable to: | | | |
| Shareholders of DZ BANK | | 1,084 | 799 |
| Non-controlling interests | | 199 | 118 |

# Statement of comprehensive income for the period January 1 to June 30, 2014

| € million | (Note) | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|---|
| Net profit | | 1,283 | 917 |
| Other comprehensive income/loss | | 499 | -49 |
| **Amounts reclassified to the income statement** | | **546** | **-47** |
| Gains and losses on available-for-sale financial assets | (18) | 761 | 31 |
| Gains and losses on cash flow hedges | (18) | -5 | -5 |
| Exchange differences on currency translation of foreign operations | | 1 | -9 |
| Gains and losses on hedges of net investments in foreign operations | (18) | -4 | -2 |
| Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method | | 10 | -6 |
| Income taxes | (19) | -217 | -56 |
| **Amounts not reclassified to the income statement** | | **-47** | **-2** |
| Gains and losses arising from remeasurement of defined benefit plans | | -70 | -1 |
| Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method | | – | -1 |
| Income taxes | (19) | 23 | – |
| **Total comprehensive income** | | **1,782** | **868** |
| | | | |
| Attributable to: | | | |
| Shareholders of DZ BANK | | 1,438 | 818 |
| Non-controlling interests | | 344 | 50 |

# Balance sheet as at June 30, 2014

## ASSETS

| € million | (Note) | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|---|
| Cash and cash equivalents | (20) | 3,052 | 3,812 |
| Loans and advances to banks | (21) | 79,497 | 74,214 |
| Loans and advances to customers | (22) | 122,296 | 121,726 |
| Allowances for losses on loans and advances | (23) | -2,460 | -2,540 |
| Derivatives used for hedging (positive fair values) | (24) | 672 | 887 |
| Financial assets held for trading | (25) | 58,261 | 52,857 |
| Investments | (26) | 56,828 | 56,875 |
| Investments held by insurance companies | (27) | 75,846 | 70,255 |
| Property, plant and equipment, and investment property | (28) | 1,644 | 1,770 |
| Income tax assets | | 1,304 | 1,543 |
| Other assets | (29) | 4,918 | 5,241 |
| Non-current assets and disposal groups classified as held for sale | (30) | 18 | 11 |
| Fair value changes of the hedged items in portfolio hedges of interest-rate risk | | 354 | 327 |
| **Total assets** | | **402,230** | **386,978** |

## EQUITY AND LIABILITIES

| € million | (Note) | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|---|
| Deposits from banks | (31) | 89,652 | 91,361 |
| Deposits from customers | (32) | 98,911 | 98,548 |
| Debt certificates issued including bonds | (33) | 56,716 | 53,953 |
| Derivatives used for hedging (negative fair values) | (34) | 2,326 | 2,387 |
| Financial liabilities held for trading | (35) | 54,029 | 45,770 |
| Provisions | (36) | 2,498 | 2,382 |
| Insurance liabilities | (37) | 72,387 | 67,386 |
| Income tax liabilities | | 790 | 575 |
| Other liabilities | (38) | 5,286 | 5,987 |
| Subordinated capital | (39) | 3,660 | 4,226 |
| Fair value changes of the hedged items in portfolio hedges of interest-rate risk | | 297 | 249 |
| Equity | (40) | 15,678 | 14,154 |
| Subscribed capital | | 3,160 | 3,160 |
| Capital reserve | | 1,111 | 1,111 |
| Retained earnings | | 4,474 | 4,501 |
| Revaluation reserve | | 763 | 376 |
| Cash flow hedge reserve | | 1 | 5 |
| Currency translation reserve | | 7 | 7 |
| Non-controlling interests | | 5,078 | 4,836 |
| Unappropriated earnings | | 1,084 | 158 |
| **Total equity and liabilities** | | **402,230** | **386,978** |

# Statement of changes in equity

| € million | Subscribed capital | Capital reserve | Equity earned by the group | Revaluation reserve | Cash flow hedge reserve | Currency translation reserve | **Equity before non-controlling interests** | Non-controlling interests | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|
| Equity as at Jan. 1, 2013 | 3,160 | 1,111 | 3,610 | 36 | 5 | 29 | 7,951 | 4,690 | 12,641 |
| Net profit | – | – | 799 | – | – | – | 799 | 118 | 917 |
| Other comprehensive income/loss | – | – | -1 | 36 | -3 | -13 | 19 | -68 | -49 |
| **Total comprehensive income/loss** | **–** | **–** | **798** | **36** | **-3** | **-13** | **818** | **50** | **868** |
| Capital repaid | – | – | – | – | – | – | – | -3 | -3 |
| Changes in scope of consolidation | – | – | 21 | – | – | – | 21 | 2 | 23 |
| Acquisition/disposal of non-controlling interests | – | – | -2 | – | – | – | -2 | -1 | -3 |
| Dividends paid | – | – | -122 | – | – | – | -122 | -102 | -224 |
| **Equity as at Jun. 30, 2013** | **3,160** | **1,111** | **4,305** | **72** | **2** | **16** | **8,666** | **4,636** | **13,302** |
| Equity as at Jan. 1, 2014 | 3,160 | 1,111 | 4,659 | 376 | 5 | 7 | 9,318 | 4,836 | 14,154 |
| Net profit | – | – | 1,084 | – | – | – | 1,084 | 199 | 1,283 |
| Other comprehensive income/loss | – | – | -40 | 398 | -4 | – | 354 | 145 | 499 |
| **Total comprehensive income/loss** | **–** | **–** | **1,044** | **398** | **-4** | **–** | **1,438** | **344** | **1,782** |
| Capital repaid | – | – | – | – | – | – | – | -4 | -4 |
| Changes in scope of consolidation | – | – | 13 | -11 | – | – | 2 | -1 | 1 |
| Dividends paid | – | – | -158 | – | – | – | -158 | -97 | -255 |
| **Equity as at Jun. 30, 2014** | **3,160** | **1,111** | **5,558** | **763** | **1** | **7** | **10,600** | **5,078** | **15,678** |

In the first half of 2014, a dividend of €0.13 per share was paid to the shareholders of DZ BANK for the 2013 financial year (first half of 2013: €0.10).

# Statement of cash flows

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| **Net profit** | **1,283** | 917 |
| Non-cash items included in net profit | 2,898 | -462 |
| Subtotal | 4,181 | 455 |
| **Cash changes in assets and liabilities arising from operating activities** | | |
| Loans and advances to banks and customers | -5,891 | -661 |
| Other assets and liabilities from operating activities | 562 | 1,439 |
| Derivatives used for hedging (positive and negative fair values) | -223 | -6 |
| Financial assets and financial liabilities held for trading | 3,536 | 7,075 |
| Deposits from banks and customers | -1,911 | -6,937 |
| Debt certificates issued including bonds | 2,646 | -1,714 |
| Interest payments, dividends, and operating lease payments received (net cash flow) | 1,400 | 1,654 |
| Income taxes paid | -127 | -134 |
| **Cash flows from operating activities** | **4,173** | **1,171** |
| **Cash flows from investing activities** | **-3,877** | **-110** |
| **Cash flows from financing activities** | **-1,056** | **81** |

| € million | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents as at January 1 | 3,812 | 2,497 |
| Cash flows from operating activities | 4,173 | 1,171 |
| Cash flows from investing activities | -3,877 | -110 |
| Cash flows from financing activities | -1,056 | 81 |
| **Cash and cash equivalents as at June 30** | **3,052** | **3,639** |

The statement of cash flows shows the changes in cash and cash equivalents during the reporting period. Cash and cash equivalents consist of cash on hand, balances with central banks and other government institutions, treasury bills, and non-interest-bearing treasury notes. The cash and cash equivalents do not include any financial investments with maturities of more than 3 months at the date of acquisition. Changes in cash and cash equivalents are broken down into operating, investing, and financing activities.

# NOTES

## A General disclosures

» 01
BASIS OF PREPARATION

Pursuant to section 37w of the German Securities Trading Act (WpHG) in conjunction with section 37y no. 2 WpHG, the interim consolidated financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, (DZ BANK) for the first half of the 2014 financial year have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). In particular, the requirements of IAS 34 *Interim Financial Reporting* have been taken into account.

» 02
ACCOUNTING POLICIES AND ESTIMATES

### CHANGES IN ACCOUNTING POLICIES

The financial statements of the entities consolidated in the DZ BANK Group have been prepared using uniform accounting policies. The accounting policies used to prepare these financial statements were the same as those applied in the consolidated financial statements for the 2013 financial year, unless these policies are subject to the amendments described below.

#### FIRST-TIME APPLICATION OF CHANGES IN IFRS

The following new, amended, and revised versions of financial reporting standards are applied for the first time in DZ BANK's interim consolidated financial statements for the first half of the 2014 financial year:

- IFRS 10 *Consolidated Financial Statements*,
- IFRS 11 *Joint Arrangements*,
- IFRS 12 *Disclosure of Interests in Other Entities*,
- IAS 27 *Separate Financial Statements*,
- IAS 28 *Investments in Associates and Joint Ventures*,
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities – Transition Guidance*,
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, and IAS 27 *Separate Financial Statements – Investment Entities*,
- Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*, and
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*.

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities* supersede the provisions for consolidated financial statements in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures*, SIC-12 *Consolidation – Special Purpose Entities*, and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IAS 27 *Separate Financial Statements* now only includes requirements relating to separate financial statements in accordance with IFRS.

The amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities – Transition Guidance* provide clarification and more details about the transitional guidance and simplify first-time adoption.

IFRS 10 is the core standard for preparing consolidated financial statements and establishes a uniform principle of control applicable to all investees. IFRS 10 must be applied for the first time from the 2014 financial year and is required to be adopted retrospectively. DZ BANK controls an investee when DZ BANK is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether control exists, all facts and circumstances are considered and, in the event of changes, are reviewed. First-time adoption of IFRS 10 does not have any material impact on the financial position or financial performance of the DZ BANK Group. As at December 31, 2013, the impact on total assets was a reduction of €25 million and the impact on equity was an increase of €25 million.

IFRS 11 contains amended rules about the accounting treatment of joint arrangements, which are classified as either a joint operation or a joint venture, depending on their nature. The previous option in IAS 31 to apply proportionate consolidation for joint ventures no longer exists in IFRS 11. IFRS 11 must be applied for the first time from the 2014 financial year and is required to be adopted retrospectively. First-time adoption of IFRS 11 does not have any impact on the financial position or financial performance of the DZ BANK Group. The DZ BANK Group has been accounting for interests in joint ventures in accordance with the equity method, as stipulated by the amended version of IAS 28, since it adopted IAS 31.

IFRS 12 governs the disclosures for investments in subsidiaries, joint arrangements, and associates and for unconsolidated structured entities. The type of interests, the associated risks and their changes, and the financial impact must be disclosed, along with information about significant judgments and assumptions. The disclosure requirements in IFRS 12 will lead to enhanced disclosures in DZ BANK's consolidated financial statements about the nature of the interests and risks, both for consolidated structured entities and unconsolidated structured entities. Furthermore, disclosures about sponsoring arrangements for unconsolidated structured entities will be required. IFRS 12 must be applied for the first time from the 2014 financial year and does not have to be applied retrospectively. Adoption of IFRS 12 will lead to enhanced disclosures for the first time in the consolidated financial statements for the year ended December 31, 2014.

The amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* set out specific application guidance for offsetting financial instruments, although the existing fundamental provisions for offsetting financial instruments remain unchanged. The amendments to IAS 32 do not have any material impact on the DZ BANK Group's presentation of financial instruments. The amendments to IAS 32 have been applied retrospectively.

The amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* include an exemption that means it is not necessary to discontinue a designated hedge if novation of a hedging instrument to a central counterparty meets certain requirements. In particular, the exemption stipulates that the novation must be taking place because of legal or regulatory stipulation. The amendments have no material impact on DZ BANK's interim consolidated financial statements. The amendments to IAS 39 have been applied retrospectively.

## SOURCES OF ESTIMATION UNCERTAINTY

It is necessary to make assumptions and estimates in accordance with the relevant financial reporting standards in order to determine the carrying amounts of assets and liabilities as well as income and expenses recognized in these interim consolidated financial statements. These assumptions and estimates are based on historical experience, planning, and expectations or forecasts regarding future events.

Assumptions and estimates are used primarily in determining the fair value of financial assets and financial liabilities and in identifying any impairment of financial assets. Estimates also have a material impact on determining the impairment of goodwill or intangible assets acquired as part of business combinations. Furthermore, assumptions and estimates affect the measurement of insurance liabilities, provisions for employee benefits, provisions for share-based payments, and other provisions as well as the recognition and measurement of income tax assets and income tax liabilities.

## » 03 SCOPE OF CONSOLIDATION

In the first half of 2014, the subsidiaries consolidated for the first time included Europäische Genossenschaftsbank S.A., Luxembourg-Strassen, DZ PRIVATBANK Singapore Ltd., Singapore, IPConcept (Luxemburg) S.A., Luxembourg-Strassen, IPConcept (Schweiz) AG, Zurich, and Beteiligungsgesellschaft Westend 1 mbH & Co. KG, Frankfurt am Main.

# B Disclosures relating to the income statement and the statement of comprehensive income

## » 04 SEGMENT INFORMATION

INFORMATION ON OPERATING SEGMENTS FOR THE PERIOD JANUARY 1 TO JUNE 30, 2014

| € million | Bank | Retail | Real Estate Finance | Insurance | Consoli-dation/ reconciliation | **Total** |
|---|---|---|---|---|---|---|
| Net interest income | 763 | 341 | 621 | – | -226 | 1,499 |
| Allowances for losses on loans and advances | -32 | -47 | 13 | – | – | -66 |
| Net fee and commission income | 222 | 563 | -24 | – | -62 | 699 |
| Gains and losses on trading activities | 241 | 5 | -3 | – | -1 | 242 |
| Gains and losses on investments | 131 | 1 | 9 | – | -1 | 140 |
| Other gains and losses on valuation of financial instruments | 7 | 16 | 242 | – | 10 | 275 |
| Premiums earned | – | – | – | 7,101 | – | 7,101 |
| Gains and losses on investments held by insurance companies and other insurance company gains and losses | – | – | – | 2,089 | -32 | 2,057 |
| Insurance benefit payments | – | – | – | -7,667 | – | -7,667 |
| Insurance business operating expenses | – | – | – | -1,172 | 71 | -1,101 |
| Administrative expenses | -679 | -487 | -295 | – | 5 | -1,456 |
| Other net operating income | -34 | 4 | 24 | -4 | -13 | -23 |
| **Profit before taxes** | **619** | **396** | **587** | **347** | **-249** | **1,700** |
| Cost/income ratio (%) | 51.1 | 52.4 | 33.9 | – | – | 45.2 |

INFORMATION ON OPERATING SEGMENTS FOR THE PERIOD JANUARY 1 TO JUNE 30, 2013

| € million | Bank | Retail | Real Estate Finance | Insurance | Consoli-dation/ reconciliation | **Total** |
|---|---|---|---|---|---|---|
| Net interest income | 817 | 344 | 647 | – | -237 | 1,571 |
| Allowances for losses on loans and advances | -177 | -52 | -19 | – | – | -248 |
| Net fee and commission income | 235 | 466 | -149 | – | -54 | 498 |
| Gains and losses on trading activities | 143 | 9 | 2 | – | – | 154 |
| Gains and losses on investments | -33 | -3 | -32 | – | -3 | -71 |
| Other gains and losses on valuation of financial instruments | 27 | 10 | 699 | – | 2 | 738 |
| Premiums earned | – | – | – | 6,351 | – | 6,351 |
| Gains and losses on investments held by insurance companies and other insurance company gains and losses | – | – | – | 1,261 | -32 | 1,229 |
| Insurance benefit payments | – | – | – | -6,461 | – | -6,461 |
| Insurance business operating expenses | – | – | – | -1,101 | 64 | -1,037 |
| Administrative expenses | -690 | -452 | -282 | – | 5 | -1,419 |
| Other net operating income | 7 | 8 | 28 | 7 | -12 | 38 |
| **Profit before taxes** | **329** | **330** | **894** | **57** | **-267** | **1,343** |
| Cost/income ratio (%) | 57.7 | 54.2 | 23.6 | – | – | 47.1 |

## » 05 NET INTEREST INCOME

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| **INTEREST INCOME AND CURRENT INCOME AND EXPENSE** | **3,665** | **3,843** |
| **Interest income from** | **3,602** | **3,726** |
| Lending and money market business | 3,356 | 3,432 |
| Fixed-income securities | 489 | 546 |
| Portfolio hedges of interest-rate risk | -243 | -252 |
| **Current income and expense from** | **37** | **82** |
| Shares and other variable-yield securities | 34 | 31 |
| Investments in subsidiaries | 2 | 23 |
| Investments in associates | 3 | 1 |
| Operating leases | -2 | 27 |
| **Income from using the equity method for** | **24** | **34** |
| Interests in joint ventures | 19 | 32 |
| Investments in associates | 5 | 2 |
| **Income from profit-pooling, profit-transfer and partial profit-transfer agreements** | **2** | **1** |
| **INTEREST EXPENSE ON** | **-2,166** | **-2,272** |
| Deposits from banks and customers | -1,652 | -1,638 |
| Debt certificates issued including bonds | -438 | -554 |
| Subordinated capital | -93 | -98 |
| Portfolio hedges of interest-rate risk | 24 | 26 |
| Provisions and other liabilities | -7 | -8 |
| **Total** | **1,499** | **1,571** |

## » 06 ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| **Allowances for losses on loans and advances to banks** | **-11** | **1** |
| Additions | -14 | – |
| Reversals | 3 | – |
| Receipts from loans and advances previously impaired | – | 1 |
| **Allowances for losses on loans and advances to customers** | **-50** | **-248** |
| Additions | -334 | -493 |
| Reversals | 284 | 293 |
| Directly recognized impairment losses | -28 | -71 |
| Receipts from loans and advances previously impaired | 28 | 23 |
| **Changes in provisions for loan commitments, in other provisions for loans and advances, in liabilities from financial guarantee contracts, and in impairment losses on available-for-sale loans and advances** | **-5** | **-1** |
| **Total** | **-66** | **-248** |

## » 07 NET FEE AND COMMISSION INCOME

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| **Fee and commission income** | **1,382** | **1,441** |
| Securities business | 1,003 | 894 |
| Asset management | 58 | 20 |
| Payments processing including card processing | 88 | 85 |
| Lending business and trust activities | 114 | 119 |
| Financial guarantee contracts and loan commitments | 20 | 21 |
| International business | 3 | 4 |
| Building society operations | 15 | 221 |
| Other | 81 | 77 |
| **Fee and commission expenses** | **-683** | **-943** |
| Securities business | -342 | -317 |
| Asset management | -36 | -9 |
| Payments processing including card processing | -48 | -46 |
| Lending business | -111 | -109 |
| Financial guarantee contracts and loan commitments | -2 | -2 |
| Building society operations | -72 | -390 |
| Other | -72 | -70 |
| **Total** | **699** | **498** |

Bausparkasse Schwäbisch Hall factors sales charges and sales commissions into its calculation of the effective interest rate if they are directly connected with the acquisition of home savings deposits. Fee and commission expenses that are not considered to be related to a transaction are recognized in profit or loss immediately after the service has been provided. In this context, changes to the contract formation process required the fee and commission components to be reweighted during the reporting period. As a result, additional fee and commission components are now recognized as transaction costs and are amortized over the contributory phase.

## » 08 GAINS AND LOSSES ON TRADING ACTIVITIES

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| Gains and losses on non-derivative financial instruments and embedded derivatives | -35 | 247 |
| Gains and losses on derivatives | 259 | -104 |
| Gains and losses on exchange differences | 18 | 11 |
| **Total** | **242** | **154** |

## » 09 GAINS AND LOSSES ON INVESTMENTS

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| **Gains and losses on bonds and other fixed-income securities** | **53** | -43 |
| Disposals | 25 | -83 |
| Impairment losses | -4 | -8 |
| Reversals of impairment losses | 32 | 48 |
| **Gains and losses on shares and other variable-yield securities** | **73** | 5 |
| Disposals | 80 | 9 |
| Impairment losses | -8 | -4 |
| Reversals of impairment losses | 1 | – |
| **Gains and losses on investments in subsidiaries** | **1** | -25 |
| Disposals | 1 | – |
| Impairment losses | – | -25 |
| **Gains and losses on interests in joint ventures** | **12** | -8 |
| Impairment losses | – | -8 |
| Reversals of impairment losses | 12 | – |
| **Gains and losses on investments in associates** | **1** | – |
| Disposals | 1 | – |
| **Total** | **140** | -71 |

## » 10 OTHER GAINS AND LOSSES ON VALUATION OF FINANCIAL INSTRUMENTS

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| **Gains and losses from hedge accounting** | **5** | 15 |
| **Gains and losses on derivatives used for purposes other than trading** | **16** | 34 |
| **Gains and losses on financial instruments designated as at fair value through profit or loss** | **254** | 689 |
| Gains and losses on non-derivative financial instruments and embedded derivatives | 76 | 849 |
| Gains and losses on derivatives | 178 | -160 |
| **Total** | **275** | 738 |

## » 11 PREMIUMS EARNED

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| **Net premiums written** | **7,784** | **6,949** |
| Gross premiums written | 7,840 | 7,008 |
| Reinsurance premiums ceded | -56 | -59 |
| **Change in provision for unearned premiums** | **-683** | **-598** |
| Gross premiums | -696 | -609 |
| Reinsurers' share | 13 | 11 |
| **Total** | **7,101** | **6,351** |

## » 12 GAINS AND LOSSES ON INVESTMENTS HELD BY INSURANCE COMPANIES AND OTHER INSURANCE COMPANY GAINS AND LOSSES

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| **Income from investments held by insurance companies** | **2,342** | **1,875** |
| Interest income and current income | 1,330 | 1,308 |
| Income from reversals of impairment losses and unrealized gains | 82 | 63 |
| Gains on valuation through profit or loss of investments held by insurance companies | 675 | 125 |
| Gains on disposals | 255 | 379 |
| **Expenses in connection with investments held by insurance companies** | **-303** | **-678** |
| Administrative expenses | -53 | -50 |
| Depreciation/amortization expense, impairment losses and unrealized losses | -69 | -157 |
| Losses on valuation through profit or loss of investments held by insurance companies | -31 | -175 |
| Losses on disposals | -150 | -296 |
| **Other gains and losses of insurance companies** | **18** | **32** |
| Other insurance gains and losses | 78 | 42 |
| Other non-insurance gains and losses | -60 | -10 |
| **Total** | **2,057** | **1,229** |

## » 13 INSURANCE BENEFIT PAYMENTS

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| **Expenses for claims** | **-4,422** | **-4,115** |
| Gross expenses for claims | -4,440 | -4,132 |
| Reinsurers' share | 18 | 17 |
| **Changes in the benefit reserve and in other insurance liabilities** | **-2,607** | **-2,066** |
| Gross changes in provisions | -2,600 | -2,062 |
| Reinsurers' share | -7 | -4 |
| **Expenses for premium refunds** | **-638** | **-280** |
| Gross expenses for premium refunds | -97 | -80 |
| Expenses for deferred premium refunds | -541 | -200 |
| **Total** | **-7,667** | **-6,461** |

## » 14 INSURANCE BUSINESS OPERATING EXPENSES

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| Gross expenses | -1,112 | -1,050 |
| Reinsurers' share | 11 | 13 |
| **Total** | **-1,101** | **-1,037** |

## » 15 ADMINISTRATIVE EXPENSES

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| Staff expenses | -769 | -753 |
| General and administrative expenses | -624 | -613 |
| Depreciation and amortization | -63 | -53 |
| **Total** | **-1,456** | **-1,419** |

## » 16 OTHER NET OPERATING INCOME

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| Other income from leasing business | -19 | 6 |
| Gains and losses on non-current assets and disposal groups classified as held for sale | 1 | 10 |
| Residual other net operating income | -5 | 22 |
| **Total** | **-23** | **38** |

## » 17 INCOME TAXES

IAS 34 states that income taxes in interim financial statements are to be calculated on the basis of the best possible estimate of the weighted average tax rate for the year as a whole. This tax rate is based on the legislation that is in force or has been adopted at the relevant balance sheet date.

## » 18 AMOUNTS RECLASSIFIED TO THE INCOME STATEMENT

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| **Gains and losses on available-for-sale financial assets** | **761** | 31 |
| Gains (+)/losses (-) arising during the reporting period | 890 | 28 |
| Gains (-)/losses (+) reclassified to the income statement | -129 | 3 |
| **Gains and losses on cash flow hedges** | **-5** | -5 |
| Gains (+)/losses (-) arising during the reporting period | -1 | -3 |
| Gains (-)/losses (+) reclassified to the income statement | -4 | -2 |
| **Gains and losses on hedges of net investments in foreign operations** | **-4** | -2 |
| Gains (+)/losses (-) arising during the reporting period | -3 | -2 |
| Gains (-)/losses (+) reclassified to the income statement | -1 | – |

## » 19 INCOME TAXES RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

The table below shows the income taxes on the various components of other comprehensive income:

| € million | Jan. 1–Jun. 30, 2014 | | | Jan. 1–Jun. 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Amount before taxes | Income taxes | Amount after taxes | Amount before taxes | Income taxes | Amount after taxes |
| **Amounts reclassified to the income statement** | **763** | **-217** | **546** | 9 | -56 | -47 |
| Gains and losses on available-for-sale financial assets | 761 | -219 | 542 | 31 | -58 | -27 |
| Gains and losses on cash flow hedges | -5 | 1 | -4 | -5 | 2 | -3 |
| Exchange differences on currency translation of foreign operations | 1 | – | 1 | -9 | – | -9 |
| Gains and losses on hedges of net investments in foreign operations | -4 | 1 | -3 | -2 | – | -2 |
| Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method | 10 | – | 10 | -6 | – | -6 |
| **Amounts not reclassified to the income statement** | **-70** | **23** | **-47** | -2 | – | -2 |
| Gains and losses arising from remeasurement of defined benefit plans | -70 | 23 | -47 | -1 | – | -1 |
| Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method | – | – | – | -1 | – | -1 |
| **Total** | **693** | **-194** | **499** | 7 | -56 | -49 |

# C Balance sheet disclosures

## » 20 CASH AND CASH EQUIVALENTS

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Cash on hand | 189 | 288 |
| Balances with central banks and other government institutions | 2,768 | 3,454 |
| Treasury bills and non-interest-bearing treasury notes | 95 | 70 |
| Total | 3,052 | 3,812 |

## » 21 LOANS AND ADVANCES TO BANKS

| | Repayable on demand | | Other loans and advances | | Total | |
|---|---|---|---|---|---|---|
| € million | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| **Domestic banks** | **5,232** | 6,558 | **63,527** | 62,185 | **68,759** | 68,743 |
| Affiliated banks | 3,278 | 3,989 | 50,377 | 49,565 | 53,655 | 53,554 |
| Other banks | 1,954 | 2,569 | 13,150 | 12,620 | 15,104 | 15,189 |
| **Foreign banks** | **5,398** | 3,988 | **5,340** | 1,483 | **10,738** | 5,471 |
| Total | 10,630 | 10,546 | 68,867 | 63,668 | 79,497 | 74,214 |

## » 22 LOANS AND ADVANCES TO CUSTOMERS

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Loans and advances to domestic customers | 89,816 | 88,928 |
| Loans and advances to foreign customers | 32,480 | 32,798 |
| Total | 122,296 | 121,726 |

The following table shows the breakdown of loans and advances to customers by type of business:

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Local authority loans | 13,542 | 14,190 |
| Mortgage loans and other loans secured by mortgages on real estate | 21,087 | 21,461 |
| Loans secured by ship mortgages | 1,816 | 2,053 |
| Home savings loans advanced by building society | 28,605 | 27,259 |
| Finance leases | 4,717 | 4,872 |
| Money market placements | 623 | 473 |
| Other loans and advances | 51,906 | 51,418 |
| Total | 122,296 | 121,726 |

## » 23 ALLOWANCES FOR LOSSES ON LOANS AND ADVANCES

The changes in allowances for losses on loans and advances recognized under assets were as follows:

| € million | Allowances for losses on loans and advances to banks | | Allowances for losses on loans and advances to customers | | Total |
|---|---|---|---|---|---|
| | Specific loan loss allowances | Portfolio loan loss allowances | Specific loan loss allowances | Portfolio loan loss allowances | |
| **Balance as at Jan. 1, 2013** | 119 | 28 | 1,858 | 504 | 2,509 |
| Additions | – | – | 410 | 83 | 493 |
| Utilizations | – | – | -223 | – | -223 |
| Reversals | – | – | -196 | -97 | -293 |
| Interest income | – | – | -17 | – | -17 |
| Other changes | -1 | – | -6 | -1 | -8 |
| **Balance as at Jun. 30, 2013** | **118** | **28** | **1,826** | **489** | **2,461** |
| **Balance as at Jan. 1, 2014** | 139 | 22 | 1,871 | 508 | 2,540 |
| Additions | 14 | – | 288 | 46 | 348 |
| Utilizations | – | – | -125 | – | -125 |
| Reversals | – | -3 | -225 | -59 | -287 |
| Interest income | -2 | – | -15 | – | -17 |
| Other changes | – | – | 1 | – | 1 |
| **Balance as at Jun. 30, 2014** | **151** | **19** | **1,795** | **495** | **2,460** |

Interest income arose from unwinding the discount on impaired loans and advances recognized at present value as specified in IAS 39.AG93.

## » 24 DERIVATIVES USED FOR HEDGING (POSITIVE FAIR VALUES)

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Derivatives used for fair value hedges** | **666** | **875** |
| Interest-linked contracts | 666 | 875 |
| **Derivatives used for cash flow hedges** | **5** | **11** |
| Currency-linked contracts | 5 | 11 |
| **Derivatives used for hedges of net investments in foreign operations** | **1** | **1** |
| Currency-linked contracts | 1 | 1 |
| **Total** | **672** | **887** |

## » 25 FINANCIAL ASSETS HELD FOR TRADING

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| **DERIVATIVES (POSITIVE FAIR VALUES)** | **24,336** | **22,097** |
| Interest-linked contracts | 22,240 | 19,526 |
| Currency-linked contracts | 351 | 590 |
| Share-/index-linked contracts | 495 | 492 |
| Other contracts | 897 | 1,075 |
| Credit derivatives | 353 | 414 |
| **BONDS AND OTHER FIXED-INCOME SECURITIES** | **12,183** | **11,127** |
| **Money market instruments** | **440** | **305** |
| from public-sector issuers | 320 | 40 |
| from other issuers | 120 | 265 |
| **Bonds** | **11,743** | **10,822** |
| from public-sector issuers | 2,544 | 1,627 |
| from other issuers | 9,199 | 9,195 |
| **SHARES AND OTHER VARIABLE-YIELD SECURITIES** | **792** | **585** |
| Shares | 704 | 492 |
| Investment fund units | 25 | 33 |
| Other variable-yield securities | 63 | 60 |
| **RECEIVABLES** | **20,950** | **19,048** |
| **Money market placements** | **20,229** | **18,305** |
| with banks | 15,255 | 14,802 |
| of which: with affiliated banks | 1,144 | 1,703 |
| with other banks | 14,111 | 13,099 |
| with customers | 4,974 | 3,503 |
| **Promissory notes, registered bonds, and other loans and advances** | **721** | **743** |
| with banks | 525 | 601 |
| of which: with other banks | 525 | 601 |
| with customers | 196 | 142 |
| **Total** | **58,261** | **52,857** |

## » 26 INVESTMENTS

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| **BONDS AND OTHER FIXED-INCOME SECURITIES** | **53,954** | **53,800** |
| **Money market instruments** | **163** | **374** |
| from public-sector issuers | 83 | 65 |
| from other issuers | 80 | 309 |
| **Bonds** | **53,791** | **53,426** |
| from public-sector issuers | 26,903 | 25,175 |
| from other issuers | 26,888 | 28,251 |
| **SHARES AND OTHER VARIABLE-YIELD SECURITIES** | **1,319** | **1,485** |
| Shares and other shareholdings | 170 | 253 |
| Investment fund units | 886 | 946 |
| Other variable-yield securities | 263 | 286 |
| **INVESTMENTS IN SUBSIDIARIES** | **513** | **577** |
| **INTERESTS IN JOINT VENTURES** | **655** | **659** |
| **INVESTMENTS IN ASSOCIATES** | **387** | **354** |
| **Total** | **56,828** | **56,875** |

The carrying amount of interests in joint ventures accounted for using the equity method totaled €652 million (December 31, 2013: €656 million). €369 million of the investments in associates has been accounted for using the equity method (December 31, 2013: €340 million).

## » 27 INVESTMENTS HELD BY INSURANCE COMPANIES

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Investment property | 1,784 | 1,595 |
| Investments in subsidiaries | 449 | 590 |
| Interests in joint ventures | 38 | 38 |
| Investments in associates | 14 | 21 |
| Mortgage loans | 7,586 | 7,257 |
| Promissory notes and loans | 9,029 | 9,213 |
| Registered bonds | 10,217 | 10,031 |
| Other loans | 1,708 | 1,337 |
| Variable-yield securities | 5,868 | 5,156 |
| Fixed-income securities | 31,858 | 28,414 |
| Derivatives (positive fair values) | 316 | 161 |
| Deposits with ceding insurers | 170 | 174 |
| Assets related to unit-linked contracts | 6,809 | 6,268 |
| **Total** | **75,846** | **70,255** |

The carrying amount of interests in joint ventures accounted for using the equity method totaled €20 million (December 31, 2013: €21 million).

## » 28 PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTY

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Land and buildings | 895 | 906 |
| Office furniture and equipment | 144 | 137 |
| Assets subject to operating leases | 517 | 639 |
| Investment property | 88 | 88 |
| **Total** | **1,644** | **1,770** |

## » 29 OTHER ASSETS

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Other assets held by insurance companies | 3,834 | 4,096 |
| Goodwill | 216 | 216 |
| Other intangible assets | 333 | 349 |
| of which: software | 205 | 216 |
| acquired customer relationships | 115 | 123 |
| Other loans and advances | 191 | 165 |
| Residual other assets | 344 | 415 |
| **Total** | **4,918** | **5,241** |

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

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Intangible assets | 174 | 180 |
| Reinsurance assets | 331 | 469 |
| Receivables | 958 | 779 |
| Credit balances with banks, checks, and cash on hand | 328 | 588 |
| Residual other assets | 2,043 | 2,080 |
| **Total** | **3,834** | **4,096** |

## » 30 NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

The non-current assets and disposal groups classified as held for sale largely comprise investment fund units in various special funds and long-term equity investments.

## » 31 DEPOSITS FROM BANKS

| | Repayable on demand | | With agreed maturity or notice period | | Total | |
|---|---|---|---|---|---|---|
| € million | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| **Domestic banks** | **19,462** | 23,067 | **60,302** | 59,480 | **79,764** | 82,547 |
| Affiliated banks | 12,409 | 17,610 | 23,344 | 24,316 | 35,753 | 41,926 |
| Other banks | 7,053 | 5,457 | 36,958 | 35,164 | 44,011 | 40,621 |
| **Foreign banks** | **2,160** | 1,999 | **7,728** | 6,815 | **9,888** | 8,814 |
| **Total** | **21,622** | 25,066 | **68,030** | 66,295 | **89,652** | 91,361 |

## » 32 DEPOSITS FROM CUSTOMERS

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| **DEPOSITS FROM DOMESTIC CUSTOMERS** | **86,393** | 87,343 |
| **Home savings deposits** | **44,960** | 43,353 |
| **Other deposits** | **41,433** | 43,990 |
| Repayable on demand | 8,495 | 7,682 |
| With agreed maturity or notice period | 32,938 | 36,308 |
| **DEPOSITS FROM FOREIGN CUSTOMERS** | **12,518** | 11,205 |
| **Home savings deposits** | **1,659** | 1,631 |
| **Other deposits** | **10,859** | 9,574 |
| Repayable on demand | 6,462 | 5,264 |
| With agreed maturity or notice period | 4,397 | 4,310 |
| **Total** | **98,911** | 98,548 |

## » 33 DEBT CERTIFICATES ISSUED INCLUDING BONDS

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Bonds issued** | **42,667** | **46,105** |
| Mortgage Pfandbriefe | 6,065 | 6,485 |
| Public-sector Pfandbriefe | 5,147 | 6,766 |
| Other bonds | 31,455 | 32,854 |
| **Other debt certificates issued** | **14,049** | **7,848** |
| **Total** | **56,716** | **53,953** |

All other debt certificates issued are commercial paper.

## » 34 DERIVATIVES USED FOR HEDGING (NEGATIVE FAIR VALUES)

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Derivatives used for fair value hedges** | **2,325** | **2,385** |
| Interest-linked contracts | 2,325 | 2,385 |
| **Derivatives used for cash flow hedges** | **1** | **2** |
| Currency-linked contracts | 1 | 2 |
| **Total** | **2,326** | **2,387** |

## » 35 FINANCIAL LIABILITIES HELD FOR TRADING

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| **DERIVATIVES (NEGATIVE FAIR VALUES)** | **21,858** | **20,338** |
| Interest-linked contracts | 19,865 | 18,122 |
| Currency-linked contracts | 305 | 546 |
| Share-/index-linked contracts | 785 | 718 |
| Other contracts | 691 | 664 |
| Credit derivatives | 212 | 288 |
| **SHORT POSITIONS** | **1,453** | **749** |
| **BONDS ISSUED** | **14,054** | **13,564** |
| **DEPOSITS** | **16,664** | **11,119** |
| **Money market deposits** | **16,441** | **10,917** |
| from banks | 12,805 | 9,854 |
| of which: from affiliated banks | 1,246 | 1,560 |
| from other banks | 11,559 | 8,294 |
| from customers | 3,636 | 1,063 |
| **Promissory notes and registered bonds issued** | **223** | **202** |
| to banks | 192 | 174 |
| of which: to affiliated banks | 192 | 174 |
| to customers | 31 | 28 |
| **Total** | **54,029** | **45,770** |

Bonds issued mainly comprise share- and index-linked certificates.

## » 36 PROVISIONS

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Provisions for employee benefits** | **1,555** | **1,484** |
| Provisions for defined benefit plans | 1,346 | 1,267 |
| Provisions for other long-term employee benefits | 98 | 99 |
| of which: for preretirement part-time employment schemes | 25 | 25 |
| Provisions for termination benefits | 88 | 76 |
| of which: for early retirement schemes | 13 | 13 |
| for restructuring | 55 | 45 |
| Provisions for short-term employee benefits | 23 | 42 |
| **Provisions for share-based payments** | **9** | **10** |
| **Other provisions** | **934** | **888** |
| Provisions for onerous contracts | 44 | 14 |
| Provisions for restructuring | 4 | 11 |
| Provisions for loan commitments | 45 | 47 |
| Other provisions for loans and advances | 46 | 42 |
| Provisions relating to building society operations | 541 | 515 |
| Residual provisions | 254 | 259 |
| **Total** | **2,498** | **2,382** |

The discount rate applied to defined benefit plans had been reduced to 3.0 percent at the balance sheet date (December 31, 2013: 3.25 percent).

## » 37 INSURANCE LIABILITIES

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Provision for unearned premiums | 1,731 | 1,035 |
| Benefit reserve | 48,564 | 46,431 |
| Provision for claims outstanding | 8,189 | 7,798 |
| Provision for premium refunds | 7,484 | 6,240 |
| Other insurance liabilities | 52 | 37 |
| Reserve for unit-linked insurance contracts | 6,367 | 5,845 |
| **Total** | **72,387** | **67,386** |

## » 38 OTHER LIABILITIES

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Other liabilities of insurance companies | 3,871 | 4,059 |
| Liabilities from financial guarantee contracts | 102 | 99 |
| Accruals | 581 | 862 |
| Other payables | 389 | 610 |
| Residual other liabilities | 343 | 357 |
| **Total** | **5,286** | **5,987** |

The table below gives a breakdown of insurance companies' other liabilities.

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Other provisions | 303 | 301 |
| Payables and residual other liabilities | 3,568 | 3,758 |
| **Total** | **3,871** | **4,059** |

## » 39 SUBORDINATED CAPITAL

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Subordinated liabilities | 3,285 | 3,465 |
| Profit-sharing rights | 309 | 314 |
| Other hybrid capital | – | 363 |
| Share capital repayable on demand | 66 | 84 |
| **Total** | **3,660** | **4,226** |

## AUTHORIZED CAPITAL

» 40
EQUITY

The Board of Managing Directors has used its existing authorizations, with the approval of the Supervisory Board, to adopt a resolution to increase the subscribed capital. Please refer to note 51 'Events after the balance sheet date' for information about implementation of the capital increase.

At the Annual General Meeting of DZ BANK on May 20, 2014, a resolution was adopted about the creation of new authorized capital and a corresponding amendment to the Articles of Incorporation. In view of the resolution about the capital increase from existing authorized capital, the Board of Managing Directors was instructed not to apply to enter this amendment to the Articles of Incorporation and termination of the unused authorized capital in the commercial register until implementation of the capital increase had been entered in the commercial register.

The relevant part of DZ BANK's Articles of Incorporation was revised as follows:

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to increase the share capital by June 30, 2019 on one or more occasions by up to a total of €100 million by way of issuing new registered non-par-value shares in return for cash or non-cash contributions. The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to exclude the subscription right of shareholders both in the case of capital increases in return for non-cash contributions and in the case of capital increases in return for cash contributions if the capital is increased for the purpose of
– issuing new shares to employees of the company (employee shares),
– issuing new shares to one or more cooperative banks which, measured in terms of their total assets, directly or indirectly have a below-average stake in the company's share capital, i.e. less than 0.44 percent of their total assets (using the nominal value of €2.60 per DZ BANK share),
– acquiring companies, equity investments in companies or for granting equity investments in the corporation in order to back strategic partnerships.

The Board of Managing Directors is also authorized, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders ('Authorized Capital I').

The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to increase the share capital by June 30, 2019 on one or more occasions by up to a total of €150 million by issuing new registered non-par-value shares in return for cash contributions. The Board of Managing Directors is authorized, subject to the approval of the Supervisory Board, to exclude fractions from the subscription right of shareholders ('Authorized Capital II').

# D Financial instruments and fair value disclosures

The following tables show the breakdown of carrying amounts and fair values of financial assets and financial liabilities by class (in accordance with IFRS 7) and by category of financial instruments (in accordance with IAS 39):

» 41
CLASSES, CATEGORIES, AND FAIR VALUES OF FINANCIAL INSTRUMENTS

| | Jun. 30, 2014 | | Dec. 31, 2013 | |
|---|---|---|---|---|
| € million | Carrying amount | Fair value | Carrying amount | Fair value |
| **FINANCIAL ASSETS MEASURED AT FAIR VALUE** | **154,651** | **154,651** | **144,827** | **144,827** |
| **Financial instruments held for trading** | **58,577** | **58,577** | **53,018** | **53,018** |
| Financial assets held for trading | 58,261 | 58,261 | 52,857 | 52,857 |
| Investments held by insurance companies | 316 | 316 | 161 | 161 |
| **Fair value option** | **19,329** | **19,329** | **18,969** | **18,969** |
| Loans and advances to banks | 1,613 | 1,613 | 1,513 | 1,513 |
| Loans and advances to customers | 6,026 | 6,026 | 6,207 | 6,207 |
| Investments | 10,888 | 10,888 | 10,462 | 10,462 |
| Investments held by insurance companies | 802 | 802 | 787 | 787 |
| **Derivatives used for hedging** | **672** | **672** | **887** | **887** |
| Derivatives used for hedging (positive fair values) | 672 | 672 | 887 | 887 |
| **Available-for-sale financial assets** | **76,073** | **76,073** | **71,953** | **71,953** |
| Loans and advances to customers | 28 | 28 | 29 | 29 |
| Investments | 38,251 | 38,251 | 38,137 | 38,137 |
| Investments held by insurance companies | 37,794 | 37,794 | 33,787 | 33,787 |
| **FINANCIAL ASSETS MEASURED AT AMORTIZED COST** | **225,642** | **230,675** | **220,249** | **224,179** |
| **Loans and receivables** | **225,266** | **230,299** | **219,839** | **223,769** |
| Cash and cash equivalents | 2,863 | 2,863 | 3,524 | 3,524 |
| Loans and advances to banks | 77,714 | 79,080 | 72,540 | 73,787 |
| Loans and advances to customers | 109,297 | 112,214 | 108,302 | 110,646 |
| Investments | 6,292 | 6,333 | 6,870 | 6,652 |
| Investments held by insurance companies | 28,151 | 29,214 | 27,462 | 28,346 |
| Other assets | 595 | 595 | 814 | 814 |
| Fair value changes of the hedged items in portfolio hedges of interest-rate risk | 354 | | 327 | |
| **Available-for-sale financial assets** | **376** | **376** | **410** | **410** |
| Investments | 376 | 376 | 410 | 410 |
| **FINANCE LEASES** | **4,655** | **4,924** | **4,809** | **5,104** |
| Loans and advances to customers | 4,655 | 4,924 | 4,809 | 5,104 |

| | Jun. 30, 2014 | | Dec. 31, 2013 | |
|---|---|---|---|---|
| € million | Carrying amount | Fair value | Carrying amount | Fair value |
| **FINANCIAL LIABILITIES MEASURED AT FAIR VALUE** | **82,282** | **82,282** | **74,756** | **74,756** |
| **Financial instruments held for trading** | **54,050** | **54,050** | **45,805** | **45,805** |
| Financial liabilities held for trading | 54,029 | 54,029 | 45,770 | 45,770 |
| Other liabilities | 21 | 21 | 35 | 35 |
| **Fair value option** | **25,906** | **25,906** | **26,564** | **26,564** |
| Deposits from banks | 4,738 | 4,738 | 5,042 | 5,042 |
| Deposits from customers | 7,580 | 7,580 | 7,575 | 7,575 |
| Debt certificates issued including bonds | 12,372 | 12,372 | 12,612 | 12,612 |
| Subordinated capital | 1,216 | 1,216 | 1,335 | 1,335 |
| **Derivatives used for hedging** | **2,326** | **2,326** | **2,387** | **2,387** |
| Derivatives used for hedging (negative fair values) | 2,326 | 2,326 | 2,387 | 2,387 |
| **FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST** | **224,593** | **228,732** | **223,245** | **226,538** |
| Deposits from banks | 84,914 | 86,126 | 86,319 | 87,505 |
| Deposits from customers | 91,331 | 93,543 | 90,973 | 92,797 |
| Debt certificates issued including bonds | 44,344 | 45,116 | 41,341 | 41,984 |
| Other liabilities | 1,263 | 1,263 | 1,472 | 1,472 |
| Subordinated capital | 2,444 | 2,684 | 2,891 | 2,780 |
| Fair value changes of the hedged items in portfolio hedges of interest-rate risk | 297 | | 249 | |
| **FINANCE LEASES** | **29** | **35** | **30** | **34** |
| Other liabilities | 29 | 35 | 30 | 34 |
| **FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS** | **147** | **147** | **146** | **146** |
| **Financial guarantee contracts** | **102** | **102** | **99** | **99** |
| Other liabilities | 102 | 102 | 99 | 99 |
| **Loan commitments** | **45** | **45** | **47** | **47** |
| Provisions | 45 | 45 | 47 | 47 |

Given the complex structure of home savings contracts and the multitude of scales of rates and charges, there is currently no suitable method for calculating the fair value of an individual contract as at the balance sheet date. Consequently, the fair value cannot be determined using either comparable market prices or suitable option pricing models. The fair values of financial assets and financial liabilities resulting from building society operations are therefore shown in simplified form at their carrying amounts. On the basis of the models used for building society management, which comprise both collective and non-collective business including deposits, the overall performance of building society operations during the reporting period was positive.

The carrying amounts and fair values reported under investments held by insurance companies relate to receivables and fixed-income securities which are held to match long-term insurance contract obligations as part of insurance operations. Because these instruments are normally held over their entire lifetime, interest-rate-related changes in fair value during the lifetime of the financial assets balance each other out in full. The fair value of investments held by insurance companies is only recognized in the proportion attributable to the shareholders of the DZ BANK Group.

## FINANCIAL INSTRUMENTS MEASURED AT COST

Investments include shares and other variable-yield securities, investments in subsidiaries, interests in joint ventures, and investments in associates measured at cost with a total carrying amount of €376 million (December 31, 2013: €410 million). There are no active markets for these investments, nor can their fair value be reliably determined by using a valuation technique based on assumptions that do not rely on available observable market data. Furthermore, there are no other markets for these financial instruments. The purpose of these investments is largely to support the business operations of the DZ BANK Group on a permanent basis.

During the reporting period, investments in associates measured at cost with a carrying amount of €1 million were sold. This resulted in gains on disposal of €1 million. No financial instruments measured at cost had been sold in the first half of 2013.

## FAIR VALUE HIERARCHY

» 42
ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON THE BALANCE SHEET

### RECURRING FAIR VALUE MEASUREMENTS

The recurring fair value measurements are assigned to the levels of the fair value hierarchy as follows:

| | Level 1 | | Level 2 | | Level 3 | |
|---|---|---|---|---|---|---|
| € million | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| **Assets** | **52,198** | 76,537 | **105,127** | 70,027 | **4,151** | 4,540 |
| Loans and advances to banks | – | – | 1,613 | 1,513 | – | – |
| Loans and advances to customers | – | – | 5,505 | 5,591 | 549 | 645 |
| Derivatives used for hedging (positive fair values) | – | – | 672 | 887 | – | – |
| Financial assets held for trading | 1,685 | 7,854 | 56,130 | 44,454 | 446 | 549 |
| Investments | 14,097 | 33,688 | 33,832 | 12,988 | 1,210 | 1,923 |
| Investments held by insurance companies | 36,408 | 34,995 | 7,374 | 4,588 | 1,939 | 1,420 |
| Non-current assets and disposal groups classified as held for sale | 8 | – | 1 | 6 | 7 | 3 |
| **Liabilities** | **7,724** | 7,358 | **75,071** | 66,932 | **6,196** | 6,645 |
| Deposits from banks | – | – | 4,729 | 5,023 | 9 | 19 |
| Deposits from customers | – | – | 7,573 | 7,567 | 7 | 8 |
| Debt certificates issued including bonds | 2,304 | 2,215 | 9,431 | 10,050 | 637 | 347 |
| Derivatives used for hedging (negative fair values) | – | – | 2,326 | 2,387 | – | – |
| Financial liabilities held for trading | 727 | 968 | 47,759 | 38,532 | 5,543 | 6,270 |
| Financial liabilities arising from fund-linked insurance products | 4,690 | 4,174 | 2,019 | 2,005 | – | – |
| Other liabilities | 3 | 1 | 18 | 33 | – | 1 |
| Subordinated capital | – | – | 1,216 | 1,335 | – | – |

The investments held by insurance companies measured at fair value include assets related to unit-linked contracts. These are offset on the equity and liabilities side of the balance sheet by financial liabilities measured at fair value arising from fund-linked insurance products, which consist of the reserve for unit-linked insurance contracts and liabilities from capitalization transactions allocated to unit-linked life insurance.

## TRANSFERS

Assets and liabilities held at the balance sheet date and measured at fair value on a recurring basis were transferred as follows between Levels 1 and 2 of the fair value hierarchy:

| | Transfers from Level 1 to Level 2 | | Transfers from Level 2 to Level 1 | |
|---|---|---|---|---|
| € million | **Jan. 1– Jun. 30, 2014** | Jan. 1– Jun. 30, 2013 | **Jan. 1– Jun. 30, 2014** | Jan. 1– Jun. 30, 2013 |
| **Assets measured at fair value** | **25,024** | 1,183 | **208** | 523 |
| Financial assets held for trading | 4,103 | 26 | 70 | 33 |
| Investments | 18,786 | 607 | 133 | 139 |
| Investments held by insurance companies | 2,135 | 550 | 5 | 351 |
| **Liabilities measured at fair value** | **184** | – | **78** | – |
| Debt certificates issued including bonds | – | – | 68 | – |
| Financial liabilities held for trading | 184 | – | 10 | – |

Transfers from Level 1 to Level 2 were due to quoted prices no longer being obtainable in active markets for identical assets. Transfers from Level 2 to Level 1 were due to the availability of quoted prices in active markets that had previously not existed.

In the DZ BANK Group, transfers between Levels 1 and 2 take place when there is a change in the inputs that is relevant to categorization in the fair value hierarchy.

## FAIR VALUE MEASUREMENTS WITHIN LEVELS 2 AND 3

Fair value measurements within Level 2 of the fair value hierarchy either use prices available in active markets for similar, but not identical, financial instruments or use valuation techniques largely based on observable market data. If valuation techniques are used that include a significant valuation parameter that is not observable in the market, the relevant fair value measurements are categorized within Level 3 of the fair value hierarchy.

The DZ BANK Group predominantly uses discounted cash flow methods for the fair value measurement of loans and advances as well as of bonds and other fixed-income securities. Instrument-specific and issuer-specific interest rates are used to discount the expected cash flows. The interest rates are determined by selecting appropriate yield curves, most of which are subject to further adjustment. As far as loans are concerned, the focus is on secured and unsecured treasury yield curves; for bonds and other fixed-income securities, the focus is on currency-specific swap curves. These are adjusted using issuer-specific spreads (resulting from the issuer's internal and external credit rating, sector, and risk category), basis swap spreads, unobservable liquidity spreads, and other spreads. In exceptional cases, the notional amount of the debt instrument in question provides the best evidence of fair value. The fair value measurements of liabilities attributable to registered creditors, debt certificates issued including bonds, and subordinated capital are determined in the same way as for the debt instruments held by using discounted cash flow methods. The modeling of instrument-specific and issuer-specific interest rates for the discounting is based on secured and unsecured funding caps for liabilities and on the relevant subordinated spreads respectively. Basis swap spreads are also used in some cases.

The fair value measurements of shares and other variable-yield securities and of long-term equity investments accounted for in accordance with IAS 39 are determined by applying income capitalization approaches and observing transaction prices. The best indicator of fair value is deemed to be the transaction prices for recent transactions involving the relevant financial instruments, provided there have been any such transactions. Essentially, the fair value is measured using income capitalization approaches in which future income and dividends – calculated on the basis of forecasts and estimates – are discounted, taking risk parameters into account.

The fair value measurements of investment fund units are determined using the pro rata net asset value. This is adjusted for any outstanding performance-related remuneration entitlements of fund managers; risk adjustments are also taken into account. Some long-term equity investments in real-estate companies are also measured at net asset value. In this case, the liabilities are subtracted from the fair values of the real estate tied up in the company and the result is multiplied by the percentage of shareholding. The prices of units in real-estate funds that are not managed by the DZ BANK Group are provided by the asset management company that manages these funds. These units are measured regularly at net asset value. Fair value measurements are also based on valuations, current values, and prices in recent transactions.

The fair value measurement of OTC derivatives applies the option in IFRS 13.48, which enables the total net amount to be measured. In the first step, credit risk is not taken into account. The fair values of OTC option derivatives are measured using generally accepted option pricing models such as the Black-Scholes and Black 76 models or the one-factor and two-factor Hull-White models. Share/index options are measured on the basis of the local volatility model with constant forward skew using a Monte Carlo simulation. Non-option, interest-rate-based OTC derivatives are generally measured in accordance with the multiple-curve approach. Variable cash flows are projected using tenor-specific fixing curves. When future cash flows are discounted, liquidity-related adjustments are made to the relevant yield curves – similarly to the method applied to non-derivative interest-bearing financial instruments. In order to determine the fair value of forward forex transactions, the differences between translation at the spot rate and the agreed forward rate are calculated. In the second step, credit risk arising from derivatives is recognized after the total net amount has been determined. Credit valuation adjustments (CVA) are recognized to mitigate counterparty credit risk and debt valuation adjustments (DVA) are recognized to mitigate the group's own credit risk. Their measurement also takes account of collateral and uses market-implied parameters with matching maturities or internal parameters with matching maturities for the probability of default and loss given default.

The fair values of structured products are measured by breaking them down into their constituent parts. The fair values of the non-derivative and derivative components are determined in accordance with the methods described above.

The following table shows the valuation techniques, the unobservable inputs, and their spread used for the fair value measurements at Level 3 of the fair value hierarchy.

| Class according to IFRS 13 | Assets/ liabilities | Fair value (€ million) | Valuation technique | Unobservable inputs | Spread of unobservable inputs (%) |
|---|---|---|---|---|---|
| Loans and advances to customers | Loans | 368 | DCF method | Credit spread | – |
| | Loans | 153 | DCF method | Internal spread | – |
| | Silent partnerships | 28 | DCF method | Internal credit ratings | 8.1 to 15.5 |
| Financial assets held for trading | Bearer securities | 154 | DCF method | Credit spread | -0.5 to 300 |
| | RMBSs/CMBSs | 119 | DCF method | Liquidity spread | 2 |
| | Equity/commodity basket products | 85 | DCF method | Correlation of the risk factors considered | -6 to 98 |
| | ABSs | 53 | DCF method | Credit spread | 0.3 to 370 |
| | | | | Liquidity spread for unsecured cash CDO bonds | 1.6 to 2.6 |
| | Collateralized loan obligations | 24 | DCF method | Conditional prepayment rate | 15 |
| | Loans and advances to issuers in default | 9 | DCF method | Recovery rate | 0 to 10 |
| | Syndicated loans | 2 | DCF method | Credit spread | – |

| Class according to IFRS 13 | Assets/ liabilities | Fair value (€ million) | Valuation technique | Unobservable inputs | Spread of unobservable inputs (%) |
|---|---|---|---|---|---|
| Investments | VR Circle | 408 | DCF method | Multiple-year default probabilities | 0 to 100 |
| | Bearer securities | 351 | DCF method | Credit spread | -0.5 to 300 |
| | | 345 | DCF method | Internal spread | 0.2 to 1.6 |
| | Investment fund units | 55 | Net asset value | – | – |
| | | 1 | DCF method | Liquidity spread | 25 |
| | Investments in subsidiaries | 28 | DCF method | Assumptions for measurement of risk parameters | 8.2 to 11.2 |
| | | 6 | Income capitalization approach | Future income | – |
| | Collateralized loan obligations | 12 | DCF method | Liquidity spread for unsecured cash CDO bonds | 1.6 to 2.6 |
| | | | | Conditional prepayment rate | 15 |
| | ABSs | 4 | DCF method | Credit spread | 0.3 to 370 |
| Investments held by insurance companies | Investments in subsidiaries and associates, variable-yield securities, investment fund units, long-term equity investments | 1,137 | Net asset value method | Net asset value | – |
| | | 238 | Income capitalization approach | Future income | – |
| | ABSs | 403 | DCF method | Credit spread | – |
| | Profit-participation certificates | 99 | Asset swap method | Credit spread | – |
| | | 34 | Notional amount | – | – |
| | | 5 | DCF method | Internal spread | – |
| | Fixed-income securities, shares | 23 | Prices offered by issuers | – | – |
| Non-current assets and disposal groups classified as held for sale | Long-term equity investments | 7 | Net asset value method | Net asset value | – |
| Deposits from banks and customers | Nth-to-default credit-linked notes | 16 | DCF method | Credit correlation | 55 to 80 |
| Debt certificates issued including bonds | VR Circle | 453 | DCF method | Multiple-year default probabilities | 0 to 100 |
| | Nth-to-default credit-linked notes | 184 | DCF method | Credit correlation | 55 to 80 |
| Financial liabilities held for trading | Equity/commodity basket products | 5,341 | DCF method | Correlation of the risk factors considered | -6 to 98 |
| | Nth-to-default credit-linked notes | 202 | DCF method | Credit correlation | 55 to 80 |

## FAIR VALUE MEASUREMENTS WITHIN LEVEL 3 OF THE FAIR VALUE HIERARCHY

The table below shows the changes in the recurring fair value measurements of assets within Level 3 of the fair value hierarchy:

| € million | Loans and advances to customers | Financial assets held for trading | Investments | Investments held by insurance companies | Non-current assets and disposal groups classified as held for sale |
|---|---|---|---|---|---|
| Balance as at Jan. 1, 2013 | 60 | 103 | 242 | 245 | – |
| Additions (purchases) | – | – | 1 | 1 | – |
| Transfers | – | 1 | 1 | -47 | – |
| from Level 3 to Levels 1 and 2 | – | – | – | -78 | – |
| from Levels 1 and 2 to Level 3 | – | 1 | 1 | 31 | – |
| Disposals (sales) | – | -6 | -73 | -1 | – |
| Changes resulting from measurement at fair value | -4 | 2 | – | – | – |
| through profit or loss | -5 | 2 | -3 | – | – |
| through other comprehensive income | 1 | – | 3 | – | – |
| Other changes | – | – | -2 | – | – |
| **Balance as at Jun. 30, 2013** | **56** | **100** | **169** | **198** | **–** |
| Balance as at Jan. 1, 2014 | 645 | 549 | 1,923 | 1,420 | 3 |
| Additions (purchases) | – | 133 | 2 | 170 | – |
| Transfers | – | -99 | -826 | 459 | – |
| from Level 3 to Levels 1 and 2 | – | -100 | -1,196 | – | – |
| from Levels 1 and 2 to Level 3 | – | 1 | 370 | 459 | – |
| Disposals (sales) | -67 | -164 | -5 | -118 | -3 |
| Changes resulting from measurement at fair value | -28 | 27 | 121 | -31 | – |
| through profit or loss | – | 27 | 55 | -41 | – |
| through other comprehensive income | -28 | – | 66 | 10 | – |
| Other changes | -1 | – | -5 | 39 | 7 |
| **Balance as at Jun. 30, 2014** | **549** | **446** | **1,210** | **1,939** | **7** |

The table below shows the changes in the recurring fair value measurements of liabilities within Level 3 of the fair value hierarchy:

| € million | Deposits from banks | Deposits from customers | Debt certificates issued including bonds | Financial liabilities held for trading | Other liabilities | Liabilities included in disposal groups classified as held for sale |
|---|---|---|---|---|---|---|
| Balance as at Jan. 1, 2013 | 52 | 19 | 699 | 226 | – | – |
| Additions (issues) | – | – | – | 14 | – | – |
| Disposals (settlements) | -8 | -10 | -329 | – | – | – |
| Changes resulting from measurement at fair value through profit or loss | -1 | – | 1 | -4 | – | – |
| Other changes | – | -1 | -4 | -2 | – | 45 |
| **Balance as at Jun. 30, 2013** | **43** | **8** | **367** | **234** | **–** | **45** |
| Balance as at Jan. 1, 2014 | 19 | 8 | 347 | 6,270 | 1 | – |
| Additions (issues) | – | – | 290 | – | – | – |
| Transfers | – | – | – | -22 | – | – |
| from Level 3 to Levels 1 and 2 | – | – | – | -26 | – | – |
| from Levels 1 and 2 to Level 3 | – | – | – | 4 | – | – |
| Disposals (settlements) | -9 | -1 | – | -720 | -1 | – |
| Changes resulting from measurement at fair value through profit or loss | -1 | – | 2 | 16 | – | – |
| Other changes | – | – | -2 | -1 | – | – |
| **Balance as at Jun. 30, 2014** | **9** | **7** | **637** | **5,543** | **–** | **–** |

The other changes relate to accrued interest and other reclassifications.

As part of the processes for fair value measurement, the DZ BANK Group reviews whether the valuation methods used for the measurement are typical and whether the valuation parameters used in the valuation methods are observable in the market. This review takes place at every balance sheet date, i.e. at least every six months. On the basis of this review, the fair value measurements are assigned to the levels of the fair value hierarchy. In the DZ BANK Group, transfers between the levels generally take place as soon as there is a change in the inputs that is relevant to categorization in the fair value hierarchy. In each step of this process, both the distinctive features of the particular product type and the distinctive features of the business models of the group entities are taken into consideration.

Transfers of fair values from Levels 1 and 2 to Level 3 of the fair value hierarchy during the financial year are largely attributable to a revised estimate of the market observability of the valuation parameters used in the valuation methods. Transfers from Level 3 to Levels 1 and 2 are due to the availability of a price listed in an active market and to the inclusion in the valuation method of material valuation parameters observable in the market.

The amount recognized in profit or loss resulting from the recurring fair value measurements within Level 3 of assets and liabilities held at the balance sheet date constituted a loss of €32 million during the reporting period (first half of 2013: loss of €1 million). The profit or loss is contained in the line items net interest income, allowances for losses on loans and advances, gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments, and gains and losses on investments held by insurance companies and other insurance company gains and losses.

For the fair values of loans and advances to customers reported within Level 3, a worsening in the credit rating or interest rate of 1 percent would lead to the recognition of a €14 million loss in the income statement. In the case of the fair values of investments, the same change would lead to the recognition of a €116 million loss in the income statement and a further loss of €5 million under other comprehensive income/loss. The fair values of bonds without liquid markets that are reported within financial assets held for trading and under investments are given an individual adjustment spread. All other things being equal, an increase in the adjustment spread of 1 percent would lead to the recognition of a €3 million loss in the income statement and a loss of €95 million under other comprehensive income/loss. Alternative assumptions about the correlations used could lead to significant changes in respect of the fair values of equity/commodity basket products reported under financial assets and financial liabilities held for trading. All other things being equal, a rise of 1 percent in correlation assumptions would lead to the recognition of a €9 million gain in the income statement.

Sensitivity analysis is used to calculate the aforementioned changes in the fair value measurements. Non-performing exposures and strategically held investments in subsidiaries and other shareholdings whose fair values are calculated using an income capitalization approach are not included in the sensitivity analysis.

## EXERCISE OF OPTION PURSUANT TO IFRS 13.48

The option offered by IFRS 13.48 of measuring a net risk position for financial assets and financial liabilities is used for portfolios whose components are recognized under the balance sheet items loans and advances to banks, loans and advances to customers, financial assets held for trading, investments, and financial liabilities held for trading.

## » 43 RECLASSIFICATIONS

In the first half of 2014, no financial assets were reclassified from 'financial instruments held for trading' or 'available-for-sale financial assets' to another category. No financial assets had been reclassified in the corresponding period of 2013 either.

The table below shows the carrying amounts and the fair values of all financial assets that were reclassified and that were held at the balance sheet date:

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Carrying amounts | 1,014 | 1,227 |
| Fair values | 1,001 | 1,168 |

If all the reclassifications in previous years had not taken place, an additional gain of €28 million before taxes would have been recognized in the income statement in the first half of 2014 as a result of the fair value measurement (first half of 2013: pre-tax gain of €51 million). In addition, pre-tax gains of €41 million in respect of the fair value measurement would have been recognized in other comprehensive income/loss in the first half of 2014 (first half of 2013: pre-tax loss of €45 million).

In the first half of 2014, the profit before taxes included an amount of €43 million derived from gains, losses, income, and expenses in connection with all the reclassified financial assets held (first half of 2013: €15 million).

## » 44 HEDGE ACCOUNTING

Gains and losses arising on hedging instruments and hedged items that need to be recognized in profit or loss are reported in the gains and losses from hedge accounting under other gains and losses on valuation of financial instruments. The breakdown of gains and losses from hedge accounting, by type of hedge, is as follows:

| € million | Jan. 1– Jun. 30, 2014 | Jan. 1– Jun. 30, 2013 |
|---|---|---|
| **Gains and losses on fair value hedges** | **-6** | -6 |
| Gains and losses on hedging instruments | 168 | 6 |
| Gains and losses on hedged items | -174 | -12 |
| **Gains and losses on portfolio fair value hedges** | **11** | 21 |
| Gains and losses on hedging instruments | -659 | 384 |
| Gains and losses on hedged items | 670 | -363 |
| **Total** | **5** | 15 |

## » 45 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND INSURANCE CONTRACTS

Selected disclosures on the nature and extent of risks arising from financial instruments (IFRS 7.31-42) and insurance contracts (IFRS 4.38-39A) are included in the opportunity and risk report within the interim group management report.

The table below shows the carrying amounts of the DZ BANK Group's exposures to bonds issued by governments and public authorities in countries particularly affected by the sovereign debt crisis, broken down into the categories applied to financial instruments under IAS 39.

» 46
EXPOSURES TO COUNTRIES PARTICULARLY AFFECTED BY THE SOVEREIGN DEBT CRISIS

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Portugal** | **158** | **332** |
| Financial instruments held for trading | – | 5 |
| Fair value option | 96 | 266 |
| Available-for-sale financial assets | 13 | 11 |
| Loans and receivables | 49 | 50 |
| **Italy** | **5,262** | **4,301** |
| Financial instruments held for trading | 44 | 52 |
| Fair value option | 1,472 | 1,321 |
| Available-for-sale financial assets | 3,746 | 2,928 |
| **Ireland** | **23** | **21** |
| Available-for-sale financial assets | 23 | 21 |
| **Spain** | **2,627** | **2,365** |
| Financial instruments held for trading | 3 | – |
| Fair value option | 2,155 | 1,949 |
| Available-for-sale financial assets | 469 | 416 |
| **Total** | **8,070** | **7,019** |

The fair value of Portuguese government bonds categorized as 'loans and receivables' amounts to €51 million (December 31, 2013: €41 million).

Bonds issued by countries particularly affected by the sovereign debt crisis and held as part of the insurance business are only recognized in the proportion attributable to the shareholders of the DZ BANK Group.

## FAIR VALUE HIERARCHY

The recurring fair value measurements as measured and recognized on the balance sheet are assigned to the levels of the fair value hierarchy as follows:

| | Level 1 | | Level 2 | | Level 3 | |
|---|---|---|---|---|---|---|
| € million | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 | Jun. 30, 2014 | Dec. 31, 2013 |
| **Portugal** | **13** | 277 | **96** | 5 | **–** | – |
| Financial instruments held for trading | – | – | – | 5 | – | – |
| Fair value option | – | 266 | 96 | – | – | – |
| Available-for-sale financial assets | 13 | 11 | – | – | – | – |
| **Italy** | **2,537** | 3,082 | **2,612** | 1,185 | **113** | 34 |
| Financial instruments held for trading | – | – | 44 | 52 | – | – |
| Fair value option | – | 931 | 1,427 | 390 | 45 | – |
| Available-for-sale financial assets | 2,537 | 2,151 | 1,141 | 743 | 68 | 34 |
| **Ireland** | **23** | 21 | **–** | – | **–** | – |
| Available-for-sale financial assets | 23 | 21 | – | – | – | – |
| **Spain** | **85** | 806 | **2,114** | 1,520 | **428** | 39 |
| Financial instruments held for trading | – | – | 3 | – | – | – |
| Fair value option | 48 | 753 | 1,904 | 1,196 | 203 | – |
| Available-for-sale financial assets | 37 | 53 | 207 | 324 | 225 | 39 |
| **Total** | **2,658** | 4,186 | **4,822** | 2,710 | **541** | 73 |

## IMPAIRMENT

No impairment losses were recognized to cover exposures in respect of the bonds from countries particularly affected by the sovereign debt crisis (Portugal, Italy, Ireland, and Spain) because there was insufficient objective evidence of impairment.

## MATURITY ANALYSIS

### AS AT JUNE 30, 2014

| € million | ≤ 1 month | > 1 month – 3 months | > 3 months – 1 year | > 1 year – 5 years | > 5 years |
|---|---|---|---|---|---|
| Portugal | – | – | 4 | 66 | 145 |
| Italy | 65 | 148 | 510 | 1,196 | 4,493 |
| Ireland | – | – | 1 | 5 | 19 |
| Spain | 75 | 26 | 316 | 1,167 | 1,625 |
| **Total** | **140** | **174** | **831** | **2,434** | **6,282** |

### AS AT DECEMBER 31, 2013

| € million | ≤ 1 month | > 1 month – 3 months | > 3 months – 1 year | > 1 year – 5 years | > 5 years |
|---|---|---|---|---|---|
| Portugal | – | – | 195 | 71 | 173 |
| Italy | 56 | 113 | 264 | 1,332 | 4,108 |
| Ireland | – | – | 1 | 5 | 19 |
| Spain | 2 | 12 | 599 | 1,186 | 1,578 |
| **Total** | **58** | **125** | **1,059** | **2,594** | **5,878** |

The maturity analysis shows the contractually agreed cash inflows.

# E Other disclosures

## » 47 FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

| € million | Jun. 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| **Financial guarantee contracts** | **5,101** | **5,157** |
| Loan guarantees | 2,860 | 2,877 |
| Letters of credit | 287 | 330 |
| Other guarantees and warranties | 1,954 | 1,950 |
| **Loan commitments** | **19,827** | **19,838** |
| Credit facilities to banks | 3,035 | 2,663 |
| Credit facilities to customers | 5,785 | 8,045 |
| Guarantee credits | 100 | 3 |
| Letters of credit | 7 | 35 |
| Global limits | 10,900 | 9,092 |
| **Total** | **24,928** | **24,995** |

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

## » 48 TRUST ACTIVITIES

Trust assets and trust liabilities amounted to €3,318 million at the balance sheet date (December 31, 2013: €3,167 million).

## » 49 ASSET MANAGEMENT BY THE UNION INVESTMENT GROUP

The Union Investment Group had total assets under management of €218,894 million at the balance sheet date (December 31, 2013: €206,161 million).

## » 50 EMPLOYEES

Average number of employees by employee group:

| | Jan. 1-Jun. 30, 2014 | Jan. 1-Jun. 30, 2013 |
|---|---|---|
| **Female employees** | **13,654** | **13,378** |
| Full-time employees | 8,867 | 8,867 |
| Part-time employees | 4,787 | 4,511 |
| **Male employees** | **15,847** | **15,521** |
| Full-time employees | 15,127 | 14,892 |
| Part-time employees | 720 | 629 |
| **Total** | **29,501** | **28,899** |

## » 51 EVENTS AFTER THE BALANCE SHEET DATE

The Board of Managing Directors has used its existing authorizations, with the approval of the Supervisory Board, to adopt a resolution to increase the subscribed capital (share capital) by €486,168,922.20 from €3,160,097,987.80 to €3,646,266,910.00. The implementation of the capital increase by way of an issue of 186,988,047 registered non-par-value shares with a total volume of €1,477 million at a subscription price per share of €7.90 for cash was entered in the commercial register of the Frankfurt am Main local court on July 29, 2014. Dividends are payable on the new shares from January 1, 2014.

## » 52 BOARD OF MANAGING DIRECTORS

WOLFGANG KIRSCH
(Chief Executive Officer)

LARS HILLE

WOLFGANG KÖHLER

DR. CORNELIUS RIESE

THOMAS ULLRICH

FRANK WESTHOFF

STEFAN ZEIDLER

## » 53 SUPERVISORY BOARD

HELMUT GOTTSCHALK
(Chairman of the Supervisory Board)
Spokesman of the Board of Managing Directors
Volksbank Herrenberg-Nagold-Rottenburg eG

WOLFGANG APITZSCH
(Deputy Chairman
of the Supervisory Board)
Attorney

HENNING DENEKE-JÖHRENS
(Deputy Chairman
of the Supervisory Board)
Spokesman of the
Board of Managing Directors
Volksbank eG
Lehrte-Springe-Pattensen-Ronnenberg

HEINER BECKMANN
Senior Manager
R+V Allgemeine Versicherung AG

RÜDIGER BEINS
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

ULRICH BIRKENSTOCK
Employee
R+V Allgemeine Versicherung AG

WERNER BÖHNKE
(Member of the Supervisory Board
until May 20, 2014)
Chairman of the Supervisory Board
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

HERMANN BUERSTEDDE
Employee
Union Asset Management Holding AG

UWE FRÖHLICH
President
Bundesverband der Deutschen Volksbanken
und Raiffeisenbanken e.V. (BVR)

BERND HÜHN
Chief Executive Officer
Volksbank Alzey-Worms eG

RAINER MANGELS
Employee
R+V Rechtsschutzversicherung AG

GERHARD J. RASTETTER
(Member of the Supervisory Board
until May 20, 2014)
Bank Director (ret.)

STEPHAN SCHACK
Spokesman of the
Board of Managing Directors
Volksbank Raiffeisenbank eG, Itzehoe

GUDRUN SCHMIDT
Employee
ver.di Landesbezirk Hessen

DR. WOLFGANG THOMASBERGER
Chief Executive Officer
VR Bank Rhein-Neckar eG

KARL EICHELE
Employee
Schwäbisch Hall Kreditservice AG

KLAUS HOLDERBACH
(Member of the Supervisory Board
since May 20, 2014)
Chief Executive Officer
Volksbank Franken eG

SIGMAR KLEINERT
Employee
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

WALTER MÜLLER
(Member of the Supervisory Board
until May 20, 2014)
Chief Executive Officer
Volksbank Raiffeisenbank Fürstenfeldbruck eG

DIETER REMBDE
Member of the Board of Managing Directors
VR-Bank Schwalm-Eder
Volksbank Raiffeisenbank eG

GREGOR SCHELLER
(Member of the Supervisory Board
since May 20, 2014)
Chief Executive Officer
Volksbank Forchheim eG

UWE SPITZBARTH
National Group Director Banks
ver.di Bundesverwaltung

HANS-BERND WOLBERG
(Member of the Supervisory Board
since May 20, 2014)
Chief Executive Officer
WGZ BANK AG
Westdeutsche Genossenschafts-Zentralbank

# RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group in accordance with German accepted accounting principles and the interim group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the material opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Frankfurt am Main, August 26, 2014

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank

The Board of Managing Directors

Kirsch

Hille

Köhler

Dr. Riese

Ullrich

Westhoff

Zeidler

# REVIEW REPORT (TRANSLATION)

To DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

We have reviewed the interim condensed consolidated financial statements, comprising the condensed income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the condensed statement of cash flows, and selected explanatory notes, and the interim group management report of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, for the period from January 1 to June 30, 2014, which are part of the six-monthly financial report pursuant to Sec. 37w WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]. The preparation of the interim condensed consolidated financial statements in accordance with IFRSs on interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the interim condensed consolidated financial statements and the interim group management report based on our review.

We conducted our review of the interim condensed consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU and that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU or that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Eschborn/Frankfurt am Main, August 26, 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Professor Dr. Pfitzer | Dombek |
| Wirtschaftsprüfer | Wirtschaftsprüferin |
| (German Public Auditor) | (German Public Auditor) |

## EDITORIAL INFORMATION

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Lars Hille
Wolfgang Köhler
Dr. Cornelius Riese
Thomas Ullrich
Frank Westhoff
Stefan Zeidler

This half-year financial report is available in electronic form on our website at www.halfyearreport.dzbank.com/2014.

Volksbanken Raiffeisenbanken
cooperative financial network

DZ BANK Group