Consolidated Financial Statements

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

BVR

20

	2020 € million	2019 € million	Change (percent)
Financial performance			
Net interest income	18,382	18,185	1.1
Net fee and commission income	7,439	7,092	4.9
Gains and losses on financial and commodities activities[1]	713	1,830	–61.0
Net income from insurance business[2]	722	1,652	–56.3
Loss allowances	–2,327	–832	>100.0
Profit before taxes	7,226	10,179	–29.0
Net profit	5,034	7,046	–28.6
Net assets			
Loans and advances to banks	19,730	22,439	–12.1
Loans and advances to customers	890,576	844,552	5.4
Financial assets held for trading	42,643	44,335	–3.8
Investments	255,374	248,509	2.8
Loss allowances	–10,470	–9,119	14.8
Investments held by insurance companies	120,580	112,554	7.1
Remaining assets	157,496	120,818	30.4
Financial position			
Deposits from banks	160,924	119,955	34.2
Deposits from customers	937,876	880,398	6.5
Debt certificates issued including bonds	58,365	79,610	–26.7
Financial liabilities held for trading	46,796	48,490[3]	–3.5
Insurance liabilities	111,213	104,346	6.6
Remaining liabilities	38,965	35,267	10.5
Equity	121,790	116,013	5.0
Total assets/total equity and liabilities	**1,475,929**	**1,384,088**	**6.6**
Volume of business[4]	**1,994,013**	**1,870,742**	**6.6**
Profitability/efficiency			
Cost/income ratio (percent)	65.4	62.2	
Return on equity (percent)[5]	6.1	9.1	
Average equity	118,902	111,859	6.3
Return on capital employed (percent)[6]	0.3	0.5	
Regulatory capital ratios			
Tier 1 capital ratio (percent)	14.4	13.7	
Total capital ratio (percent)	16.2	15.6	
Common equity Tier 1 capital ratio including sec. 340f HGB reserves (percent)	16.1	15.5	
Employees as at reporting date	**172,334**	**174,314**	**–1.1**

See back inside cover for footnotes 1–6.

Consolidated Financial Statements 2020

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

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Annex: Significant Financial Reporting Principles

In brief

The Volksbanken Raiffeisenbanken Cooperative Financial Network as a whole held up well in a year in which coronavirus made conditions difficult. It generated a solid €7.2 billion in consolidated profit before taxes in 2020. The equivalent figure for the prior year of €10.2 billion had been heavily boosted by valuation effects. In its operating business, the Cooperative Financial Network not only saw a rise in net fee and commission income and net interest income in 2020, but also a slight reduction in costs. In terms of negative effects resulting from the coronavirus pandemic, loss allowances for loans and advances were raised by €1.5 billion as a pre-emptive measure. Equity rose by 5 percent to €121.8 billion. Consolidated total assets grew by 6.6 percent to €1,476 billion.

The annual consolidated financial statements of the Cooperative Financial Network, prepared in accordance with International Financial Reporting Standards (IFRS), provide information on the 2020 financial year of the 814 local cooperative banks, Sparda banks, PSD banks, and other specialized institutions in the Cooperative Financial Network as well as the DZ BANK Group and Münchener Hypothekenbank. At €18.4 billion, the Cooperative Financial Network's consolidated net interest income in 2020 was slightly above the prior-year level in absolute terms, primarily due to further growth in the Real Estate Finance operating segment. Net fee and commission income rose by 4.9 percent to €7.4 billion and was mainly generated by the primary banks. On the investments side, there was particularly encouraging growth in fund- and securities-based saving. Payments processing also made a key contribution once again.

Loss allowances of €2.3 billion were added in 2020. This increase on the figure of €0.8 billion for the prior year was due mainly to the anticipated economic impact of the pandemic. An adjustment of the probability of defaults based on modeling of the expected macroeconomic situation resulted in the bulk of the loss allowances, with a figure of €1.5 billion. The net realized recognition of loss allowances for the Cooperative Financial Network in 2020 of €0.8 billion was thus at the same level as in the prior year. This gives it a good buffer for 2021 based on the current assessment of the risk situation. Moreover, the number of defaults is now expected to be more moderate than had been anticipated at the turn of the year.

Thanks to rigorous cost management, total administrative expenses nudged down by 0.6 percent to €18.0 billion. At €10.1 billion, staff expenses were at almost exactly the same level as in the prior year. Current taxes of €2.6 billion were paid in 2020. The Cooperative Financial Network's consolidated net profit after taxes amounted to just over €5.0 billion (2019: €7.0 billion).

The lending business of the Cooperative Financial Network grew by 5.4 percent to €890.6 billion as at December 31, 2020. This was again due mainly to robust customer demand, including in the form of COVID-19 support loan referrals. On the equity and liabilities side of the balance sheet, the deposit-taking business expanded by 6.5 percent to €937.9 billion as at December 31, 2020. This is a stronger increase than the rise of 4.5 percent achieved in 2019 and was attributable to customers being able to save more money last year because of the pandemic-related restrictions. At €1,476 billion, consolidated total assets as at December 31, 2020 were up by 6.6 percent compared with the end of the prior year.

Equity rose by 5 percent to €121.8 billion. Despite the pandemic, the regulatory Tier 1 capital ratio including the reserves in accordance with section 340f of the German Commercial Code (HGB) rose by 0.6 percentage points to 16.1 percent. The leverage ratio was also up by 0.6 percentage points, rising to 8.4 percent.

Management Report 2020

General Information about the Volksbanken Raiffeisenbanken Cooperative Financial Network

Structure, business model, and features of the IPS*

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

The Volksbanken Raiffeisenbanken Cooperative Financial Network consists of 814 cooperative banks (2019: 841), the DZ BANK Group, Münchener Hypothekenbank eG, the BVR protection scheme, and BVR Institutssicherung GmbH as consolidated entities. The consolidated cooperative banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

The cooperative banks and Münchener Hypothekenbank eG are the legally independent, equally ranked parent entities of the Cooperative Financial Network, whereas the other banking groups and entities are consolidated as subsidiaries. The Cooperative Financial Network is thus a decentralized organization made up of legally independent institutions. This decentralized element is in contrast with banking groups that have a parent company at the top of a hierarchical structure. The power to make business decisions lies with each individual institution and its independent Board of Managing Directors and Supervisory Board.

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

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

Definition of the main operating segments

The definitions of the operating segments referred to in the Annual Report – Retail Customers and SMEs, Central Institution and Major Corporate Customers, Real Estate Finance, and Insurance – can be found in the notes to the consolidated financial statements starting on page 77.

* Institutional protection scheme.

Management Report 2020

Business Performance

Economic conditions

In 2020, the German economy slumped into a deep recession as a result of the COVID-19 pandemic. Adjusted for inflation, Germany's gross domestic product (GDP) fell by 4.9 percent year on year, compared with an increase of 0.6 percent in 2019.

In the spring, public life and economic activity virtually ground to a halt across Germany. This was primarily due to protective measures – such as strict lockdowns and border closures – that were implemented in response to rapidly rising case numbers and resulted in disruptions to manufacturing and supply chains. A noticeable recovery set in during the summer as these measures were eased. At the end of the year, however, the uptrend faltered markedly. This was partly because infection rates began to go up sharply again, necessitating the tightening of restrictions.

Governments worldwide implemented support packages in order to soften the economic fallout from the crisis. The German government, for example, signed off large support packages in March and June that included the expansion of short-time working allowances and a temporary lowering of VAT rates in the second half of the year.

Unlike during the severe recession of 2008/2009, the COVID-19 crisis triggered a slump in consumer spending in addition to a significant drop in capital expenditure and foreign trade. Consumer spending fell at the sharpest rate ever seen in the history of the Federal Republic of Germany. Current spending by the government and construction investment were the only types of expenditure to increase and therefore provided some stability.

Inflationary pressure tailed off noticeably as a result of the crisis. In 2020, consumer prices went up by an average of 0.5 percent and thus rose far more slowly than the average for 2019 of 1.4 percent.

The COVID-19 pandemic also took its toll on the labor market. The continual increase in employment that had been observed for many years came to a halt, not only due to the crisis but also because of strengthening demographic headwinds. The average number of people in work in Germany in 2020 declined by 486,000 to 44.8 million and the number of people out of work rose by 429,000 to 2.7 million.

The first wave of coronavirus in spring 2020 sent financial markets into shock. The main leading indices registered heavy and rapid losses but then staged a gradual recovery. This volatility also temporarily affected banks' investments, although they proved relatively robust over the year as a whole and the initial losses on measurement had been largely reversed by the end of the year.

The European Central Bank (ECB) took an even more expansionary approach with its monetary policy in 2020. Although key interest rates were left unchanged, the Eurosystem ramped up its unconventional measures, especially its bond purchases. The ECB also made the conditions for targeted longer-term refinancing operations (TLTROs) yet more attractive, for example by extending the period of extremely favorable interest rates for loans. Furthermore, the requirements for securities eligible as collateral with central banks were loosened in order to make it even easier for banks to access central bank money.

Volksbanken Raiffeisen-banken Cooperative Financial Network

Business situation

Despite the difficult market conditions resulting from the effects of the COVID-19 pandemic and the continuation of extremely low interest rates, the Volksbanken Raiffeisenbanken Cooperative Financial Network was again able to maintain its position, reporting a profit before taxes of €7,226 million in 2020 (2019: €10,179 million). This profit before taxes was in line with the forecast for 2020 made in the previous year.

The cooperative banks' lending to retail and corporate customers increased by 6.2 percent in 2020 and thus grew at a slightly faster pace than in the previous year (2019: 6.1 percent). This trend was primarily driven by continued brisk demand for long-term real estate loans, which made up more than half of the credit portfolio of the cooperative banks, and by government support loans for companies. The cooperative banks' market share in the retail and corporate customer segment increased by 0.4 percentage points year on year to 17.6 percent.

The Cooperative Financial Network's deposit-taking business saw customer deposits grow by a further 6.5 percent to €937,876 million. These deposits played a crucial part in funding the Cooperative Financial Network's lending business.

Equity increased by 5.0 percent to €121,790 million at the end of the reporting year (December 31, 2019: €116,013 million). The Cooperative Financial Network's capital resources provide it with a risk buffer and, at the same time, the foundations on which it can continue to expand its lending business with retail and corporate customers.

Credit rating agencies Standard & Poor's and Fitch Ratings have each given the Cooperative Financial Network a rating of AA–.

In 2020, the number of members of the Cooperative Financial Network fell slightly year on year. As at the end of the financial year, the cooperative banks had 18.42 million members (individuals and companies) in total, compared with 18.54 million at the end of 2019.

Financial performance

Net interest income rose by 1.1 percent year on year to €18,382 million in 2020 (2019: €18,185 million). The cooperative banks' net interest income, the biggest source of income for the Cooperative Financial Network, amounted to €15,368 million in 2020 (2019: €15,610 million). This figure was primarily influenced by the low-interest-rate policy of the ECB and the resulting deterioration of margins. However, the decrease was partially offset by growth in lending. Net interest income in 2020 was therefore slightly higher than expected.

Net fee and commission income improved by €347 million to €7,439 million in 2020

(2019: €7,092 million) and was therefore above the forecast figure. The main sources of income were payments processing (including card processing) and securities brokerage business with entities in the Cooperative Financial Network. With a contribution of €5,885 million, the cooperative banks accounted for most of the net fee and commission income (2019: €5,666 million).

The Cooperative Financial Network's **gains and losses on trading activities** came to a net gain of €728 million (2019: net gain of €643 million). Gains and losses on trading activities are largely influenced by the DZ BANK Group.

Gains and losses on investments returned to normal levels, falling from a net gain of €961 million in the previous year to a net gain of €7 million in the year under review. This figure comprised the net loss on securities of €152 million (2019: net gain of €749 million) and the net gain on investments in subsidiaries and equity investments of €159 million (2019: €212 million). The change in the gains and losses was attributable to realized gains and losses on sales of securities during the year and to measurement effects.

The **loss allowances** determined in the reporting year amounted to a net addition of €2,327 million (2019: €832 million). Loss allowances are mainly influenced by the Retail Customers and SMEs, the Central Institution and Major Corporate Customers, and the Real Estate Finance operating segments. The required addition resulting from the measurement of loss allowances reflects observable and unobservable effects of the COVID-19 pandemic that were taken into account by validating the rating-related default probabilities and, in particular, by factoring in the anticipated macroeconomic conditions through adjustment of the model-based default probability profiles (referred to as shift factors) and that were taken into account when determining the expected losses. Credit-rating-related mitigating factors at the cooperative banks had a countervailing effect. The net amount stood at around €1.3 billion for the cooperative banks and around €0.2 billion for the DZ BANK Group.

Other gains and losses on valuation of financial instruments declined from a net gain of €226 million in 2019 to a net loss of €22 million in the reporting year. This decrease was predominantly due to higher expenses arising from the valuation of guarantee commitments at Union Asset Management Holding AG and the movement of credit spreads, particularly on bonds from eurozone periphery countries (Spain, Italy, Portugal). A narrowing of credit spreads was evident in both 2020 and 2019, although this had resulted in a significantly more positive valuation effect in 2019.

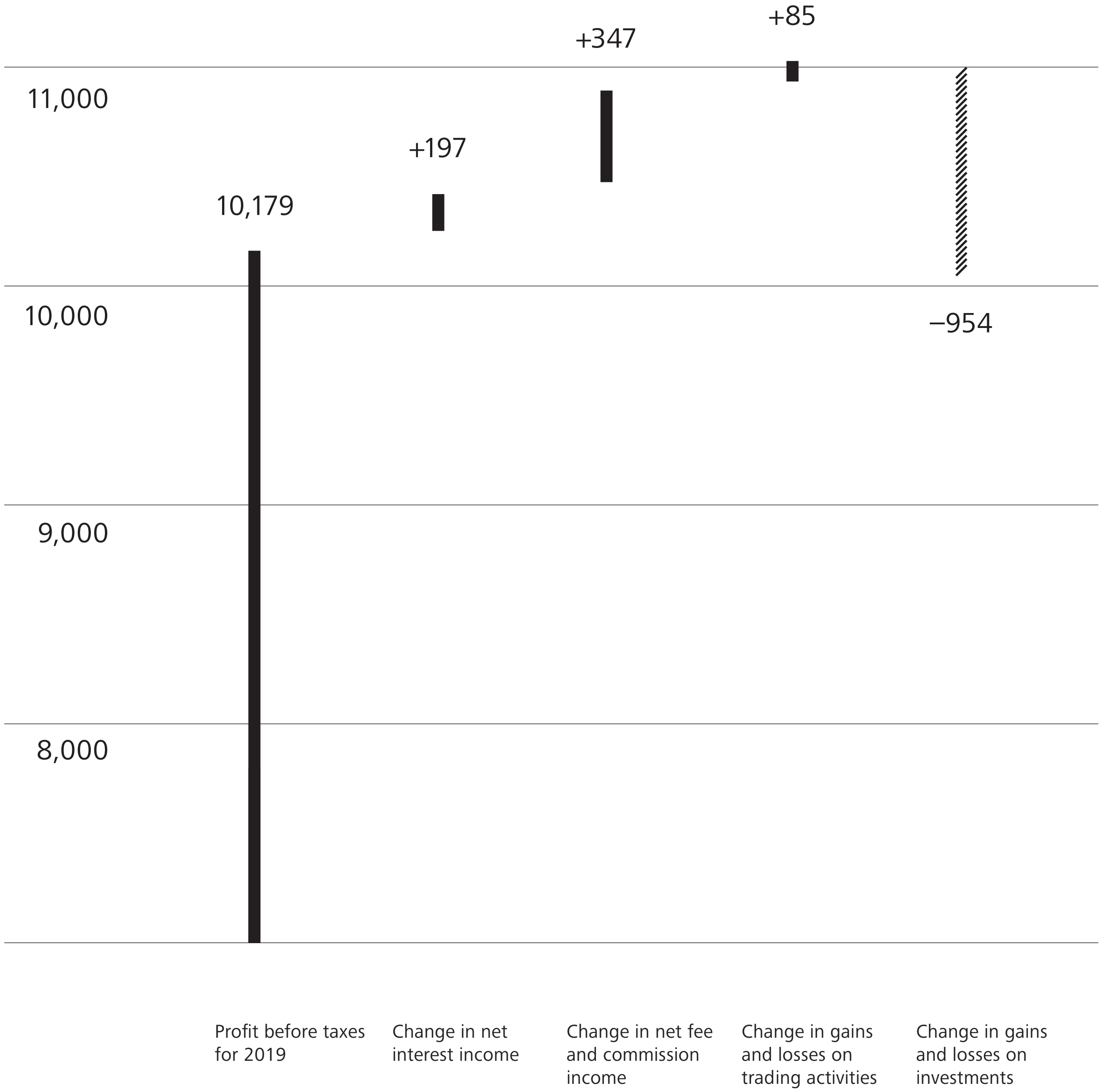
Net income from insurance business, which is exclusively attributable to the R+V Group, comprises premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance benefit payments, and insurance business operating expenses. It amounted to €722 million in 2020 (2019: €1,652 million). The year-on-year fall was primarily attributable to the changes, described in the details for the Insurance operating segment, in premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, and insurance benefit payments.

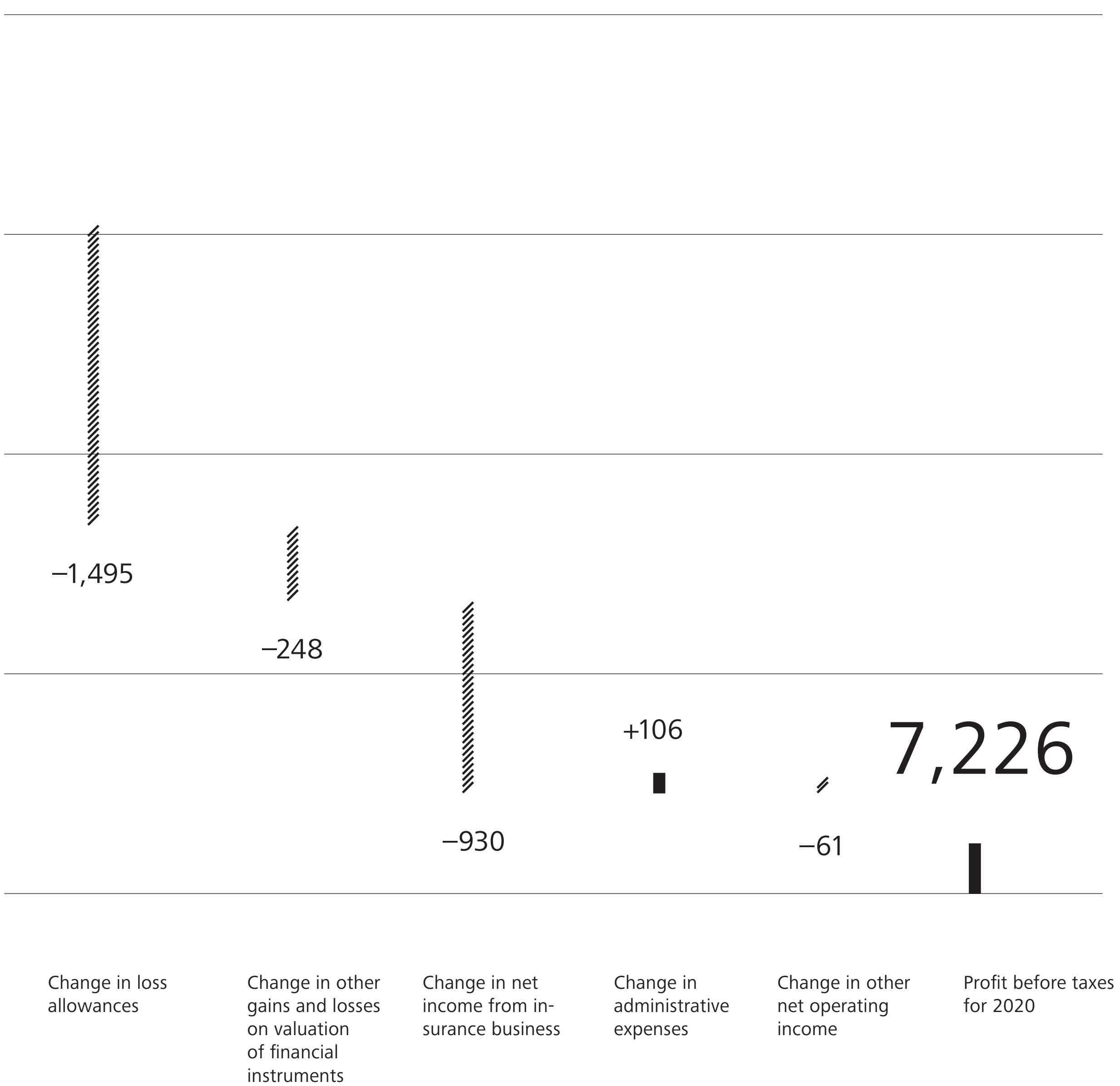
Financial performance

	2020 € million	2019 € million	Change (percent)
Net interest income	18,382	18,185	1.1
Net fee and commission income	7,439	7,092	4.9
Gains and losses on trading activities	728	643	13.2
Gains and losses on investments	7	961	–99.3
Loss allowances	–2,327	–832	>100.0
Other gains and losses on valuation of financial instruments	–22	226	>100.0
Net income from insurance business	722	1,652	–56.3
Administrative expenses	–18,036	–18,142	–0.6
Other net operating income	333	394	–15.5
Profit before taxes	**7,226**	**10,179**	**–29.0**
Income taxes	–2,192	–3,133	–30.0
Net profit	**5,034**	**7,046**	**–28.6**

Breakdown of change in profit before taxes by income statement item

€ million





−1,495
−248
−930
+106
−61
7,226
Change in loss allowances
Change in other gains and losses on valuation of financial instruments
Change in net income from in-surance business
Change in administrative expenses
Change in other net operating income
Profit before taxes for 2020

Administrative expenses totaled €18,036 million in the year under review, which was a little lower than the prior-year figure of €18,142 million. The bulk of the administrative expenses were attributable to staff expenses, which came to €10,092 million (2019: €10,100 million), and general and administrative expenses, which came to €6,843 million (2019: €6,976 million).

Income taxes amounted to €2,192 million (2019: €3,133 million), with most of this amount (€2,606 million; 2019: €2,758 million) attributable to current income taxes.

The **consolidated net profit** after taxes decreased to €5,034 million in 2020 (2019: €7,046 million).

The Cooperative Financial Network's **cost/income ratio** came to 65.4 percent in 2020 (2019: 62.2 percent).

Financial position

The consolidated **total assets** of the Volksbanken Raiffeisenbanken Cooperative Financial Network had risen by €91,841 million to €1,475,929 million as at December 31, 2020 (December 31, 2019: €1,384,088 million). The **volume of business** increased from €1,870,742 million in 2019 to €1,994,013 million in the reporting year. Trust activities amounted to a volume of €2,094 million (December 31, 2019: €761 million). The growth of trust activities was attributable to KfW support loans that DZ BANK AG made available on behalf of the German government to support companies affected by the COVID-19 pandemic.

Of the total assets before consolidation, 62.2 percent was attributable to the cooperative banks (December 31, 2019: 61.6 percent) and 34.8 percent to the DZ BANK Group (December 31, 2019: 35.4 percent). As had also been the case at the end of 2019, the remaining 3.0 percent was attributable to Münchener Hypothekenbank, the BVR protection scheme, and BVR Institutssicherung GmbH.

On the **assets** side of the balance sheet, loans and advances to banks declined by €2,709 million to €19,730 million (December 31, 2019: €22,439 million), whereas cash and cash equivalents rose to €120,961 million (December 31, 2019: €87,421 million) and loans and advances to customers increased by €46,024 million to €890,576 million (December 31, 2019: €844,552 million). As in previous years, this upward trend was mainly driven by the cooperative banks on the back of increased lending.

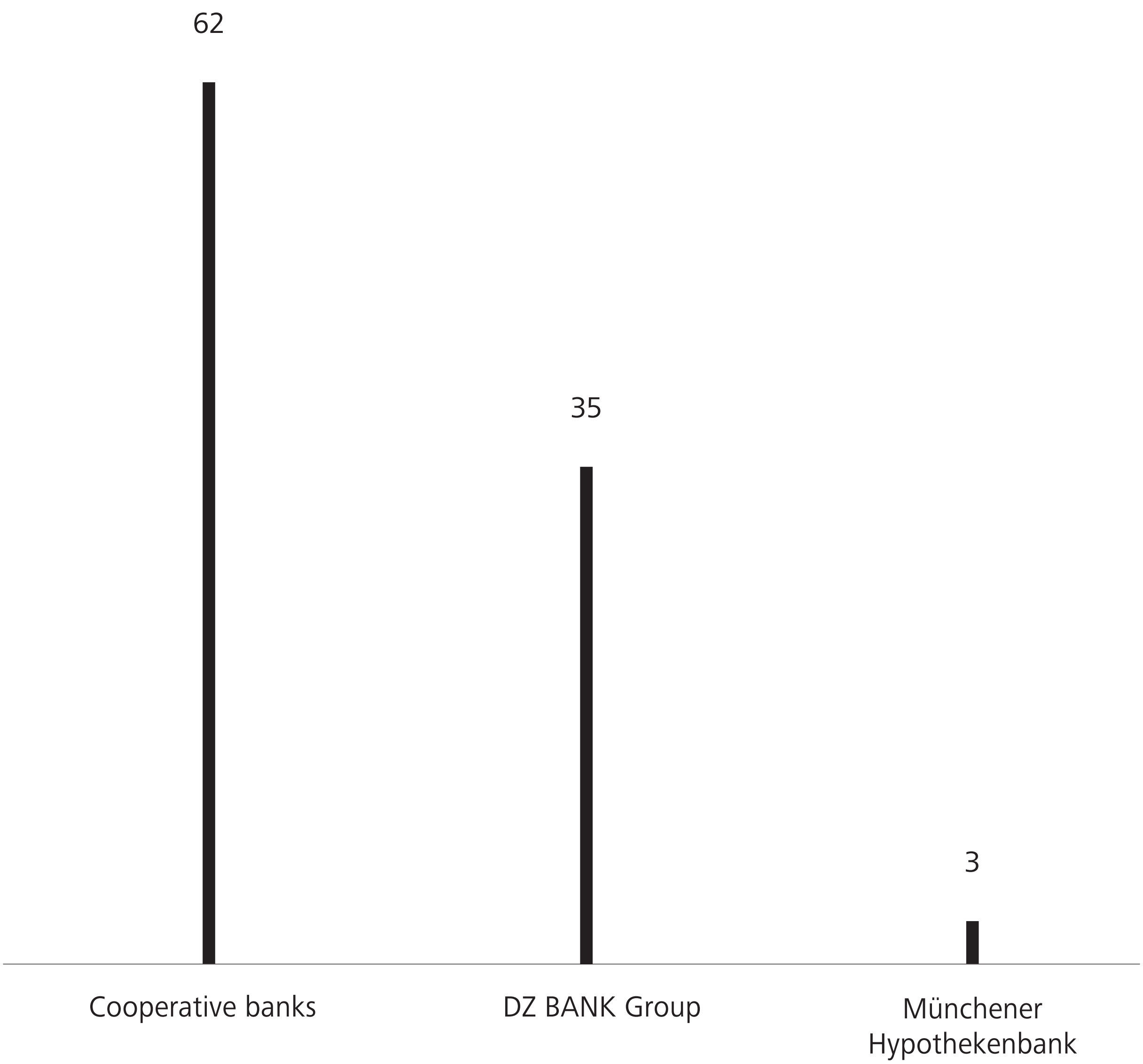
Financial assets held for trading fell by €1,692 million to €42,643 million as at December 31, 2020 (December 31, 2019: €44,335 million), primarily because bonds and other fixed-income securities dropped to €10,261 million (December 31, 2019: €12,421 million) and receivables to €8,310 million (December 31, 2019: €11,080 million). By contrast, derivatives (positive fair values) increased to €22,303 million (December 31, 2019: €19,291 million) and shares and other variable-yield securities to €1,460 million (December 31, 2019: €1,220 million).

Investments rose to €255,374 million as at December 31, 2020 (December 31, 2019: €248,509 million). The principal reasons for this were the increase in bonds and other fixed-income securities to €179,256 million (December 31, 2019: €177,788 million) and the increase in shares and other variable-yield securities to €71,694 million (December 31, 2019: €66,548 million).

Investments held by insurance companies went up from €112,554 million as at December 31, 2019 to €120,580 million as at December 31, 2020. Mortgage loans increased to €10,882 million (December 31, 2019: €9,749 million), variable-yield securities to €11,639 million (December 31, 2019: €11,300 million), and fixed-income securities to €61,160 million (December 31, 2019: €55,551 million). Assets related to unit-linked contracts rose to €14,820 million (December 31, 2019: €14,368 million).

Breakdown of the total assets held in the Cooperative Financial Network as at December 31, 2020

(percent)



On the **equity and liabilities** side of the balance sheet, deposits from banks swelled from €119,955 million as at December 31, 2019 to €160,924 million at the end of 2020. This growth reflects the increase in support loan business since the outbreak of the COVID-19 pandemic. In 2020, the Volksbanken Raiffeisenbanken Cooperative Financial Network also participated in the ECB's TLTRO III programs, leading to a corresponding rise in deposits from banks.

Deposits from customers grew from €880,398 million as at December 31, 2019 to €937,876 million as at the end of the reporting year. This can be explained by the rise in customer deposits as a result of the ECB's policy of low and zero interest rates. Debt certificates issued including bonds declined to €58,365 million (December 31, 2019: €79,610 million), mainly because of the contraction of commercial paper in connection with the reduction of short-term liquidity.

Financial liabilities held for trading decreased to €46,796 million (December 31, 2019: €48,490 million). This reduction was largely attributable to the fall in money market deposits to €3,790 million (December 31, 2019: €6,866 million). Short positions declined to €603 million (December 31, 2019: €1,128 million). By contrast, derivatives (negative fair values) rose to €20,139 million (December 31, 2019: €18,189 million).

Equity increased by €5,777 billion to €121,790 million as at December 31, 2020 (December 31, 2019: €116,013 million), primarily because of the level of profit earned in 2020. Subscribed capital rose from €12,919 million at the end of 2019 to €13,614 million as at December 31, 2020. The cooperative banks accounted for 84.0 percent of equity while the other entities in the Cooperative Financial Network accounted for 16.0 percent. This equity allocation highlights the local corporate responsibility and great significance of the cooperative banks for the Cooperative Financial Network.

Capital adequacy and regulatory ratios

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

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

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

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

The Cooperative Financial Network's Tier 1 capital ratio increased again to reach 14.4 percent as at the end of 2020 (December 31, 2019: 13.7 percent). If the reserves pursuant to section 340f of the German Commercial Code (HGB) are classified as Tier 1 capital, the Tier 1 capital ratio is 16.1 percent (December 31, 2019: 15.5 percent). The regulatory total capital ratio also went up year on year, standing at 16.2 percent as at the end of 2020 (December 31, 2019: 15.6 percent). Overall, the Cooperative Financial Network's own funds increased by €7.7 billion to €114.6 billion. This rise was largely attributable to the retention of profits for the reporting year by the cooperative banks.

As at December 31, 2020, risk-weighted assets stood at €709.3 billion, which was up by €23.9 billion year on year (see table on page 22). This increase was predominantly due to the growth of loans and advances in customer-related business. In total, credit risk exposures made up 90.6 percent of risk-weighted assets (December 31, 2019: 90.2 percent). The banks in the Cooperative Financial Network primarily use the Standardized Approach to credit risk to determine their regulatory capital requirements. Some institutions also apply internal ratings-based (IRB) approaches, including the DZ BANK Group, Münchener Hypothekenbank eG, and Deutsche Apotheker- und Ärztebank eG.

Using Tier 1 capital (including reserves in accordance with section 340f HGB and applying the new CRR provisions in full) as the capital basis, the leverage ratio was 8.4 percent as at December 31, 2020 (December 31, 2019: 7.8 percent). Once again, this ratio underlines the sound and conservatively calculated capital adequacy of the Cooperative Financial Network.

Breakdown of risk-weighted assets

	Dec. 31, 2020 € million	Dec. 31, 2019 € million	Change (percent)
Credit risk			
of which Standardized Approach to credit risk			
corporates	175,982	190,230	–7.5
retail business	141,899	133,141	6.6
secured by mortgages on immovable property	90,635	88,448	2.5
Total under the Standardized Approach to credit risk	**522,777**	**503,638**	**3.9**
of which IRB approaches			
corporates	50,158	47,908	4.7
retail business	25,881	25,263	2.4
equity investments	27,857	26,813	3.9
Total under IRB approaches	**115,464**	**114,124**	**2.6**
Total credit risk	**642,678**	**617,954**	**4.0**
Total market risk	**13,123**	**12,707**	**3.3**
Total operational risk	**50,537**	**50,198**	**0.7**
Total other exposures (including CVAs*)	**2,941**	**4,542**	**–35.3**
Total	**709,278**	**685,401**	**3.5**

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

Operating segments of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Retail Customers and SMEs operating segment

The **net interest income** generated by the Retail Customers and SMEs operating segment amounted to €15,939 million in the reporting year (2019: €16,197 million). This figure was primarily influenced by the low-interest-rate policy of the ECB. Net interest income from consumer finance business rose once again, mainly thanks to an increase in the average consumer finance volume.

Net fee and commission income advanced from €7,281 million in 2019 to €7,609 million in the year under review. In 2020, this line item was again positively influenced by income from payments processing (including cards processing) and from the securities and funds business. The volume-related income contribution generated as a result of the average assets under management of €365.1 billion (December 31, 2019: €349.4 billion) was another key factor in the increase in net fee and commission income in the Retail Customers and SMEs operating segment. Income from real estate fund transaction fees was also up year on year at €55 million (2019: €36 million). There was a year-on-year rise in income from performance-related management fees too, which amounted to €32 million in 2020 (2019: €9 million). The contribution to income from the fund services business was higher than in the previous year. The volume of assets under management relating to high-net-worth clients rose from €18.8 billion as at December 31, 2019 to €20.0 billion as at December 31, 2020.

Gains and losses on trading activities in the Retail Customers and SMEs operating segment came to a net gain of €211 million (2019: net gain of €196 million). This line item is derived from trading in financial instruments, gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals business, and gains and losses on commodities trading.

Gains and losses on investments returned to normal levels, falling from a net gain of €711 million in the previous year to a net loss of €162 million in the year under review. The change in the gains and losses was attributable to realized gains and losses on sales of securities during the year and to measurement effects.

Loss allowances amounted to a net addition of €1,659 million (2019: net addition of €628 million). This increase predominantly arose because of the need for additions as a result of the COVID-19 pandemic. The required addition resulting from the measurement of loss allowances reflects observable and unobservable effects of the COVID-19 pandemic that were taken into account by validating the rating-related default probabilities and, in particular, by factoring in the anticipated macroeconomic conditions through adjustment of the model-based default probability profiles (referred to as shift factors) and that were taken into account when determining the expected losses. Credit-rating-related mitigating factors at the cooperative banks had a countervailing effect.

The Cooperative Financial Network's **administrative expenses** are subject to constant cost management. In the Retail Customers and SMEs operating segment, they amounted to €15,758 million in the reporting year (2019: €15,732 million). The main influences on this segment's administrative expenses were appointments to new and vacant positions and average pay rises, although there was a mitigating effect from people leaving – mainly due to retirement. Consequently, staff expenses remained virtually unchanged year on year. The main influence on other administrative expenses in 2020 was a decrease in expenses for public relations and marketing activities. However, IT expenses went up.

As a result of the factors described above, the **profit before taxes** of the Retail Customers and SMEs operating segment amounted to €6,253 million (2019: €8,211 million). The cost/income ratio was 66.6 percent (2019: 64.0 percent).

Central Institution and Major Corporate Customers operating segment

The **net interest income** of the Central Institution and Major Corporate Customers operating segment declined to €1,337 million in the year under review (2019: €1,421 million). The decrease was essentially due to the absence of interest income following the sale of the aviation finance and land transport finance businesses in 2019.

Net interest income in the Corporate Banking business line rose to €481 million due to the increase in the lending volume (2019: €446 million). At €162 million, net interest income from structured finance was higher than the prior-year figure of €151 million. The drivers behind this increase were successful acquisitions at the beginning of 2020 and at the end of 2019, together with the conclusion of new income-generating deals in the reporting year in virtually all product groups, as a result of which there was a significant rise in net interest income particularly in the infrastructure, international trade finance, and project finance businesses.

Net interest income in the investment promotion business rose to €55 million (2019: €50 million). The year-on-year increase was mainly due to substantial growth in volume driven by the strong demand for business support programs in connection with the COVID-19 pandemic and for residential development loans. At €23 million, net interest income from the separately managed real estate lending portfolio was down compared with the prior-year figure of €46 million due to the reduction in the size of portfolio caused by the transfer of some of its components to DZ HYP. In the Capital Markets business line, net interest income advanced by 19.6 percent to €275 million (2019: €230 million). This was primarily attributable to business with institutional customers, the treasury portfolios, and other net interest income. The main reasons for the increase were the larger volume of money market business, lower interest expense on the specific funding structure, and the beneficial effect of the tiered interest rates introduced by the ECB.

The expansion of the core business, which involved a further rise in the volumes of the digital solutions, had a positive impact on net interest income. However, it was unable to compensate for the absence of the income from the non-core areas of business that have been scaled back or sold in line with the strategy. In 2019, the strategy had resulted in the sale of the following areas of the business: real estate leasing (VR IMMOBILIEN LEASING GmbH), centralized settlement, and IT leasing (BFL Leasing GmbH). The proportion of total new business (leasing and lending) accounted for by contracts entered into online reached 98.3 percent in the reporting period (2019: 90.0 percent). In response to the COVID-19 pandemic, a needs-based support package derived from the entire range of solutions was introduced for small-business and self-employed customers. In connection with these measures, the 'VR Smart flexibel' financing solution was temporarily withdrawn until the end of November 2020 and the 'VR Smart flexibel support loan' solution, which was eligible for support from Germany's KfW development bank, was introduced at short notice.

Net fee and commission income in the Central Institution and Major Corporate Customers operating segment came to €521 million and was therefore lower than in the previous year (2019: €531 million).

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

The decline was essentially due to the absence of income following the sale of DVB Bank's aviation finance and land transport finance businesses. Moreover, activity in the shipping finance and offshore finance businesses at DVB Bank was now limited to the occasional extension of existing transactions. Net fee and commission income from finance for small businesses was down year on year due to the absence of income resulting from the disposal of the centralized settlement business.

Gains and losses on trading activities in the Central Institution and Major Corporate Customers operating segment came to a net gain of €506 million in 2020, up from a net gain of €450 million in the previous year.

Gains and losses on trading activities relate to the business activities of the Capital Markets business line. This item also includes income from money market business entered into for trading purposes and all derivatives transactions.

Gains and losses on trading activities in the Capital Markets business line amounted to a net gain of €521 million, up from a net gain of €430 million in 2019. The institutional client business was expanded in 2020, with year-on-year growth in the product volume. The level of income was higher than the prior-year figure. In terms of asset classes, the increase in product sales arose predominantly from trading in sovereign, supranational and agency (SSA) bonds, bank bonds, government bonds, and covered bonds, from business involving interest-rate structures and interest-rate derivatives, and from spot exchange business. In 2020, customer use of electronic trading platforms again exceeded the level of the previous year. Other gains and losses on trading activities resulting from non-operating, IFRS-related effects amounted to a net loss of €33 million (2019: net gain of €7 million). For the assets and liabilities recognized at fair value in the 'financial assets and liabilities measured at fair value through profit or loss' category (fair value PL) and in the 'financial assets and liabilities designated as at fair value through profit or loss' category, the adjustment of the valuation curves gave rise to a significant net gain in 2020, as it had in the previous year. This gain was offset by a number of factors, notably negative valuation effects from interest-rate-sensitive derivatives in the banking book.

Gains and losses on investments improved from a net gain of €37 million in 2019 to a net gain of €53 million in the reporting year. This was due to income from the sale of securities. Some of the gains were offset by expenses arising from the unwinding of hedges in the context of portfolio fair value hedge accounting.

The net addition to **loss allowances** in the Central Institution and Major Corporate Customers segment amounted to €517 million in the reporting year (2019: net addition of €226 million). In stages 1 and 2, this change was primarily attributable to additions in connection with COVID-19. The required addition resulting from the measurement of loss allowances reflects observable and unobservable effects of the COVID-19 pandemic that were taken into account by validating the rating-related default probabilities and, in particular, by factoring in the anticipated macroeconomic conditions through adjustment of the model-based default probability profiles (referred to as shift factors) and that were taken into account when determining the expected losses. Loss allowances in stage 3 also went up due to significant individual additions that were not solely attributable to the COVID-19 pandemic.

Other gains and losses on valuation of financial instruments came to a net loss of €34 million in 2020 (2019: net loss of €5 million). The main reason for the difference compared with the previous year was a negative valuation impact in respect of derivatives that were not included in hedge accounting. Some of this impact was offset by positive valuation effects compared with the previous year from the application of the fair value option.

Administrative expenses fell to €1,866 million in the year under review (2019: €1,971 million). The decrease was primarily the result of a reduction in staff expenses that was mainly due to the lower headcount.

Due to the factors described above, **profit before taxes** in the Central Institution and Major Corporate Customers operating segment declined to €119 million in the year under review (2019: €352 million). The cost/income ratio was 74.6 percent in 2020 (2019: 77.3 percent).

Real Estate Finance operating segment

The **net interest income** of the Real Estate Finance operating segment of the Cooperative Financial Network amounted to €1,552 million in 2020 (2019: €1,305 million). On the one hand, this line item improved thanks to the portfolio growth generated from new business. On the other hand, net interest income was again impacted by an additional charge arising from a special addition to provisions relating to building society operations. However, at €115 million, this charge was lower than the equivalent amount of €280 million in 2019. This largely reflected discounted future obligations of Bausparkasse Schwäbisch Hall to make payments in the form of loyalty bonuses or premiums to those home savings customers who decline to take up the contractually agreed loans. Interest income arising on investments declined once again because capital market rates for investments remained low. Net interest income was also adversely impacted by an increase in fees, commissions, and transaction costs directly assignable to the acquisition of home savings contracts and loan agreements and incorporated into the effective interest method applied to home savings deposits and building loans. In the case of loans issued under advance or interim financing arrangements and other building loans, income remained more or less stable at €999 million (2019: €1,002 million) on the back of the expansion in business over the last few years and despite a fall in average returns. Income from home savings loans amounted to €68 million (2019: €70 million).

The net expense traditionally reported in the Real Estate Finance operating segment under **net fee and commission income** amounted to €112 million (2019: €121 million). This fall was primarily due to a positive effect from the decrease in fees and commissions not directly attributable to the conclusion of a home savings contract. However, this effect was partly offset by the increase in fee and commission expense for loan brokerage generated from new business.

Gains and losses on investments in the Real Estate Finance operating segment declined to a net gain of €67 million (2019: net gain of €186 million). In the prior year, this figure had been boosted, in particular, by the disposal of the shares in Czech building society ČMSS and the net gain on the sale of securities, especially Spanish government bonds.

Loss allowances in the Real Estate Finance operating segment saw a net addition of €108 million in the reporting year (2019: net reversal of €26 million) that was largely due to additions required in connection with the COVID-19 pandemic. The required addition resulting from the measurement of loss allowances reflects observable and unobservable effects of the COVID-19 pandemic that were taken into account by validating the rating-related default probabilities and, in particular, by factoring in the anticipated macroeconomic conditions through adjustment of the model-based default probability profiles (referred to as shift factors) and that were taken into account when determining the expected losses.

Other gains and losses on valuation of financial instruments in the Real Estate Finance operating segment deteriorated year on year, amounting to a net gain of €115 million in 2020 (2019: net gain of €287 million). This decrease was due firstly to the movement of credit spreads and secondly to changes in the fair value of hedging derivatives. A narrowing of credit spreads on bonds from eurozone periphery countries was evident in both 2020 and 2019, although this had resulted in a significantly more positive valuation effect in 2019.

Administrative expenses amounted to €891 million in 2020 (2019: €875 million). The increase was primarily attributable to staff expenses, which went up owing to collectively negotiated salary increases and, in particular, headcount growth. Staff expenses were also affected by the recognition of a provision for a program aimed at the structural optimization and management of costs, which was set up in 2020.

Profit before taxes in the Real Estate Finance operating segment amounted to €684 million in the year under review (2019: €863 million). The performance of the Real Estate Finance operating segment, as outlined above, meant that the cost/income ratio rose to 52.9 percent (2019: 51.1 percent).

Insurance operating segment

Premiums earned went up by €1,492 million to €18,741 million (2019: €17,249 million), reflecting the integral position held by the R+V subgroup within the Cooperative Financial Network.

Premium income in the life insurance and health insurance business grew by a total of €1,012 million to €9,311 million.

Premiums earned from the life insurance business rose by €972 million to €8,645 million. Occupational pensions and new guarantees were the main areas of business contributing to this increase. On the other hand, credit insurance, unit-linked life insurance, and traditional product business have recently seen a decline. In the health insurance business, net premiums earned rose by €40 million to €666 million, with notably strong growth in private supplementary health insurance and full health insurance.

In the non-life insurance business, premium income earned grew by €217 million to €6,347 million, with most of this growth being generated from motor vehicle insurance and corporate customer business.

Premiums earned from the inward reinsurance business rose by €263 million to €3,083 million. Business performed particularly well in the Americas, Europe, and Asia, with Europe remaining the largest market. Growth was generated notably from the motor vehicle, fire, and property classes of insurance.

Gains and losses on investments held by insurance companies and other insurance company gains and losses declined by €4,120 million to a net gain of €2,072 million (2019: net gain of €6,192 million). This figure includes the fair value-based gains and losses on investments held by insurance companies in respect of insurance products constituting unit-linked life insurance for the account and at the risk of employees, employers, and holders of life insurance policies (unit-linked contracts). The gains and losses on investments held by insurance companies attributable to unit-linked contract products generally have no impact on profit/loss before taxes, because this line item is matched by an insurance liability addition or reversal of the same amount. The net gain on investments held by insurance companies, excluding unit-linked contracts, amounted to €2,137 million in 2020 (2019: €4,402 million).

The balance of additions to loss allowances, reversals of loss allowances, and directly recognized impairment losses amounted to an expense of €59 million in 2020 (2019: income of €2 million). Around €46 million of the expenses for additions to loss allowances were related to the effects of the COVID-19 pandemic.

The level of long-term interest rates was lower than in 2019. However, changes in spreads on interest-bearing securities had some negative impact on this item. In the first six months of the year, spreads widened significantly, but a narrowing was evident in the second half of the year. The iBoxx Euro Overall Spread A index, which is the main index relevant to the portfolio structure at R+V, climbed from 80.0 points at the beginning of 2020 to 187.0 points at the end of the first quarter of 2020 and then declined steadily to 71.9 points at the end of the year. By contrast, there had been a continual narrowing of spreads in 2019.

Over the course of 2020, equity markets relevant to R+V performed worse than in 2019. For example, the EURO STOXX 50, a share index comprising 50 large listed companies in the eurozone, saw a fall of 192 points from the start of 2020, closing the reporting period on 3,553 points. In 2019, this index had risen by 744 points. In the reporting year, movements in exchange rates between the euro and various currencies were generally less favorable than in the previous year. For example, the US dollar/euro exchange rate on December 31, 2020 was 0.8173 compared with 0.8909 at the end of 2019, which equates to a fall of 8.3 percent in the value of the euro. By contrast, the euro had risen by 1.8 percent against the US dollar in the previous year.

Overall, these trends in the reporting year essentially resulted in a €3,078 million negative change in unrealized gains and losses to a net gain of €507 million (2019: net gain of €3,585 million), a €205 million decrease in the contribution to earnings from the derecognition of investments to a gain of €32 million (2019: gain of €237 million), and a deterioration of €996 million in the foreign exchange gains and losses to a net loss of €752 million (2019: net gain of €244 million). In addition, net income under current income and expense fell by €215 million to €2,132 million (2019: €2,347 million) and the balance of depreciation, amortization, impairment losses, and reversals of impairment losses deteriorated by €91 million to a net expense of €165 million (2019: net expense of €74 million). Other insurance gains and losses and non-insurance gains and losses improved by €434 million to a net gain of €318 million. Owing to the inclusion of provisions for premium refunds (particularly in the life insurance and health insurance business) and claims by policyholders in the fund-linked life insurance business, the change in the level of gains and losses on investments held by insurance companies also affected the 'insurance benefit payments' line item presented below.

Insurance benefit payments amounted to €17,561 million, which equated to a decline of €1,779 million compared with the corresponding 2019 figure of €19,340 million.

The decrease in insurance benefit payments reflected both the trend in net premiums earned and the policyholder participation in gains and losses on investments held by insurance companies.

At the companies offering personal insurance, the changes in insurance benefit payments were in line with the change in premium income and in gains and losses on investments held by insurance companies and other insurance company gains and losses. An amount of €739 million (2019: €647 million) was added to the supplementary change-in-discount-rate reserve.

In the non-life insurance business, a decline in the claims rate trend was evident compared with the prior year. The overall claims rate was below the level of 2019. An increase in major claim costs was offset by a reduction in claims expenses for natural disasters and basic claim costs. In the context of the COVID-19 pandemic, additions were made to provisions for claims on the basis of received and expected claims. The main areas of business affected were the corporate customer business (insurance covering event cancelations and business closures) and the banking/loan business (guarantee insurance/special indemnities). After taking into account the countervailing effects in motor vehicle insurance, the insurance expense in connection with the COVID-19 pandemic amounted to €58 million. The losses in connection with Storm Sabine amounted to around €62 million.

In the inward reinsurance business, the net claims ratio was up by 4.4 percentage points compared with the prior year. The ratio for large claims was higher than in 2019, but the ratio for moderate claims was down year on year. The basic claims ratio remained more or less steady in 2020. Notably, the COVID-19 pandemic gave rise to an insurance expense of around €263 million, with a corresponding impact on earnings. Up to the reporting date, claims of approximately €96 million had been received from ceding insurers, which included one major claim of €28 million. The claims in connection with the Beirut port explosion were quantified in the inward reinsurance division at €55 million, those arising from the Derecho storm in the US Midwest at €121 million, and those caused by Hurricane Laura at €31 million.

Insurance business operating expenses incurred in the course of ordinary business activities went up by €73 million to €3,046 million (2019: €2,973 million). This change is the result of business growth, particularly in the inward reinsurance division, which saw an increase of €66 million or 9.5 percent. Expenses also rose in the life/health insurance business, by €13 million or 1.6 percent. In the non-life insurance division, expenses were down by €5 million or 0.3 percent, so were virtually unchanged.

The factors described above meant that **profit before taxes** for the reporting year fell by €902 million to €215 million (2019: €1,117 million).

Management Report 2020

Human Resources Report and Sustainability Report

Human resources report

Human resources management in the cooperative banks was dominated by the myriad challenges of the COVID-19 pandemic in 2020. Many changes had to be made at short notice and greater flexibility was needed in order to enable employees to continue to carry out their work safely and securely despite coronavirus. Working conditions had begun changing even before 2020, but many trends were accelerated by the pandemic. The banks significantly increased remote working options and, on the basis of collectively negotiated agreements, brought in more flexible arrangements for working hours, for example to enable parents to manage home-schooling while daycare and schools were closed. Some institutions introduced short-time working temporarily, particularly during periods when branches were unable to open.

The pandemic also created an unusual situation with regard to the recruitment and induction of new employees, especially new trainees. Direct, face-to-face contact was replaced with video calls, digital recruitment events, virtual induction days, and similar. For all of these changes, the aim was and is to include employees in the necessary measures and, despite the physically separate, virtual working conditions, to maintain dialog with and within the workforce. This placed particular demands on managers. The cooperative banks successfully navigated these changes by investing a huge amount of effort and showing great commitment.

Another change affected banking traineeships, for which new rules came into force in Germany on August 1, 2020. Vocational training for banking is becoming more transparent, customer-oriented, and practical overall, with a greater emphasis on digital technologies. It will continue to teach the necessary banking-specific competencies in areas such as wealth-building, pensions, lending, home finance, and corporate finance. But it will now also focus on communication skills – such as providing advice – and incorporate new digital aspects and skills.

Banking remains one of the most important recognized occupations in Germany, with more than 22,700 trainees overall. Traineeships in banking, as an entry-level qualification, remain a high priority for the cooperative banks, and the ratio of trainees to other employees rose by 0.2 percentage points year on year to 6.5 percent (see chart on page 36).

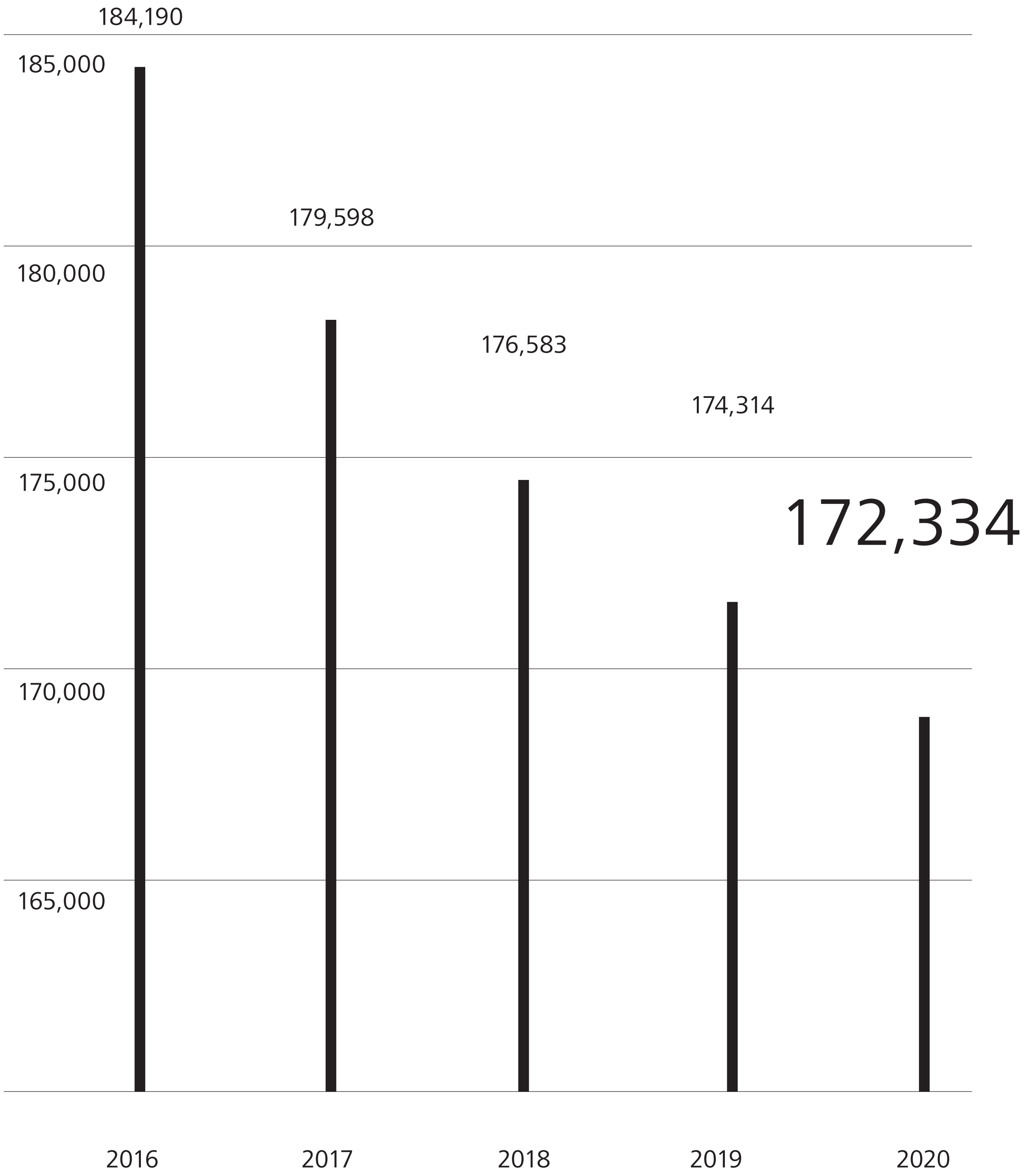
In view of the digital revolution, however, HR planning is increasingly focusing on other occupations too. This includes traineeships in dialog marketing, IT, and e-commerce. In addition to traditional traineeships, degree apprenticeships also play an important part. Around one in eight trainees combine their practical training with part-time studies at a traditional university or university of cooperative education.

The popularity of the local cooperative banks as a training provider and employer was confirmed when they were included in the trendence institute's ranking of the most sought-after employers for school-leavers for the 15th year in succession in 2020. The cooperative banks also continue to offer attractive career opportunities for university graduates, as shown by the fact that the proportion of employees with a degree remained almost unchanged at 8.6 percent in the reporting year (see chart on page 37).

Long periods of service reflect the loyalty and close bond between employees and their company. As at the end of 2020, about 70 percent of all cooperative bank employees had been with their bank for more than ten years and 35 percent for more than 25 years (see chart on page 35).

But the reorganization of the workforce was also reflected in the number of employees. In the year under review, the number of employees of the Cooperative Financial Network decreased slightly from 174,314 to 172,334 (see chart on page 34).

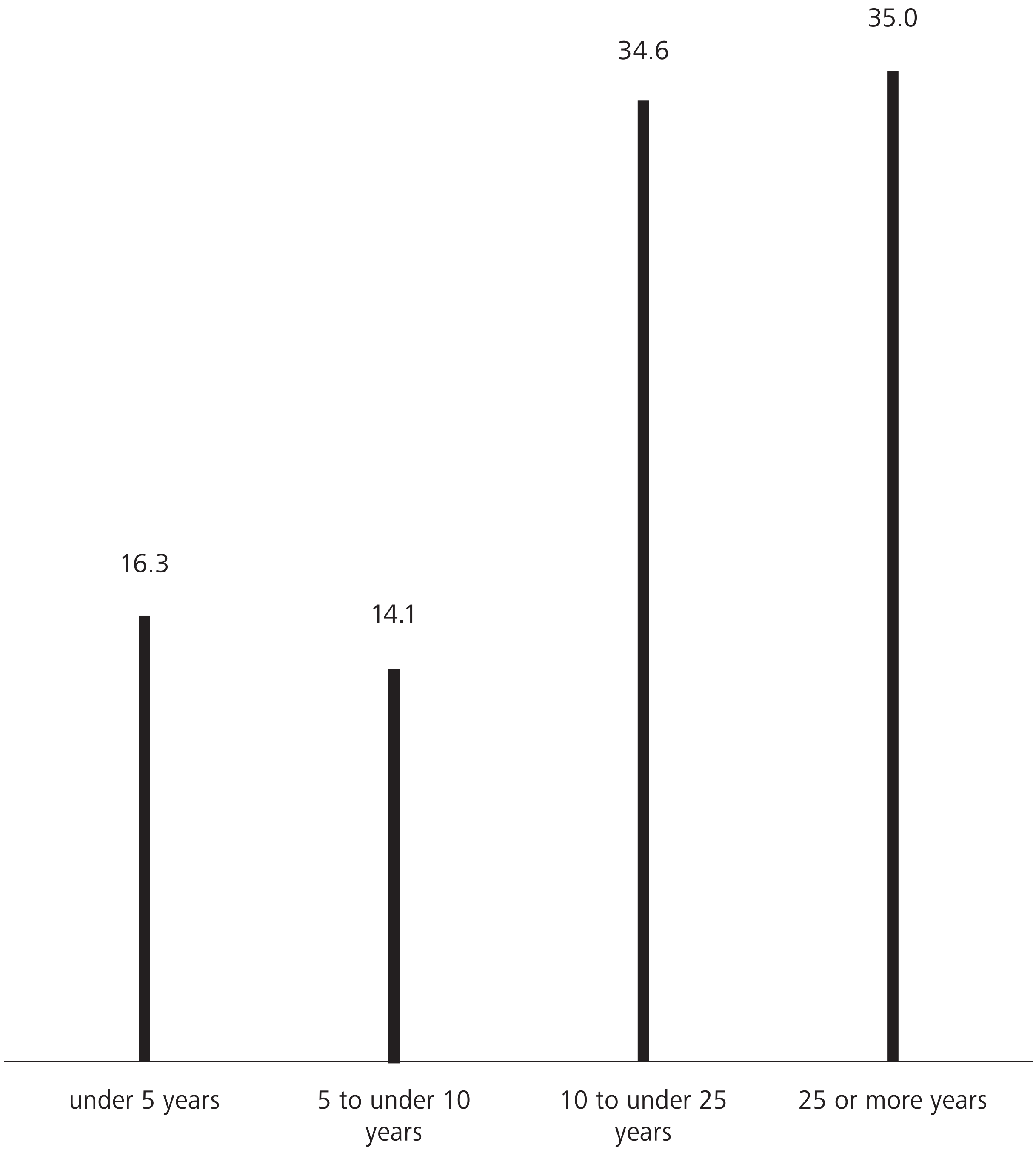
Number of employees*



* Volksbanken Raiffeisenbanken Cooperative Financial Network.

Staff members' years of service*

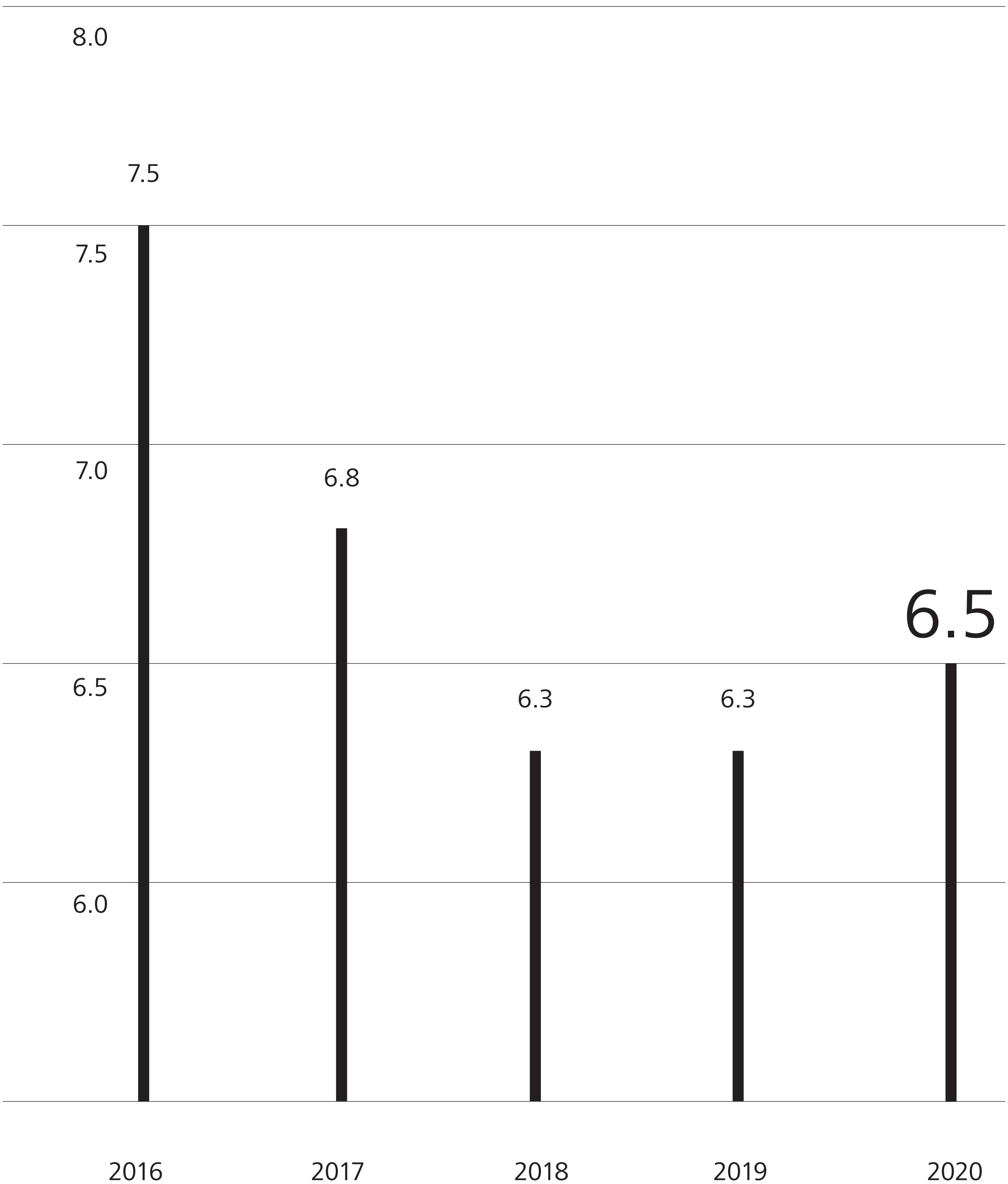
(percent)



* Cooperative banks and DZ BANK AG.

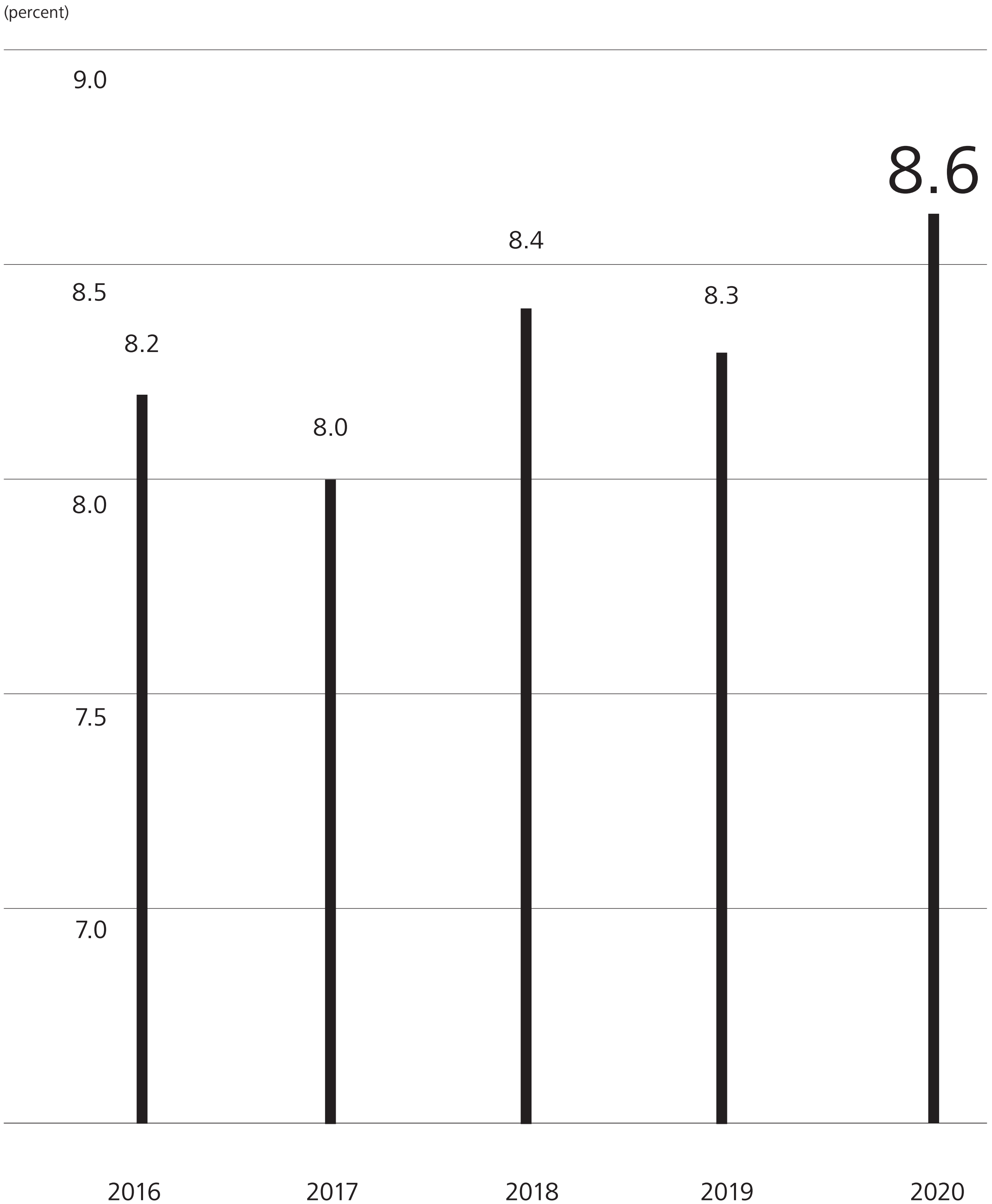
Ratio of trainees to other employees*

(percent)



* Cooperative banks and DZ BANK AG.

Proportion of employees with a degree*



* Cooperative banks and DZ BANK AG.

Sustainability report

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

Owners: achieving more together

The identity principle is what makes the cooperative different from all other types of company structure. Like members of any cooperative, the members of the cooperative banks are its owners as well as its customers. More than half of customers have decided to become a member. Across Germany, that makes for a total of around 18.4 million cooperative bank members. The cooperative banking remit to provide development finance entails collaboration in a spirit of partnership. It also defines the strategic focus and how it is underpinned by ethical business practices: According to section 1 of the German Cooperative Act (GenG), the nature of the business has to be oriented to the long-term success of its members. One factor in achieving this objective is to avoid sustainability-related risk and seize sustainability-related opportunities. Based on the cooperative principles of partnership, personal responsibility, and helping people to help themselves, cooperatives and cooperative banks are called upon to support their members through sustainable transformation processes.

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

Regional responsibility

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

The cooperative movement's strengths of customer proximity and regional roots are what is needed in these challenging times of digital transformation and social change. The cooperative banks are updating their values-based business model for the future, in dialog with their members and for their benefit.

Systematic integration of sustainability factors in the management of cooperative banks

The factors that are driving the member institutions of the Cooperative Financial Network to further enhance the integration of sustainability into their management processes are not purely of a regulatory nature. The focus is not only on sustainability risks that could have an impact on financial performance, but also on the sustainability implications of the banks' own operations and investment behavior. These complex matters require the banks to devote significant resources to transformation. The Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR) [National Association of German Cooperative Banks] and the specialized service providers in the Cooperative Financial Network have therefore been stepping up their support services for cooperative banks. In December 2019, for example, a network-wide project to address these issues was launched. The project resulted in a discussion paper on integrating topical sustainability aspects into strategic bank management and risk management being published in November 2020. This was followed in January 2021 by guidelines entitled 'Doing business sustainably – analyses, positions, and strategies for cooperative banks' that are designed to assist the cooperative banks in systematically establishing sustainability management. In these guidelines, the BVR specifically encourages the banks to adopt a proactive position regarding sustainability and to commit to adhering to the UN's sustainable development goals (SDGs). In addition, the BVR submitted a stakeholder endorsement of the UN Principles for Responsible Banking (PRB) in January 2021 in order to underline this positioning.

Cooperative banks exploit opportunities in the market by offering sustainability-oriented products

A growing portfolio of sustainability products is becoming established across the Cooperative Financial Network. These products are distributed by the cooperative banks. In addition to sustainable securities products (e.g. sustainability-oriented funds from Union Investment and GLS Gemeinschaftsbank eG), they also offer credit products (e.g. sustainable loans from Münchener Hypothekenbank eG).

Corporate social responsibility (CSR)

Every year, the BVR conducts a survey of all member institutions in order to record the Germany-wide CSR data of the Cooperative Financial Network. This provides tangible proof of how the many different engagement activities in the regions combine to create a force to be reckoned with at national level and highlights the particular contribution that the cooperative banks make to society (CSR reports of the local cooperative banks). The entities of the DZ BANK Group have also established various products, concepts, and processes that are based on environmental, social, and ethical criteria.

The latest figures for 2020 show that the Volksbanken Raiffeisenbanken Cooperative Financial Network provided reliably strong support for social issues and initiatives, despite the many difficulties, uncertainties, and social-distancing restrictions that characterized last year. The local cooperative banks and their specialized institutions provided financial assistance totaling €154 million to people in Germany. Donations from the Volksbanken Raiffeisenbanken and other cooperative banks reached €108 million and local communities benefited from sponsorship worth €33 million; income from charitable foundations added a further €13 million. This ever stronger commitment, not just in 2020 but also in the years before, reflects the healthy financial results of the Cooperative Financial Network. Moreover, this shows that good financial performance is not an end in itself but leads to more being done for local needs.

The foundation assets of the Volksbanken Raiffeisenbanken Cooperative Financial Network amounted to €350 million as at December 31, 2020. This sum has been rising steadily for years. To put that into context, the equivalent amount at the end of 2010 was only €140 million. Reflecting the sustainability and long-term orientation of the 814 cooperative banks’ business philosophy, this commitment to charitable foundations represents a very durable way of backing local projects.

Management Report 2020

Combined Opportunity and Risk Report

Principles

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

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

Risk management in a decentralized organization

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

Institutional protection scheme of the Cooperative Financial Network

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

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

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

In 2020, BVR-SE met, without qualification, all its responsibilities as a bank-protection scheme in accordance with the articles of association, as set out in the annual financial statements of BVR-SE. A total of 824 institutions of the Cooperative Financial Network belonged to BVR-SE as at December 31, 2020 (December 31, 2019: 851 members). The decrease stemmed solely from mergers within the Cooperative Financial Network.

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

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

Together, BVR-ISG and BVR-SE form the Cooperative Financial Network's dual protection scheme. The members of the BVR-ISG protection scheme are those CRR credit institutions that also belong to the BVR and are affiliated to BVR-SE. As at December 31, 2020, the membership comprised 822 CRR credit institutions (December 31, 2019: 849), which is all of the banks in the Cooperative Financial Network that are authorized in Germany by BaFin.

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

To the extent possible under EinSiG, BVR-ISG's organizational and decision-making structures match the organizational and decision-making structures of BVR-SE. A service agreement is in place so that BVR-ISG's day-to-day business operations can be carried out by the BVR employees who perform the relevant functions for BVR-SE. BVR-ISG has also engaged a third-party service provider to carry out the processing of potential compensation procedures, although such procedures have as yet never been required, nor are any currently identifiable.

The focus of the activities of BVR-ISG in 2020 was on fulfilling its responsibilities as defined by law, the articles of association, and regulatory requirements. The activities centered on the risk-based collection of contributions, which is compliant with the relevant guidance of the European Banking Authority (EBA), the management of funds, extensive operational stress tests, and preparations for the IPS recovery plan in accordance with the Minimum Requirements for the Design of Recovery Plans (MaSan). BVR-ISG can look back on a highly successful year, having not had to take any action to protect depositors or banks or pay any compensation in accordance with section 145 of the German Bank Recovery and Resolution Act (SAG) at any time in 2020.

Risk identification and analysis

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

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

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

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

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

Classification process and contributions to the BVR protection scheme

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

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

The classification process in 2020 was based on an analysis of data from the 2019 financial statements. The evaluation of this data revealed that the recovery predicted in the previous year materialized in 2019. It was driven by positive measurement effects in 2019 that were reflected in the income ratios as a result of being included in net profit. By contrast, earnings from the core business remained stable while the volume of business continued to grow. This led to moderate decreases in the points awarded. The ratios relating to financial position and risk position remained within a narrow range, thereby cementing the generally robust classification results. Net interest income declined slightly once more. However, net fee and commission income went up sharply and, once again, more than offset the decrease in net interest income. The cost/income ratio rose a little due to the combination of a small drop in staff expenses and slightly higher operating profit on the one hand and increased general and administrative expenses on the other. There was moderate growth in loss allowances for loans and advances but they remained at a low level by historical comparison. The proportion of unsecured lending classed as loans with a high probability of default or as non-performing loans increased at a slower rate than equity but at a faster rate than operating profit, which meant that the two ratios contributed to the stable results overall.

Risk management and monitoring

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

The results of the classification process provide an important basis for BVR-SE's systematic preventive management. A bank is brought into the scope of this preventive management approach no later than when it is classified as B– or lower on the basis of its annual financial statements. In addition, other key figures and comprehensive data (e.g. from the banks' reporting systems and the stress tests that the supervisory authority now regularly conducts even for domestic, not systemically important banks) have increasingly been used over the past few years so that any anomalies at institutions can be identified at an early stage. In 2020, this data included multi-year planning information from the banks' reporting systems, all of which was made available to BVR-SE.

Before the prevention phase, the monitoring of conspicuous institutions is playing an ever more significant role in the early analysis of institutions. In 2020, the monitoring program once again also reached out to institutions that were not showing any particular indications of risk but that could potentially represent a major risk simply because of the size of their balance sheet. This underpins the long-term trend of shifting the focus of BVR-SE's work away from restructuring and toward end-to-end preventive management that also includes monitoring.

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

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

There was a continued absence of any uptick in recovery activities by BVR-SE in 2020, and the strains on regional banks highlighted in the media resulting from COVID-19-related defaults have not led to any recovery work so far. Separately from COVID-19, one cooperative bank received support in the mid-double-digit millions of euros in 2020, primarily because of the remeasurement of long-dated interest-rate swaps. Further very minor costs were incurred for legacy cases where risks already covered had materialized or loss allowances were recognized in BVR-SE's annual financial statements. These legacy cases are being progressively reduced. The total restructuring amounts in need of protection resulting from such legacy cases were significantly lower than expected and there was only a small volume of repayments under debtor warrant obligations and other guarantee release obligations.

The overall business performance meant that the capital base of the dual cooperative institutional protection scheme (comprising BVR-SE and BVR-ISG) was strengthened once again in 2020 and, as planned, the statutory guarantee fund resources at its disposal could be increased yet again.

Outlook for the BVR protection scheme and BVR Institutssicherung GmbH

Because the COVID-19 pandemic is not yet under control, either in Germany or worldwide, its economic fallout will continue to be the primary challenge for the dual institutional protection scheme in 2021, although the extent of the challenge remains unknown. It is still possible – potentially more so than in the previous year – that the cooperative banks' envisaged results for the 2021 financial year and beyond will be severely affected by the further course of the pandemic. Against this backdrop, the BVR protection scheme anticipates an increase in support measures over the coming years.

This year, BVR-ISG is again focusing on implementing regulatory requirements, such as preparing recovery plans as defined by sections 12 to 20 SAG. Based on the Regulation on the Minimum Requirements for the Design of Recovery Plans for Institutions (MaSanV), BaFin published an implementation measure of relevance to BVR-ISG as an institutional protection scheme and the member banks at the end of October 2020. Under this measure, all institutions that have joined BVR-ISG but have not been requested by BaFin to submit a separate, institution-specific recovery plan, and have signed up to the IPS recovery plan by means of a separate declaration, will have to individually comply with the requirements of MaSanV from November 2021. These requirements are incorporated into the IPS recovery plan specified by BVR-ISG. The related project accounts for a large proportion of BVR-ISG's work in 2021. Furthermore, new disclosure requirements have to be applied as a result of indirect and sectoral supervision by the ECB (such as reporting the Cooperative Financial Network's leverage ratio in accordance with CRR II rules), in particular broader and stricter requirements at the level of the Cooperative Financial Network. The EBA is due to carry out further activities in connection with the regular review of the EU Deposit Guarantee Schemes Directive, which was initiated in 2014 for the year 2019 (e.g. the assessment of contribution). BVR-ISG will be supporting these activities by participating in a number of the EBA task force's working groups.

Capital management

Regulatory capital management

The consolidated financial statements of the Cooperative Financial Network provide a comprehensive overview of the main capital ratios, particularly the consolidated regulatory capital ratios. These capital ratios are calculated in accordance with the provisions of the CRR using the extended aggregated calculation pursuant to article 49 (3) CRR in conjunction with article 113 (7) CRR. Information concerning the regulatory capital ratios relates to the reporting date of December 31, 2020 and does not include the retention of the profits reported in the 2020 annual financial statements. Profit is retained after the individual institution's relevant committees have given their approval. This retention of profits will further strengthen the capital base in 2021.

The Tier 1 capital ratio improved to 14.4 percent (December 31, 2019: 13.7 percent). If the reserves pursuant to section 340f HGB are classified as Tier 1 capital, the Tier 1 capital ratio is 16.1 percent (December 31, 2019: 15.5 percent). The Cooperative Financial Network's regulatory total capital ratio was 16.2 percent as at December 31, 2020 (December 31, 2019: 15.6 percent). Overall, regulatory own funds increased by €7.7 billion to €114.6 billion. The rise in own funds was largely attributable to the retention of profits from 2019 by the cooperative banks, which was reflected in the ratios as at December 31, 2020. The Cooperative Financial Network's capital is predominantly held by the cooperative banks.

The total risk exposure as at December 31, 2020 amounted to €709.3 billion (December 31, 2019: €685.4 billion). This 3.5 percent increase was driven by growth in both the retail and the corporate customer lending business and was primarily fueled by government support programs introduced in response to COVID-19. The factor for small and medium-sized enterprises (SMEs) was expanded with the introduction of CRR II, which acted as a brake on the increase in the total risk amount.

BVR-SE analyzes the regulatory capital ratios of each member bank on an ongoing basis. The institutions themselves are responsible for fulfilling the regulatory requirements at all times, including in respect of bank-specific SREP surcharges. As shown by the chart on page 50, the capital adequacy of the individual institutions in the Cooperative Financial Network was at a healthy level as at the reporting date of December 31, 2020. This had also been the case as at December 31, 2019.

The Cooperative Financial Network has healthy capital adequacy thanks to equity of €121.8 billion (December 31, 2019: €116.0 billion). It has continually boosted its level of capital in recent years by retaining profit. This trend substantiates the Cooperative Financial Network's sustainable business model with its broad diversification of sources of risk and income.

The leverage ratio pursuant to the CRR, which is calculated for the Cooperative Financial Network on a pro forma basis, came to 7.5 percent as at December 31, 2020 (December 31, 2019: 7.0 percent). This is further proof of the above-average capital adequacy of the Cooperative Financial Network. The ratio is calculated by applying the requirements (adjusted appropriately) of article 429 CRR. This was based on Tier 1 capital as determined in the extended aggregated calculation in accordance with article 49 (3) CRR, which is adjusted for all internal Tier 1 capital positions within the joint liability scheme of the Cooperative Financial Network. The risk exposures were determined by aggregating the individual leverage ratio submissions of all the member banks and adjusting them for material internal exposures within the joint liability scheme. This approach factors in the zero weighting given to internal exposures within the network, which will be implemented for the member institutions when CRR II is introduced. If the reserves pursuant to section 340f HGB are classified as Tier 1 capital and the CRR transitional provisions are applied, the leverage ratio is 8.4 percent (December 31, 2019: 7.8 percent), which is a comfortable level relative to the ratios of the Cooperative Financial Network's competitors. The leverage ratio total exposure increased only insignificantly year on year, edging up by 0.7 percent to €1,355.0 billion.

Economic capital management

Risk capital management is a core task at each individual institution and focuses on determining the risk-bearing capacity of the overall bank. Pursuant to the Minimum Requirements for Risk Management (MaRisk) and the EBA guidelines relevant to some institutions, it must be structured according to the complexity, scope of business activities, and size of the bank. The banks receive procedural support through the VR Control processes and VR Control software.

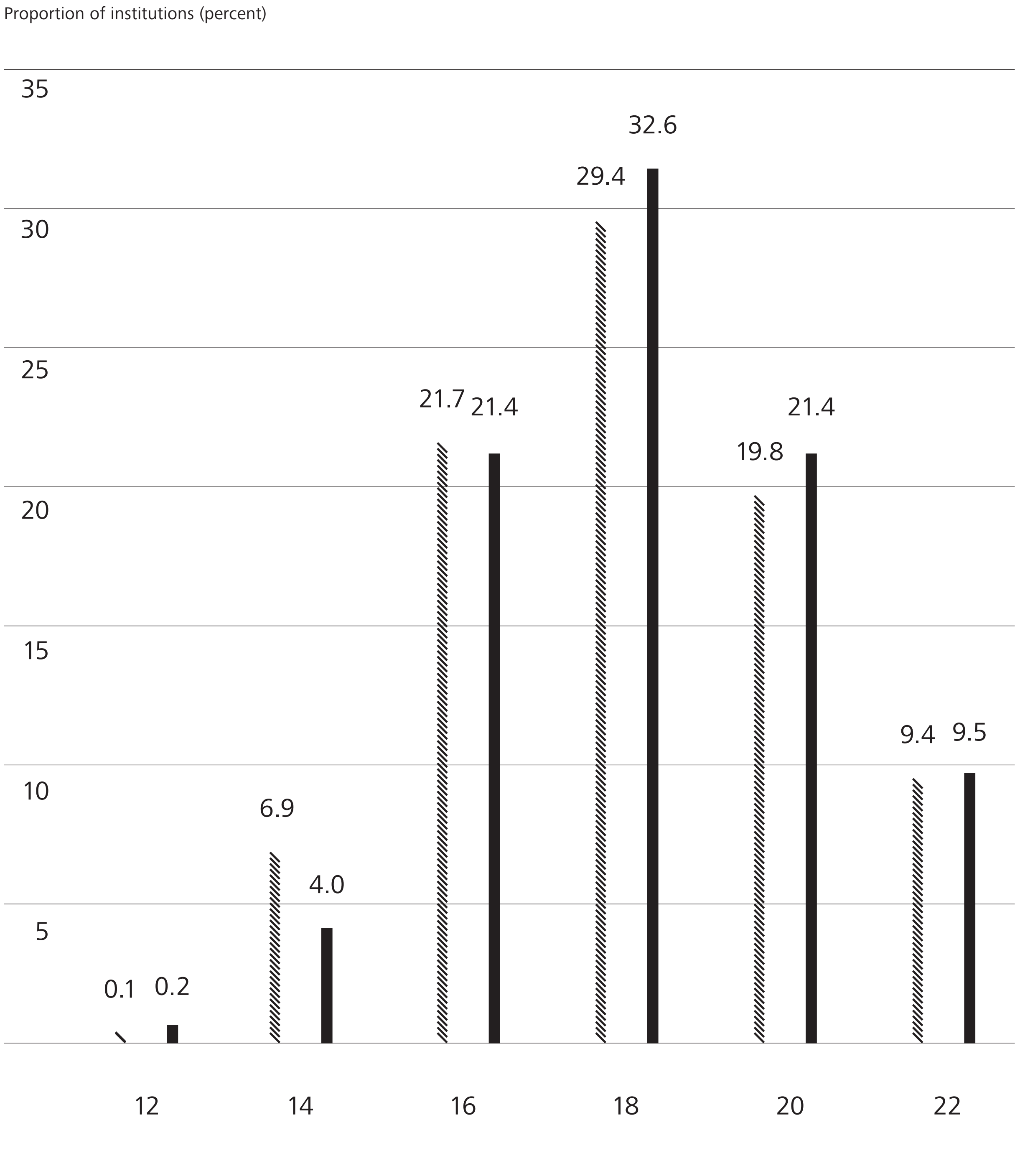
Risk capital management is in a phase of transition. The vast majority of banks in the Cooperative Financial Network are still using the going-concern approach to measure and manage their risk-bearing capacity. In parallel, they are also applying the new dual concept for calculating risk-bearing capacity. This consists of both a normative perspective (capital planning for a three-year period) and an economic perspective that is based on complete risk modelling from a value-based perspective. To this end, parcIT made available a technical concept and an updated user guide for risk-bearing capacity in March 2020. The technical concept is based on the requirements in the new risk-bearing capacity guidelines and encompasses the main aspects of internal bank processes for ensuring risk-bearing capacity (internal capital adequacy assessment process, ICAAP). The guidelines are designed to help the cooperative banks with the practical implementation of the methods described in the technical concept. They also show how the processes relating to risk-bearing capacity fit into the bank's management processes.

A solution that integrates the new risk-bearing capacity concept into the VR-Control software is scheduled to be made available in 2021. The banking regulator specifically stated in an annex to the guidelines that there is a time-limited option to continue with the old going-concern model during the transition to the new concept. A date on which this annex will cease to apply has not been announced yet.

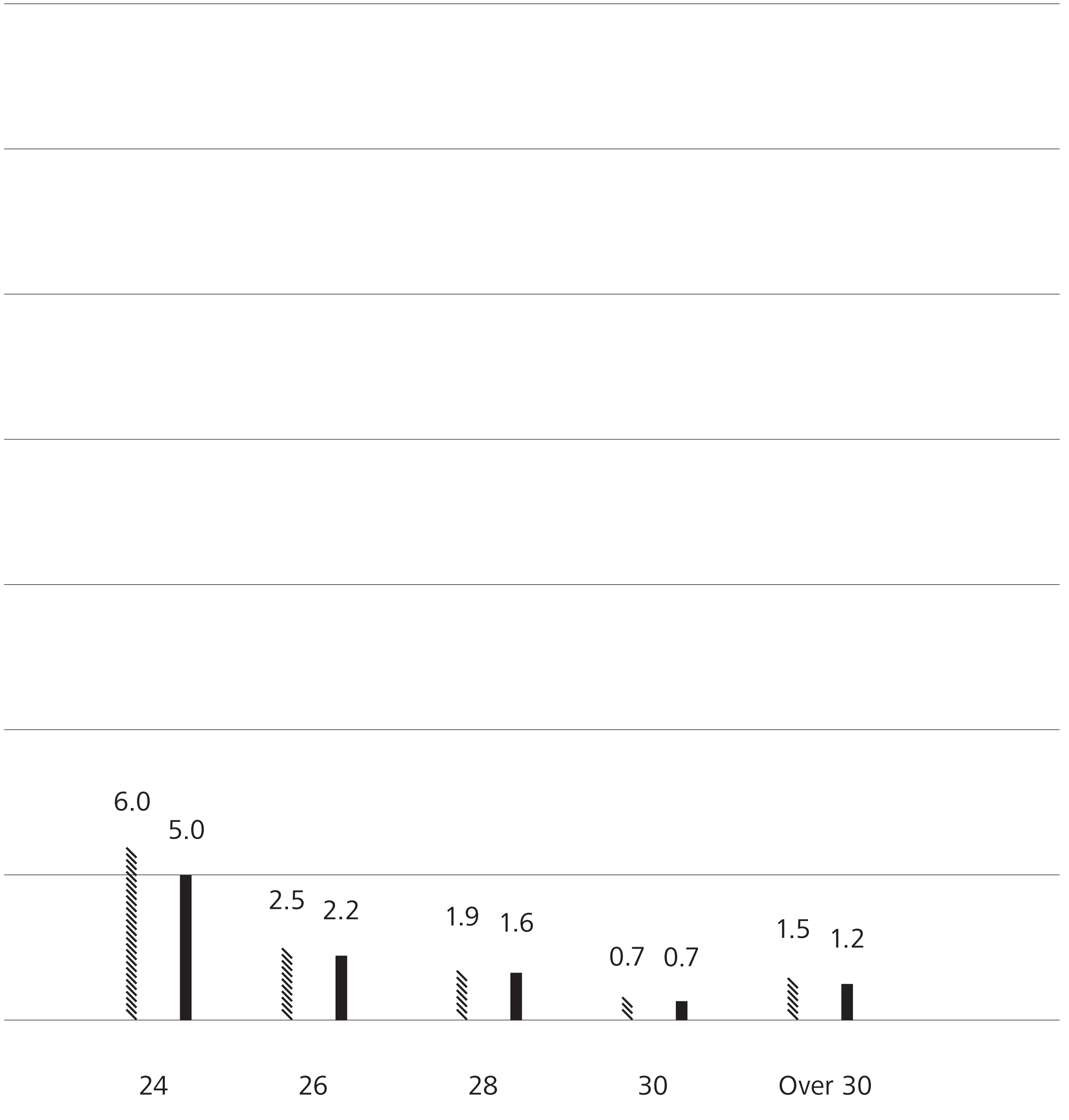
The particular difficulty in 2020 was gauging the possible impact of the COVID-19 crisis on the banks' risk situation. A task force was set up to develop suitable stress scenarios that were then made available to the banks. They included unusual movements in the capital markets and significant increases in default rates in specific sectors. Default risk and interest-rate risk are particularly prominent in the banks' risk profiles. The suggested scenarios enable the banks to determine their own specific stress scenarios and the impact on their risk capital and, if necessary, to develop countermeasures.

Alongside these business considerations, the banking regulator has supplemented risk measurement in Pillar 1 with its own Supervisory Review and Evaluation Process (SREP) and worked out a system of bank-specific surcharges for interest-rate risk and other material risks as well as a stress scenario surcharge. The surcharges for the individual cooperative banks were once again met in 2020.

Distribution of total capital ratios in the Cooperative Financial Network*



* As at December 31, 2020.


6.0
5.0
2.5
2.2
1.9
1.6
0.7
0.7
1.5
1.2
24
26
28
30
Over 30

Credit ratings of the Cooperative Financial Network

The credit ratings of the Cooperative Financial Network remained unchanged in 2020. Credit rating agencies Fitch and Standard & Poor's both continue to rate the Cooperative Financial Network with AA– and a negative outlook. The main reasons for the negative outlook cited by the agencies were the downturn in the macroeconomic environment as a result of coronavirus and uncertainty surrounding financial performance in the German banking sector in the years ahead. The agencies point to the consistently successful business model focused on retail and corporate banking as the reason for the credit ratings. The funding of the business model is based on customer deposits, so it is structurally secured. Liquidity is ensured at all times by means of an extensive and highly diversified portfolio of marketable securities, combined with the cash pooling that takes place within the Cooperative Financial Network. Capital adequacy is also judged to be above average in terms of quantity and quality. The rating agencies recognize the ability and note the propensity of the Cooperative Financial Network to build up capital from its own resources by retaining profits. The granular credit structure and high proportion of mortgages in the retail business are the hallmarks of the overall high level of quality in the customer lending business. BVR-SE is seen by the rating agencies as an important connecting link and a crucial element of the risk management system of the Cooperative Financial Network.

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

Credit risk

Credit risk is the risk of losses that may arise as a result of the default or deterioration in the creditworthiness of a borrower, issuer, counterparty, or equity investment. As at December 31, 2020, the credit risk-weighted assets of the Cooperative Financial Network amounted to €642.7 billion (December 31, 2019: €618.0 billion), which equated to 90.6 percent of total risk-weighted assets (December 31, 2019: 90.2 percent). This means that credit risk is the most significant risk category for the cooperative banks.

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

The primary cooperatives stepped up their recording of loss data in 2020, recognizing proceeds from a sizeable number of full property recoveries. parcIT supplements this with recovery data for real estate drawn from vdpExpertise's extensive data pool, which goes back many years. Overall, this base data enables loss given default (LGD) ratios to be estimated, including in respect of the less significant institutions (LSI) stress test.

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

The Cooperative Financial Network registered significant growth in its lending business in 2020, albeit at a lesser rate than in 2019. Loans and advances to customers increased by 5.4 percent year on year (2019: 6.2 percent). Once again, long-term home finance was a key growth driver. Home finance lending by the cooperative banks benefited from the favorable economic conditions. The combination of low interest rates, a healthy level of employment, and rising household incomes fueled strong demand for real-estate loans. This trend was overshadowed by concerns about rising risks as a result of the fallout from the COVID-19 crisis. In many sectors offering face-to-face services, businesses had to close temporarily due to lockdowns and therefore made use of government support and KfW loans. Nonetheless, credit risk remained at a moderate level in all sectors in 2020. The banks were given a sector-based scenario model with which to estimate individual changes in risk and simulate the impact of changed default rates.

Residential real estate prices in Germany continued to go up in 2020. On average across all 401 municipal and rural administrative districts, prices for owner-occupied residential properties rose by 6.0 percent, compared with 5.6 percent in 2019. The price rises were geographically well distributed. The upward trend continued in both urban and rural areas, but the gap between the rate at which city and country price levels are increasing narrowed further.

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

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

Loss allowances rose to €2.3 billion in the reporting year (2019: €0.8 billion). This was primarily due to model-based valuation adjustments (PD shifts) in view of the expected impact of the COVID-19 pandemic. Loss allowances remained low at 0.3 percent (December 31, 2019: 0.1 percent) of the volume of loans and advances to customers and banks (total volume: €910.3 billion). As at December 31, 2020, the Cooperative Financial Network's NPL ratio (non-performing loans as a proportion of the total lending volume) had increased slightly to stand at 1.5 percent (December 31, 2019: 1.4 percent). This rise in the NPL ratio was attributable to the overall sharper contraction of the total lending volume relative to the decrease in the volume of NPLs. In summary, the cooperative banks operate a healthy lending business overall.

Market risk

Market risk is the risk of losses that could arise from adverse changes in market prices or in factors that influence prices. Market risks are generally grouped into the following categories: equity risk, interest-rate risk, and currency/commodity risk. As at December 31, 2020, the market risk-weighted assets of the Cooperative Financial Network amounted to €13.1 billion (December 31, 2019: €12.7 billion), which equated to 1.9 percent of total risk-weighted assets (December 31, 2019: 1.9 percent).

Along with credit risk, interest-rate risk – a category of market risk – plays an important role for most of the cooperative banks. The cooperative banks regularly measure and limit this risk with regard to their risk-bearing capacity. A distinction is made between interest-margin risk and valuation risk. Interest-margin risk is the risk of net interest income falling short of the expected or budgeted figure. Valuation risk is influenced by unexpected price volatility during the holding period. For the purposes of determining and managing periodic interest-rate risks, parcIT regularly provides non-portfolio-specific interest-rate scenarios (VR interest-rate scenarios), which contain not only upward and downward shifts but also rotations of the yield curve. The moderate interest-rate movements in 2020 were adequately covered by the VR interest-rate scenarios used to manage interest-rate risk in the reporting year. In addition, the regulatory interest-rate scenarios specified in BaFin Circular 06/2019 (BA) for the Swiss franc, Danish krone, euro, pound sterling, yen, and US dollar were provided centrally by parcIT.

Interest-rate risk has a significant influence on the banks' financial performance. The Cooperative Financial Network's net interest income rose by a moderate 1.1 percent in 2020. As in prior years, the largest proportion of net interest income was generated from the net interest margin contribution in the customer business, primarily the customer lending business. Given the persistently low level of interest rates and growing competition for deposits, the banks expect interest margins to be narrower in the future. There is also still the risk that funding costs will rise when interest rates in the financial markets start to climb again.

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

Liquidity risk

Liquidity risk refers to the risk of the bank becoming unable to meet its payment obligations. In accordance with the cooperative principle of subsidiarity, each cooperative bank is in charge of its own liquidity and risk management. Compliance with the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), which are Pillar 1 key figures laid down by law, is mandatory. The business management tools that are available enable the individual cooperative banks to define and manage their own bank-specific internal liquidity adequacy assessment process (ILAAP). The conceptual basis for this was developed in 2018, with the BVR taking a leading role.

A process for monitoring the liquidity situation of both the entire Cooperative Financial Network and the primary institutions was set up at short notice in 2020 in response to the emerging COVID-19 crisis. This process monitored aspects such as current liquidity balances at daily and weekly intervals. The protection scheme reported the results to the BVR Board of Managing Directors on the basis of discussions with DZ BANK.

The degree to which a bank is able to guarantee its ability to meet its payment obligations in the short term is measured using the LCR. Banks are required to maintain a sufficiently high level of liquidity as measured by this key figure. As at December 31, 2020, the median LCR of all cooperative institutions was 177.6 percent (December 31, 2019: 174.3 percent).

For many years, the Cooperative Financial Network has had a reliable liquidity structure that is deemed crisis-resistant. The loan to deposit ratio of the Cooperative Financial Network is 95.0 percent (December 31, 2019: 95.9 percent). The basis for this lies in the diversifying, risk-mitigating effect created by the stable business structure of the banks, which tends to be divided into small units, and, in particular, in the institutions' traditional method of obtaining funding through customer deposits. Customers therefore recognize and reward the effectiveness of the institutional protection provided by BVR-SE and BVR-ISG, which particularly aim to safeguard deposits.

The liquidity system of the Cooperative Financial Network is characterized by the strong portfolio of deposits from retail and corporate customers. This customer base has a highly granular structure and is growing steadily.

The liquidity is invested by DZ BANK via the Cooperative Financial Network's internal market system. As the central institution, DZ BANK is also responsible for smoothing out liquidity peaks across the cooperative banks. It does so by pooling excess liquidity from individual institutions and evening out differences in the individual cooperative banks' liquidity levels. Information about the liquidity situation of the individual banks is shared with DZ BANK regularly, ensuring that it always has a clear picture of the overall situation.

Operational risk

Based on the definition used by the banking regulator, operational risk is the risk of losses arising from inadequate or failed internal processes, personnel, or systems, or from external events. As at December 31, 2020, the risk-weighted assets of the Cooperative Financial Network attributable to operational risk amounted to €50.5 billion (December 31, 2019: €50.2 billion), which equated to 7.1 percent of total risk-weighted assets (December 31, 2019: 7.3 percent).

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

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

Operational risk is measured in consideration of the business model of the individual institution. The dominant methods are quantification by means of a plausible lump sum or based on historical loss event data, sometimes supplemented by value-at-risk (VaR) approaches.

Opportunities and opportunity management

Customer membership is a distinctive feature of the cooperative banks' business model and one that is ideally suited to conveying the values of the cooperative idea. It offers the cooperative banks the opportunity to distinguish themselves from rival banking groups. The cooperative banks' distinctive characteristics are reflected in their continued ability to reach a wide range of customers. Strong customer retention results in measurable economic benefits, e.g. income growth for the cooperative banks and the protection of their market share.

Even in the digital age, the business model of the cooperative banks puts people and their wishes and objectives first. In the years ahead, the digitalization initiative launched by the Cooperative Financial Network in the retail and corporate banking businesses will enable it to proactively adapt to the changes in the competitive environment resulting from the digital revolution. The aim is to forge ahead with digitalizing the cooperative banks' products and services and offer all of the touchpoints that customers want (local branches as well as online and mobile banking).

The implementation of measures derived from the KundenFokus (customer focus) project continued and there has been capital expenditure in connection with the digitalization initiative. This allows the Cooperative Financial Network to take account of the changes in customer behavior and to adjust and strengthen the overall business model accordingly. The focus is on the comprehensive omnichannel presence and thus the implementation of efficient processes at all levels.

Nonetheless, personal contact remains a key component of the customer relationship, alongside high-quality advice and the possibility for customers to choose how they would like to communicate with their bank. The Cooperative Financial Network is therefore establishing a variety of different customer touchpoints and giving its members integrated access to all information and services through all the relevant channels, whether in branch or via digital media.

Digitalization, with its increasing influence on members' behavior, also offers the banks potential to improve their cost structure in the medium term. By marketing new digital payment services and implementing an online inquiry process for all of the main products, banks are able to address customer needs and attract new customers. This also enables them to target young, tech-savvy customers and members.

The easing of coronavirus restrictions is expected to generate catch-up effects for consumer spending in the hospitality, service, and tourism sectors. Although the COVID-19 pandemic is likely to have some adverse effects on employment and disposable income, this should not result in reduced demand for banking products and services. Given the current low level of interest rates, the cooperative banks will continue tapping into potential in the real estate business, especially as the COVID-19 crisis has made customers even more interested in home ownership.

Outlook

Real economy and banking industry

Economic activity and public life in Germany continue to be dominated by the COVID-19 pandemic in 2021. However, the economic growth picture is divided. According to the spring report of the economic research institutions that contribute to the Joint Economic Forecast, German industry continued to recover from its slump in the first half of 2020. The pick-up in international business stimulated growth in industrial sectors. By contrast, activity in consumer-centric service sectors declined noticeably once again owing to the second wave of the pandemic and the tightening of infection control measures from November 2020 onward.

According to the economic research institutions, there were signs in mid-April 2021 that many of the infection control measures that had been eased in March 2021 would be reimposed once again due to the number of coronavirus cases. Any across-the-board easing of measures was unlikely before the end of the second quarter when there would be a high vaccination rate. This would lay the foundations for a broad-based upturn. The economic research institutions also believed that all restrictions would be lifted by the end of the third quarter, as the vaccination rate should be high enough by then.

The economic research institutions have significantly lowered their 2021 growth forecast for Germany because the course of the pandemic has delayed the economic upswing. Having forecast a rise in GDP of 4.7 percent in their autumn 2020 report, they predict GDP growth of 3.7 percent in their spring 2021 report.

In this spring report, the economic research institutions anticipate a rebound in the domestic labor market, which should result in an increase of 26,000 in the average number of people in employment in 2021. The spring report also predicts a 2.4 percent rise in consumer prices in 2021. This inflation will be driven by a number of one-off effects that will fade away in 2022. German public finances are expected to run a deficit of €159 billion in 2021.

Interest rates remain extremely low in the eurozone and are likely to start rising only very slowly. The ECB anticipates that key interest rates will remain at their current level, or possibly even lower, until the inflation outlook approaches and remains around the central bank's target of close to, but below, 2.0 percent. Meanwhile, the Eurosystem continues to buy significant volumes of securities. The intention with the asset purchase program (APP) is to continue acquiring additional securities until just before key interest rates are raised. Under the pandemic emergency purchase program (PEPP), net purchases will continue until at least March 2022. The ECB responded to rising capital market rates at the start of this year by stepping up its purchases.

The predicted effects on the overall economy will also have an impact on the banking sector, whose 2021 outlook thus depends on a greater variety of factors than in previous years. The ongoing COVID-19 pandemic will have a defining influence on how the economy performs going forward. From the second quarter of 2021 onward, there is initially likely to be a rise in insolvencies following the recession in 2020 and the suspension of the obligation to apply for insolvency. This will lead to increased loss allowances. There will be no let-up in the move toward digitalization. In the most probable scenario, higher vaccination rates and thus falling coronavirus case numbers over the course of 2021 and 2022 will enable the economy to rally sharply, helping to stabilize banks' earnings. In the negative scenario, the economic recovery will be later and less pronounced, which would mean a further marked decline in earnings in the banking industry this year.

Once again, the flat yield curve will not change significantly in 2021, although the predicted rise in the rate of inflation may provide some latitude for small interest-rate hikes. No material margin increases are expected in interest-related business, which means that, at best, interest income will not decrease. Against this backdrop, action to improve efficiency will remain the order of the day and further mergers are therefore to be anticipated.

The reduction in face-to-face contact between customers and advisors in bank branches as a result of the pandemic is continuing to fuel a clear shift to digital channels. As this is a sustained trend, many customers are now more familiar with digital channels and will carry on using them even after everything has reopened.

Volksbanken Raiffeisenbanken Cooperative Financial Network

The financial sector still faces considerable pressure to adjust as well as mounting costs caused by the need to comply with regulatory reforms and to implement structural change in response to a changing market. The regulatory measures introduced since the financial crisis have had a range of objectives, including making the financial sector more resilient in the event of a crisis, mainly through improved capital and liquidity adequacy, and ensuring that the risks arising from the business activities in the financial industry are not borne by the public sector. In addition, new competitors with approaches based on the use of technology are prompting the financial sector to scrutinize its existing business models, adapt them to new customer requirements, and substantially improve its efficiency by digitalizing business and IT processes. In 2020, a framework for strategic development was therefore put in place. A comprehensive plan of action entitled 'Strategic agenda – shaping the future cooperatively' will be fleshed out and implemented in the years ahead. One of the key elements will be a cooperative ecosystem that is fundamentally regional in character, at the center of which are the independent cooperative banks and their regional operations. The necessary capital spending on this strategic agenda is initially likely to push up costs in the industry before the anticipated profitability gains can be realized.

Given that monetary policy has become even more expansionary as a result of the pandemic, virtually all central banks will keep interest rates at historically low levels in 2021. This will make the tasks outlined above for the financial sector all the more difficult. Interest rates are not expected to return to normal levels in the next few years. Based on current assessments, net interest income will hold steady or decline only slightly in 2021 even though interest rates are expected to remain low. The growth trend in the lending and deposit-taking businesses will continue apace.

The Cooperative Financial Network anticipates that net fee and commission income in 2021 will be on a par with the 2020 level. The main positive factors in this income forecast are payments processing and the significant growth in the volume of assets under management and the associated volume-related income. The consequences of the latest decision by the Bundesgerichtshof (BGH) [German Federal Court of Justice] on the mechanism for changing general terms and conditions may have an adverse effect on net fee and commission income. At present, it is too early to precisely quantify the exact impact on net fee and commission income and the recognition of provisions. Further details are expected during the course of 2021. The banks will take account of the ruling in their operations in the customer business so that they comply with the requirements of the ruling in their business with consumers and business customers going forward.

Gains and losses on trading activities, which are particularly influenced by those of the Central Institution and Major Corporate Customers operating segment, will deteriorate markedly and are dependent on future volatility levels in the capital markets. Customer-driven capital markets business may again provide impetus in 2021 but this is likely to be outweighed by the absence of the positive one-off effects that occurred in 2020.

Gains and losses on investments are anticipated to decline sharply in 2021 because of the absence of positive one-off items that were recognized in 2020 and, like gains and losses on trading activities, are dependent on volatility levels in the capital markets.

Expenses for loss allowances in 2021 are likely to be at a comparable level to 2020 because of the negative consequences of the COVID-19 pandemic on businesses and consumers.

Net income from insurance business in 2021 is expected to be well above the 2020 figure. In addition to the premium growth that has been assumed in the different divisions of the Insurance operating segment, the net gains under gains and losses on investments held by insurance companies are predicted to climb very sharply.

In 2021, administrative expenses are predicted to hold steady on the whole compared with 2020. While staff expenses will decline slightly according to current predictions, general and administrative expenses are likely to remain largely unchanged in view of the required capital spending on digitalization.

The Cooperative Financial Network's cost/income ratio is expected to rise a little in 2021 as a result of the expected slight decrease in income and an unchanged level of expenses. As before, a particular focus will be on managing costs and generating growth in the operating business.

Consolidated Financial Statements 2020

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Income statement for the period January 1 to December 31, 2020

	(Note no.)	2020 € million	2019 € million
Net interest income	2.	18,382	18,185
Interest income and current income and expense		*22,401*	*23,951*
Interest expense		*–4,019*	*–5,766*
Net fee and commission income	3.	7,439	7,092
Fee and commission income		*8,929*	*8,445*
Fee and commission expenses		*–1,490*	*–1,353*
Gains and losses on trading activities	4.	728	643
Gains and losses on investments	5.	7	961
Loss allowances	6., 7.	–2,327	–832
Other gains and losses on valuation of financial instruments	8.	–22	226
Premiums earned	9.	18,741	17,249
Gains and losses on investments held by insurance companies and other insurance company gains and losses	10.	2,007	6,113
Insurance benefit payments	11.	–17,561	–19,340
Insurance business operating expenses	12.	–2,465	–2,370
Administrative expenses	13.	–18,036	–18,142
Other net operating income	14.	333	394
Profit before taxes		**7,226**	**10,179**
Income taxes	15.	–2,192	–3,133
Net profit		**5,034**	**7,046**

Attributable to:			
Shareholders of the Cooperative Financial Network		4,930	6,876
Non-controlling interests		104	170

Statement of comprehensive income for the period January 1 to December 31, 2020

	2020 € million	2019 € million
Net profit	**5,034**	**7,046**
Other comprehensive income/loss	**377**	**1,055**
Items that may be reclassified to the income statement	***742***	***1,174***
Gains and losses on debt instruments measured at fair value through other comprehensive income	1,185	1,668
Exchange differences on currency translation of foreign operations	–32	–1
Gains and losses on hedges of net investments in foreign operations	3	4
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	–6	1
Income taxes	–408	–498
Items that will not be reclassified to the income statement	***–365***	***–119***
Gains and losses on equity instruments for which the fair value OCI option has been exercised	–77	453
Gains and losses in relation to financial liabilities for which the fair value option has been exercised, attributable to changes in own credit risk	–60	–96
Gains and losses arising on remeasurements of defined benefit plans	–317	–740
Income taxes	89	264
Total comprehensive income	**5,411**	**8,101**

Attributable to:		
Shareholders of the Cooperative Financial Network	5,263	7,803
Non–controlling interests	148	298

Balance sheet as at December 31, 2020

Assets

	(Note no.)	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Cash and cash equivalents	16.	120,961	87,421
Loans and advances to banks	17.	19,730	22,439
Loans and advances to customers	17.	890,576	844,552
Hedging instruments (positive fair values)	18.	160	201
Financial assets held for trading	19.	42,643	44,335
Investments	20.	255,374	248,509
Loss allowances	21.	–10,470	–9,119
Investments held by insurance companies	22.	120,580	112,554
Property, plant and equipment, investment property and right-of-use assets	23.	14,564	13,233
Income tax assets	24.	4,249	3,972
Other assets	25.	17,562	15,991
Total assets		**1,475,929**	**1,384,088**

Equity and liabilities

	(Note no.)	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Deposits from banks	26.	160,924	119,955
Deposits from customers	26.	937,876	880,398
Debt certificates issued including bonds	27.	58,365	79,610
Hedging instruments (negative fair values)	18.	7,557	6,095[1]
Financial liabilities held for trading	28.	46,796	48,490[1]
Provisions	29.	13,574	13,304
Insurance liabilities	30.	111,213	104,346
Income tax liabilities	24.	1,781	1,511
Other liabilities	31.	11,612	10,675
Subordinated capital	32.	4,441	3,691
Equity	33.	121,790	116,013
Equity of the Cooperative Financial Network		119,086	113,394
Subscribed capital		*13,614*	*12,919*
Capital reserves		*766*	*766*
Retained earnings		*97,165*	*90,735*
Reserve from other comprehensive income		*2,500*	*1,984*
Additional equity components		*111*	*114*
Unappropriated earnings		*4,930*	*6,876*
Non-controlling interests		2,704	2,619
Total equity and liabilities		**1,475,929**	**1,384,088**

1 Amount adjusted

Statement of changes in equity

€ million	Subscribed capital	Capital reserves	Equity earned by the Cooperative Financial Network	Reserves from other comprehensive income	Additional equity components
Equity as at Jan. 1, 2019	**12,332**	**722**	**91,259**	**863**	**–**
Net profit	–	–	6,876	–	–
Other comprehensive income/loss	–	–	–486	1,413	–
Total comprehensive income	**–**	**–**	**6,390**	**1,413**	**–**
Issue and repayment of equity	587	44	–	–	114
Changes in the scope of consolidation	–	–	3	–7	–
Acquisition/disposal of non-controlling interests	–	–	28	–	–
Reclassifications within equity	–	–	285	–285	–
Dividends paid	–	–	–354	–	–
Equity as at Dec. 31, 2019	**12,919**	**766**	**97,611**	**1,984**	**114**
Net profit	–	–	4,930	–	–
Other comprehensive income/loss	–	–	–228	561	–
Total comprehensive income	**–**	**–**	**4,702**	**561**	**–**
Issue and repayment of equity	695	–	–	–	–3
Changes in the scope of consolidation	–	–	–	–	–
Acquisition/disposal of non-controlling interests	–	–	–44	–1	–
Reclassifications within equity	–	–	44	–44	–
Dividends paid	–	–	–216	–	–
Distribution on additional equity components	–	–	–2	–	–
Equity as at Dec. 31, 2020	**13,614**	**766**	**102,095**	**2,500**	**111**

€ million	Equity of the Cooperative Financial Network	Non-controlling interests	Total equity
Equity as at Jan. 1, 2019	**105,176**	**2,528**	**107,704**
Net profit	6,876	170	7,046
Other comprehensive income/loss	927	128	1,055
Total comprehensive income	**7,803**	**298**	**8,101**
Issue and repayment of equity	745	8	753
Changes in the scope of consolidation	–4	–	–4
Acquisition/disposal of non-controlling interests	28	–166	–138
Reclassifications within equity	–	–	–
Dividends paid	–354	–49	–403
Equity as at Dec. 31, 2019	**113,394**	**2,619**	**116,013**
Net profit	4,930	104	5,034
Other comprehensive income/loss	333	44	377
Total comprehensive income	**5,263**	**148**	**5,411**
Issue and repayment of equity	692	–22	670
Changes in the scope of consolidation	–	5	5
Acquisition/disposal of non-controlling interests	–45	–17	–62
Reclassifications within equity	–	–	–
Dividends paid	–216	–29	–245
Distribution on additional equity components	–2	–	–2
Equity as at Dec. 31, 2020	**119,086**	**2,704**	**121,790**

The composition of equity is detailed in Note 33.

Statement of cash flows

	2020 € million	2019 € million
Net profit	**5,034**	**7,046**
Non-cash items included in net profit and reconciliation to cash flows from operating activities		
Depreciation, amortization, impairment losses, and reversal of impairment losses on assets, and other non-cash changes in financial assets and liabilities	3,250	–3,604
Non-cash changes in provisions	840	1,289
Changes in insurance liabilities	6,867	11,093
Other non-cash income and expenses	883	3,720
Gains and losses on the disposal of assets and liabilities	–110	–273
Other adjustments (net)	–18,584	–18,431
Subtotal	**–1,820**	**840**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	–44,155	–48,226
Other assets from operating activities	–555	–1,655
Hedging instruments (positive and negative fair values)	314	–836[1]
Financial assets and financial liabilities held for trading	586	–141[1]
Deposits from banks and customers	98,634	39,530
Debt certificates issued including bonds	–21,272	23,300
Other liabilities from operating activities	177	1,121
Interest, dividends and operating lease payments received	23,261	24,593
Interest paid	–4,200	–5,793
Income taxes paid	–743	–2,758
Cash flows from operating activities	**50,227**	**29,975**

1 Amount adjusted.

	2020 € million	2019 € million
Cash flows from operating activities	**50,227**	**29,975**
Proceeds from the sale of investments	17,871	12,303
Proceeds from the sale of investments held by insurance companies	21,547	19,181
Payments for acquisitions of investments	–24,437	–20,881
Payments for acquisitions of investments held by insurance companies	–30,043	–27,523
Net payments for acquisitions of property, plant and equipment, and investment property (excl. assets subject to operating leases)	–2,040	–1,617
Net payments for acquisition of intangible non-current assets	–374	–279
Changes in the scope of consolidation	–85	131
of which: proceeds from the disposal of consolidated subsidiaries less cash disposed	–	128
of which: payments for the acquisition of consolidated subsidiaries less cash acquired	–85	–
Cash flows from investing activities	**–17,561**	**–18,685**
Proceeds from capital increases by shareholders of the Cooperative Financial Network	692	745
Proceeds from capital increases by non-controlling interests	–	8
Dividends paid to shareholders of the Cooperative Financial Network	–216	–354
Dividends paid to non-controlling interests	–29	–49
Distribution on additional equity components	–2	–
Other payments to non-controlling interests	–22	–
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	451	612
Cash flows from financing activities	**874**	**962**

	2020 € million	2019 € million
Cash and cash equivalents as at January 1	**87,421**	**75,169**
Cash flows from operating activities	50,227	29,975
Cash flows from investing activities	–17,561	–18,685
Cash flows from financing activities	874	962
Cash and cash equivalents as at December 31	**120,961**	**87,421**

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

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

Notes to the consolidated financial statements

A General information

Explanatory information on the consolidated financial statements

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

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

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

The financial year corresponds to the calendar year. The consolidated companies prepare their financial statements as at the reporting date of December 31, 2020. In the previous year, one subsidiary was included in the consolidated financial statements with a different reporting date for its annual financial statements. With 20 exceptions (2019: 21 exceptions), the separate financial statements of the entities accounted for using the equity method are prepared using the same balance sheet date as that of the consolidated financial statements.

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

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

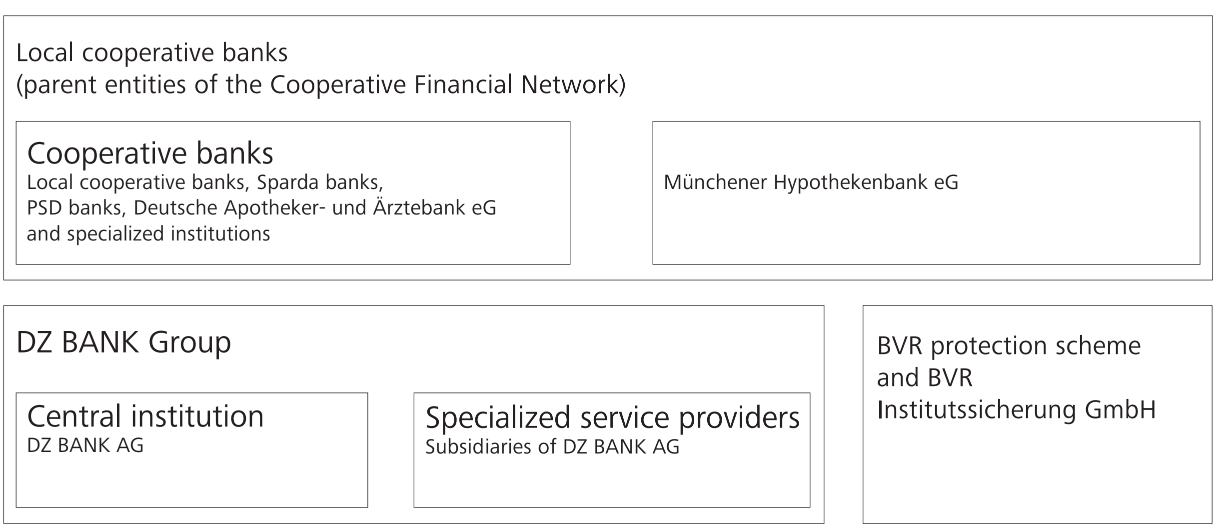
Scope of consolidation

The consolidated financial statements comprise, as consolidated entities, 814 primary banks (2019: 841) as well as all companies included in the consolidated financial statements of DZ BANK, Münchener Hypothekenbank eG (MHB), the BVR protection scheme, and BVR Institutssicherung GmbH. The consolidated cooperative banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

The cooperative banks and MHB are the legally independent, horizontally structured parent entities of the Cooperative Financial Network, whereas the other companies and the DZ BANK Group are consolidated as subsidiaries. The cooperative central institution and a total of 183 subsidiaries (2019: 190) have been consolidated in the DZ BANK Group. In the year under review, the scope of consolidation changed primarily due to the addition of a company (including its three subsidiaries) that was previously accounted for using the equity method as well as disposals due to liquidation. Further information on the shareholdings can be found in the list of shareholdings included in the annual report of the DZ BANK Group.

The consolidated financial statements include 6 joint ventures between a consolidated entity and at least one other non-network entity (2019: 12) and 25 associates (2019: 29) over which a consolidated entity has significant influence, that are accounted for using the equity method.

Volksbanken Raiffeisenbanken Cooperative Financial Network



B Selected disclosures of interests in other entities

Investments in subsidiaries

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

The shares of DZ BANK, with its headquarters in Frankfurt/Main, Germany, are held by the cooperative banks and by MHB, with ownership interests amounting to 95.0 percent (2019: 95.0 percent). The remaining shares of 5.0 percent (2019: 5.0 percent) are attributable to shareholders that are not part of the Cooperative Financial Network. The pro-rata share in net profit attributable to non-controlling interests amounted to €104 million (2019: €170 million). The carrying amount of non-controlling interests amounted to €2,704 million (2019: €2,619 million). In the financial year under review, the dividend payment made to non-controlling interests amounts to €29 million (2019: €49 million).

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

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Assets	**95,445**	**89,997**
Loans and advances to customers	2,714	2,699
Investments	5	5
Investments held by insurance companies	92,723	87,290
Other assets	3	3
Liabilities	**156,261**	**148,690**
Deposits from banks	1,711	1,788
Deposits from customers	64,673	63,226
Provisions	1,443	1,406
Insurance liabilities	88,434	82,270

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

Interests in joint arrangements and investments in associates

Nature, extent and financial effects of interests in joint arrangements
The carrying amount of individually immaterial joint ventures accounted for using the equity method totaled €309 million as at the balance sheet date (2019: €293 million).

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

	2020 € million	2019 € million
Share of profit/loss from continuing operations	81	31
Share of other comprehensive income/loss	−2	3
Share of total comprehensive income	79	34

Nature, extent and financial effects of interests in associates
The carrying amount of individually immaterial associates accounted for using the equity method totaled €112 million as at the balance sheet date (2019: €201 million).

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

	2020 € million	2019 € million
Share of profit/loss from continuing operations	−2	21
Share of other comprehensive income/loss	1	7
Share of total comprehensive income	−1	28

Interests in unconsolidated structured entities

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

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

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

The maximum exposure of the investment funds issued and managed by the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €7,979 million as at the reporting date (2019: €9,352 million). These investment fund assets resulted in losses of €66 million (2019: losses of €13 million) as well as income of €2,561 million (2019: €2,421 million).

Interests in investment funds not issued by the Cooperative Financial Network
The interests in the investment funds not issued by the Cooperative Financial Network above all comprise investment funds managed by entities in the Union Investment Group within the scope of their own decision-making powers and investment funds that have been issued by entities outside the Cooperative Financial Network and parts of such investment funds. Their total volume amounted to €39,836 million (2019: €40,256 million). Moreover, loans to investment funds are extended in order to generate interest income. In addition, there are investment funds issued by entities outside the Cooperative Financial Network in connection with unit-linked life insurance of the R+V Group (R+V) amounting to €10,056 million (2019: €8,837 million) that, however, do not result in a maximum exposure.

The maximum exposure arising of the investment funds not issued by the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €7,318 million as at the reporting date (2019: €7,000 million). Income generated from these investment fund assets in the financial year 2020 amounted to €195 million (2019: €165 million).

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

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

The maximum exposure of the interests in securitization vehicles in the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €4,583 million as at the reporting date (2019: €4,004 million). Income generated from these interests in the financial year 2020 amounted to €59 million (2019: €63 million).

Interests in asset-leasing vehicles
The interests in asset-leasing vehicles comprised shares in limited partnerships and voting rights, other than the shares in limited partnerships, in partnerships established by VR Smart Finanz for the purpose of real estate leasing (asset-leasing vehicles), in which the asset, and the funding occasionally provided by the DZ BANK Group, were placed. This business model was discontinued in the previous year.

Interest income and current income and expense generated in the previous year from asset-leasing vehicles amounted to €1 million, while other net operating income amounted to €2 million.

C Income statement disclosures

1. Information on operating segments

Financial year 2020

€ million	Retail Customers and SMEs	Central Institution and Major Corporate Customers	Real Estate Finance	Insurance	Other/ Consolidation	Total
Net interest income	15,939	1,337	1,552	–	–446	18,382
Net fee and commission income	7,609	521	–112	–	–579	7,439
Gains and losses on trading activities	211	506	10	–	1	728
Gains and losses on investments	–162	53	67	–	49	7
Loss allowances	–1,659	–517	–108	–	–43	–2,327
Other gains and losses on valuation of financial instruments	–101	–34	115	–	–2	–22
Premiums earned	–	–	–	18,741	–	18,741
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	2,072	–64	2,008
Insurance benefit payments	–	–	–	–17,561	–	–17,561
Insurance business operating expenses	–	–	–	–3,046	581	–2,465
Administrative expenses	–15,758	–1,866	–891	–	479	–18,036
Other net operating income	174	119	51	9	–21	332
Profit/loss before taxes	**6,253**	**119**	**684**	**215**	**–45**	**7,226**
Cost/income ratio (percent)	66.6	74.6	52.9	–	–	65.4

Financial year 2019

€ million	Retail Customers and SMEs	Central Institution and Major Corporate Customers	Real Estate Finance	Insurance	Other/ Consolidation	Total
Net interest income	16,197	1,421	1,305	–	–738	18,185
Net fee and commission income	7,281	531	–121	–	–599	7,092
Gains and losses on trading activities	196	450	–2	–	–1	643
Gains and losses on investments	711	37	186	–	27	961
Loss allowances	–628	–226	26	–	–4	–832
Other gains and losses on valuation of financial instruments	–56	–5	287	–	–	226
Premiums earned	–	–	–	17,249	–	17,249
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	6,192	–79	6,113
Insurance benefit payments	–	–	–	–19,340	–	–19,340
Insurance business operating expenses	–	–	–	–2,973	603	–2,370
Administrative expenses	–15,732	–1,971	–875	–	436	–18,142
Other net operating income	242	115	57	–11	–9	394
Profit/loss before taxes	**8,211**	**352**	**863**	**1,117**	**–364**	**10,179**
Cost/income ratio (percent)	64.0	77.3	51.1	–	–	62.2

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

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

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

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

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

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

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

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

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

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

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

	2020 € million	2019 € million
Interest income and current income and expense	**22,401**	**23,951**
Interest income from	***21,041***	***22,628***
Lending and money market business	19,575	21,021
of which: Building society operations	1,105	1,073
Finance leases	46	76
Fixed-income securities	1,848	2,088
Other assets	–135	–163
Financial assets with a negative effective interest rate	–247	–318
Current income from	***1,241***	***1,223***
Shares and other variable-yield securities	1,051	1,058
Investments in subsidiaries and equity investments	193	152
Operating leases	–3	13
Income/loss from using the equity method for	***49***	***35***
Investments in joint ventures	39	7
Investments in associates	10	28
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***70***	***65***
Interest expense	**–4,019**	**–5,766**
Interest expense on	***–3,795***	***–5,559***
Deposits from banks and customers	–3,467	–4,706
of which: Building society operations	–938	–1,111
Debt certificates issued including bonds	–793	–1,069
Subordinated capital	–115	–134
Other liabilities	2	33
Financial liabilities with a positive effective interest rate	578	317
Other interest expense	***–224***	***–207***
Total	**18,382**	**18,185**

Continued from 2.
The interest income from other assets and the interest expense on other liabilities result from gains and losses on the amortization of fair value changes of the hedged items in portfolio hedges of interest-rate risk. Owing to the current low level of interest rates in the money markets and capital markets, there may be a negative effective interest rate for financial assets and a positive effective interest rate for financial liabilities.

3. Net fee and commission income

	2020 € million	2019 € million
Fee and commission income	**8,929**	**8,445**
Securities business	4,206	3,811
Asset management	516	489
Payments processing including card processing	2,899	2,858
Lending business and trust activities	150	167
Financial guarantee contracts and loan commitments	186	175
International business	148	138
Building society operations	39	34
Other	785	773
Fee and commission expenses	**–1,490**	**–1,353**
Securities business	–529	–439
Asset management	–158	–134
Payments processing including card processing	–196	–223
Lending business	–75	–66
Financial guarantee contracts and loan commitments	–31	–25
International business	–27	–28
Building society operations	–62	–61
Other	–412	–377
Total	**7,439**	**7,092**

4. Gains and losses on trading activities

	2020 € million	2019 € million
Gains and losses on trading in financial instruments	626	411
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	–76	55
Gains and losses on commodities trading	178	177
Total	**728**	**643**

5. Gains and losses on investments

	2020 € million	2019 € million
Gains and losses from securities	–152	749
Gains and losses on investments in subsidiaries and equity investments	159	212
Total	**7**	**961**

6. Loss allowances

	2020 € million	2019 € million
Additions	–6,314	–3,991
Reversals	4,005	3,074
Directly recognized impairment losses	–116	–97
Recoveries on loans and advances previously impaired	189	214
Other	26	27
Changes in the provisions for loan commitments, provisions for financial guarantee contracts and other provisions for loans and advances	–117	–59
Total	**–2,327**	**–832**

During the COVID-19 pandemic, the established models and processes for calculating expected losses have generally been retained. The expected macroeconomic conditions are taken into account, primarily by adjusting the model-based default probability profiles used in economic and regulatory risk management (known as shift factors). The shift factors are used to account for current economic conditions (known as a point-in-time focus) and forecasts of future economic conditions for the years covered by the macroeconomic forecast period in the determination of loss allowances. The basis for the shift factors applied as at the balance sheet date are the macroeconomic forecasts provided by DZ BANK's Economic Roundtable in November 2020. For the portfolio segments affected by the pandemic, the shift factors determined using statistical methods were overridden in some areas in consultation with experts because of the extreme COVID-19-related macroeconomic changes, which have not been seen on this scale before, and due to the extensive government support measures. This ensures that the shift factors used are in line with both experts' expectations and the forecast changes in macroeconomic factors for the calculation of expected losses.

As at the balance sheet date, two macroeconomic scenarios (baseline scenario and risk scenario) were taken into account with a weighting of 80 percent (baseline scenario) and 20 percent (risk scenario).

The baseline scenario is based on the assumption of a further recession in the winter months of 2020/2021 that will give way to an increasingly rapid recovery over the course of 2021. This presupposes that, as has happened, an effective vaccine is developed very quickly and can be rolled out on a broad basis in 2021. The resulting rebound of consumer spending, capital expenditure, and foreign trade will continue to fuel strong growth in 2022 before national economies then return to their trend growth rates. The baseline scenario, with a weighting of 80 percent, reflects the forecasts of the Economic Roundtable made in November 2020, which are almost identical to the ECB scenarios from December 2020.

The risk scenario is based on the assumption that significant problems arise with the vaccines that have been developed, thus casting doubt on their effectiveness. Such problems might include unforeseen side-effects from the vaccines or new mutations of the virus against which the available vaccines are not effective. This will result in a 'disappointment shock' for the economy and consumers in 2021 and will significantly hold back the recovery of the economy as a whole. In this scenario, sharp rises in unemployment and huge falls in income make it unlikely that the economy will bounce back in 2021 and 2022. Instead, the economy will probably recover gradually over a period of several years. This scenario will also see further sharp rises in indebtedness.

To mitigate the impact of COVID-19, borrowers and the entities in the DZ BANK Group reached agreement on individual support measures, including the temporary deferral of interest and/or capital repayments. Besides these individual measures, other measures were taken in the context of legislative and non-legislative moratoria on repayments or on the basis of moratoria specified by the Cooperative Financial Network. In accordance with the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis, the general legislative and non-legislative moratoria are, as a rule, not classified as forbearance measures in the event that borrowers face financial difficulties and therefore do not lead to a forbearance-related transfer between stages within the impairment model. A transfer between stages does take place if other transfer criteria are met. This exemption does not apply to individual support measures.

Government support measures in the form of support loans specifically in connection with the pandemic helped to mitigate the impact of the crisis. The Cooperative Financial Network made a significant contribution to these support measures, as illustrated by the approximately 48,000 applications with a volume of over €12 billion that were processed by the Cooperative Financial Network as a channel to pass on development loans from Germany's KfW development bank and other development banks to companies.

No material deterioration in the value of collateral held in the form of mortgages on real estate is currently observable in connection with the COVID-19 pandemic. The COVID-19 pandemic is particularly affecting real estate in the hotel sector and the non-food segment of the retail sector (e.g. department stores) because they have been hit disproportionately hard as a result of having to close during the lockdowns. The impact of the pandemic on the value of the real estate held as collateral can currently be offset by, for example, low interest rates, low vacancy rates, and a conservative finance structure. Any potential write-down of the value of real estate held as collateral by the entities in the DZ BANK Group is monitored on an ongoing basis, taking account of how the pandemic continues to unfold.

8. Other gains and losses on valuation of financial instruments

	2020 € million	2019 € million
Gains and losses from fair value hedges	41	–2
Gains and losses on derivatives held for purposes other than trading	–173	–45
Gains and losses on financial instruments designated as at fair value through profit or loss	110	273
Total	**–22**	**226**

9. Premiums earned

	2020 € million	2019 € million
Net premiums written	**18,754**	**17,255**
Gross premiums written	18,952	17,398
Reinsurance premiums ceded	–198	–143
Change in provision for unearned premiums	**–13**	**–6**
Gross premiums	–14	–10
Reinsurers' share	1	4
Total	**18,741**	**17,249**

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

	2020 € million	2019 € million
Interest income and current income	2,250	2,447
Administrative expenses	–178	–171
Gains and losses on valuation and disposals as well as from additions to and reversals of loss allowances	–383	3,947
Other gains and losses of insurance companies	318	–110
Total	**2,007**	**6,113**

The net amount of additions to and reversals of loss allowances as well as directly recognized impairment losses recorded in the financial year with expenses of €59 million (2019: income of €2 million).

11. Insurance benefit payments

	2020 € million	2019 € million
Expenses for claims	**–12,122**	**–11,953**
Gross expenses for claims	–12,201	–11,981
Reinsurers' share	79	28
Changes in benefit reserve, reserve for premium refunds, and in other insurance liabilities	**–5,439**	**–7,387**
Changes in gross provisions	–5,453	–7,402
Reinsurers' share	14	15
Total	**–17,561**	**–19,340**

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

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

€ million	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
At the end of the year	4,845	4,716	4,551	4,276	4,173	3,856	3,634	3,901	3,345	3,341	3,324
1 year later		4,606	4,471	4,142	4,103	3,767	3,523	3,847	3,336	3,359	3,135
2 years later			4,405	4,067	4,046	3,682	3,457	3,769	3,247	3,279	3,160
3 years later				4,021	4,020	3,647	3,389	3,731	3,220	3,254	3,139
4 years later					3,980	3,625	3,382	3,696	3,189	3,241	3,122
5 years later						3,624	3,389	3,691	3,198	3,250	3,139
6 years later							3,329	3,626	3,126	3,183	3,080
7 years later								3,616	3,118	3,172	3,065
8 years later									3,108	3,165	3,060
9 years later										3,153	3,059
10 years later											3,060
Settlements	**–**	**110**	**146**	**255**	**193**	**232**	**305**	**285**	**237**	**188**	**264**

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

€ million	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
At the end of the year	4,787	4,702	4,518	4,255	4,110	3,827	3,574	3,669	3,313	3,298	3,254
1 year later		4,589	4,438	4,118	4,050	3,736	3,460	3,613	3,300	3,317	3,056
2 years later			4,373	4,044	3,994	3,655	3,393	3,533	3,211	3,236	3,077
3 years later				3,999	3,965	3,624	3,331	3,490	3,180	3,208	3,057
4 years later					3,928	3,601	3,361	3,465	3,139	3,194	2,939
5 years later						3,602	3,369	3,670	3,166	3,191	3,049
6 years later							3,309	3,605	3,095	3,144	2,957
7 years later								3,594	3,087	3,134	2,981
8 years later									3,076	3,127	2,977
9 years later										3,115	2,977
10 years later											2,978
Settlements	**–**	**113**	**145**	**256**	**182**	**225**	**265**	**75**	**237**	**183**	**276**

Claims rate trend for inward reinsurance business

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

€ million	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Gross provisions for claims outstanding	**5,009**	**4,411**	**3,642**	**3,197**	**2,718**	**2,433**	**1,976**	**1,710**	**1,506**	**1,409**	**1,190**
Cumulative payments for the year concerned and prior years											
1 year later		1,082	955	852	569	622	464	481	385	463	437
2 years later			1,396	1,237	852	867	783	685	630	640	632
3 years later				1,482	1,062	1,022	919	897	764	345	739
4 years later					1,189	1,154	1,026	987	930	891	856
5 years later						1,249	1,117	1,051	996	1,029	922
6 years later							1,171	1,114	1,035	1,072	1,043
7 years later								1,155	1,085	1,103	1,067
8 years later									1,117	1,140	1,090
9 years later										1,161	1,106
10 years later											1,119
Gross provisions for claims outstanding and payments made against the original provision											
At the end of the year	5,009	4,411	3,642	3,197	2,718	2,433	1,976	1,710	1,506	1,409	1,190
1 year later		4,313	3,951	3,392	2,654	2,434	2,157	1,840	1,593	1,536	1,402
2 years later			3,651	3,315	2,561	2,271	2,004	1,859	1,569	1,472	1,343
3 years later				3,131	2,486	2,224	1,915	1,779	1,628	1,014	1,338
4 years later					2,361	2,179	1,887	1,720	1,580	1,528	1,360
5 years later						2,088	1,848	1,699	1,550	1,501	1,396
6 years later							1,779	1,677	1,536	1,486	1,379
7 years later								1,627	1,526	1,481	1,368
8 years later									1,490	1,468	1,354
9 years later										1,444	1,337
10 years later											1,324
Settlements	**–**	**98**	**–9**	**66**	**357**	**345**	**197**	**83**	**16**	**–35**	**–134**

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

€ million	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Net provisions for claims outstanding	**5,001**	**4,408**	**3,639**	**3,193**	**2,710**	**2,428**	**1,970**	**1,695**	**1,491**	**1,389**	**1,164**
Cumulative payments for the year concerned and prior years											
1 year later		1,082	955	851	567	622	464	473	383	461	432
2 years later			1,396	1,236	849	866	782	677	620	636	625
3 years later				1,480	1,058	1,020	918	888	754	333	729
4 years later					1,186	1,153	1,025	978	919	878	839
5 years later						1,247	1,115	1,042	985	1,016	904
6 years later							1,170	1,105	1,024	1,059	1,025
7 years later								1,146	1,074	1,090	1,049
8 years later									1,105	1,126	1,071
9 years later										1,147	1,086
10 years later											1,100
Net provisions for claims outstanding and payments made against the original provision											
At the end of the year	5,001	4,408	3,639	3,193	2,710	2,428	1,970	1,695	1,491	1,389	1,164
1 year later		4,310	3,950	3,388	2,648	2,429	2,152	1,827	1,576	1,519	1,377
2 years later			3,649	3,312	2,555	2,267	1,999	1,845	1,554	1,454	1,321
3 years later				3,129	2,482	2,219	1,911	1,766	1,612	997	1,314
4 years later					2,356	2,176	1,883	1,708	1,566	1,510	1,337
5 years later						2,086	1,845	1,687	1,536	1,484	1,372
6 years later							1,777	1,666	1,522	1,470	1,357
7 years later								1,616	1,513	1,464	1,346
8 years later									1,477	1,453	1,332
9 years later										1,429	1,317
10 years later											1,304
Settlements	**–**	**98**	**−10**	**64**	**354**	**342**	**193**	**79**	**14**	**−40**	**−140**

12. Insurance business operating expenses

	2020 € million	2019 € million
Gross expenses	–2,489	–2,389
Reinsurers' share	24	19
Total	**–2,465**	**–2,370**

13. Administrative expenses

	2020 € million	2019 € million
Staff expenses	–10,092	–10,100
General and administrative expenses	–6,843	–6,976
Depreciation/amortization and impairment losses	–1,101	–1,066
Total	**–18,036**	**–18,142**

14. Other net operating income

	2020 € million	2019 € million
Gains and losses on non-current assets classified as held for sale and disposal groups	49	211
Other operating income	998	983
Other operating expenses	–714	–800
Total	**333**	**394**

15. Income taxes

	2020 € million	2019 € million
Current tax expense	–2,606	–2,758
Income from/expense on deferred taxes	414	–375
Total	**–2,192**	**–3,133**

As in the prior year, current taxes in relation to the German limited companies are calculated using an effective corporation tax rate of 15.825 percent based on a corporation tax rate of 15 percent plus the solidarity surcharge. Also as in the previous year, the effective rate for trade tax is 15.26 percent based on an average trade tax multiplier of 436 percent.

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

	2020 € million	2019 € million
Profit before taxes	**7,226**	**10,179**
Notional rate of income tax of the Cooperative Financial Network (percent)	31.085	31.085
Income taxes based on notional rate of income tax	**–2,246**	**–3,164**
Tax effects	**54**	**31**
Tax effects of tax-exempt income and non-tax deductible expenses	29	171
Tax effects of different tax types, different trade tax multipliers, and changes in tax rates	17	12
Tax effects of different tax rates in other countries	–1	10
Current and deferred taxes relating to prior reporting periods	19	–12
Change in deferred tax assets due to valuation adjustments	–30	–37
Other tax effects	20	–113
Total	**–2,192**	**–3,133**

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

D Balance sheet disclosures

16. Cash and cash equivalents

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Cash on hand	9,395	8,674
Balances with central banks	111,566	78,747
Total	**120,961**	**87,421**

17. Loans and advances to banks and customers

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Loans and advances to banks	**19,730**	**22,439**
Repayable on demand	***10,544***	***10,696***
Other loans and advances	***9,186***	***11,743***
Mortgage loans and other loans secured by mortgages on real estate	74	45
Local authority loans	3,801	5,671
Other loans and advances	5,311	6,027
Loans and advances to customers	**890,576**	**844,552**
Mortgage loans and other loans secured by mortgages on real estate	348,663	338,172
Local authority loans	33,297	31,319
Home savings loans advanced by building society	55,698	50,372
Finance leases	1,096	1,548
Other loans and advances	451,822	423,141

18. Hedging instruments (positive and negative fair values)

The positive fair values of hedging instruments amount to €160 million (2019: €201 million), the negative fair values of hedging instruments amount to €7,557 million (2019: €6,095 million; amount restated). Both positive and negative fair values of hedging instruments exclusively result from derivative hedging instruments for fair value hedges.

19. Financial assets held for trading

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Derivatives (positive fair values)	**22,303**	**19,291**
Interest-linked contracts	19,488	17,063
Currency-linked contracts	1,758	1,270
Share- and index-linked contracts	719	554
Credit derivatives	337	374
Other contracts	1	30
Securities	**11,721**	**13,641**
Bonds and other fixed-income securities	10,261	12,421
Shares and other variable-yield securities	1,460	1,220
Loans and advances	**8,310**	**11,080**
Inventories and trade receivables	**308**	**322**
Other assets held for trading	**1**	**1**
Total	**42,643**	**44,335**

20. Investments

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Securities	**250,950**	**244,336**
Bonds and other fixed-income securities	179,256	177,788
Shares and other variable-yield securities	71,694	66,548
Investments in subsidiaries	**2,134**	**1,882**
Equity investments	**2,290**	**2,291**
Investments in joint ventures	309	293
Investments in associates	113	201
Other shareholdings	1,868	1,797
Total	**255,374**	**248,509**

21. Loss allowances

Loss allowances for cash and cash equivalents

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2019	**–**	**–**	**–**	**–**	**–**
Additions	3	–	–	–	3
Reversals	–2	–	–	–	–2
Balance as at Jan. 1, 2020	**1**	**–**	**–**	**–**	**1**
Additions	8	–	–	–	8
Reversals	–9	–	–	–	–9
Balance as at Dec. 31, 2020	**–**	**–**	**–**	**–**	**–**

Loss allowances for loans and advances to banks

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2019	**200**	**14**	**3**	**–**	**217**
Additions	80	2	4	–	86
Reversals	–23	–1	–3	–	–27
Balance as at Jan. 1, 2020	**257**	**15**	**4**	**–**	**276**
Additions	22	40	4	–	66
Reversals	–257	–3	–2	–	–262
Other changes	–	–1	–	–	–1
Balance as at Dec. 31, 2020	**22**	**51**	**6**	**–**	**79**

Loss allowances for loans and advances to customers

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2019	**953**	**2,152**	**5,469**	**3**	**8,577**
Additions	527	967	2,263	12	3,769
Utilizations	–	–1	–940	–1	–942
Reversals	–485	–571	–1,850	–12	–2,918
Other changes	128	–215	245	–	158
Balance as at Jan. 1, 2020	**1,123**	**2,332**	**5,187**	**2**	**8,644**
Additions	338	2,860	2,613	16	5,827
Utilizations	–	–1	–923	–1	–925
Reversals	–1,031	–797	–1,847	–16	–3,691
Other changes	143	–248	73	7	–25
Balance as at Dec. 31, 2020	**573**	**4,146**	**5,103**	**8**	**9,830**

Loss allowances for investments

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2019	**66**	**111**	**17**	**–**	**194**
Additions	26	96	1	–	123
Reversals	–7	–113	–	–	–120
Other changes	5	–5	–	–	–
Balance as at Jan. 1, 2020	**90**	**89**	**18**	**–**	**197**
Additions	5	392	4	–	401
Reversals	–20	–12	–5	–	–37
Other changes	11	–13	–	–	–2
Balance as at Dec. 31, 2020	**86**	**456**	**17**	**–**	**559**

Loss allowances for other assets

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2019	**–**	**–**	**–**	**–**	**–**
Additions	1	–	–	–	1
Balance as at Jan. 1, 2020	**1**	**–**	**–**	**–**	**1**
Additions	1	–	–	–	1
Balance as at Dec. 31, 2020	**2**	**–**	**–**	**–**	**2**

22. Investments held by insurance companies

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Investment property	3,835	3,558
Investments in subsidiaries, joint ventures and associates	849	803
Mortgage loans	10,882	9,749
Promissory notes and loans	6,873	7,003
Registered bonds	8,551	8,643
Other loans	863	716
Variable-yield securities	11,639	11,300
Fixed-income securities	61,160	55,551
Derivatives (positive fair values)	553	417
Loss allowances	–23	–3
Deposits with ceding insurers and other investments	578	449
Assets related to unit-linked contracts	14,820	14,368
Total	**120,580**	**112,554**

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

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Land and buildings	6,655	6,681
Office furniture and equipment	1,315	1,341
Assets subject to operating leases	–	17
Investment property	235	238
Other fixed assets	5,914	4,679
Right-of-use assets	445	277
Total	**14,564**	**13,233**

24. Income tax assets and liabilities

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Income tax assets	**4,249**	**3,972**
Current income tax assets	781	835
Deferred tax assets	3,468	3,137
Income tax liabilities	**1,781**	**1,511**
Current income tax liabilities	859	735
Deferred tax liabilities	922	776

	Deferred tax assets		Deferred tax liabilities	
€ million	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Tax loss carryforwards	14	43		
Loans and advances to banks and customers	86	51	966	1,115
Financial assets and liabilities held for trading, and hedging instruments (positive and negative fair values)	810	837	109	169
Investments	15	19	1,150	840
Loss allowances	1,468	1,095	2	5
Investments held by insurance companies	109	115	1,248	1,150
Deposits from banks and customers	917	1,021	158	174
Debt certificates issued including bonds	210	177	–	–
Provisions	2,647	2,489	99	89
Insurance liabilities	74	77	49	115
Other balance sheet items	314	271	337	177
Total (gross)	**6,664**	**6,195**	**4,118**	**3,834**
Netting of deferred tax assets and deferred tax liabilities	–3,196	–3,058	–3,196	–3,058
Total (net)	**3,468**	**3,137**	**922**	**776**

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

25. Other assets

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Other assets held by insurance companies	3,405	3,759
Goodwill	165	69
Other intangible assets	777	672
Prepaid expenses	229	209
Other receivables	4,647	4,194
Non-current assets and disposal groups classified as held for sale	199	517
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	7,037	5,740
Residual other assets	1,103	831
Total	**17,562**	**15,991**

Breakdown of other assets held by insurance companies

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Intangible assets	**157**	**157**
Reinsurers' share of insurance liabilities	**149**	**130**
Provision for unearned premiums	12	11
Benefit reserves	39	38
Provisions for claims outstanding	98	81
Loans and advances	**1,604**	**1,593**
Receivables arising out of direct insurance operations	428	422
Receivables arising out of reinsurance operations	294	282
Other receivables	882	889
Credit balances with banks, checks and cash on hand	**357**	**826**
Residual other assets	**1,140**	**1,055**
Property, plant and equipment	416	425
Prepaid expenses	82	67
Remaining assets held by insurance companies	642	563
Loss allowances	**–2**	**–2**
Total	**3,405**	**3,759**

Property, plant and equipment includes right-of-use assets in the amount of €55 million (2019: €56 million).

26. Deposits from banks and customers

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Deposits from banks	**160,924**	**119,955**
Repayable on demand	8,430	10,123
With agreed maturity or notice period	152,494	109,832
Deposits from customers	**937,876**	**880,398**
Savings deposits and home savings deposits	***248,714***	***250,503***
Savings deposits with agreed notice period of three months	178,789	179,856
Savings deposits with agreed notice period of more than three months	5,252	7,421
Home savings deposits	64,673	63,226
Other deposits from customers	**689,162**	**629,895**
Repayable on demand	594,755	527,650
With agreed maturity or notice period	94,407	102,245

27. Debt certificates issued including bonds

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Bonds issued	**48,487**	**43,249**
Mortgage Pfandbriefe	44,459	38,542
Public-sector Pfandbriefe	1,860	2,358
Other bonds	2,168	2,349
Other debt certificates issued	**9,878**	**36,361**
Total	**58,365**	**79,610**

28. Financial liabilities held for trading

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Derivatives (negative fair values)	**20,139**	**18,189**
Interest-linked contracts	16,502	15,056[1]
Currency-linked contracts	1,805	1,772
Share- and index-linked contracts	1,550	1,181
Credit derivatives	94	75
Other contracts	188	105
Short positions	**603**	**1,128**
Bonds issued including share- and index and other debt certificates	**22,224**	**22,261**
Liabilities	**3,790**	**6,866**
Liabilities from commodities transactions and commodity lending	**40**	**46**
Total	**46,796**	**48,490**

1 Amount adjusted.

29. Provisions

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Provisions for defined benefit plans	8,118	7,934
Provisions for loan commitments	317	240
Provisions for financial guarantee contracts	152	151
Other provisions for loans and advances	43	33
Provisions relating to building society operations	1,444	1,406
Residual provisions	3,500	3,540
Total	**13,574**	**13,304**

Funding status of defined benefit obligations

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Present value of defined benefit obligations not funded by plan assets	7,465	7,374
Present value of defined benefit obligations funded by plan assets	3,188	3,025
Present value of defined benefit obligations	**10,653**	**10,399**
less fair value of plan assets	–2,535	–2,466
Defined benefit obligations (net)	**8,118**	**7,933**
Recognized surplus	–	1
Provisions for defined benefit plans	**8,118**	**7,934**

Changes in the present value of the defined benefit obligations

	2020 € million	2019 € million
Present value of defined benefit obligations as at Jan. 1	**10,399**	**9,563**
Current service cost	102	110
Interest expense	104	168
Pension benefits paid including plan settlements	–369	–357
Past service cost	2	–
Actuarial gains (–)/losses (+)	405	906
Other changes	10	9
Present value of defined benefit obligations as at Dec. 31	**10,653**	**10,399**

Changes in plan assets

	2020 € million	2019 € million
Fair value of plan assets as at Jan. 1	**2,466**	**2,158**
Interest income	25	38
Contributions to plan assets	23	139
Pension benefits paid	−73	−70
Return on plan assets (excluding interest income)	95	196
Other changes	−1	5
Fair value of plan assets as at Dec. 31	**2,535**	**2,466**

Actuarial assumptions used for defined benefit obligations

	Dec. 31, 2020 in percent	Dec. 31, 2019 in percent
Weighted discount rate	0.75	1.00
Weighted salary increase	1.87	1.99
Weighted pension increase	1.75	1.88

30. Insurance liabilities

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Provision for unearned premiums	1,194	1,188
Benefit reserve	70,470	65,502
Provision for claims outstanding	14,627	13,415
Provision for premium refunds	12,569	12,149
Other insurance liabilities	50	59
Reserve for unit-linked insurance contracts	12,303	12,033
Total	**111,213**	**104,346**

Change in provision for unearned premiums

	2020 € million	2019 € million
Balance as at Jan. 1	**1,188**	**1,171**
Additions	1,253	1,252
Utilizations/reversals	–1,239	–1,241
Changes attributable to currency translation	–8	6
Balance as at Dec. 31	**1,194**	**1,188**

Change in benefit reserve

	2020 € million	2019 € million
Balance as at Jan. 1	**65,502**	**61,709**
Additions	8,093	7,095
Interest component	982	1,015
Utilizations/reversals	–4,106	–4,318
Changes attributable to currency translation	–1	1
Balance as at Dec. 31	**70,470**	**65,502**

Supplementary change-in-discount-rate reserves totaling €4,698 million have been recognized for policies with a discount rate in excess of the reference rate specified in the German Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) (December 31, 2019: €3,957 million).

Change in the provision for claims outstanding

	2020 € million	2019 € million
Balance as at Jan. 1	**13,415**	**12,079**
Claims expenses	7,821	7,504
less payments	–6,427	–6,276
Changes attributable to currency translation	–182	108
Balance as at Dec. 31	**14,627**	**13,415**

Change in the provision for premium refunds

	2020 € million	2019 € million
Balance as at Jan. 1	**12,149**	**8,283**
Additions	516	689
Utilizations/reversals	–759	–794
Changes resulting from unrealized gains and losses on investments (through other comprehensive income)	857	2,850
Changes resulting from other remeasurements (through profit or loss)	–171	1,116
Changes attributable to currency translation	–23	5
Balance as at Dec. 31	**12,569**	**12,149**

Breakdown of maturities for insurance liabilities

Balance as at Dec. 31, 2020

€ million	≤ 1 year	> 1 year – 5 years	> 5 years	Indefinite
Provision for unearned premiums	967	182	45	–
Benefit reserve	2,040	5,205	13,917	49,308
Provision for claims outstanding	5,262	5,437	3,928	–
Provision for premium refunds	857	664	649	10,399
Other insurance liabilities	29	6	11	4
Total	**9,155**	**11,494**	**18,550**	**59,711**

Balance as at Dec. 31, 2019

€ million	≤ 1 year	> 1 year – 5 years	> 5 years	Indefinite
Provision for unearned premiums	983	168	37	–
Benefit reserve	1,749	5,998	13,181	44,574
Provision for claims outstanding	4,868	4,918	3,629	–
Provision for premium refunds	843	685	734	9,887
Other insurance liabilities	37	10	8	4
Total	**8,480**	**11,779**	**17,589**	**54,465**

31. Other liabilities

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Other liabilities of insurance companies	7,388	6,780
Other liabilities and accruals	2,435	2,589
Liabilities included in disposal groups	2	1
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	455	311
Lease liabilities	452	277
Residual other liabilities	880	717
Total	**11,612**	**10,675**

Breakdown of other liabilities held by insurance companies

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Residual provisions	**436**	**428**
Provisions for employee benefits	403	389
Provisions for share-based payment transactions	3	3
Other provisions	30	36
Payables and residual other liabilities	**6,952**	**6,352**
Subordinated capital	75	89
Deposits received from reinsurers	41	41
Payables arising out of direct insurance operations	1,525	1,464
Payables arising out of reinsurance operations	566	442
Debt certificates issued including bonds	31	31
Deposits from banks	532	581
Derivatives (negative fair values)	23	20
Liabilities from capitalization transactions	3,053	2,751
Lease liabilities from insurance business	58	63
Other liabilities	293	284
Residual other liabilities	755	586
Total	**7,388**	**6,780**

32. Subordinated capital

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Subordinated liabilities	4,360	3,544
Profit-sharing rights	68	134
Share capital repayable on demand	13	13
Total	**4,441**	**3,691**

33. Equity

Breakdown of subscribed capital

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Cooperative shares	13,385	12,695
Share capital	175	167
Capital of silent partners	54	57
Total	**13,614**	**12,919**

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

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

Breakdown of the reserve from other comprehensive income

	No reclassification to the income statement			Reclassification to the income statement	
	Reserve from equity instruments for which the fair value OCI option has been exercised	Reserve from gains and losses in relation to financial liabilities for which the fair value option has been exercised, attributable to changes in own credit risk	Reserve from debt instruments measured at fair value through other comprehensive income	Cash flow hedge reserve	Currency translation reserve
Equity as at Jan. 1, 2019	**438**	**22**	**317**	**1**	**85**
Other comprehensive income/loss	406	–62	1,061	–	8
Total comprehensive income	**406**	**–62**	**1,061**	**–**	**8**
Changes in the scope of consolidation	–	–	–	–	–7
Acquisition/disposal of non-controlling interests	–285	–	–	–	–
Reclassifications within equity	–	–	–	–	–
Equity as at Dec. 31, 2019	**559**	**–40**	**1,378**	**1**	**86**
Other comprehensive income/loss	–78	–40	705	–	–26
Total comprehensive income/loss	**–78**	**–40**	**705**	**–**	**–26**
Changes in the scope of consolidation	–	–	–	–	–
Acquisition/disposal of non-controlling interests	–1	–	–	–	–
Reclassifications within equity	–52	8	–	–	–
Equity as at Dec. 31, 2020	**428**	**–72**	**2,083**	**1**	**60**

E Financial instruments disclosures

34. Fair value of financial instruments

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

	Dec. 31, 2020 € million		Dec. 31, 2019 € million	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents[1, 2]	111,566	111,566	78,746	78,747
Loans and advances to banks[1]	19,651	23,384	22,163	24,780
Loans and advances to customers[1]	880,746	884,650	835,907	839,246
Hedging instruments (positive fair values)	160	160	201	201
Financial assets held for trading[2]	42,335	42,335	44,013	44,013
Investments[1, 3]	254,393	255,337	247,819	248,721
Investments held by insurance companies[1, 2, 3]	116,166	116,914	108,547	109,125
Other assets[1,2]	12,918	10,938	11,647	10,372
Equity and liabilities				
Deposits from banks	160,924	165,151	119,955	122,922
Deposits from customers	937,876	940,266	880,398	882,341
Debt certificates issued including bonds	58,365	59,571	79,610	80,271
Hedging instruments (negative fair values)	7,557	7,557	6,095[4]	6,095[4]
Financial liabilities held for trading[2]	46,756	46,756	48,444[4]	48,444[4]
Other liabilities[2]	3,709	3,395	3,502	3,357
Subordinated capital	4,441	4,591	3,691	3,812

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

35. Maturity analysis

Balance as at Dec. 31, 2020

€ million	≤ 3 months	> 3 months – 1 year	> 1 year	Indefinite
Loans and advances to banks	9,040	1,518	10,581	203
Loans and advances to customers	40,350	67,719	780,529	17,957
Deposits from banks	42,433	11,775	108,329	783
Deposits from customers	805,011	16,407	56,101	64,668
Debt certificates issued including bonds	4,510	6,001	52,870	–

Balance as at Dec. 31, 2019

€ million	≤ 3 months	> 3 months – 1 year	> 1 year	Indefinite
Loans and advances to banks	9,476	2,427	14,355	290
Loans and advances to customers	41,781	64,242	736,589	20,878
Deposits from banks	33,059	12,751	76,466	774
Deposits from customers	742,368	18,975	61,172	63,680
Debt certificates issued including bonds	21,313	11,052	50,734	–

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

F Other disclosures

36. Capital requirements and regulatory indicators

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Total capital	**114,631**	**106,967**
Tier 1 capital	101,957	93,565
of which: Common Equity Tier 1	101,870	93,172
Additional Tier 1 capital	87	393
Tier 2 capital	12,674	13,402
Total risk exposure	**709,278**	**685,401**

Common Equity Tier 1 capital ratio (percent)	14.4	13.6
Tier 1 capital ratio (percent)	14.4	13.7
Total capital ratio (percent)	16.2	15.6
Common Equity Tier 1 capital ratio incl. reserves pursuant to Section 340f HGB (percent)[1]	16.1	15.5
Tier 1 capital ratio incl. reserves pursuant to Section 340f HGB (percent)[1]	16.1	15.5

Leverage ratio (percent)[2]	7.5	7.0
Leverage ratio incl. reserves pursuant to Section 340f HGB (percent)[1, 3]	8.4	7.8

1 The balance of reserves pursuant to Section 340f HGB is based on the financial statements data of the institutions included as at the balance sheet date before additions and reversals within the scope of the 2020 and 2019 financial statements.
2 Disclosure of the leverage ratio of the bank-specific protection system using the transitional definition for Tier 1 capital pursuant to article 429 (2) CRR in conjunction with article 499 (1) CRR.
3 Disclosure of ratio after full introduction of the new CRR provisions, subject to the assumption of full reclassification and inclusion of reserves pursuant to Section 340f HGB as Tier 1 capital from a business point of view.

The disclosures refer to the bank-specific protection system (Cooperative Financial Network) and the relevant reporting date. The disclosures in relation to own funds and capital requirements are based on the results of the extended aggregated calculation (EAC) in accordance with article 49 (3) CRR in conjunction with article 113 (7) CRR.

37. Financial guarantee contracts and loan commitments

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Financial guarantee contracts	21,037	20,568
Loan commitments	109,018	97,117
Total	**130,055**	**117,685**

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

38. Trust activities

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Trust assets	**2,094**	**761**
of which: trust loans	1,522	52
Trust liabilities	**2,094**	**761**
of which: trust loans	1,522	52

39. Asset management by the Union Investment Group

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Fund assets	**347,270**	**327,830**
Other types of asset management	**53,842**	**54,606**
Unit-linked asset management	3,191	2,206
Institutional asset management	9,069	10,350
Advisory and outsourcing	41,582	42,050
Accounts managed by third parties	**–15,177**	**–14,228**
Total	**385,935**	**368,208**

As at the balance sheet date, the Union Investment Group (through Union Asset Management Holding AG) had total assets under management of €385,935 million (December 31, 2019: €368,208 million). The fund assets comprise equity funds, fixed-income funds, money market funds, mixed funds, other securities funds, capital preservation funds, real estate funds, alternative investment funds and hybrid funds issued by Union Investment Group.

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

Finance leases with the Cooperative Financial Network as lessor

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Gross investment	**1,154**	**1,641**
Up to 1 year	431	576
More than 1 year and up to 2 years	308	420
More than 2 year and up to 3 years	195	295
More than 3 year and up to 4 years	110	177
More than 4 year and up to 5 years	53	91
More than 5 years	57	82
less unearned finance income	**–58**	**–94**
Net investment	**1,096**	**1,547**
less present value of unguaranteed residual values	**–30**	**–9**
Present value of minimum lease payment receivables	**1,066**	**1,538**

The VR Smart Finanz subgroup is active as finance lessor in the Cooperative Financial Network. The entities of the VR Smart Finanz subgroup enter into leases for machinery used in production as well as photovoltaics. Apart from office equipment, leases also refer to medical technology, motor vehicles and software.

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

	Not allocated		Allocated		Total	
Home savings sum (€ million)	Number of contracts	Home savings sum	Number of contracts	Home savings sum	Number of contracts	Home savings sum
Balance as at Dec. 31, 2019	**7,689,391**	**298,606**	**549,269**	**14,773**	**8,238,660**	**313,379**
Additions in 2020 as a result of						
New contracts (redeemed contracts)[1]	442,328	23,351	–	–	442,328	23,351
Transfers	19,198	618	465	14	19,663	632
Allocation waivers and cancellations	7,146	286	–	–	7,146	286
Splitting	127,268	–	37	–	127,305	–
Allocations and acceptance of allocations	–	–	476,568	12,042	476,568	12,042
Other	57,039	2,044	8	–	57,047	2,044
Total	**652,979**	**26,299**	**477,078**	**12,056**	**1,130,057**	**38,355**
Disposals in 2020 as a result of						
Allocations and acceptance of allocations	–476,568	–12,042	–	–	–476,568	–12,042
Reductions	–	–960	–	–	–	–960
Termination	–270,904	–8,162	–387,203	–9,304	–658,107	–17,466
Transfers	–19,198	–618	–465	–14	–19,663	–632
Pooling[1]	–49,663	–	–	–	–49,663	–
Expiration	–	–	–105,464	–2,750	–105,464	–2,750
Allocation waivers and cancellations	–	–	–7,146	–286	–7,146	–286
Other	–57,039	–2,044	–8	–	–57,047	–2,044
Total	**–873,372**	**–23,826**	**–500,286**	**–12,354**	**–1,373,658**	**–36,180**
Net addition/disposal	–220,393	2,473	–23,208	–298	–243,601	2,175
Balance as at Dec. 31, 2020	**7,468,998**	**301,079**	**526,061**	**14,475**	**7,995,059**	**315,554**

1 Including increases.

Volume of unredeemed contracts

Home savings sum (€ million)	Number of contracts	Home savings sum
Contracts signed prior to Jan. 1, 2020	39,028	2,771
Contracts signed in 2020	151,435	10,581

42. Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2020 € million
Additions	
Amounts carried forward from 2019 (surplus)	
Amounts not yet disbursed	61,593
Additions in 2020	
Savings deposits (including credited residential construction bonuses)	9,578
Repayable amounts (including credited residential construction bonuses)[1]	1,211
Interest on home savings deposits	827
Total	**73,209**
Withdrawals	
Withdrawals in 2020	
Amounts allocated (if disbursed)	
Home savings deposits	7,381
Home savings loans	1,244
Repayment of deposits on non-allocated home savings contracts	1,657
Building society guarantee fund	52
Surplus of additions	
(Amounts not yet disbursed) at the end of 2020[2]	62,875
Total	**73,209**

1 Repayable amounts are the portion of the loan principal actually repaid.
2 The surplus amounts allocated include:
a) undisbursed home savings deposits from allocated home savings contracts: €115 million.
b) undisbursed home savings loans from funds allocated: €2,892 million.

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

	Mortgage Pfandbriefe		Public-sector Pfandbriefe	
	Dec. 31, 2020 € million	Dec. 31, 2019 € million	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Ordinary cover	**75,148**	**68,967**	**17,220**	**18,587**
Loans and advances to banks	23	23	216	354
of which: Mortgage loans	23	23	–	–
of which: Local authority loans	–	–	216	354
Loans and advances to customers	74,978	68,797	14,445	15,442
of which: Mortgage loans	74,978	68,797	37	42
of which: Local authority loans	–	–	14,408	15,400
Investments consisting of bonds and other fixed-income securities	–	–	2,559	2,791
Property, plant and equipment	147	147	–	–
Extended cover	**2,062**	**1,658**	**62**	**135**
Loans and advances to banks	510	20	62	65
Investments consisting of bonds and other fixed-income securities	1,552	1,638	–	70
Total cover	**77,210**	**70,625**	**17,282**	**18,722**
Pfandbriefe requiring cover	**–69,075**	**–63,645**	**–14,866**	**–15,862**
Nominal excess cover	**8,135**	**6,980**	**2,416**	**2,860**
Present value of excess cover	**14,033**	**11,733**	**3,702**	**3,819**
Risk-related present value of excess cover	**12,635**	**11,258**	**3,140**	**3,208**

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

Maturity structure of mortgage Pfandbriefe and public-sector Pfandbriefe in issue

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Mortgage Pfandbriefe	**69,075**	**63,645**
≤ 6 months	3,166	2,229
> 6 months and ≤ 12 months	3,379	2,159
> 12 months and ≤ 18 months	3,300	2,931
> 18 months and ≤ 2 years	2,574	2,662
> 2 years and ≤ 3 years	5,517	5,917
> 3 years and ≤ 4 years	4,750	5,615
> 4 years and ≤ 5 years	5,812	3,975
> 5 years and ≤ 10 years	25,194	22,525
> 10 years	15,383	15,632
Public-sector Pfandbriefe	**14,866**	**15,862**
≤ 6 months	1,513	951
> 6 months and ≤ 12 months	693	1,054
> 12 months and ≤ 18 months	677	755
> 18 months and ≤ 2 years	302	442
> 2 years and ≤ 3 years	961	728
> 3 years and ≤ 4 years	1,052	995
> 4 years and ≤ 5 years	1,302	1,048
> 5 years and ≤ 10 years	3,375	4,008
> 10 years	4,991	5,881

Fixed-interest periods of cover assets

	Dec. 31, 2020 € million	Dec. 31, 2019 € million
Mortgage Pfandbriefe	**77,210**	**70,625**
≤ 6 months	2,953	2,701
> 6 months and ≤ 12 months	3,395	2,802
> 12 months and ≤ 18 months	2,753	2,542
> 18 months and ≤ 2 years	3,672	3,068
> 2 years and ≤ 3 years	6,682	6,138
> 3 years and ≤ 4 years	7,308	6,388
> 4 years and ≤ 5 years	6,926	6,292
> 5 years and ≤ 10 years	26,002	24,548
> 10 years	17,519	16,146
Public-sector Pfandbriefe	**17,282**	**18,722**
≤ 6 months	722	1,017
> 6 months and ≤ 12 months	662	619
> 12 months and ≤ 18 months	551	657
> 18 months and ≤ 2 years	652	669
> 2 years and ≤ 3 years	1,170	1,166
> 3 years and ≤ 4 years	1,379	1,135
> 4 years and ≤ 5 years	1,070	1,359
> 5 years and ≤ 10 years	4,422	4,644
> 10 years	6,654	7,456

28 properties were in forced administration as at the reporting date (December 31, 2019: 45). The mortgage loans held as cover include past-due payments for interests to be paid in the amount of €1 million (December 31, 2019: €1 million).

Marija Kolak (President)

Gerhard Hofmann

Dr. Andreas Martin

Berlin, July 2, 2021

National Association of German Cooperative Banks
BVR

Board of Managing Directors

Marija Kolak Gerhard Hofmann Dr. Andreas Martin

Annex: Significant Financial Reporting Principles

Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network for the period from January 1 to December 31, 2020, prepared by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR), has to be prepared for a specific purpose pursuant to the financial reporting principles set out below. They have been prepared for informational purposes and to present the business development and performance of the Volksbanken Raiffeisenbanken Cooperative Financial Network, which is treated as a single economic entity in terms of its risks and strategies. In addition, the financial statements have been prepared in compliance with the provisions set out in article 113(7)(e) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (Capital Requirements Regulation – CRR).

The consolidated financial statements have to include the following components:

- Income statement for the period from January 1 to December 31, 2020 (pursuant to IAS 1.81A, IAS 1.81B and IAS 1.82 (b) to IAS 1.105)
- Statement of comprehensive income for the period from January 1 to December 31, 2020 (pursuant to IAS 1.81A, IAS 1.81B and IAS 1.82 (b) to IAS 1.105)
- Balance sheet as at December 31, 2020 (pursuant to IAS 1.54 to IAS 1.80A)
- Statement of changes in equity for the period from January 1 to December 31, 2020 (pursuant to IAS 1.106 to IAS 1.110)
- Statement of cash flows for the period from January 1 to December 31, 2020 (pursuant to IAS 7.1 to IAS 7.47)
- Explanatory information on the consolidated financial statements
- Management report including risk report for the period from January 1 to December 31, 2020

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

Scope of consolidation

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

Procedures of consolidation

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

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

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

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

Financial instruments

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

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

<u>Financial assets mandatorily measured at fair value through profit or loss</u>
The subcategory "financial assets mandatorily measured at fair value through profit or loss" has to comprise financial assets that either do not meet the cash flow criteria pursuant to IFRS 9.B.4.1.2C or that are acquired for the purpose of selling them in the near term.

To this end, these financial assets must be part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or must be derivatives, except for derivatives that are designated hedging instruments in effective hedging relationships.

The primary financial instruments held by cooperative banks in the trading portfolio under commercial law have to be allocated to this category.

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

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

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

Financial assets measured at fair value through other comprehensive income (fair value OCI)
This category is broken down into the following subcategories.

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

Because of the SSPI criterion, only financial assets in the form of debt instruments may be allocated to this category. These financial assets have to be measured at fair value. Interest income, loss allowances, and currency translation effects must be recognized in profit or loss. However, any differences between the amortized cost and the fair value have to be recognized in other comprehensive income. The amounts recognized in other comprehensive income must be reclassified to the income statement upon derecognition (so-called "recycling").

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

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

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

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

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

Financial liabilities mandatorily measured at fair value through profit or loss
The subcategory "financial liabilities mandatorily measured at fair value through profit or loss" has to include financial liabilities that are acquired for the purpose of selling them in the near term. To this end, these financial liabilities must be part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or must be derivatives, except for derivatives that are designated hedging instruments in effective hedging relationships.

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

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

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

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

Financial liabilities measured at fair value through profit or loss, financial liabilities that arise when a transfer of a financial asset does not satisfy the condition for derecognition or accounting treatment is based on a continuing involvement, financial guarantee contracts, loan commitments with an interest rate below the market interest rate, and contingent consideration recognized by the acquirer in a business combination pursuant to IFRS 3.39 et seqq.

In accordance with IAS 32.15–32, shares in partnerships have to be classified normally as debt instruments. Given their subordinated status compared with the liabilities of the partnerships concerned, non-controlling interests in this case have to be reported as subordinated capital. Profit attributable to non-controlling interests has to be recognized under other liabilities, provided that the resulting liability is not of a subordinated nature. Non-controlling interests in partnerships have to be classified as "share capital repayable on demand" and have to be assigned to the "financial liabilities measured at amortized cost" category.

This category also has to include liabilities under compensation payment obligations owed to non-controlling interests in consolidated subsidiaries. These liabilities arise if DZ BANK or some other entity controlled by DZ BANK has concluded a profit transfer agreement with a subsidiary in accordance with section 291 (1) of the German Stock Corporation Act (AktG) under which there are non-controlling interests. Liabilities under compensation payment obligations have to be recognized at the obligation amount discounted to the balance sheet date.

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

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

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

Liabilities from financial guarantee contracts within the DZ BANK Group have to be recognized by the guarantor at fair value at the time the commitment is made. The fair value normally has to correspond to the present value of the consideration received for issuing the financial guarantee contract. The obligation has to be subsequently measured at the higher of a provision recorded and the original amount less any amortization recognized subsequently. Financial guarantee contracts and loan commitments may not be recognized as liabilities at the primary banks.

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

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

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

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

- Financial assets of the category "financial assets measured at amortized cost"
- Financial assets (only debt instruments) of the category "financial assets measured at fair value through other comprehensive income"
- Undrawn loan commitments where there is a current legal obligation to extend credit (irrevocable loan commitments), to the extent that these are not measured at fair value through profit or loss
- Financial guarantee contracts, to the extent that these are not measured at fair value through profit or loss

– Lease receivables that fall within the scope of IFRS 16
– Trade receivables and contract assets that fall within the scope of IFRS 15

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

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

– Stage 2: As at each reporting date, assets have to be allocated to Stage 2 if their credit risk has increased significantly since initial recognition, but where there is no objective evidence of impairment. The identification of a significant increase in credit risk and thus the definition of the stages for the cooperative banks have to be made on the basis of the current rating grade allocation. For these assets, the loss allowances have to be measured at the amount of the lifetime expected credit losses. Cooperative banks have to assess the relevant assets by similar risk classes; discounting is not applicable. The stages have to be defined on the basis of the rating grade allocation.

  It has to be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument concerned is determined to have low credit risk at the reporting date (low credit risk exemption). The application of the low credit risk exemption for loans and, hence, also for promissory note loans is excluded in the consolidated financial statements. Provided that historical probabilities of default for financial instruments are not available without undue effort and, to that extent, there is no original estimate of the probability of default over the remaining term, financial instruments have to be assigned to Stage 2 if the current credit assessment no longer meets the criteria for a rating equivalent to investment grade.

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

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

Purchased or originated credit-impaired (POCI) financial assets have to be recognized, upon initial recognition, at their carrying amount reduced by lifetime expected credit losses and have to be amortized, accordingly, using a risk-adjusted effective interest rate. At the reporting date, only the cumulative changes in lifetime expected credit losses since initial recognition have to be recorded as a loss allowance. There is no transfer between individual stages for these assets. Due to the cooperative banks' business model, the POCI rules must not be applied in this context. The modification rules set out in IFRS 9.5.4.3 have to be applied, except for non-substantial modifications at the cooperative banks.

Embedded derivatives
An embedded derivative is a component of a hybrid contract that also includes a non-derivative financial instrument (host contract), with the effect that some of the cash flows of the

combined financial instrument vary in a way similar to those of a stand-alone derivative. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.

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

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

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

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

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

Hedge accounting

Fair value hedges

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

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

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

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

Cooperative banks may only designate hedging relationships on a portfolio basis.

Currency translation

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

If the functional currency of companies included in the consolidated financial statements is different from the reporting currency (euros), all assets and liabilities have to be translated at the exchange rate at the reporting date. Equity has to be translated at the historical rate. Income and expenses have to be translated at the relevant spot rate on the date of the transaction or, for simplification, at average rates. To the extent that there are not material effects compared with the application of average rates, the rate on the reporting date can be used. Any differences arising from currency translation have to be reported in the currency translation reserve.

Offsetting of financial assets and financial liabilities

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

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

Sale and repurchase agreements and securities lending transactions

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

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

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

Collateral

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

Insurance business

General information on the accounting treatment of insurance business
Insurance contracts have to be recognized in accordance with the requirements of IFRS 4.13–35. Capitalization transactions have to be classified as financial instruments and are recognized in accordance with the mentioned principles. Service contracts are subject to the revenue recognition requirements specified in IFRS 15.31–45.

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

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

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

Investment property
The investment property included in the investments held by insurance companies has to be measured at amortized cost in accordance with the cost model. In the following financial years, investment property has to be depreciated on a straight-line basis over the useful life on the basis of the cost.

Any expenditure that increases value and extends the useful life of real estate or results in a significant improvement in the fabric of a building has to be capitalized. Maintenance and repair costs have to be expensed as incurred.

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

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

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

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

The provision for unearned premiums from direct non-life insurance operations has to be calculated from the gross premiums using the 360-day system. Calculation of non-transferable income components has to be based on the letter from the Bundesministerium der Finanzen (BMF) [German Federal Ministry of Finance], dated April 30, 1974.

Unearned premiums from life insurance have to be calculated taking into account the starting date and maturity date of each individual policy after deduction of non-transferable premium components. The letter of the Federal Ministry of Finance dated April 30, 1974 has to be complied with.

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

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

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

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

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

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

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

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

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

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

external expenses as well as the cost of settling claims.

The provision for claims outstanding in direct non-life insurance business has to be determined on a case-by-case basis for all known claims. Recourse claims, excess proceeds, and claims under loss sharing agreements have to be netted. Based on claims reports in previous years, an additional claims provision has to be recognized for claims that occur or are caused before the balance sheet date but have not yet been reported by this date. Statistical estimates have to be used in this measurement. The provision for claims outstanding may not be discounted, except in the case of the pension benefits reserve. The provisions for claims settlement expenses, which are also included in this item, have to be calculated in accordance with the requirements set out in the coordinated regulations issued by the German federal states on February 2, 1973 and in accordance with the flat-rate calculation method (including claims incurred but not reported, IBNR) developed by the Gesamtverband der Deutschen Versicherungswirtschaft e. V., Berlin, (GDV) [German Insurance Association].

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

The provision for settlement expenses was determined in accordance with the letter from the BMF dated February 2, 1973.

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

Provision for premium refunds

The provision for premium refunds has to include obligations not yet due for settlement on the balance sheet date relating to premium refunds to insured parties. It has to include amounts allocated to policyholders under statutory or contractual arrangements for bonuses and rebates. In addition, the provision for premium refunds has to include provisions resulting from time-restricted cumulative recognition and measurement differences between items in the financial statements prepared in accordance with these significant financial reporting principles and those prepared in accordance with HGB. In the case of measurement differences recognized in other comprehensive income, such as unrealized gains and losses on financial assets measured at fair value through other comprehensive income, corresponding expenses for deferred premium refunds have to be recognized in other comprehensive income; otherwise, changes in the provision are recognized in profit or loss.

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

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

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

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

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

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

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

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

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

Leases

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

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

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

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

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

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

Income

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

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

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

In contrast to interest income, current income does not have to be recorded on an accrual basis but has to be recognized in its full amount at the date of realization. Current income represents actually received income resulting neither from interest-bearing financial instruments nor from non-interest-bearing financial instruments. Dividends have to be recognized as soon as a legal entitlement to the payment of such a dividend is established.

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

Fee and commission income from the securities business, from payments processing including card processing as well as fee and commission income from the lending business and trust activities have to be recognized immediately after the provision of the service.

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

The distinction of fee and commission income between IFRS 9 and IFRS 15 is based on whether fees and commissions are a material part of the effective interest rate. Fees and commissions that represent an integral component of the effective interest rate do not fall within the scope of IFRS 15 and therefore have to be accounted for in accordance with IFRS 9.B5.4.1–B5.4.2.

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

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

Cash and cash equivalents

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

Cash on hand has to comprise euros and other currencies measured at face value or translated at the buying rate. Balances with central banks also comprise deposit facilities payable on demand.

Balances with central banks have to be assigned to the "Financial assets measured at amortized cost" category. Interest income on cash and cash equivalents has to be recognized as interest income from lending and money market business.

Loans and advances to banks and customers

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

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

Interest income on loans and advances to banks and customers has to be recognized as interest income from lending and money market business. This also includes gains and losses on the sale of loans and advances to banks and customers classified as "financial assets measured at amortized cost" and the amortization of hedge adjustments to the carrying amounts arising on the accounting for fair value hedges. Gains and losses on the valuation of loans and advances designated as at fair value through profit or loss have to be shown under the same item as part of other gains and losses on valuation of financial instruments.

Hedging instruments (positive and negative fair values)

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

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

Financial assets and liabilities held for trading

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

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

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

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

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

Investments

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

Investments have to be recognized initially at fair value. Joint ventures and associates accounted for using the equity method in accordance with IAS 28.10–19 have to be recorded at cost upon initial recognition. These investments have to be subsequently measured in accordance with the principles applicable to the relevant measurement category. In the case of investments in joint ventures and associates, the equity method has to be used generally for subsequent measurement.

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

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

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

Loss allowances

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

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

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

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

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

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

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

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

Income tax assets and liabilities

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

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

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

Other assets

Other assets comprise intangible assets and assets held for sale.

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

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

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

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

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

Deposits from banks and customers

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

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

Interest expense on deposits from banks and customers have to be recognized separately under net interest income. Interest expense also includes gains and losses on early repayment and on the amortization of hedge adjustments to carrying amounts due to fair value hedges. Hedge adjustments to the carrying amount due to fair value hedges have to be reported within other gains and losses on valuation of financial instruments under gains and losses from hedge accounting. If the fair value option has been exercised for liabilities, the gains and losses on valuation have to be recognized under gains or losses from non-derivative and embedded derivative financial instruments as part of other gains and losses on valuation of financial instruments.

Debt certificates issued including bonds

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

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

Provisions

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

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

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

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

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

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

Other provisions for loans and advances
Other provisions for loans and advances have to factor in the usual sector-specific level of uncertainty. Other provisions represent all provisions that arise within the context of loans and advances, and do not include provisions for loan commitments under the scope of IAS 37. The underlying assumptions and estimates used have to include figures based on past experience as well as expectations and forecasts relating to future trends and developments.

Provisions relating to building society operations
Provisions relating to building society operations have to be recognized to cover the payment of any bonuses that may have been agreed in the terms and conditions of home savings contracts. These bonuses may take the form of a reimbursement of some of the sales charges or interest

bonuses on deposits. In order to measure provisions relating to building society operations, building society simulations (collective simulations) that forecast home savings customers' future behavior are used that are available for evaluation of the options. These options available to home savings customers include, for example, drawing down the home savings loan, waiving the loan after allocation, or continuing with the home savings contract.

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

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

Subordinated capital

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

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

Equity

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

Trust activities

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

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

Explanatory information on the consolidated financial statements

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

- The disclosures required in accordance with IFRS 12 “Disclosure of Interests in Other Entities” have to be made
- Disclosure of a segment report in accordance with IFRS 8.5–19 “Operating Segments”
- Further explanations and breakdowns of the material components of income statement and balance sheet items
- Presentation of the changes in the development of loss allowances (balance sheet and income statement; reconciliation of opening balance to closing balance)
- Reconciliation in accordance with IAS 12.81(c) to present the relationship between notional income taxes and recognized income taxes, based on application of the current tax law in Germany
- Changes in the present value of defined benefit obligations as well as changes in plan assets in accordance with IAS 19.140
- Disclosures on financial instruments in accordance with IFRS 7.25 and IFRS 7.39(a)
- Disclosures on capital requirements and regulatory indicators:
  - The disclosures have to refer to the institutional protection system (cooperative joint liability scheme). The disclosures in relation to own funds and capital requirements are based on the results of the extended aggregated calculation (EAC) in accordance with article 49 (3) CRR in conjunction with article 113 (7) CRR.
  - As at December 31, 2020, the presentation of the leverage ratio of the bank-specific protection system of the Cooperative Financial Network has to comply with the requirements set out in article 429 CRR. Tier 1 capital has to be used as the capital measure pursuant to the extended aggregated calculation in accordance with article 49 (3) CRR, adjusted by any Tier 1 capital items of the members of the bank-specific protection system held internally within the Cooperative Financial Network.
    The exposure values have to be determined by aggregating the individual figures reported for the leverage ratio of all member institutions and adjusted by material items held internally within the Cooperative Financial Network.
  - The cooperative banks and Münchener Hypothekenbank have to be included on an individual basis using the respective reports. DZ BANK has to be taken into account based on its own reporting on a consolidated basis. The report submitted by the DZ BANK Group has to be based on the regulatory scope of consolidation.
  - The underlying report forms of the members of the Institutional Protection Scheme (IPS) as at December 31, 2020 have to comply with the Commission Implementing Regulation (EU) No. 680/2014, which was amended by Commission Implementing Regulation (EU) No. 2016/428 to the amendments of Delegated Regulation (EU) No. 2015/62 dated October 10, 2014.
- Breakdowns of the composition of financial guarantee contracts and loan commitments, trust activities, asset management of Union Investment Group, changes in the contract portfolios as well as changes in the allocation assets of Bausparkasse Schwäbisch Hall, cover statement for the mortgages and local authority loans extended by the mortgage banks
- Disclosures on leases in accordance with IFRS 16.94
- A list of the members of BVR's Board of Managing Directors
- The signing of the consolidated financial statements by the Board of Managing Directors, including the signature date

Management report including risk report

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

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

* July 2, 2021.
** Standard & Poor’s does not provide this kind of rating.

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

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National Association of German Cooperative Banks · BVR
Communications and Public Relations
Schellingstrasse 4 · 10785 Berlin
Germany
Editorial concept: Tim Zuchiatti
Responsibility: Melanie Schmergal
Tel: +49 (0)30 2021 1300
Fax: +49 (0)30 2021 1905
Email: presse@bvr.de
www.bvr.de

BVR