# Annual Consolidated Financial Statements

of the Cooperative Financial Services Network 2008

## **The Cooperative Financial Services Network** Facts and figures at a glance

| **Ratings** | FitchRatings (network rating) | Standard & Poor's |
|---|---|---|
| Long-Term Issuer Default Rating (long-term credit rating): | A+ | A+ |
| Short-Term Issuer Default Rating (short-term credit rating): | F1+ | A–1 |
| Outlook: | Stable | Stable |

| **Ratings** | FitchRatings (network rating) | Standard & Poor's |
|---|---|---|
| Individual Rating | B | * |
| Support Rating | 1 | * |

* S&P does not provide this kind of rating

**Cooperative Financial Services Network**

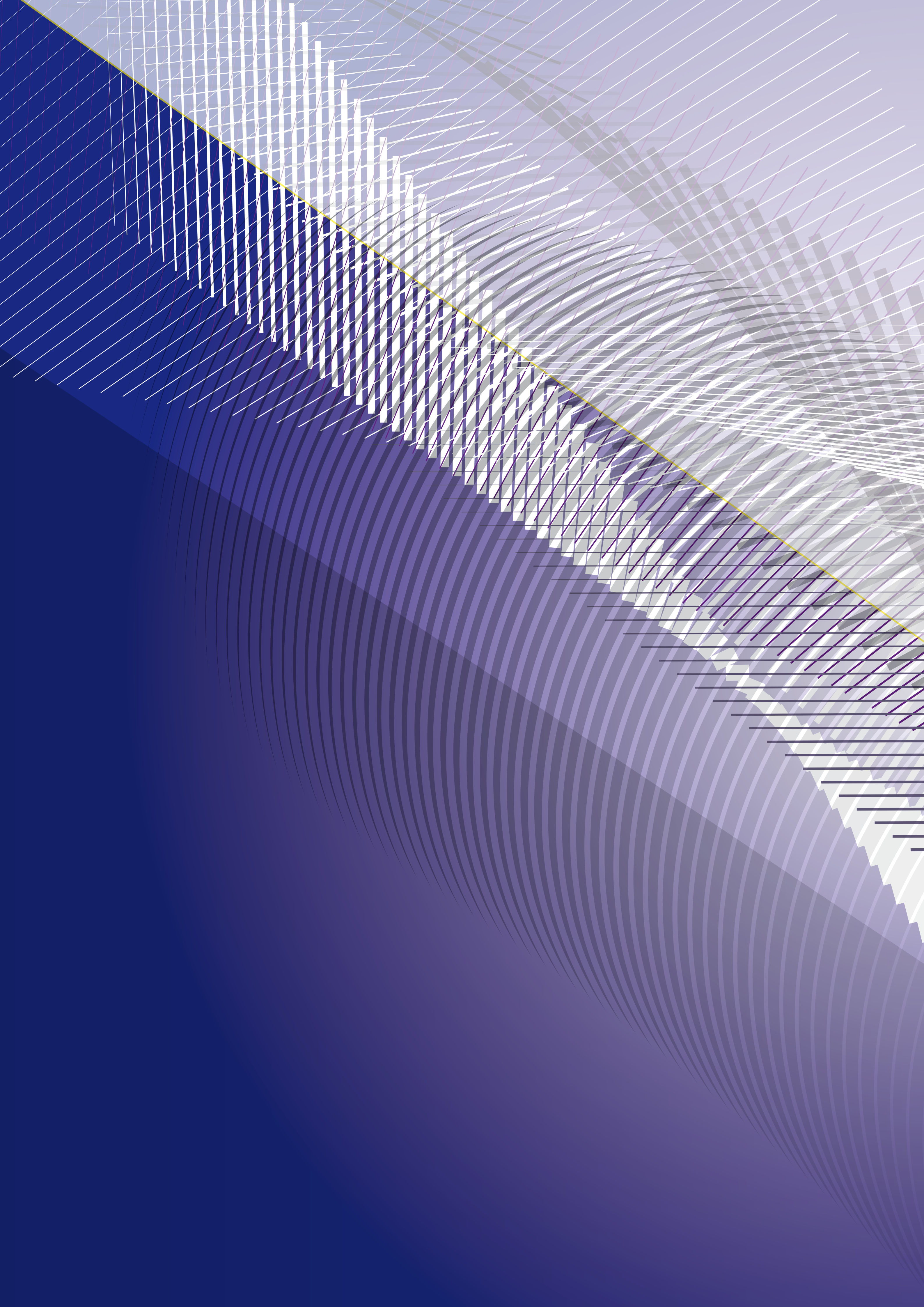
| *Euro million* | **2008** | **2007** | **Change (percent)** |
|---|---|---|---|
| **Financial performance** | | | |
| Net interest income | 15,946 | 15,888 | 0.4 |
| Net fee and commission income | 4,708 | 4,931 | – 4.5 |
| Profit/loss on financial and commodities transactions [1] | – 5,168 | – 1,364 | > 100.0 |
| Net income from insurance business [2] | 425 | 672 | – 36.8 |
| Other net income | 526 | 575 | – 8.5 |
| Net profit/loss | 186 | 3,050 | – 93.9 |
| Cost/income ratio (percent) | 89.9 | 73.0 | |
| **Net assets** | | | |
| Loans and advances to banks | 55,705 | 54,283 | 2.6 |
| Loans and advances to customers | 547,882 | 524,563 | 4.4 |
| Financial assets held for trading | 118,267 | 138,448 | – 14.6 |
| Investments | 222,120 | 220,823 | 0.6 |
| Investments held by insurance companies | 48,481 | 46,855 | 3.5 |
| Other assets | 32,308 | 27,291 | 18.4 |
| **Financial position** | | | |
| Deposits from banks | 101,736 | 87,512 | 16.3 |
| Amounts owed to other depositors | 567,396 | 542,101 | 4.7 |
| Debt certificates including bonds | 121,902 | 129,254 | – 5.7 |
| Financial liabilities held for trading | 104,815 | 126,519 | – 17.2 |
| Insurance liabilities | 48,205 | 45,324 | 6.4 |
| Remaining liabilities | 27,486 | 27,198 | 1.1 |
| Cooperative network's capital | 53,223 | 54,355 | – 2.1 |
| **Total assets / total equity and liabilities** | **1,024,763** | **1,012,263** | **1.2** |
| **Volume of business [3]** | **1,243,666** | **1,257,253** | **– 1.1** |
| **Regulatory capital ratios under SolvV [4]** | | | |
| Tier 1 capital ratio (percent) | 7.8 | 7.9 | |
| Total capital ratio (percent) | 12.3 | 12.3 | |
| **Employees as at Dec. 31** | **186,479** | **186,848** | **– 0.2** |

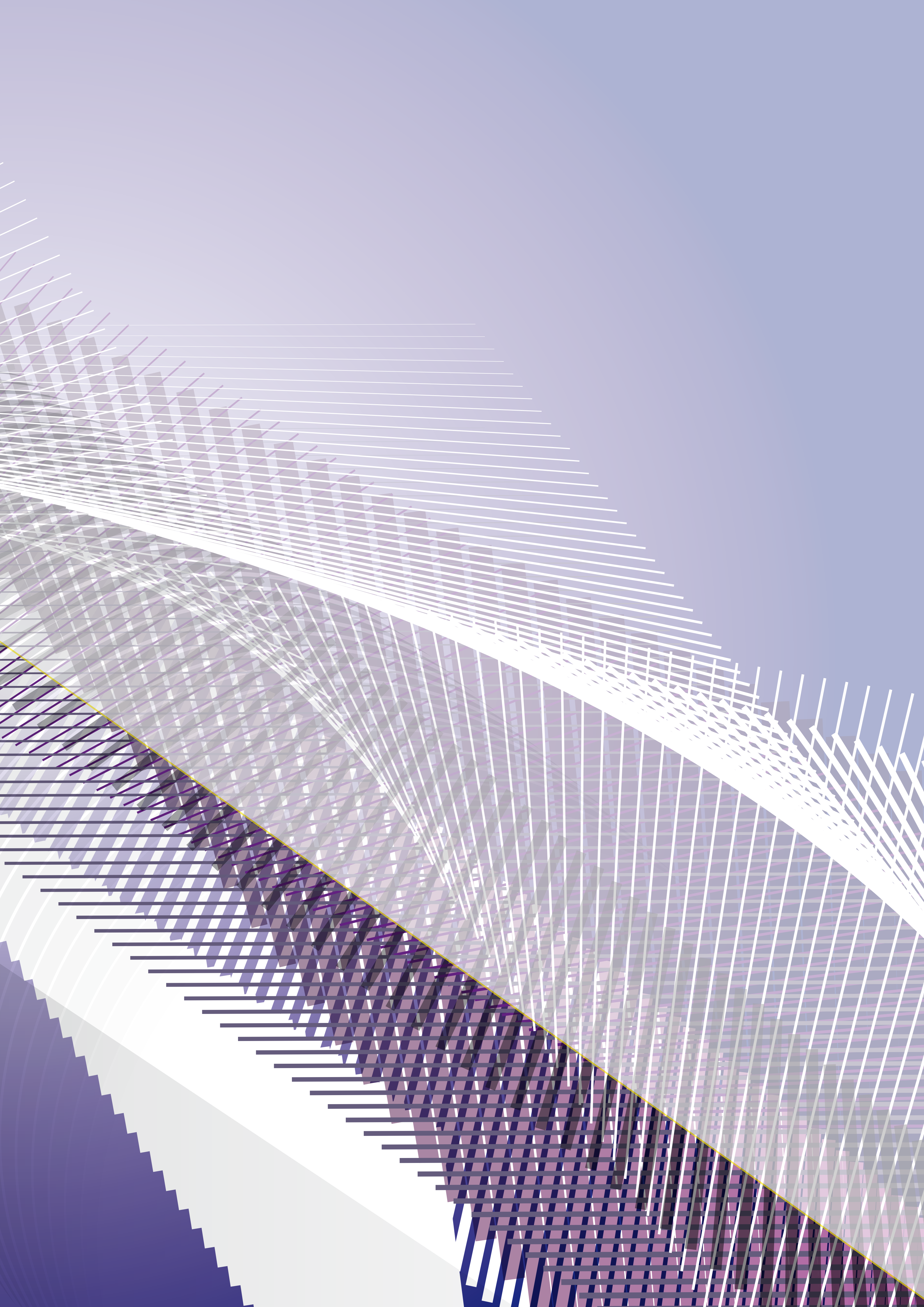
1 Gains and losses on trading activities, gains and losses on investments, and other gains and losses on valuation of financial instruments

2 Premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance benefit payments, and insurance business operating expenses

3 Total assets / total equity and liabilities, including financial guarantee contracts and loan commitments, trust activities, and the assets under management of Union Asset Management Holding

4 For 2007: in accordance with Principle I





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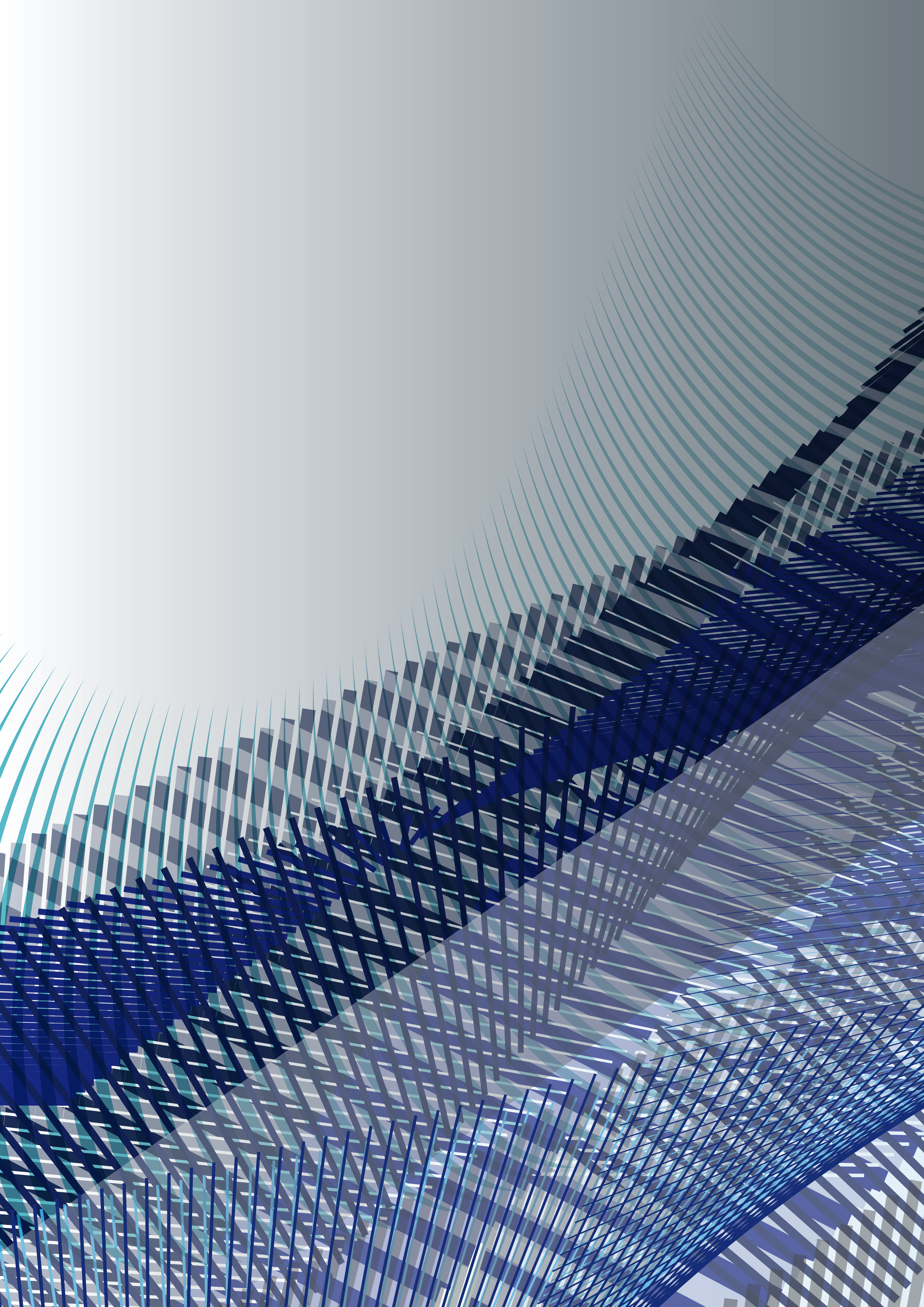
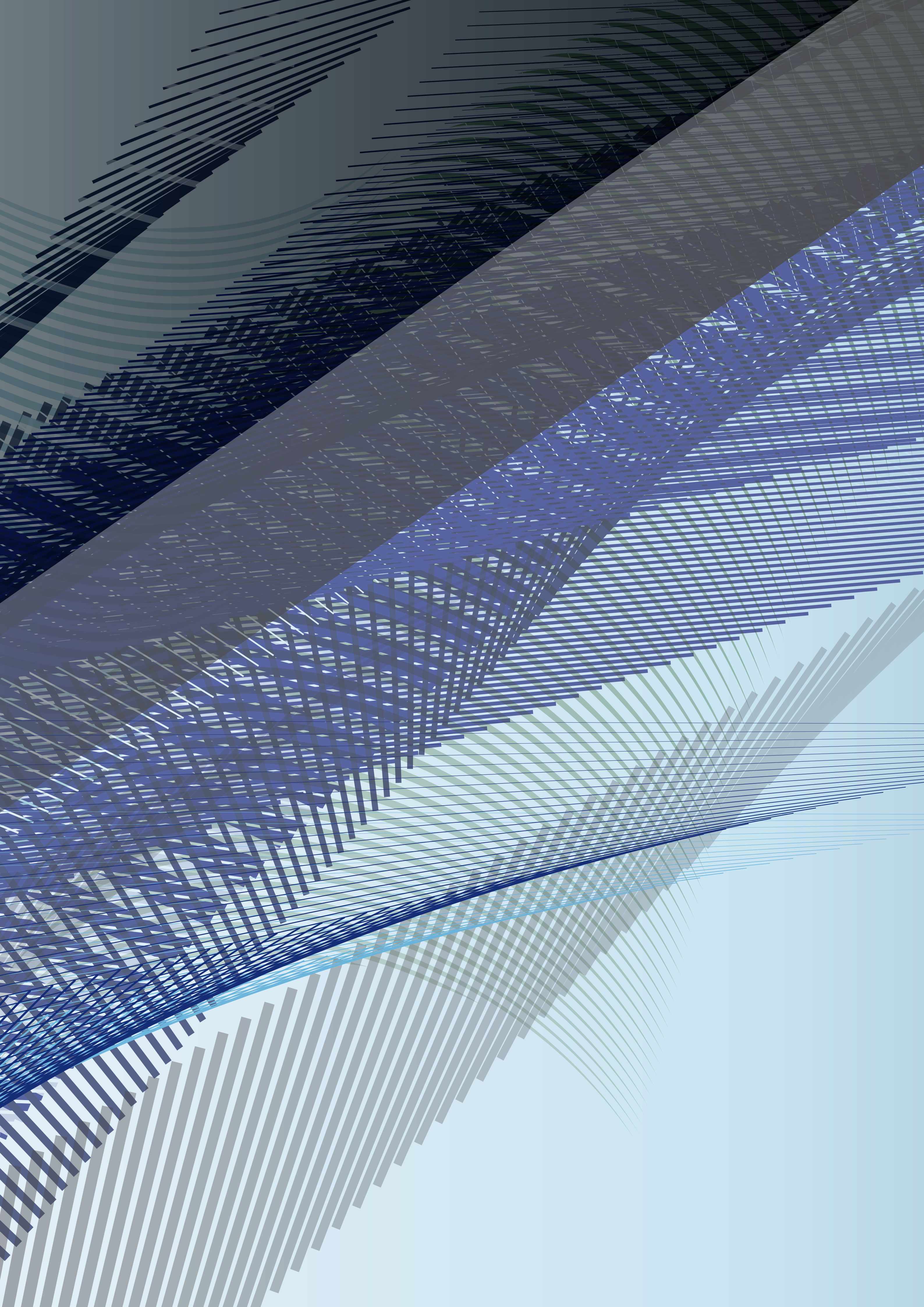




# Introduction by the Board of Managing Directors

## Introduction by the Board of Managing Directors

Where are we heading? This is the question currently confronting many financial institutions. The global financial crisis has badly shaken market structures that were previously thought to be perfectly resilient. Governments as providers of emergency assistance are more in demand than ever. The state-sponsored support packages recently made available to some of our rivals have done much to stabilize the financial markets. By intervening in the market, however, governments must ensure that they do not undermine the principle of free and fair competition.

The Cooperative Financial Services Network operates on solid foundations and has maintained its profitability and stability even during the financial crisis. What's more, the local cooperative banks are functioning as a key pillar of the German banking industry. The cooperative principles of self-reliance, personal responsibility, and autonomy are now more relevant than ever. It goes without saying that the institutions in the Cooperative Financial Services Network did not escape the crisis of 2008 unscathed. However, the cooperative network can draw on the group's inherent strengths and spirit of solidarity, thereby demonstrating the benefits of the cooperative business model.

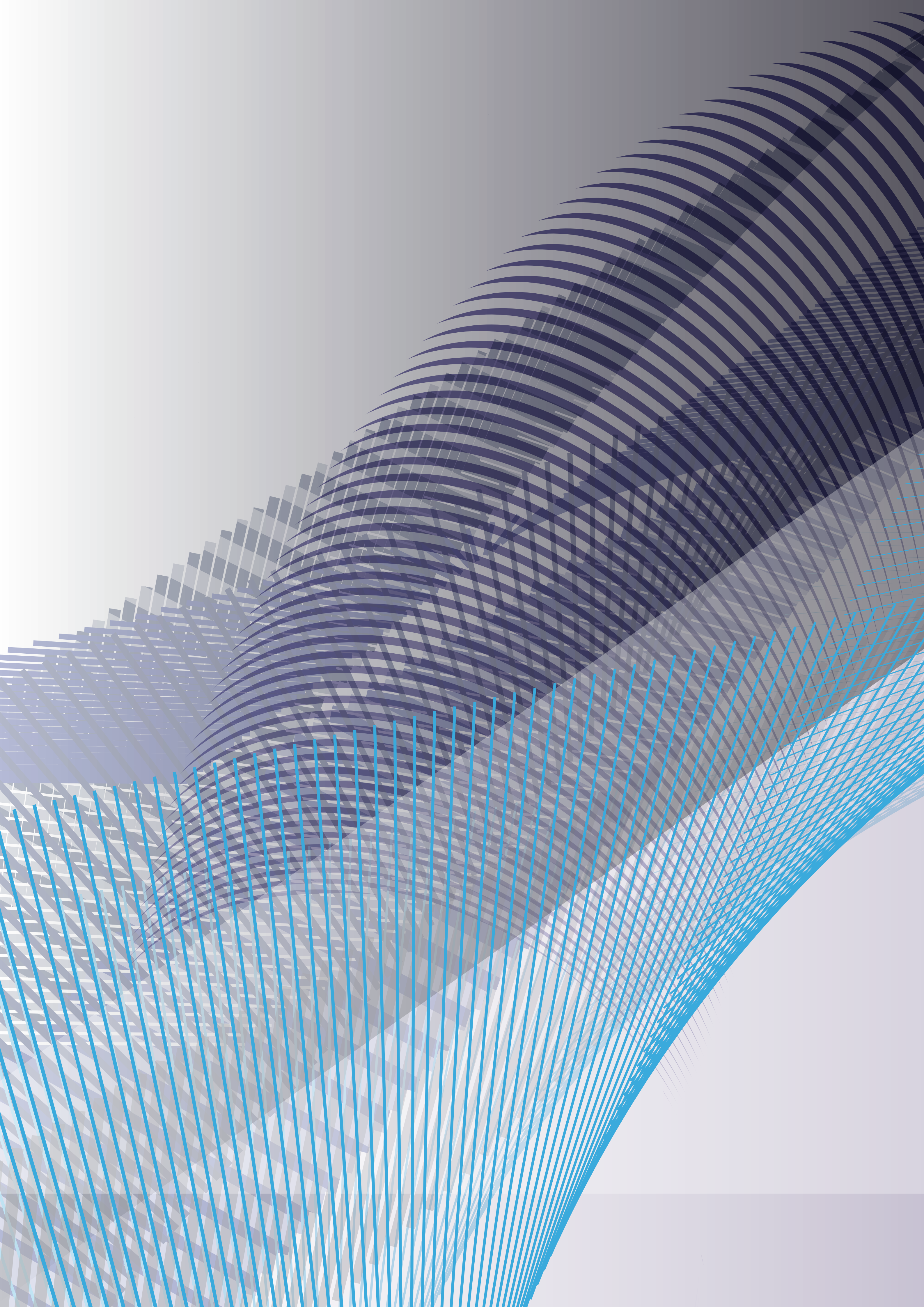
We have a compelling business model based on mutual support and sustainability rather than the maximization of short-term profit. Even Pope Benedict XVI., writing in his encyclical Caritas in veritate, stresses the many valuable lessons to be learned from the cooperative banking sector, whose actions are guided by a far-sighted business policy based on fairness.

The relatively high level of capital adequacy enjoyed by the Cooperative Financial Services Network conveys a sense of both strength and competence. It is notable, for example, that the customers of the primary banks are certainly not suffering from a credit crunch. Cooperative banks remain an important and reliable driver of regional economic activity.

The protection scheme offered by the National Association of German Cooperative Banks provides added stability for the Cooperative Financial Services Network. It is a highly successful model that the cooperative network can be justly proud of. A revised basis of assessment in the protection scheme's statutes will ensure that the relevant risks and financial burdens are even more equitably shared among its members in future, thereby enhancing the competitiveness of the Cooperative Financial Services Network.

The 2008 annual consolidated financial statements of the Cooperative Financial Services Network once again demonstrate that the network's unique business model and unified sense of purpose have made it possible to deliver a respectable performance despite the challenging market conditions.

Uwe Fröhlich Gerhard Hofmann Dr. Andreas Martin



# Management Report

# Business Performance
## Economic conditions

After the German economy had started 2008 on a highly encouraging note, the adverse effects of the slowing global economy and the financial crisis became increasingly evident from the spring onward. The final quarter of the year then saw a collapse in export demand and an accelerated decline in gross domestic product (GDP). The economic downturn that had started in the United States in 2007 eventually reached Europe and the overseas emerging markets in 2008. This caused demand from Germany's key international markets to contract sharply. Unlike in 2007, the only growth stimulus came from domestic demand. The GDP growth of 1.3 percent on a price-adjusted basis was therefore significantly lower than in the two preceding years.

The gross volume of capital spending made the largest contribution to economic growth. The propensity to invest deteriorated significantly toward the end of the year as a result of falling capacity utilization and the contraction in new orders received. The growth in public spending mitigated the economic downturn. Household spending failed to recover in 2008 despite the rise in disposable income because German consumers responded to the increasingly gloomy economic outlook by saving more. The trade balance severely depressed economic activity, especially owing to the low level of foreign trade in the second half of the year. Consumer prices were highly volatile in 2008 as the average annual inflation rate hit 2.6 percent – its highest level for 14 years.

As in previous years, labor market trends were extremely encouraging in 2008, with the economic downturn not feeding through until December. Germany's economic output was generated by an average working population of 40.3 million people, which was a year-on-year increase of 1.4 percent. The number of unemployed persons fell to 3.27 million, and the unemployment rate stood at 7.8 percent.

Despite the ongoing turmoil in the financial markets, the European Central Bank (ECB) pursued a monetary policy that was neutral to slightly restrictive until the late summer of 2008. The turning point for both European monetary policy and economic trends was the collapse of the investment bank Lehman Brothers on September 15, 2008. This was the point at which the US subprime mortgage crisis finally became a global financial crisis and brought about a fundamental policy shift on the part of the ECB. Europe's central bank then switched to an expansionary monetary policy by cutting interest rates in three stages to 2.5 percent by the end of the year.

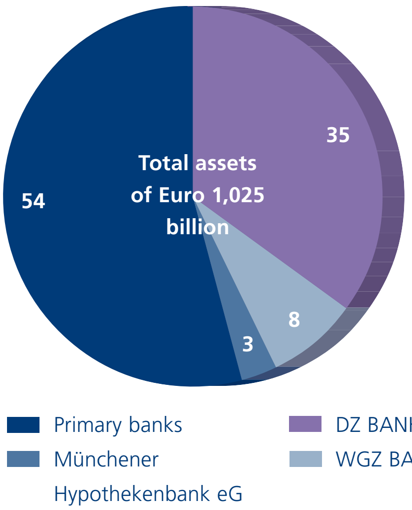
# Business Performance

## Performance of the Cooperative Financial Services Network

The traditional structure of the Cooperative Financial Services Network and its closely linked division-of-labor strategy have proved to be a sustainable, robust and trust-building business model, especially during the ongoing financial crisis.

The cash-pooling function within the cooperative network became particularly important following the collapse of the interbank market. The cash flows within the network were managed in such a way that all member institutions had an ample supply of liquidity at all times. The deposits held by the primary banks traditionally provide the most reliable source of funding.

**Breakdown of the total assets held in the Cooperative Financial Services Network as at December 31, 2008 (percent)**




(Percentages relate to the aggregated balance sheets prior to consolidation)

Furthermore, the constant growth in lending volume shows that the Cooperative Financial Services Network continued to perform its function as a major financier of Germany's small and medium-sized firms during this period.

Nonetheless, the cooperative network did not remain unscathed by the tough market conditions. The fourth quarter, in particular, saw a marked deterioration of the situation in the markets following the withdrawal of international commercial and investment banks. This affected all asset classes and the returns they generated. Profitability was significantly impaired by the Cooperative Financial Services Network's exposure to Lehman Brothers and Icelandic institutions. Given the conservative nature of its business model, however, the cooperative network was not too seriously affected by these trends compared with other institutions in its sector and, consequently, it managed to keep them under control.

### Financial position

The consolidated total assets of the Cooperative Financial Services Network grew slightly by Euro 12.5 billion to Euro 1,024.8 billion during the reporting year, having already exceeded the Euro 1 trillion mark in 2007.

54.1 percent of the cooperative network's total assets are attributable to the primary banks, 35.2 percent to the DZ BANK Group, and 7.6 percent to the WGZ BANK Group.

The aggregate growth on the **assets** side of the balance sheet resulted primarily from the Euro 23.3 billion increase in loans and advances to customers. Of this amount, an increase of Euro 9.1 billion was attributable to the primary banks, largely owing to the growth in long-term mortgage-backed loans. Many customers took advantage of the fact that interest rates had remained low by switching to longer maturities. The growth of Euro 10.7 billion in the DZ BANK Group's total assets mainly reflected an increase of Euro 4.2 billion within the DVB Bank Group. The total assets reported by the WGZ BANK Group rose by Euro 2.5 billion. This growth trend was partly offset by a reduction of Euro 20.2 billion in financial assets held for trading.

The growth in **total equity and liabilities** was reflected in an increase in the deposits from banks and amounts owed to other depositors, which grew by an aggregate Euro 39.5 billion. Primary banks' short-term liabilities to customers with a maturity period of up to one year increased particularly sharply. This strong growth was attributable to the rise in short-term interest rates up to the third quarter in conjunction with a flat yield curve. From October onward, as the financial crisis intensified and customers became increasingly unnerved, the primary banks attracted significant volumes of new deposits, especially time deposits. By contrast, the level of savings deposits continued to fall during the reporting year. The overall increase in liabilities was partly offset by a reduction of Euro 21.7 billion in financial liabilities held for trading and by a Euro 7.4 billion contraction in debt certificates including bonds.

The **cooperative network's capital**, as reported in the annual consolidated financial statements, decreased by Euro 1.1 billion to Euro 53.2 billion in 2008. This was mainly because the revaluation reserve decreased in line with changes in the fair value of available-for-sale financial instruments.

**Regulatory capital**

The capital held by the Cooperative Financial Services Network as required by the Solvency Regulation (SolvV) grew slightly by Euro 234 million to Euro 60.7 billion.

The corresponding total capital ratio remained unchanged at 12.3 percent. The Tier 1 capital ratio as defined by the SolvV was also virtually unchanged at 7.8 percent (2007: 7.9 percent). These key ratios continued to comfortably exceed the regulatory minimum of 8.0 percent for the total capital ratio and 4.0 percent for the Tier 1 capital ratio.

**Financial performance**

2008 was, on the whole, a year in which the business model used by the Cooperative Financial Services Network proved its worth as a sustainable, robust and trust-building strategy, even in times of crisis. Although the cooperative network had sufficiently high levels of equity and ample liquidity throughout the reporting year, it did not remain unscathed by the fallout from the financial crisis. The changes in the relevant line items of the income statement were as follows:

**Net interest income** remained virtually unchanged year on year at Euro 15.9 billion in 2008 and was boosted by the growth in operating activities, especially the increase in new easyCredit business.

The Euro 338 million increase in **allowances for losses on loans and advances** to Euro 1.6 billion was largely attributable to the recognition of impairment losses on Iceland-related exposures and, taken together, caused the **net interest income after allowances for losses on loans and advances** to fall by almost the same amount.

The high level of **net fee and commission income** reported in 2007 could not be maintained, falling by Euro 223 million to Euro 4.7 billion. Fee and commission income from the securities business decreased owing to the negative stock market returns, the extreme volatility of asset prices, and declining market turnover.

After the Cooperative Financial Services Network's **gains and losses on trading activities** had almost broken even in 2007, the intensifying financial crisis severely impaired the profitability of both the DZ BANK Group and the WGZ BANK Group in 2008. The primary banks' trading profit, which also decreased year on year, failed to compensate for these adverse effects. The Euro 1.4 billion reduction in overall profitability stemmed largely from the recognition of impairment losses on securities portfolios that will be reversed once the markets recover.

**Net losses on investments** increased by a further Euro 1.8 billion year on year to Euro 3.1 billion owing to the recognition of impairment losses on all asset classes, including exposures to Lehman Brothers, Icelandic institutions, and asset-backed securities. In addition, an impairment loss of Euro 269 million had to be recognized on the investment held in the French company Natixis S.A.

**Other net losses of Euro 659 million on the valuation of financial instruments** included significant losses resulting from the widening of bond spreads owing to changes in credit ratings; these losses related primarily to securities portfolios held in the Real Estate Finance business segment.

The **net income from insurance business** came to Euro 425 million in 2008 compared with Euro 672 million in 2007 and stemmed entirely from the R+V Group; the drop in this income was to a large extent attributable to the crisis in the financial markets. Against this background, higher impairment losses on assets and lower gains on the disposal of securities caused net investment income to fall sharply.

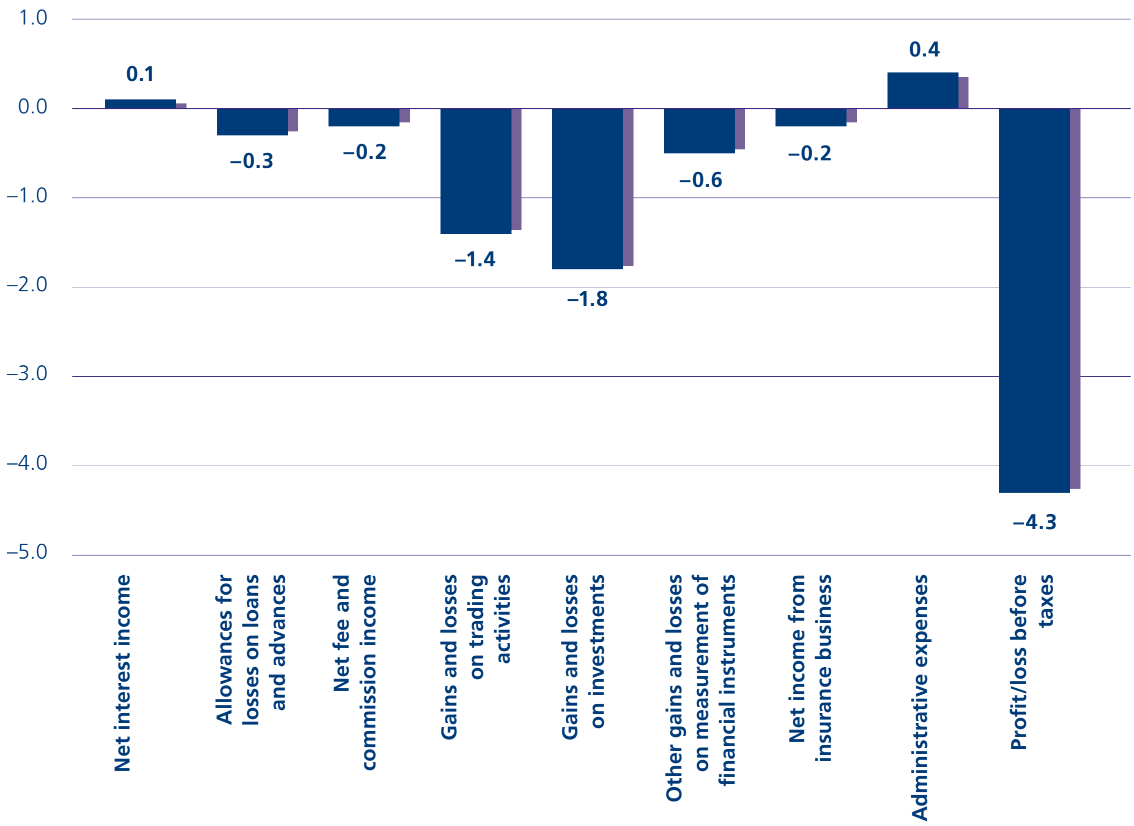
The Cooperative Financial Services Network managed to cut its **administrative expenses** by a total of Euro 350 million across all segments to Euro 14.8 billion in 2008. The reduction in staff expenses was due to the primary banks' lower pension costs. The primary banks and the DZ BANK Group significantly lowered their general and administrative expenses.

The net income of Euro 109 million reported under **income taxes** (2007: net expense of Euro 1.3 billion) comprises an expense of Euro 691 million for current taxes and an income of Euro 800 million for deferred taxes, the latter mainly arising from the recognition of deferred taxes on temporary differences and tax loss carryforwards at DZ BANK and WGZ BANK.

**Net profit** after taxes amounted to Euro 186 million in 2008 compared with Euro 3.050 billion in 2007.

The **cost/income ratio** deteriorated to 89.9 percent in the reporting year owing to the effects of the financial crisis.

**Changes in selected line items of the income statement between 2007 and 2008 (Euro billion)**



# Business Performance
## Performance of the business segments in the Cooperative Financial Services Network

### Bank business segment

The Euro 270 million increase in the Bank business segment's **net interest income** stemmed largely from its operating activities and was also reflected in the greater contribution made by pricing and value dating. Volumes in traditional syndicated lending and in the Standard-Meta and Agrar-Meta risk transfer products were expanded. The segment managed to forge new business relationships in its corporate finance operations despite the tough financial market conditions and persistently stiff competition. In addition, it generated stronger income from acquisition finance, structured trade and export finance, and project finance. Its business was also boosted by increased volumes. Furthermore, net interest income was improved by the origination of equipment leases outside Germany. This trend was partly offset by lower income from asset-backed securities owing to reduced volumes.

**Allowances for losses on loans and advances** in the Bank business segment rose by Euro 312 million, largely owing to the recognition of impairment losses on Iceland-related exposures. Business was further impaired by the heavy losses incurred in the segment's domestic and international equipment leasing operations. The positive effects of the reversal of portfolio loan loss allowances and the income generated by the reversal of provisions for losses on loans and advances failed to compensate for the consequences of the financial crisis that were reflected in the level of specific loan loss allowances.

The Bank business segment's **net fee and commission income** improved by Euro 34 million largely on the back of credit card processing, lending and trust activities.

The segment's **gains and losses on trading activities** fell by Euro 1.312 billion year on year in 2008 as a result of the turmoil in the capital markets in connection with the financial crisis, which severely depressed trading profits in the second half of 2008 in particular. This reduction in trading profits stemmed partly from the recognition of impairment losses on trading, securities and promissory note portfolios and from exposures to Icelandic institutions and Lehman Brothers.

The Euro 431 million decrease in **gains and losses on investments** in the Bank business segment essentially comprises realized price gains and losses as well as impairment losses on securities, especially on exposures relating to Iceland and Lehman Brothers and on asset-backed securities.

Consequently, the segment's **profit/loss before taxes** deteriorated by Euro 1,757 million, primarily owing to the financial crisis.

### Retail business segment

**The net interest income** generated by the Retail business segment remained virtually unchanged year on year, growing by Euro 59 million, and was boosted by the increase in new easyCredit business, most of which was channeled through the cooperative partner banks.

**Allowances for losses on loans and advances** improved by Euro 79 million in 2008, primarily as a result of the anticipated decline in defaults suffered by the primary banks.

Share price volatility on the international stock markets in particular reduced the business segment's **net fee and commission income** by Euro 268 million. The fee and commission income earned by the primary banks fell by Euro 81 million in 2008 owing to the poor performance of stock markets. Income was also negatively impacted by the sharp decrease in performance-related fees from the management of investment funds. Fee and commission income earned directly from asset management fell year on year in 2008.

The decrease in **gains and losses on trading activities** and the significant reduction in **gains and losses on investments** were attributable to the financial crisis and the associated recognition of impairment losses on securities. The deterioration in net gains and losses on investments mainly affected the primary banks.

The Euro 151 million reduction in **other gains and losses on valuation of financial instruments** was partly caused by a fall in fair values in the business segment's own-account investing activities.

**Administrative expenses** declined by Euro 494 million year on year. Of this decrease, Euro 241 million was attributable to staff expenses – largely owing to lower pension costs – and Euro 134 million to general and administrative expenses.

The business segment's **profit before taxes** fell by Euro 1,231 million year on year to Euro 2,469 million.

### Real Estate Finance business segment

The **net interest income** generated by the Real Estate Finance business segment decreased by Euro 45 million year on year, largely as a result of the after-effects of restructuring implemented in the past, which materialized as expected.

**Allowances for losses on loans and advances** rose by Euro 110 million to Euro 254 million.

The net loss of Euro 235 million on **fee and commission income**, which is typical of this business segment (2007: net loss of Euro 231 million), remained virtually unchanged. The new business model used by DG HYP boosted income. Fee and commission expenses for the brokerage of home loans were no longer incurred because this business line was discontinued as part of the new business model. In addition, fee and commission income earned from guarantees and service charges in the core business of commercial real-estate finance rose, indicating the first signs of a positive trend. Furthermore, the lower demand for refinancing led to a reduction in issue fees and commissions.

**Gains and losses on trading activities, gains and losses on investments, and other gains and losses on valuation of financial instruments** fell by Euro 624 million in total. Profits on these activities were mainly affected by the significant widening of credit spreads on investment-grade European government bonds that presented no default risk and by the recognition of further impairment losses in connection with the financial crisis.

The Euro 16 million reduction in **administrative expenses** was solely attributable to the restructuring of DG HYP, which put in place the conditions needed to create a lean real-estate bank focused on commercial property.

Taken together, the above line items incurred a **loss before taxes** of Euro 396 million. Apart from the positive impact of the restructuring of DG HYP as a commercial real-estate bank, this business segment was therefore also dominated by the fallout from the financial crisis.

### Insurance business segment

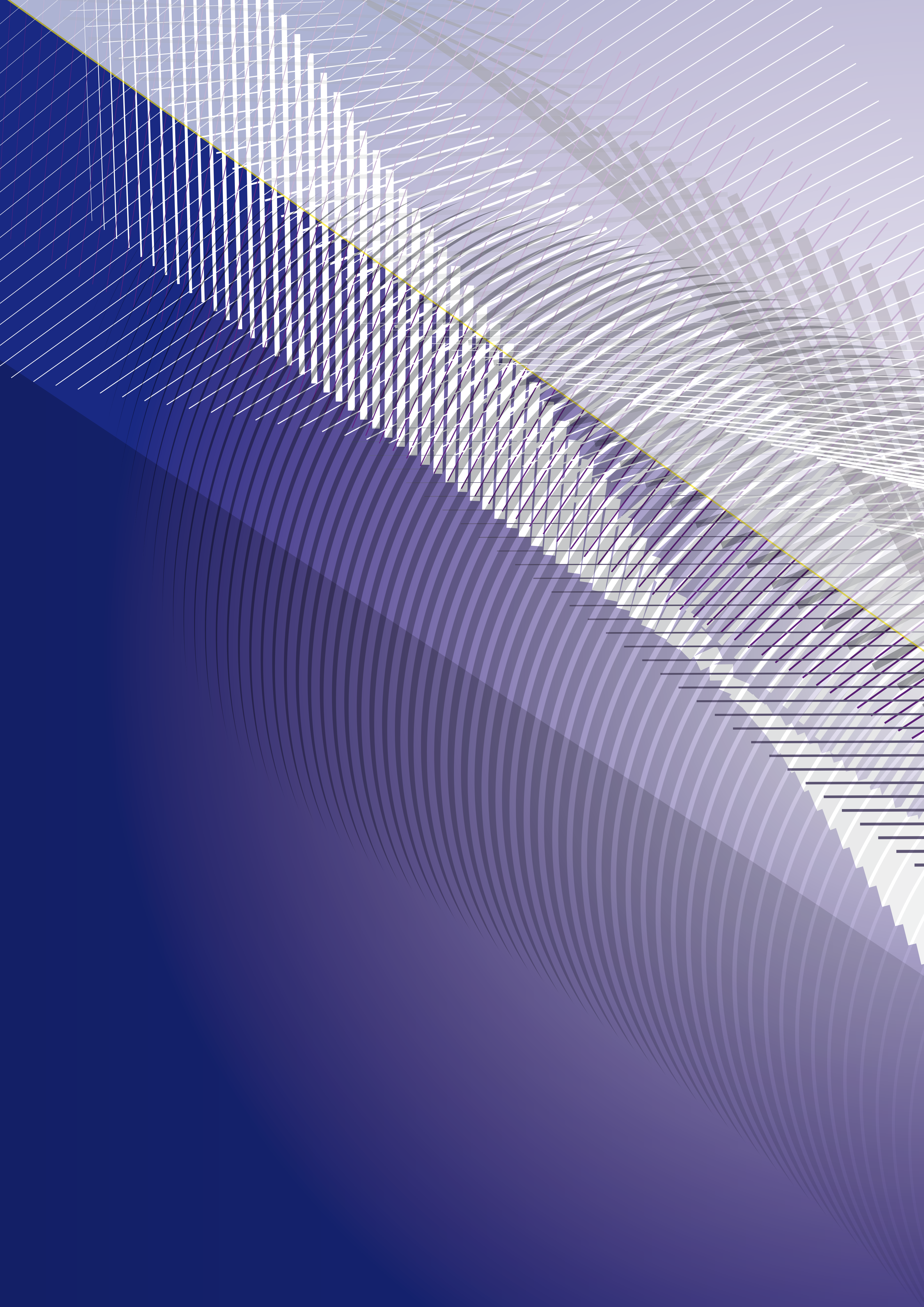
The profit before taxes generated by this business segment fell by Euro 245 million in 2008.

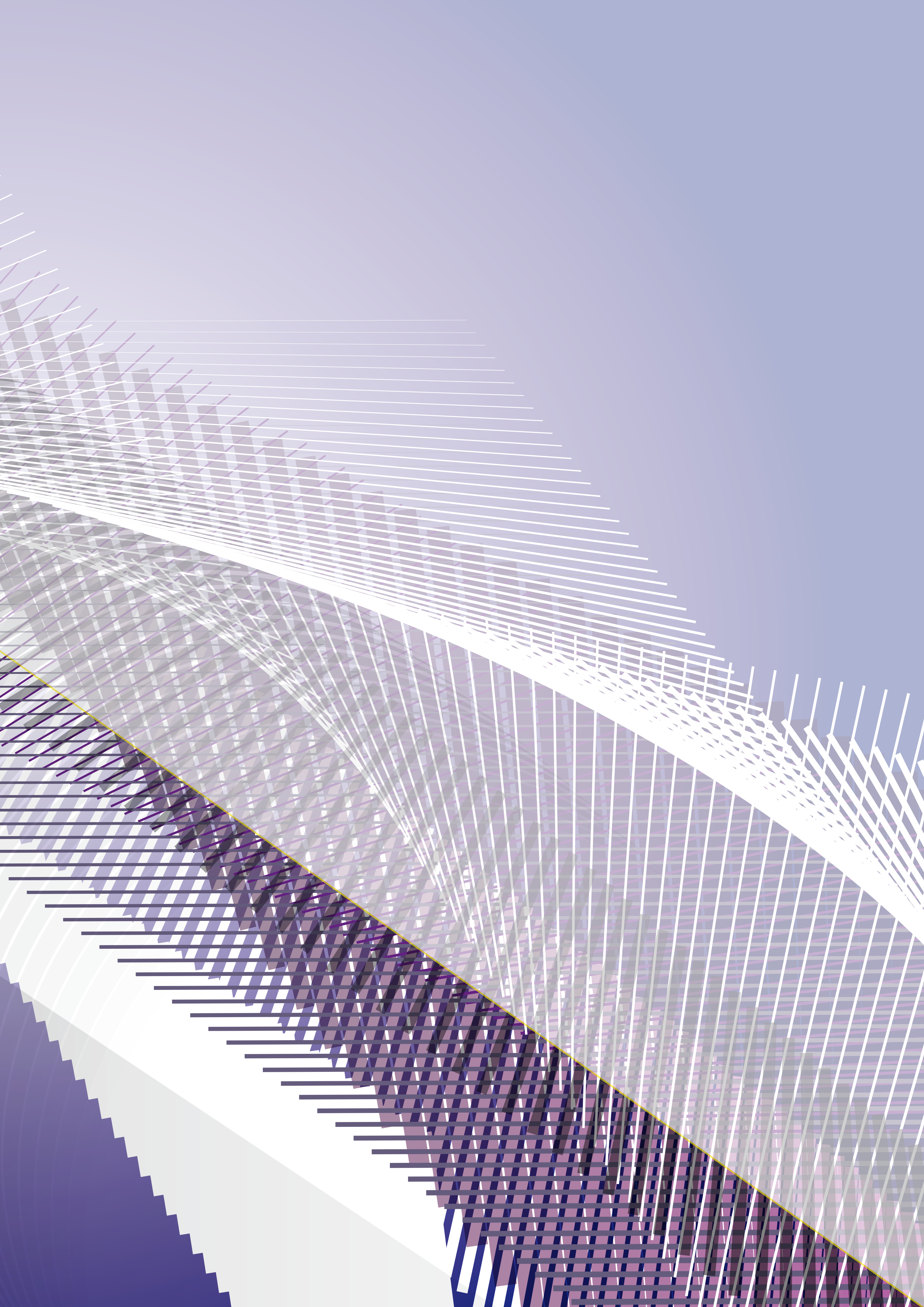
The **premiums earned** rose by Euro 462 million year on year despite the amendments to the law on Germany's flat-rate withholding tax (Abgeltungsteuer) and their retroactive impact on the sale of life insurance. The traditionally strong business conducted at year-end boosted the level of premiums earned.

The **gains and losses on investments held by insurance companies and other insurance company gains and losses** fell significantly by Euro 1,543 million year on year owing to the sharp drop in share prices. This decrease was caused by the recognition of impairment losses, the marking-to-market of investments in unit-linked life insurance, and by the much lower gains realized on the disposal of investments.

**Insurance benefit payments** declined by Euro 925 million year on year. The level of claims during the reporting year was not affected by exceptionally large losses, such as those caused by hurricane Kyrill in 2007. Most of the reduction resulted from the personal insurance business and reflected the recognition of a smaller reserve for deferred policyholder participation owing to the declining market values of the relevant investments.

**Insurance business operating expenses** rose by Euro 92 million, which was partly due to the fact that collectively negotiated pay in the insurance industry was raised by 3.0 percent with effect from January 1, 2008.





## Human Resources Report

In the year under review, the financial crisis and its effects clearly demonstrated the importance of the quality of the employees in a bank. One of the primary reasons why the financial crisis has not had any significant effect on the Cooperative Financial Services Network is the risk-conscious approach taken by the network's employees, who have implemented the principles of the cooperative philosophy offering customers advice appropriate to their requirements and stage of life.

The prerequisite for expert, reliable customer advice is the provision of high-quality, systematic training and professional development programs. The primary banks ensure a high standard of customer care and advice by means of customized training activities. The comprehensive range of training opportunities offered by the cooperative training colleges provides employees with the necessary skills to handle sales and service responsibilities that continue to grow and change. In 2008, the training focus included the issues of the German Accounting Law Reform Act (BilMoG), flat-rate withholding tax (Abgeltungsteuer), and the qualification as a TÜV-certified financial planning advisor. It was regarded as imperative that the customer care and advice provided by the banks be up-to-date as regards these issues and personnel skills.

For a number of years, the approach to customer advice used by the primary banks has been based on the customer's stage of life. In 2008, customer contact in both private and corporate customer business essentially continued to follow a holistic advisory approach. Following a review of their current and future requirements, private clients are offered financial solutions that are tailored specifically to their situation and stage of life. Corporate customers receive a comprehensive analysis of their business data. A check is also carried out on the future private situation of a business owner in order to ensure that any private risk faced by the owner will not become a risk for the entire business.

The primary banks undertake extensive training activities so that employees have the necessary expertise to deliver these advisory services. Comprehensive customer advice requires in-depth specialist knowledge, for example of statutory and tax requirements. These professional development programs are a contributing factor in ensuring that customers will continue to be supported in the future by employees with the highest-possible level of skills.

### Training the employees of tomorrow

The primary banks lay particular emphasis on the training of approximately 11,250 young people. Year upon year, this policy ensures that an above-average number of trainees receive professional vocational training. The number of trainees offered permanent employment on successful completion of the training program is also above average, with a wide range of development opportunities then being available to training program graduates. This reflects the primary banks' awareness of their social and economic responsibilities in their respective local communities and is very much in line with the cooperative principle: from the local community and for the local community.

The year under review therefore saw a continuation of the nationwide HR image campaign that had been launched in 2007. The purpose of this campaign was to make young people aware of the available training and career opportunities. The campaign supports the primary banks in their local recruitment activities.

The Cooperative Financial Services Network also opted for a new type of initiative in 2008 with the launch during the second half of the year of VR-KarriereStart, a nationwide student support program. The objective of the program is to attract students and young graduates as potential employees, then retain them and integrate them into the Cooperative Financial Services Network. VR-KarriereStart combines the interests of students and university graduates with those of the bank: via internships, dissertation support, seminars, and the sharing of information with other students and experts from the Cooperative Financial Services Network, participating students are given an insight into the financial sector and access to valuable practical experience. With internships and dissertation support, the program also offers cooperative sector employers the opportunity to present their businesses and future job opportunities to potential employees, and also the opportunity to get to know the individuals concerned. Former trainees who have now taken up university studies can also be retained via the student support program. The intention is to offer a job to graduates at the end of the development program, providing suitable opportunities exist.

In addition, a wide variety of information on career and study opportunities in the Cooperative Financial Services Network as well as on the new student support program is available to any potential young recruits on the dedicated website at www.VR-KarriereStart.de.

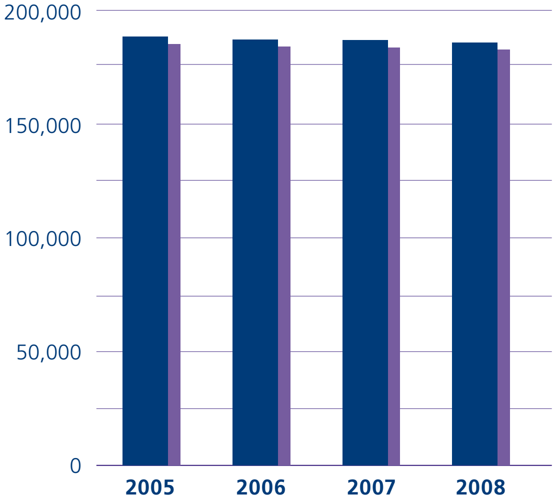
**Sought-after employer**

The entities in the Cooperative Financial Services Network employ approximately 186,500 people throughout Germany. Flat hierarchies, short decision-making channels and personal development opportunities make them very attractive employers. The primary banks were awarded the seal of approval under the trendence Institute's German school pupil barometer for the third year in a row, demonstrating that jobs with these banks are extremely sought-after. In 2008, trendence Institute again carried out personnel marketing analyses, focusing on school pupils in Germany, as a result of which the primary banks were placed 27th in the table of popular employers. The primary banks were therefore once again in 2008/2009 among the most attractive employers for school leavers – and their popularity has actually risen continuously over the last three years. This popularity is evidenced by the associated "Top Employer 2008/2009" quality seal of approval.

Many entities within the Cooperative Financial Services Network are also among the most popular employers in Germany. For example, DZ BANK, R+V Versicherung, Union Investment, and Bausparkasse Schwäbisch Hall all again received the "Top German Employer" award last year. The impressive features of the companies receiving this award were their systematic, forward-looking human resources policies and outstanding employment conditions.

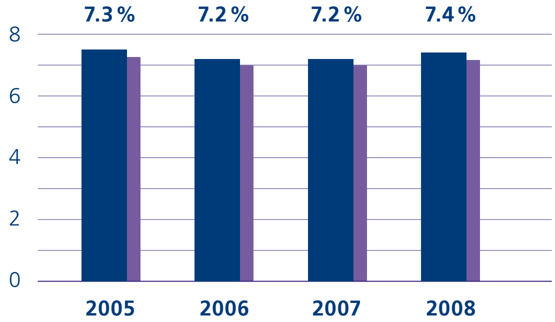
One of the elements in a forward-looking human resources policy is also the promotion of a work-life balance. In 2008, for example, WGZ BANK launched an action program to improve the reintegration of parents following extended maternity or paternity leave. This program includes the provision of ongoing information during the period of leave, skills development opportunities prior to return to work, professional advice, and financial support for childcare. In addition, there are numerous other activities promoting work-life balance, such as occupational health management with a focus on sport. All these activities contribute to a pleasant working environment, a high degree of employee satisfaction and an atmosphere of openness. They not only promote initiative and team spirit in the job, but also in the sports in which employees participate.

### Number of employees

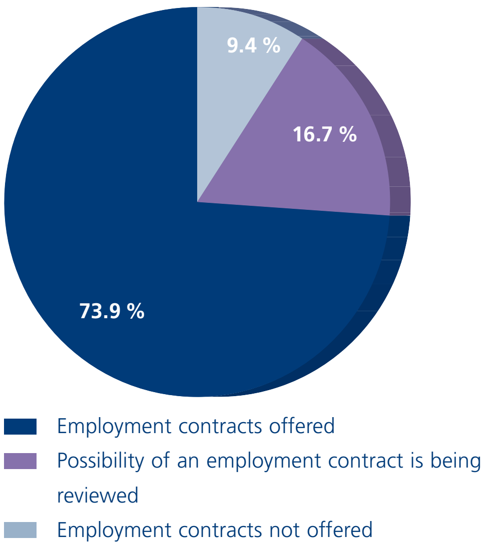



*As in previous years, there was a moderate decrease in the number of persons employed in the Cooperative Financial Services Network in the year under review. The decrease of less than 1 percent a year is largely attributable to natural attrition. With approximately 186,500 employees at the end of 2008, the sector continues to be a major source of jobs in the regions.*

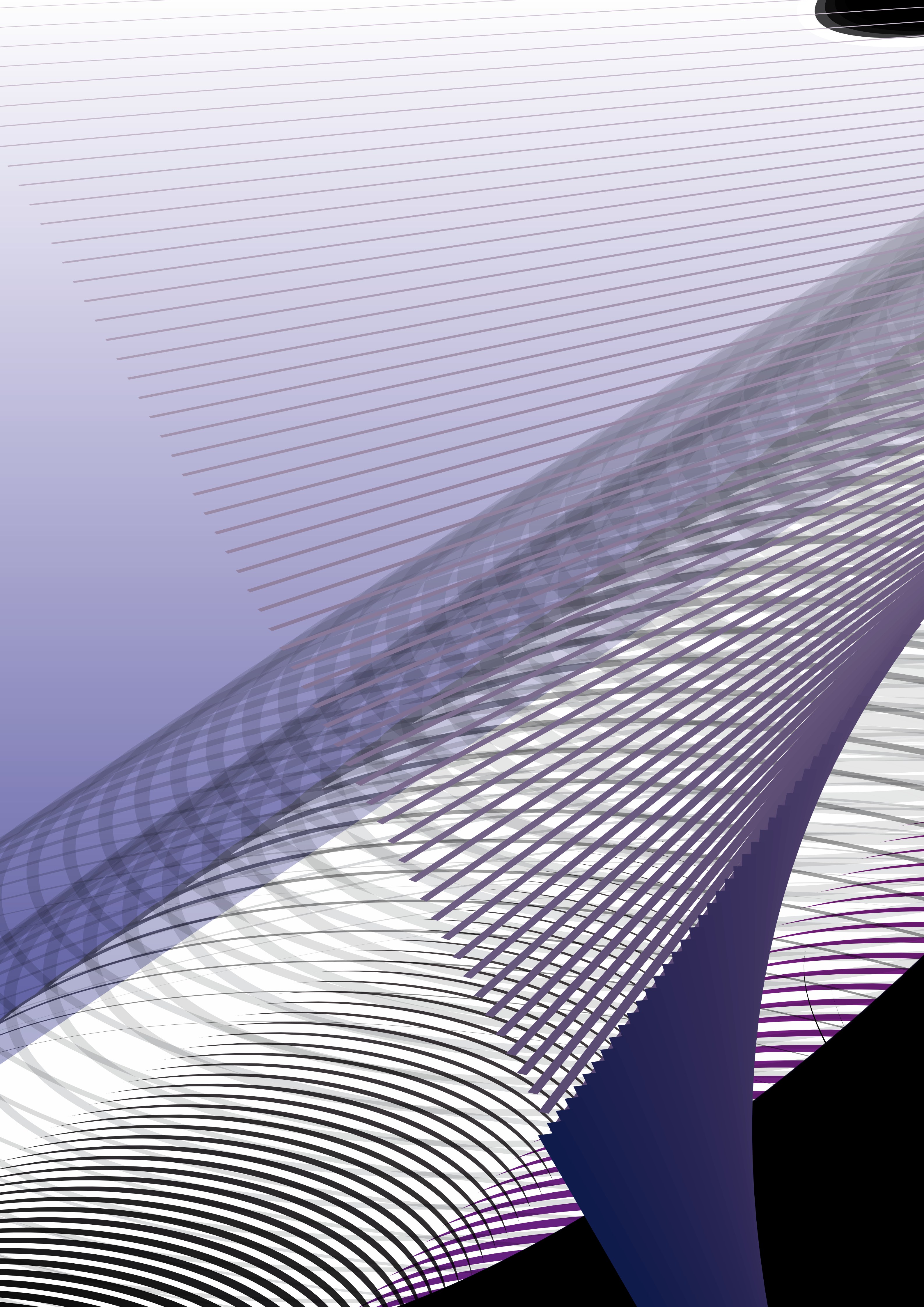
### Ratio of trainees to other employees in the primary banks and central institutions

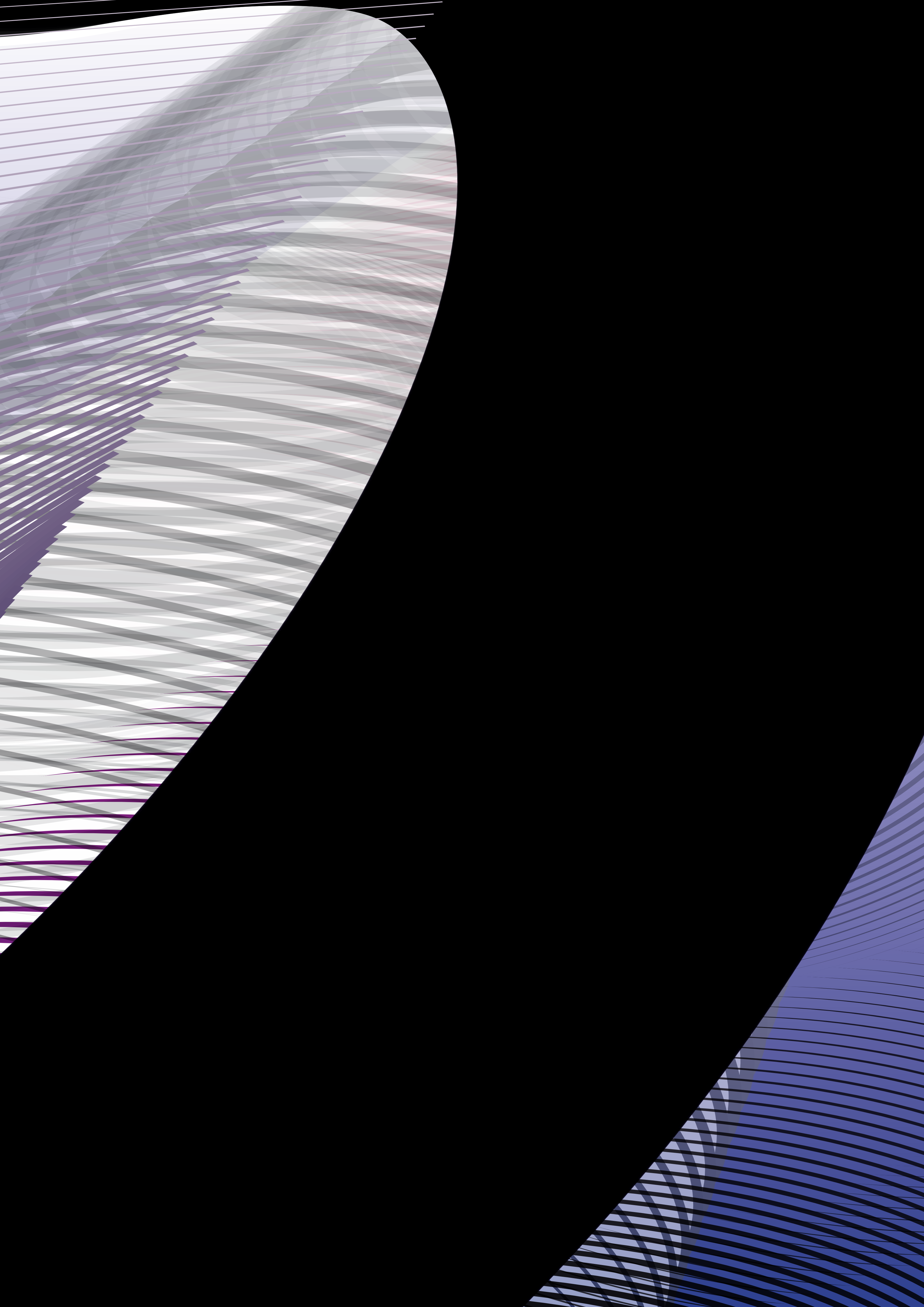



### Transfer of trainees to employment contracts on successful completion of training in 2008




*The number of trainees within the cooperative banking sector remains very high. The ratio of 7.4 percent in the year under review is significantly above the ratio in other sectors of the economy. In 2008, more than two-thirds of trainees continued to be employed by their primary bank following successful completion of training.*





# Risk Report
## Banking management

### Network business line income statement

With the preparation of a network business line income statement, the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) [National Association of German Cooperative Banks] has created the structured basis for an income statement for the Cooperative Financial Services Network. In the year under review, data was collected from the primary banks for the business line income statement model for the first time. In this model, the profit contributions from the individual business lines in primary banks are allocated to the following business lines: private clients, corporate customers, other customers, and treasury.

The results are taken into account in the BVR's framework planning, which includes an analysis and measurement of the current position in the Cooperative Financial Services Network based on both a balance sheet and income statement perspective. The position is extrapolated as a trend to produce a two-year forecast. The trend in contribution margin for the individual business lines is forecast using scenario techniques involving a favorable, an expected, and an unfavorable scenario. This process includes the calculation of a number of variable factors including widening of spreads, narrowing of spreads, and interest-rate simulations for the three scenarios.

This method is used to ascertain the causes and effects of changes in income through analysis of the sources of profit. Its use throughout the entire Cooperative Financial Services Network provides the basis for determining specific recommendations for action and strategies for the individual business lines. The system also reveals where there are strategic performance risks.

The standard business line income statement model also makes it possible to generate benchmark values down to the level of individual primary banks. These values can then serve as a basis for an organized strategic discussion about risk/return structures in the Cooperative Financial Services Network.

### Management of the interest-rate book using present value

VR-Control is a system developed by the Cooperative Financial Services Network, specifically for the primary banks, to provide a financial planning and reporting tool for banks with embedded tools for measuring risk-bearing capacity and for the management of banking. Initially, VR-Control is a specialized system that needs to be customized in line with the requirements of each primary bank. In the system, the individual management areas of the bank are assembled in the overall model as individual modules and can be viewed from the level of individual transactions to portfolios to the overall bank view.

In a project for the management of the interest-rate book using present value, the tools in VR-Control were used to investigate the possibility of optimizing the risk/return ratio in the interest-rate portfolio. The objective was to integrate the findings into a project approach that could be rapidly implemented by selected primary banks. A pilot project implemented with some of the banks enabled these banks within a short space of time to assess their risk situation substantially better and faster than previously. This enabled them to swiftly determine and implement a plan of action.

The actual basis for this project was already built into the VR-Control concept. The motivation for the project lay both in its importance for the level of net profit in the primary banks and in the volatility of the capital markets. Sustained net interest income can only be achieved by deliberate, systematic management of interest-rate risk as one of the core risks faced by the banking business. A critical factor in managing this risk, apart from an analysis of changes in structural contribution based on the income statement and changes in measurement gains and losses, is the analysis of the interest-rate book using present value.

The information derived from this project is carried over to the concept of asset allocation. The purpose of this concept is to ensure that the banks – with the involvement of the central institutions and the federations – are in a position to generate long-term revenue from treasury operations by diversification into several asset classes and by the stabilization of their capacity to generate income from assets.

### VR rating system validation

One of the quality features in the latest statistically based rating systems is the focus on individual customer segments. Different segments have different peculiarities that need to be taken into account. In these circumstances, a single rating system for all customer segments would not seem to be appropriate. Segments identified as material in the credit portfolios of the primary banks are now covered by a VR rating system. The systems are provided in the most part via the computing centers. The systems for wholesale & special rating are provided via a rating desk solution from the central institutions because the systems are used only by a very limited number of primary banks.

In one of their most important strategic business segments, the primary banks have at their disposal a state-of-the-art rating system in the form of the VR rating system for SMEs. This system provides long-term support for the appropriate recording of potential risks in the SME lending business. The system was introduced in 2003 and is now used by more than 80 percent of primary banks as well as by the central institutions and specialized service

| Retail customers | | | Use of segment name in primary stage |
|---|---|---|---|
| **Retail** | Retail customers | | Since the beginning of 2006 |
| | Corporate customers | VR corporate customers rapid rating | Autumn 2009 |
| | | Agriculture | Since autumn 2008 |
| | | Not-for-profit organizations | Since mid-2004 |
| | | Business customers/self-employed | Since mid-2004 |
| | | Small and medium-sized enterprises | Since the beginning of 2003 |
| **Wholesale & special rating** | | Large and medium-sized companies | Since the beginning of 2003 |
| | | Major corporate customers | Following technical implementation |
| | Banks | Banks | Rating desk |
| | Public sector | Federal states | Rating desk |
| | | Public-sector entities | Rating desk |
| | Specialized financial services | Commercial real estate (SLRE) | Rating desk |

providers within the cooperative sector.

A validation of the VR rating system for SMEs was carried out and completed in 2008. This involved assembling a full set of historical data in conjunction with the cooperative computing centers and the central institutions. This comprehensive, high-quality, representative set of data was then used as the basis for the validation work. From the very beginning, confidentiality for customers and banks was assured with the implementation of a concept to render the data anonymous. This concept took into account the data protection requirements for customers and the primary banks. Following comprehensive preprocessing of data, approximately 300,000 authorized ratings and data from almost 600,000 annual financial statements were fed into the analyses. The main purpose of the review was to validate the selectivity of the rating system, its stability, and the quality of calibration.

The investigations have shown that the current VR rating system for SMEs satisfies the regulatory requirements in respect of selectivity, calibration and stability. In addition, the selected rating application model has proved itself to be appropriate to the current SME portfolio throughout the network. The system of basing judgments on both quantitative and qualitative criteria for borrowers in this segment filing financial statements has therefore stood the test. With the official authorization granted to WGZ BANK to use the IRB approach (the WGZ BANK acted as the master bank for the acceptance testing of the rating system for the IRB approach), all the primary banks can now refer to the comprehensive validation of the rating system model carried out by the German banking regulator.

# Risk Report
## BVR protection scheme

The purpose of the BVR protection scheme is to prevent or eliminate existing or imminent financial difficulties in the member banks and to prevent any negative impact on confidence in the cooperative banks. BVR manages a guarantee fund and a guarantee network to assist with any necessary restructuring measures.

As at December 31, 2008, a total of 1,209 (December 31, 2007: 1,244) institutions in the Cooperative Financial Services Network were participating in the BVR protection scheme. The decrease in the number of member institutions was attributable solely to mergers.

In the year under review, one of the main features of the activities of the BVR protection scheme was the support given to the HypoRealEstate Group (HRE). Otherwise, 2008 was a satisfactory year for the BVR protection scheme despite the financial crisis. The positive ratings for the Cooperative Financial Services Network were confirmed by Standard & Poor's and Fitch Ratings, and this can also be attributed to the successful activities of the BVR protection scheme as a bank-related protection scheme. The statutes of the BVR protection facility were revised in 2008. The amendments that have now been proposed to the member institutions are to be approved at the general meeting of members to be held in September 2009.

### Legal basis
Pursuant to section 4 of the articles of association of the National Association of German Cooperative Banks, BVR manages a protection scheme. This scheme is specified expressly as a bank-protection scheme in section 12 of the legislation implementing the EU deposit guarantee schemes and investor compensation schemes directives. Since August 1, 1998, the BVR protection scheme has therefore been subject to monitoring by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) [Federal Financial Supervisory Authority] (section 12 (1) in conjunction with section 7 (3) German Deposit Guarantee and Investor Compensation Act); as a result, the member institutions do not need to participate in any statutory compensation scheme.

In 2008, the BVR protection scheme met, without qualification, all its responsibilities as a bank-protection scheme in accordance with statutory requirements and the articles of association.

### Classification process
The classification system uses eight key figures relating to financial position, financial performance, and risk position to assign the member institutions to one of eight credit rating categories (A+, A, A-, B+, B, B-, C and D) reflecting their individual creditworthiness. The classification system is based on quantitative key figures, most of whose data is taken from the member institutions' audited annual financial statements and audit reports.

The results of this annual classification provide an early-warning indicator, which the BVR protection scheme uses to take specific preventive action as part of its bank management and support activities. The discriminant power of this classification system remains consistently high even over periods of several years. The banks assigned to the A+ rating category are the least likely to need restructuring, while the institutions classified as rating category D are the most likely to require restructuring.

### Preventive management
The results of the BVR's classification process provide the basis for systematic preventive management of the BVR protection scheme. This procedure, which has been used

since 2003 to levy contributions and is now universally accepted, is a key component of preventive management. It supplies the BVR protection scheme with important information on the member institutions' financial position, financial performance, and risk position and gives the institutions themselves substantial incentives to improve these figures of their own accord, not least so that they can reduce their payments to the guarantee fund.

Another crucial component of preventive management is the comprehensive support offered to those member institutions whose main problems have been flagged up by the findings of the classification process. The classification process is therefore also used as an introduction to preventive management. The focus of the BVR protection scheme's work has been steadily shifting toward preventive management and averting the potential need for support measures.

**Restructuring management**

The work of the BVR protection scheme in restructuring member institutions is aimed at ensuring that these institutions' annual financial statements are able to receive an unqualified auditors' opinion. It does so by providing restructuring assistance and, in particular, by ensuring that the member institutions remain competitive and fit for purpose in future.

Apart from the restructuring measures performed for the member institutions, the BVR protection scheme helped offer support to the HypoRealEstate Group (HRE) and, to this end, provided a counterguarantee worth Euro 600 million on top of the German government's guarantee of Euro 35 billion. This counterguarantee remains valid until December 31, 2009 and is backed by assigned or pledged HRE collateral worth a nominal Euro 60 billion; of this amount, prior-ranking liability is provided by Euro 15 billion for the funding made available by the banking/insurance syndicate.

# Risk Report
## Further risk management tools

In addition to the risk management and risk hedging tools made available at the level of the entire Cooperative Financial Services Network, the central institutions have devised further tools that allow the primary banks to transfer risk on an individual basis. This transfer of risk enables the primary banks to transact additional new business without taking on significantly greater risk, even though the credit lines available to individual customers, sectors, or risk groups have already been exhausted, and to invest in customer segments to which their access was previously either non-existent or limited. The transfer of credit risk can help reduce unexpected losses, thereby freeing up capital for the primary banks.

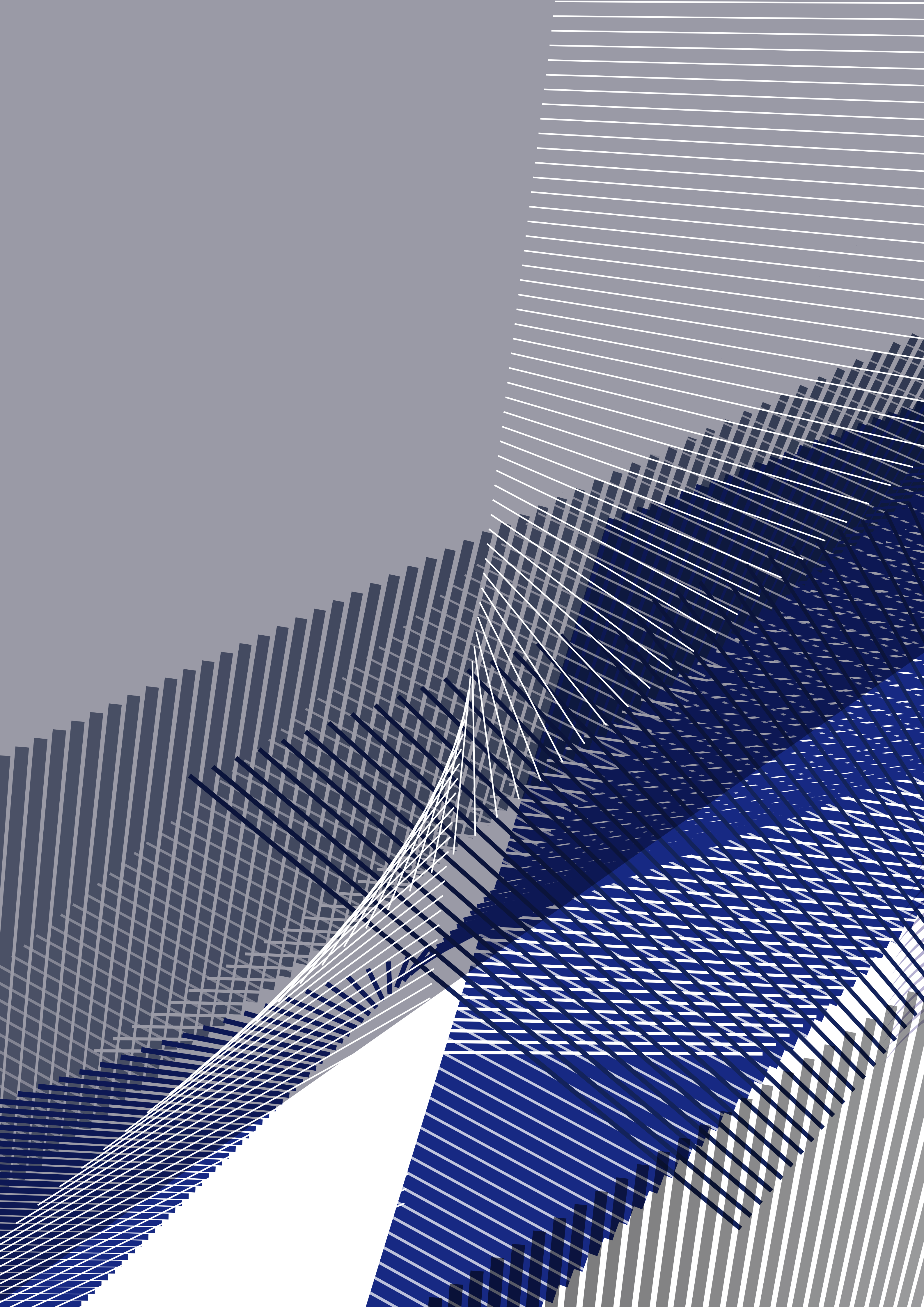
For many years, the members of the Cooperative Financial Services Network have been using traditional instruments such as syndicated loans, credit insurance, guarantees and sureties as ways of transferring their credit risk to third parties. However, the range of products used has been considerably extended in recent years. Credit derivatives are playing an increasingly important role in this process.

Since 2005, DZ BANK has been offering the primary banks the option of transferring risk via its VR Circle securitization platform. The fifth VR Circle transaction executed by DZ BANK was launched in the market on schedule in the late summer of 2008. This bank management tool enables primary banks to increase their capacity to sustain credit risk. Because the transfer of risk is purely synthetic, the underlying transaction with the customer remains completely unaffected on the balance sheet – in contrast to the recently often criticized genuine sale of loans to financial investors.

VR Circle is a closed-loop model for commercial customer loans and advances that was partly developed by the primary banks and tailored specifically to their needs. This model has now established itself as an innovative risk transfer method. The primary banks can use this model to mitigate specific risks emanating from sizeable credit exposures by pooling the loans. By repurchasing part of this widely diversified pool, the primary banks can significantly reduce their counterparty risk. Credit-linked notes are used to transfer the risk synthetically so that the loans remain on the primary banks' balance sheets and the relationship between customer and bank remains unaffected. By broadly diversifying and, consequently, reducing the risks and increasing the options available in lending business, VR Circle can significantly help to ensure that the primary banks retain their entrepreneurial independence.

The WGZ-LOOP risk transfer platform offered by WGZ BANK is another good example of the interaction between various partners in the Cooperative Financial Services Network for the purposes of transferring risk. After the first transaction was successfully executed with 15 primary banks in 2006, WGZ-LOOP was implemented for the second time with the participation of eleven primary banks in July 2008. WGZ-LOOP utilizes a closed-loop model to optimize portfolio diversification through the transfer of risk on unsecured commercial loans. It enables participating primary banks to use credit default swaps to transfer credit risk without impairing the primary customer relationship. The primary banks then take back in widely diversified form the credit risks they have put into the system. The prerequisite for this multi-seller transaction is that the standard VR rating must provide the basis for evaluating the risks that have been contributed. By participating in WGZ-LOOP, the primary banks can mitigate concentration risk, thereby lowering the value-at-risk in their credit portfolios and facilitating more flexible credit line management.

By offering VR Circle and WGZ-LOOP, DZ BANK and WGZ BANK have already developed established and effective tools for managing and diversifying potential concentration risk in the primary banks' credit portfolios. To optimize the cost/benefit ratio of closed-loop transactions within the Cooperative Financial Services Network, DZ BANK and WGZ BANK are working together in 2009 to provide their first joint hedging facility through the VR Circle platform.



# Outlook

### Macroeconomic conditions

The recession is continuing in 2009. In its latest annual economic report published at the beginning of this year, the German government was forecasting that Germany's GDP would contract by 2.3 percent. This prediction assumed that the second economic stimulus package would produce the desired results and that the global markets would, as had been hoped, finally turn the corner or at least stabilize in the second half of the year.

Given the performance of the economy to date, it is evident that the crisis will be deeper and more protracted than initially thought. Because of its heavy reliance on exports, the German economy is being hit particularly hard by the collapse in global demand. In their latest report published this spring, Germany's leading economic research institutes forecast that the country's GDP will fall by 6 percent in 2009. The German government has adjusted its earlier prediction accordingly.

Weaker demand in Germany's main export markets has forced companies to scale back their capital expenditure plans in 2009. All these factors are acting as a brake on domestic demand and the situation is being exacerbated by a drop in exports, which will not be fully compensated for by fiscal stimulus packages. A consequent rise in unemployment will depress personal consumption in Germany even further. At the same time, uncertainty will continue to influence consumer behavior. Households will remain skeptical about economic growth, and this will keep the savings ratio high.

The significantly lower global prices of commodities and energy are acting as stabilizing factors. First, they are improving Germany's balance of trade; and second, the associated decline in prices is boosting real disposable incomes. Consumer price inflation, which hit 2.6 percent in 2008, is likely to fall to well below 1.0 percent in 2009.

Despite the ECB's more expansionary monetary policy and the German government's comprehensive fiscal and economic stimulus packages, macroeconomic conditions are not expected to improve before early 2010.

### Cooperative Financial Services Network

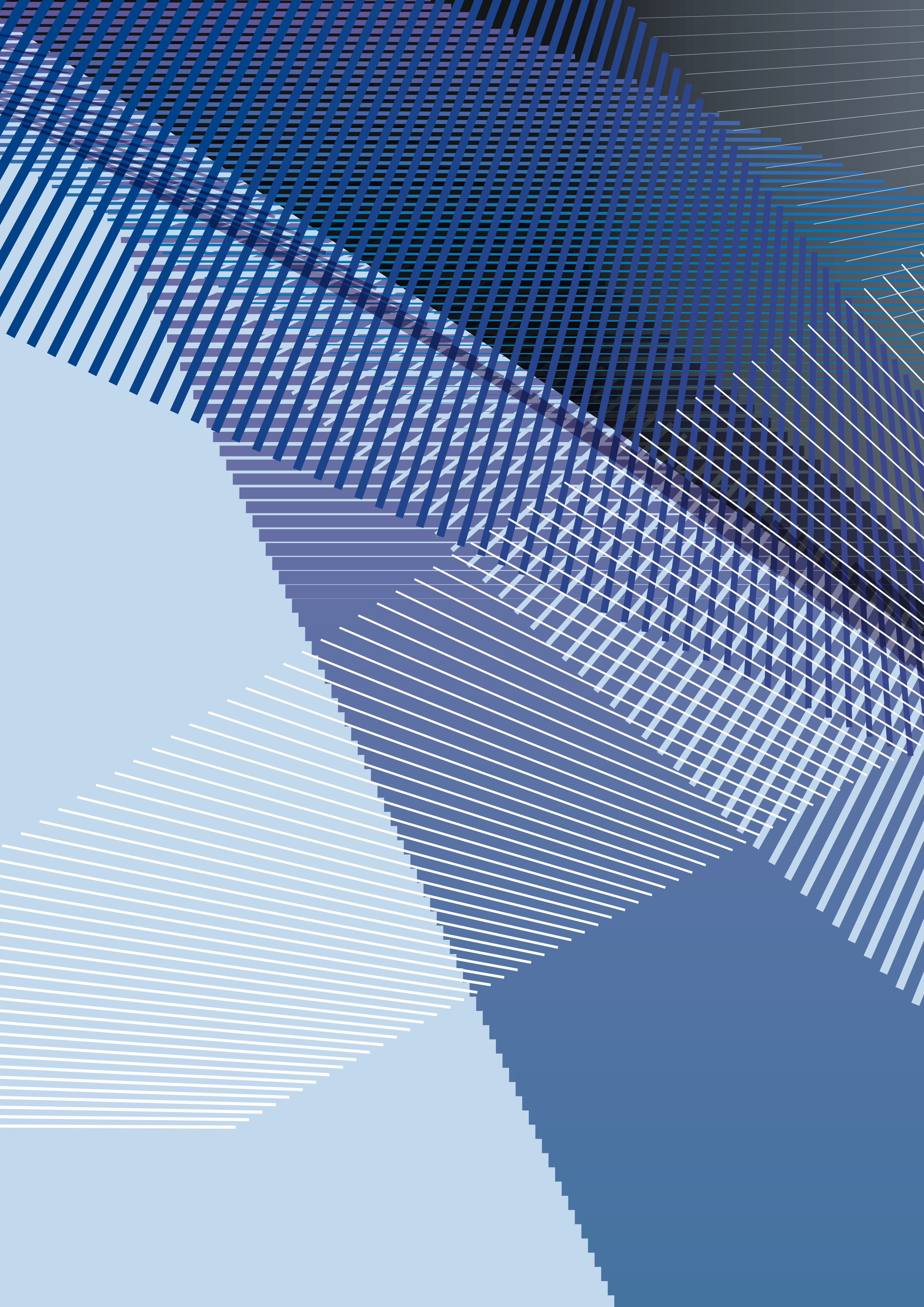
The **central institutions** expect to increase their operating income year on year in 2009 and to generate further growth in 2010. The central institutions' strategic objective is to focus their efforts on the primary banks in such a way that the Cooperative Financial Services Network establishes itself as Germany's leading financial services provider.

Based on their initial earnings projections for 2009, the **primary banks** are predicting a sharp increase in their net interest income. The steepening of the yield curve is making maturity transformation more profitable for banks. The dramatic fall in securities business and custodial services in the wake of the financial crisis and the lower levels of income from agency and brokerage activities are likely to cause the primary banks' net fee and commission income to flatline.

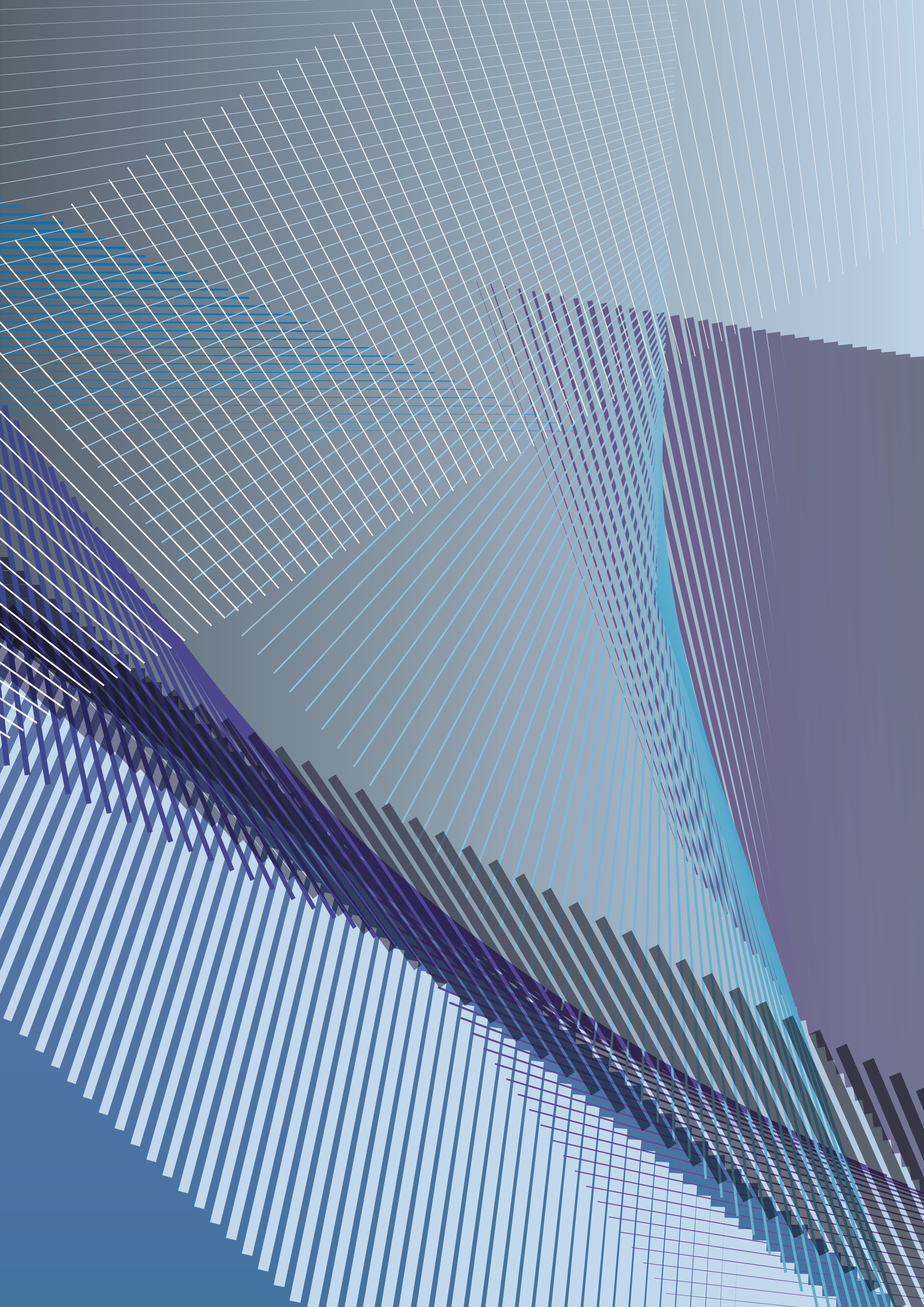
The economic risks resulting from the financial crisis will probably require provisions for losses on loans and advances to be increased. Assuming that interest rates remain unchanged and share prices move sideways or edge up slightly, net income from financial transactions will improve significantly and, according to current estimates, should more than offset the rise in specific loan loss allowances. Owing to the volatility of financial markets and the uncertainty surrounding economic trends going forward, it is not possible at present to make a reliable forecast for 2009.

Administrative expenses are expected to rise only moderately despite the collectively agreed pay increases introduced in November 2008. The cost/income ratio is likely to improve overall.

Providing that the aforementioned assumptions materialize, the aggregate financial performance of the **Cooperative Financial Services Network** is expected to improve significantly compared with 2008.



# Annual Consolidated Financial Statements



## Income Statement for the Period January 1 to December 31, 2008

| *Euro million* | Notes page(s) | **2008** | **2007** | **Change (percent)** |
|---|---|---|---|---|
| *Interest income and current income* | | *41,499* | *39,133* | *6.0* |
| *Interest expenses* | | *–25,553* | *–23,245* | *9.9* |
| Net interest income | 072 | 15,946 | 15,888 | 0.4 |
| *Allowances for losses on loans and advances* | 073 | *–1,589* | *–1,251* | *27.0* |
| Net interest income after allowances for losses on loans and advances | | 14,357 | 14,637 | –1.9 |
| *Fee and commission income* | | *5,962* | *6,083* | *–2.0* |
| *Fee and commission expenses* | | *–1,254* | *–1,152* | *8.9* |
| Net fee and commission income | 073 | 4,708 | 4,931 | –4.5 |
| Gains and losses on trading activities | 074 | –1,366 | 62 | > 100.0 |
| Gains and losses on investments | 074 | –3,143 | –1,376 | > 100.0 |
| Other gains and losses on valuation of financial instruments | 075 | –659 | –50 | > 100.0 |
| Premiums earned | 075 | 9,388 | 8,926 | 5.2 |
| Gains and losses on investments held by insurance companies and other insurance company gains and losses | 076 | 629 | 2,172 | –71.0 |
| Insurance benefit payments | 076 | –8,346 | –9,271 | –10.0 |
| Insurance business operating expenses | 077 | –1,246 | –1,155 | 7.9 |
| Administrative expenses | 077 | –14,771 | –15,121 | –2.3 |
| Other net income | 077 | 526 | 575 | –8.5 |
| **Profit/loss before taxes** | | **77** | **4,330** | **–98.2** |
| Income taxes | 078 | 109 | –1,280 | > 100.0 |
| **Net profit/loss** | | **186** | **3,050** | **–93.9** |
| | | | | |
| Attributable to | | | | |
| Shareholders of the Cooperative Financial Services Network | | 232 | 2,825 | –91.8 |
| Minority interest | | –46 | 225 | > 100.0 |

## Balance Sheet as at December 31, 2008

### Assets

| *Euro million* | Notes page(s) | **Dec. 31, 2008** | **Dec. 31, 2007** | **Change (percent)** |
|---|---|---|---|---|
| Cash and cash equivalents | 057/086 | 16,948 | 15,622 | 8.5 |
| Loans and advances to banks | 057/086 | 55,705 | 54,283 | 2.6 |
| Loans and advances to customers | 057/086 | 547,882 | 524,563 | 4.4 |
| Allowances for losses on loans and advances | 057/087 | –12,124 | –13,298 | –8.8 |
| Derivatives used for hedging (positive fair values) | 058/087 | 942 | 1,071 | –12.0 |
| Financial assets held for trading | 058/088 | 118,267 | 138,448 | –14.6 |
| Investments | 059/088 | 222,120 | 220,823 | 0.6 |
| Investments held by insurance companies | 061/089 | 48,481 | 46,855 | 3.5 |
| Property, plant and equipment, and investment property | 059/089 | 10,378 | 10,278 | 1.0 |
| Income tax assets | 059/090 | 7,123 | 6,121 | 16.4 |
| Other assets | 091 | 9,041 | 7,497 | 20.6 |
| **Total assets** | | **1,024,763** | **1,012,263** | **1.2** |

### Equity and liabilities

| *Euro million* | Notes page(s) | **Dec. 31, 2008** | **Dec. 31, 2007** | **Change (percent)** |
|---|---|---|---|---|
| Deposits from banks | 059/092 | 101,736 | 87,512 | 16.3 |
| Amounts owed to other depositors | 059/092 | 567,396 | 542,101 | 4.7 |
| Debt certificates including bonds | 060/092 | 121,902 | 129,254 | –5.7 |
| Derivatives used for hedging (negative fair values) | 058/087 | 2,429 | 1,278 | 90.1 |
| Financial liabilities held for trading | 058/093 | 104,815 | 126,519 | –17.2 |
| Provisions | 060/094 | 7,993 | 9,413 | –15.1 |
| Insurance liabilities | 061/097 | 48,205 | 45,324 | 6.4 |
| Income tax liabilities | 059/090 | 1,419 | 1,448 | –2.0 |
| Other liabilities | 097 | 7,698 | 7,291 | 5.6 |
| Subordinated capital | 060/098 | 7,947 | 7,768 | 2.3 |
| Cooperative network's capital | 060 | 53,223 | 54,355 | –2.1 |
| *Subscribed capital* | | *8,974* | *8,986* | *–0.1* |
| *Capital reserves* | | *770* | *780* | *–1.3* |
| *Retained earnings* | | *41,233* | *38,275* | *7.7* |
| *Revaluation reserve* | | *–901* | *296* | *> 100.0* |
| *Cash flow hedge reserve* | | *–32* | *8* | *> 100.0* |
| *Currency translation reserve* | | *–3* | *–1* | *> 100.0* |
| *Minority interest* | | *2,950* | *3,186* | *–7.4* |
| *Unappropriated earnings* | | *232* | *2,825* | *–91.8* |
| **Total equity and liabilities** | | **1,024,763** | **1,012,263** | **1.2** |

## Statement of Recognized Income and Expense as well as Explanatory Notes on Changes in the Cooperative Network's Capital

### Statement of recognized income and expense

| *Euro million* | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| Losses on available-for-sale financial assets | –1,649 | –879 | 87.6 |
| Gains and losses on cash flow hedges | –55 | 6 | > 100.0 |
| Exchange differences on currency translation of foreign operations | 6 | 1 | > 100.0 |
| Actuarial gains on defined benefit plans | 986 | 30 | > 100.0 |
| Income and expenses recognized directly in the cooperative network's capital from joint ventures and associates accounted for using the equity method | –25 | 1 | > 100.0 |
| Other expenses recognized directly in the cooperative network's capital | – | –9 | – |
| Deferred taxes on income and expenses recognized directly in the cooperative network's capital | 8 | 244 | –96.7 |
| **Income and expenses recognized directly in the cooperative network's capital** | **–729** | **–606** | **20.3** |
| Net profit/loss | 186 | 3,050 | –93.9 |
| **Total net profit/loss and income and expenses recognized directly in the cooperative network's capital** | **–543** | **2,444** | **> 100.0** |

| Attributable to | | | |
|---|---|---|---|
| Shareholders of the Cooperative Financial Services Network | –350 | 2,286 | > 100.0 |
| Minority interest | –193 | 158 | > 100.0 |

## Explanatory notes on changes in the cooperative network's capital

| Euro million | Subscribed capital | Capital reserves | Capital earned by the Cooperative Financial Services Network | Revaluation reserve | Cash flow hedge reserve | Currency translation reserve | Cooperative network's equity before minority-interest | Minority interest | Total equity attributable to the Cooperative Financial Services Network |
|---|---|---|---|---|---|---|---|---|---|
| **Cooperative network's capital as at Jan. 1, 2007** | **8,983** | **795** | **38,753** | **859** | **3** | **–1** | **49,392** | **3,081** | **52,473** |
| Income and expenses recognized directly in the cooperative network's capital | – | – | 19 | –563 | 5 | – | –539 | –67 | –606 |
| Net profit/loss | – | – | 2,825 | – | – | – | 2,825 | 225 | 3,050 |
| **Total net profit/loss and income and expenses recognized directly in the cooperative network's capital** | **–** | **–** | **2,844** | **–563** | **5** | **–** | **2,286** | **158** | **2,444** |
| Cooperative network's capital issued and repaid | 3 | –15 | – | – | – | – | –12 | 76 | 64 |
| Changes in the scope of consolidation | – | – | –12 | – | – | – | –12 | –5 | –17 |
| Dividends paid | – | – | –485 | – | – | – | –485 | –124 | –609 |
| **Cooperative network's capital as at Dec. 31, 2007** | **8,986** | **780** | **41,100** | **296** | **8** | **–1** | **51,169** | **3,186** | **54,355** |
| Income and expenses recognized directly in the cooperative network's capital | – | – | 657 | –1,197 | –40 | –2 | –582 | –147 | –729 |
| Net profit/loss | – | – | 232 | – | – | – | 232 | –46 | 186 |
| **Total net profit/loss and income and expenses recognized directly in the cooperative network's capital** | **–** | **–** | **889** | **–1,197** | **–40** | **–2** | **–350** | **–193** | **–543** |
| Cooperative network's capital issued and repaid | –12 | –10 | – | – | – | – | –22 | 124 | 102 |
| Changes in the scope of consolidation | – | – | –38 | – | – | – | –38 | –13 | –51 |
| Dividends paid | – | – | –486 | – | – | – | –486 | –154 | –640 |
| **Cooperative network's capital as at Dec. 31, 2008** | **8,974** | **770** | **41,465** | **–901** | **–32** | **–3** | **50,273** | **2,950** | **53,223** |

The table below gives a breakdown of subscribed capital:

| Euro million | **Dec. 31, 2008** | **Dec. 31, 2007** | **Change (percent)** |
|---|---|---|---|
| Cooperative shares | 8,469 | 8,508 | –0.5 |
| Share capital | 207 | 175 | 18.3 |
| Capital of silent partners | 298 | 303 | –1.7 |
| **Total** | **8,974** | **8,986** | **–0.1** |

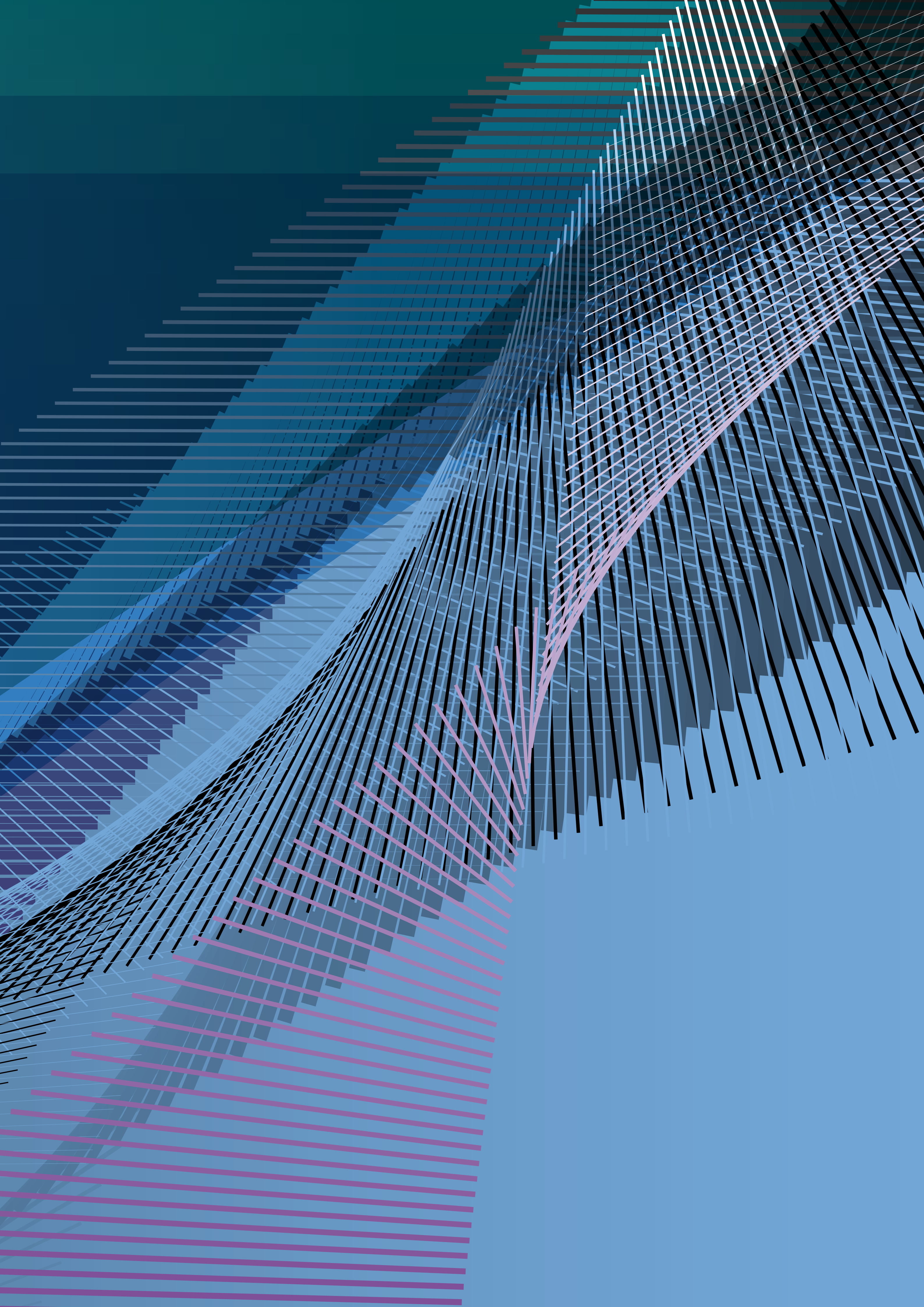
# Cash Flow Statement

| *Euro million* | 2008 | 2007 |
|---|---|---|
| **Net profit/loss** | **186** | **3,050** |
| **Non-cash items included in net profit/loss and reconciliation to cash flows from operating activities** | | |
| Depreciation, amortization, impairment losses, and reversal of impairment losses on assets, and measurement changes on financial assets and liabilities | 7,049 | 2,921 |
| Non-cash changes in provisions | –1,432 | 120 |
| Changes in insurance liabilities | 3,222 | 2,879 |
| Other non-cash income and expenses | –238 | 500 |
| Gains and losses on the disposal of assets and liabilities | 3,069 | 1,316 |
| Other adjustments (net) on interest and dividends | –16,467 | –16,617 |
| **Subtotal** | **–4,611** | **–5,831** |
| **Cash changes in assets and liabilities from operating activities** | | |
| Loans and advances to banks and to customers | –26,869 | –18,042 |
| Other assets from operating activities | 146 | –461 |
| Derivatives used for hedging (positive and negative fair values) | 237 | 125 |
| Financial assets and financial liabilities held for trading | –3,947 | –7,804 |
| Deposits from banks and amounts owed to other depositors | 38,915 | 33,014 |
| Debt certificates including bonds | –7,646 | –12,865 |
| Other liabilities from operating activities | –3,479 | –478 |
| Interest and dividends received | 39,086 | 41,239 |
| Interest paid | –22,174 | –24,231 |
| Income taxes paid | –176 | –262 |
| **Cash flows from operating activities** | **9,482** | **4,404** |
| Proceeds from the sale of investments | 27,358 | 30,006 |
| Proceeds from the sale of investments held by insurance companies | 15,551 | 17,286 |
| Payments for the acquisition of investments | –32,330 | –28,148 |
| Payments for the acquisition of investments held by insurance companies | –17,229 | –19,727 |
| Net payments for the acquisition of property, plant and equipment, and investment property | –986 | –784 |
| Changes in the scope of consolidation | –264 | –21 |
| Net change in cash and cash equivalents from other investing activities | –121 | –27 |
| **Cash flows from investing activities** | **–8,021** | **–1,415** |
| Proceeds from additions to cooperative network's capital | 124 | 79 |
| Dividends paid to shareholders of the Cooperative Financial Services Network and minority interest | –640 | –609 |
| Other payments to shareholders of the Cooperative Financial Services Network and minority interest | –22 | –15 |
| Net change in cash and cash equivalents from other financing activities (including subordinated capital) | 403 | –1,784 |
| **Cash flows from financing activities** | **–135** | **–2,329** |

| *Euro million* | 2008 | 2007 |
|---|---|---|
| **Cash and cash equivalents as at January 1** | **15,622** | **14,962** |
| Cash flows from operating activities | 9,482 | 4,404 |
| Cash flows from investing activities | –8,021 | –1,415 |
| Cash flows from financing activities | –135 | –2,329 |
| **Cash and cash equivalents as at December 31** | **16,948** | **15,622** |

The consolidated cash flow statement shows the changes in the Cooperative Financial Services Network's cash and cash equivalents during the reporting period. Cash and cash equivalents in the annual consolidated financial statements consist of the cash reserve, which 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 arising in connection with the principal revenue-generating activities of the Cooperative Financial Services Network and other activities that cannot be classified as investing or financing activities. Cash flows related to the acquisition and disposal of non-current assets are allocated to investing activities. Cash flows from financing activities include cash flows arising from transactions with cooperative network capital holders and from other borrowing to finance business activities (e.g. profit-sharing rights and subordinated liabilities).



# Notes to the Annual Consolidated Financial Statements
## General disclosures

### 1. Basis of preparation
The annual consolidated financial statements prepared by the National Association of German Cooperative Banks (BVR) for the 2008 financial year are the first set of financial statements that the BVR has published based on the regulations applicable to companies whose securities are admitted to trading on a regulated market in the European Union (EU). The BVR is under no legal obligation to prepare such annual consolidated financial statements. 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 institutions either directly or through intermediate holding companies. The Cooperative Financial Services 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 annual consolidated financial statements have been prepared solely for information purposes and to present the business development and performance of the Cooperative Financial Services Network, which is treated as a single economic entity in terms of its risks and strategies. These annual consolidated financial statements are not a substitute for analysis of the consolidated entities' financial statements.

The accounting policies applied in these annual consolidated financial statements are based on the International Financial Reporting Standards.

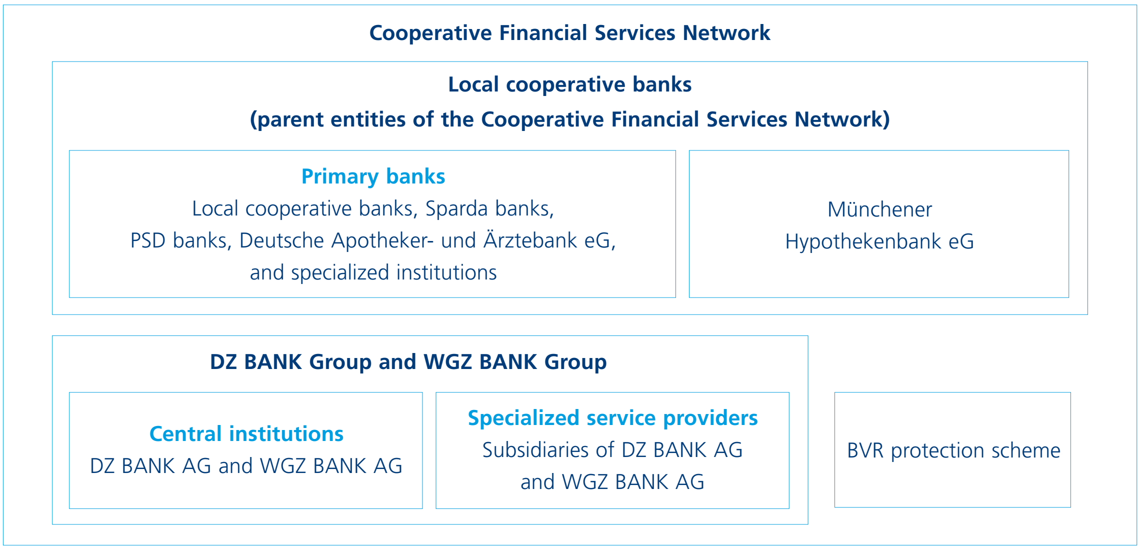
The underlying data of these annual consolidated financial statements is provided by the separate and consolidated financial statements of the entities in the Cooperative Financial Services Network and also includes data from supplementary surveys of the local cooperative banks. The consolidated financial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

As part of the preparation of these annual consolidated financial statements, the financial statements of the local cooperative banks and of the BVR protection scheme that are included and have been prepared in accordance with German commercial law have been brought into line with IFRSs. Assets, liabilities, equity, income and expenses are reconciled to the carrying amounts that would have resulted from consistent application of IFRS.

Certain assumptions and simplifications have been used to prepare these annual consolidated financial statements. These assumptions and simplifications have been made using tried-and-tested methods and have been properly verified. These assumptions and simplifications have been used to implement procedures that reflect the unique structure of the Cooperative Financial Services Network and eliminate intra-network line items.

In the interest of clarity, some items on the face of the balance sheet and the income statement have been aggregated and are explained by additional disclosures in the notes. Unless stated otherwise, all amounts are shown in millions of euros (Euro million). All figures are rounded to the nearest whole number. This may result in very small discrepancies in the calculation of totals and percentages in these annual consolidated financial statements.

### 2. Scope of consolidation
The consolidated entities included in these annual consolidated financial statements are the primary banks, the DZ BANK Group, the WGZ BANK Group, Münchener Hy-




pothekenbank eG (MHB), and the BVR protection scheme. The consolidated primary banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft, Hamm.

The primary banks and MHB are the legally independent, identically structured parent entities in the annual consolidated financial statements, whereas the other corporate groups and entities are consolidated as subsidiaries. The two cooperative central institutions and a total of 960 subsidiaries (2007: 941) have been consolidated in the DZ BANK Group and WGZ BANK Group.

The annual consolidated financial statements include four joint ventures between a consolidated entity and at least one other non-network entity (2007: four) and seven associates (2007: eight) over which a consolidated entity has significant influence. These entities are consolidated using the equity method.

### 3. Procedures of consolidation

Similarily to IFRS 3 in conjunction with IAS 27, business combinations are 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 acquisition date. Any positive difference between these two amounts is recognized as goodwill under other assets and subjected to an annual impairment test. Any negative goodwill is recognized immediately in profit or loss. Any share of subsidiaries' net assets not attributable to the parent entities is reported as minority interest within the cooperative network's capital.

Business combinations completed on or after January 1, 2007 are accounted for similarily IFRS 3. Business combinations completed prior to this date are not restated retrospectively. The German Commercial Code (HGB) classification of business combinations and the offsetting of goodwill arising from acquisitions against the Cooperative Financial Services Network's reserves continue to apply to these business combinations.

Interests in joint ventures and investments in associates are accounted for using the equity method and reported under investments. With two exceptions (2007: one exception), the separate financial statements of the entities accounted for using the equity method are prepared to the same balance sheet date as that of the annual consolidated financial statements.

Assets and liabilities as well as income and expenses arising within the Cooperative Financial Services Network are offset against each other on the basis of certain assumptions and simplifications. Significant gains and losses arising from transactions between entities within the Cooperative Financial Services Network are eliminated.

## 4. Financial instruments

Financial instruments within the scope of IAS 39 are designated upon initial recognition to one of the categories defined in IAS 39 on the basis of their characteristics and intended use. The categories defined by IAS 39 are described below.

### Financial instruments at fair value through profit or loss

Financial instruments in this category are recognized at fair value through profit or loss. This category is broken down into two subcategories, as shown below.

*Financial instruments held for trading*

The "financial instruments held for trading" subcategory covers financial assets and financial liabilities that are acquired or incurred for the purpose of selling or repurchasing them in the near term, that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or that are derivatives, except for derivatives that are designated and effective hedging instruments as defined by IAS 39.

*Financial instruments designated as at fair value through profit or loss*

All financial assets and financial liabilities may be designated to the "financial instruments designated as at fair value through profit or loss" subcategory by exercising the fair value option, provided that the application of this option eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch), the financial assets and liabilities are managed as a portfolio on a fair value basis or they include one or more embedded derivatives required to be separated from the host contract. The Cooperative Financial Services Network uses this category on the basis of all the specified application criteria.

### Held-to-maturity investments

The "held-to-maturity investments" category consists of non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. These investments are measured at amortized cost.

**Loans and receivables**

"Loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or classified as "available-for-sale financial assets". Loans and receivables are measured at amortized cost.

**Available-for-sale financial assets**

"Available-for-sale financial assets" are all financial assets that cannot be classified in any other category. They are measured at fair value. Any changes in fair value are recognized in the revaluation reserve.

**Financial liabilities measured at amortized cost**

This category includes all financial liabilities within the scope of IAS 39 that are measured at amortized cost.

Separate regulations apply to other financial instruments, such as insurance-related financial assets and financial liabilities, liabilities under financial guarantee contracts, and assets and liabilities arising from finance leases.

## 5. Cash and cash equivalents

This item comprises the cash and cash equivalents held by the Cooperative Financial Services Network. These include cash on hand denominated in euros and other currencies, balances held with central banks and other government institutions, and bills of exchange eligible for refinancing by central banks.

Cash denominated in euros is measured at its face value; cash in foreign currency is translated at the buying rate. Balances held with central banks and other government institutions as well as bills of exchange are measured at amortized cost.

## 6. Loans and advances to banks and to customers

All receivables attributable to registered debtors and not recognized as financial assets held for trading are recognized as loans and advances to banks or to 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 or to customers include promissory notes and registered bonds.

Loans and advances to banks or to customers are measured at amortized cost. To avoid accounting mismatches, certain loans and advances are designated as at fair value through profit or loss. Finance lease receivables are initially recognized on the balance sheet at an amount equal to the net investment in the lease. When they are subsequently measured, financial income is calculated such that a constant periodic return on the net investment is recognized.

Interest income on loans and advances to banks or to customers is recognized as interest income from lending and money market operations. This also includes gains and losses on the amortization of hedge adjustments to carrying amounts due to fair value hedges. Hedge adjustments are recognized within other gains and losses on valuation of financial instruments under gains and losses arising on hedging transactions. Gains and losses on loans and advances designated as at fair value through profit or loss are also recognized in other gains and losses on valuation of financial instruments.

## 7. Allowances for losses on loans and advances

Financial assets must be assessed at each balance sheet date to determine whether there is any objective evidence that these financial assets are impaired. If such objective evidence is available, specific allowances in the amount of the determined impairment loss requirement are recognized for financial assets.

Allowances for losses on loans and advances are recognized as a separate line item on the balance sheet.

In addition, financial assets with similar features for which impairment losses are not recognized on an individual basis are grouped into portfolios and assessed collectively for possible impairment. Impairment losses are calculated on the basis of historical default rates for comparable portfolios. If any impairment is identified, the portfolio loan loss allowances are recognized.

Furthermore, provisions for losses on loans and advances include provisions for loan commitments for which an appropriate loan loss allowance is recognized if the credit facility is drawn down. Liabilities are recognized for financial guarantee contracts and certain loan commitments; these liabilities are included in other liabilities. Additions to and reversals of these items are recognized in profit or loss.

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

Derivative financial instruments designated as hedging instruments in an effective and documented hedging relationship are recognized in these balance sheet items in accordance with IAS 39.

Changes in the fair value of hedging instruments used to protect the fair value of hedged items are recognized in the income statement. If the hedging instruments are intended as a cash flow hedge, changes in fair value attributable to the effective portion of the hedge are recognized directly in capital in the cash flow hedge reserve.

### 9. Financial assets and financial liabilities held for trading

Financial assets held for trading include securities, promissory notes, registered bonds, money market receivables, and inventories from commodities transactions, all of which are held for trading purposes.

Financial liabilities held for trading include share- and index-linked certificates, money market certificates, certificates of deposit, delivery commitments arising from short-sale of securities, money market deposits, and liabilities arising from commodities transactions, all of which are entered into for trading purposes.

Financial assets and financial liabilities held for trading also include derivatives with positive and negative fair values that were entered into for trading purposes or that do not meet the requirements for an accounting treatment as hedging instruments.

Gains and losses on financial instruments reported as financial assets or financial liabilities held for trading are recognized as gains and losses on trading activities. Financial assets and financial liabilities held for trading are measured at fair value through profit or loss.

Gains and losses on the remeasurement of derivative financial instruments entered into for hedging purposes, but that do not meet the requirements for classification as a hedging instrument, are recognized under other gains and losses on valuation of financial instruments as gains and losses on derivative financial instruments concluded without trading purpose. If, to avoid accounting mismatches, hedged items are classified as "financial instruments designated as at fair value through profit or loss", measurement gains and losses are recognized under gains and losses on financial instruments designated as at fair value through profit or loss.

### 10. Investments

The following are recognized as investments: bearer bonds and other fixed-income securities, shares and other variable-yield securities, and other bearer or registered shareholdings in companies in which the Cooperative Financial Services Network has no significant influence, provided that these securities or shares are not held for trading purposes. Investments also include shares in non-consolidated subsidiaries and shares in joint ventures and associates.

Investments are initially recognized at fair value. Shares, investments in subsidiaries, joint ventures and associates, and other shareholdings for which a fair value cannot be reliably determined or which are accounted for using the equity method are initially recognized at cost.

### 11. Property, plant and equipment, and investment property

Property, plant and equipment, and investment property comprises land and buildings, office furniture and equipment, and other fixed assets with an estimated useful life of more than one reporting period used by the Cooperative Financial Services Network. This item also includes assets subject to operating leases. Investment property contains real estate held for the purposes of generating rental income or appreciation.

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

Depreciation and impairment losses on property, plant and equipment, and investment property are recognized as administrative expenses. Reversals of impairment losses are reported under other net income.

### 12. Income tax assets and liabilities

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

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

Deferred tax assets and liabilities are not discounted. Where temporary differences arise in relation to items recognized directly in the cooperative network's capital, the resulting deferred tax assets and liabilities are also recognized directly in the cooperative network's capital. Current and deferred tax income and expense to be recognized through profit or loss is reported under income taxes in the income statement.

### 13. Deposits from banks and amounts owed to other depositors

All liabilities attributable to registered creditors and not recognized as financial liabilities held for trading are recognized as deposits from banks and amounts owed to other depositors. In addition to fixed-maturity liabilities and liabilities payable on demand arising from the deposit, home savings and money market businesses, these liabilities also include registered bonds and promissory notes issued.

Deposits from banks and amounts owed to other depositors are measured at amortized cost. To avoid accounting mismatches, certain liabilities are designated as at fair value through profit or loss.

Interest expense on deposits from banks and amounts owed to other depositors are recognized separately under net interest income. Interest expense also includes gains and losses on early redemptions 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 are reported within other gains and losses on valuation of financial instruments under gains and losses arising on hedging transactions. Gains and losses on liabilities designated as at fair value through profit or loss are also recognized in other gains and losses on valuation of financial instruments.

### 14. Debt certificates including bonds

Debt certificates including bonds cover issued Pfandbriefe, other bonds and other debt certificates which transferable bearer certificates have been issued.

Debt certificates, including bonds, and gains and losses on these certificates as well as interest are measured and recognized in the same way as deposits from banks and amounts owed to other depositors.

### 15. Provisions

In addition to provisions for pensions and other post-employment benefits, provisions include provisions for losses on loans and advances and for other contingent liabilities to third parties as well as provisions relating to home savings business.

Partially simplified actuarial reports are used to calculate the carrying amounts of provisions for defined benefit obligations. These include assumptions about long-term salary and pension trends and average life expectancy. Assumptions about salary and pension trends are based on past trends and take account of expectations about future labor market trends. Recognized biometric tables (mortality tables published by Professor Dr. Klaus Heubeck) are used to estimate average life expectancy. The discount rate used to discount future payment obligations is an appropriate market interest rate for long-term monetary investments with a maturity equivalent to that of the pension obligations.

Actuarial gains and losses arising from changes in actuarial assumptions or from unexpected changes in the performance of plan assets are recognized directly in the cooperative network's capital in the financial year in which they occur.

Other provisions are measured based on the best estimate of their anticipated utilization.

### 16. Subordinated capital

Subordinated capital comprises all debt instruments that, in the event of insolvency or liquidation, are repaid only after settlement of all unsubordinated liabilities but before distribution to shareholders of any proceeds from the insolvency or liquidation. Subordinated liabilities, profit-sharing rights issued, and other hybrid capital are reported as subordinated capital.

Gains and losses on subordinated capital as well as interest are measured and recognized in the same way as deposits from banks and amounts owed to other depositors.

### 17. Cooperative network's capital

The cooperative network's capital represents the residual value of the network's assets minus its liabilities. Cooperative shares of the independent local cooperative banks and capital of silent partners are treated as economic equity in the annual consolidated financial statements and are recognized as cooperative network's capital. The cooperative network's capital thus comprises subscribed capital – consisting of cooperative shares or share capital and capital of silent partners – plus capital reserves of the local cooperative banks. It also includes the capital earned by the Cooperative Financial Services Network, the reserve resulting from the fair value measurement of available-for-sale financial assets (revaluation reserve), the cash flow hedge reserve, the currency translation reserve, and the minority interest in cooperative network's capital of fully consolidated subsidiaries.

### 18. 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 are recognized as fee and commission income or as fee and commission expenses. Income and expenses resulting from the transmission and administration of trust loans are netted and are included in the fee and commission income earned from lending and business trust activities.

### 19. Insurance business

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

**Financial assets and financial liabilities**

The financial assets and financial liabilities reported under the investments and the other assets and other liabilities of insurance companies are generally measured in accordance with IAS 39. In addition, certain financial assets and financial liabilities are held as part of the insurance business and, as required by IFRS 4.25(c), are recognized in accordance with the provisions of the HGB and other German accounting standards applicable to insurance companies. These financial assets and financial liabilities include deposits with ceding insurers, deposits received from reinsurers, receivables and payables arising out of direct insurance operations, and investments related to unit-linked contracts.

**Insurance liabilities**

Under IFRS 4.13, insurance companies are permitted to continue applying existing accounting policies to certain insurance-specific items during a transition period. As required by IFRS 4.25(c), insurance liabilities are therefore recognized and measured in accordance with the provisions of the HGB and other German accounting standards applicable to insurance companies. Liabilities that do not meet the criteria for insurance contracts under IFRS 4 are reported under other liabilities. Insurance liabilities are shown before the deduction of the share of reinsurers, which is reported as an asset.

### 20. Leases

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

The DVB Bank Group and the VR LEASING Group are active as finance lessors in the Cooperative Financial Services Network. The entities in the DVB Bank Group primarily enter into leases for ships, ship containers, aircraft, and aircraft engines. The leases entered into with customers by the entities in the VR LEASING Group mainly comprise partial-payout leases, full-payout leases, and cancelable leases; these entities also enter into hire purchase agreements.

# First-time Adoption of IFRS

## Reconciliation of HGB Accounting to IFRS Accounting

The transition from HGB accounting to IFRS accounting had the following impact on the cooperative network's capital as at January 1, 2007 and December 31, 2007:

| *Euro million* | **Dec. 31, 2007** | **Jan. 1, 2007** |
|---|---|---|
| **Cooperative network's capital under the HGB** | **37,756** | **37,428** |
| **Effects of transition** | **16,599** | **15,045** |
| Contingency reserves pursuant to section 340f and section 340g HGB; building societies guarantee fund | 16,864 | 16,634 |
| Insurance business | 2,413 | 2,205 |
| Provisions for defined benefit obligations | –1,174 | –1,177 |
| Other provisions | 471 | 248 |
| Other assets and liabilities | –572 | –747 |
| Subordinated capital | –540 | –481 |
| Income tax assets and liabilities | –336 | –524 |
| Own shares | –260 | –258 |
| Allowances for losses on loans and advances | 173 | –80 |
| Recognition and measurement of financial instruments pursuant to IAS 39 | 95 | 698 |
| Property, plant and equipment, and investment property | 46 | 51 |
| Leasing business | 7 | 108 |
| Other changes | –588 | –1,632 |
| **Cooperative network's capital under IFRS** | **54,355** | **52,473** |

The transition to IFRS accounting had the following impact on the net profit reported in the annual consolidated financial statements for 2007, which were the last to be published in accordance with the HGB:

| *Euro million* | 2007 |
|---|---|
| **Net profit under HGB** | **2,161** |
| **Effects of gains and losses** | **889** |
| Recognition and measurement of financial instruments pursuant to IAS 39 | 275 |
| Contingency reserves pursuant to section 340f and section 340g HGB; building societies guarantee fund | 229 |
| Insurance business | 221 |
| Allowances for losses on loans and advances | 142 |
| Amortization of interest income and interest expenses | 97 |
| Provisions for defined benefit obligations | –27 |
| Other provisions | –4 |
| Leasing business | 23 |
| Income taxes | 32 |
| Other changes | –99 |
| **Net profit under IFRS** | **3,050** |

**Notes on the effects of reconciliation**

The restatement of the cooperative network's capital and of the net profit in connection with the recognition of provisions for defined benefit obligations largely results from the application of measurement parameters and methods that differ from those used under HGB.

The reversal of the reserves recognized in connection with the prudential reserves pursuant to section 340f HGB, the fund for general banking risks pursuant to section 340g HGB, and the building societies guarantee fund has had an effect on the cooperative network's capital and on the net profit. Whilst the formation of hidden reserves is not consistent with the IFRS measurement rules, the fund for general banking risks does not meet the IFRS criteria for the recognition of liabilities. The building societies guarantee fund performs the function of a dedicated reserve for specific business-related risks. This fund does not meet the IFRS criteria for the recognition of either liabilities or provisions. Consequently, IFRS requires the reserves recognized pursuant to section 340f and section 340g HGB as well as the building societies guarantee fund to be reclassified as cooperative network's capital.

The application of the accounting rules on the recognition of financial instruments pursuant to IAS 39 considerably widens the scope for the recognition of derivatives and results in the comprehensive fair value measurement of financial instruments. Among other things, this requires the carrying amounts of financial instruments to be restated. The application of the rules on hedge accounting also has an impact to the cooperative network's capital.

Certain hybrid components of the cooperative network's capital in accordance with the HGB are reported as subordinated capital under IFRS.

The restatement of line items relating to the insurance business is primarily attributable to the equalization provisim that cannot be recognized under IFRS and to the marking-to-market of investments held by  insurance companies. This resulted in an increased net profit for the 2007 financial year.

The remeasurement of assets and liabilities in accordance with IFRS also requires deferred taxes to be recognized if the differences in carrying amounts compared with the tax accounts reverse over time.

# Income Statement Disclosures

## Net Interest Income

| *Euro million* | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| **Interest income and current income** | **41,499** | **39,133** | **6.0** |
| ***Interest income from*** | ***39,776*** | ***37,394*** | ***6.4*** |
| lending and money market operations | 31,541 | 29,839 | 5.7 |
| of which: home savings business | 859 | 850 | 1.1 |
| finance leases | 372 | 323 | 15.2 |
| fixed-income securities | 8,191 | 7,549 | 8.5 |
| other assets | 44 | 6 | > 100.0 |
| ***Current income from*** | ***1,612*** | ***1,655*** | ***–2.6*** |
| shares and other variable-yield securities | 1,328 | 1,391 | –4.5 |
| investments in subsidiaries | 28 | 41 | –31.7 |
| interests in joint ventures | 46 | 47 | –2.1 |
| investments in associates | 69 | 80 | –13.8 |
| other shareholdings | 68 | 37 | 83.8 |
| operating leases | 73 | 59 | 23.7 |
| ***Income from profit-pooling, profit-transfer and partial profit-transfer agreements*** | ***111*** | ***84*** | ***32.1*** |
| **Interest expense** | **–25,553** | **–23,245** | **9.9** |
| ***Interest expense on*** | ***–25,137*** | ***–22,723*** | ***10.6*** |
| deposits from banks and amounts owed to other depositors | –20,433 | –17,849 | 14.5 |
| of which: home savings business | –674 | –735 | –8.3 |
| debt certificates including bonds | –4,311 | –4,490 | –4.0 |
| subordinated capital | –379 | –395 | –4.1 |
| other liabilities | –14 | 11 | > 100.0 |
| ***other interest expenses*** | ***–416*** | ***–522*** | ***–20.3*** |
| **Total** | **15,946** | **15,888** | **0.4** |

Current income from interests in joint ventures and investments in associates includes the profit accounted for using the equity method amounting to Euro 37 million (2007: Euro 38 million) and Euro 68 million (2007: Euro 62 million) respectively.

The interest income from other assets and the interest expense on other liabilities include the gains and losses on the amortization of fair value changes of the hedged items in portfolio hedges of interest-rate risk.

## Allowances for Losses on Loans and Advances

| Euro million | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| Additions | –3,508 | –2,864 | 22.5 |
| Reversals | 1,979 | 2,119 | –6.6 |
| Directly recognized impairment losses | –382 | –516 | –26.0 |
| Receipts from loans and advances previously impaired | 199 | 184 | 8.2 |
| Changes in provisions for losses on loans and advances and in liabilities from financial guarantee contracts and loan commitments | 123 | –174 | > 100.0 |
| **Total** | **–1,589** | **–1,251** | **27.0** |

## Net Fee and Commission Income

| Euro million | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| **Fee and commission income from** | **5,962** | **6,083** | **–2.0** |
| securities business | 2,750 | 3,081 | –10.7 |
| asset management | 170 | 192 | –11.5 |
| transaction banking including credit card business | 1,635 | 1,416 | 15.5 |
| financial guarantee contracts and loan commitments | 156 | 136 | 14.7 |
| foreign commercial business | 118 | 129 | –8.5 |
| lending business and trust activities | 206 | 216 | –4.6 |
| home savings business | 339 | 302 | 12.3 |
| other business | 588 | 611 | –3.8 |
| **Fee and commission expenses** | **–1,254** | **–1,152** | **8.9** |
| **Total** | **4,708** | **4,931** | **–4.5** |

## Gains and Losses on Trading Activities

| *Euro million* | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| Gains and losses on trading in financial instruments | –1,312 | –227 | > 100.0 |
| Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals | –238 | 107 | > 100.0 |
| Gains and losses on commodities trading | 184 | 182 | 1.1 |
| **Total** | **–1,366** | **62** | **> 100.0** |

## Gains and Losses on Investments

The gains and losses on investments result from the valuation and disposal of the following financial instruments:

| *Euro million* | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| Bonds and other fixed-income securities, and shares and other variable-yield securities | –3,179 | –1,506 | > 100.0 |
| Investments in subsidiaries, joint ventures and associates, and other shareholdings | 36 | 130 | –72.3 |
| **Total** | **–3,143** | **–1,376** | **> 100.0** |

## Other Gains and Losses on Valuation of Financial Instruments

| *Euro million* | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| **Gains and losses arising on hedging transactions** | **–10** | **–11** | **–9.1** |
| ***Fair value hedges*** | ***–11*** | ***–12*** | ***–8.3*** |
| Gains and losses on hedging instruments | –948 | –376 | > 100.0 |
| Gains and losses on hedged items | 937 | 364 | > 100.0 |
| ***Cash flow hedges*** | ***1*** | ***1*** | **–** |
| **Gains and losses on derivatives concluded without trading purpose** | **–87** | **16** | **> 100.0** |
| **Gains and losses on financial instruments designated as at fair value through profit or loss** | **–562** | **–55** | **> 100.0** |
| **Total** | **–659** | **–50** | **> 100.0** |

## Premiums Earned

| *Euro million* | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| **Net premiums written** | **9,386** | **8,890** | **5.6** |
| Gross premiums written | 9,451 | 9,045 | 4.5 |
| Reinsurance premiums ceded | –65 | –155 | –58.1 |
| **Change in provision for unearned premiums** | **2** | **36** | **–94.4** |
| Gross premiums | 20 | 23 | –13.0 |
| Reinsurers' share | –18 | 13 | > 100.0 |
| **Total** | **9,388** | **8,926** | **5.2** |

## Gains and Losses on Investments Held by Insurance Companies and Other Insurance Company Gains and Losses

| *Euro million* | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| Interest income and current income | 2,159 | 2,055 | 5.1 |
| Administrative expenses | –96 | –79 | 21.5 |
| Gains and losses on valuation and disposals | –1,637 | 90 | > 100.0 |
| Other gains and losses of insurance companies | 203 | 106 | 91.5 |
| **Total** | **629** | **2,172** | **–71.0** |

## Insurance Benefit Payments

| *Euro million* | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| **Claims expenses from insurance business** | **–6.408** | **–5.802** | **10.4** |
| Gross claims expenses | –6.487 | –5.891 | 10.1 |
| Reinsurers' share | 79 | 89 | –11.2 |
| **Changes in insurance liabilities** | **–1.938** | **–3.469** | **–44.1** |
| Changes in gross liabilities | –1.902 | –3.468 | –45.2 |
| Reinsurers' share | –36 | –1 | > 100.0 |
| **Total** | **–8.346** | **–9.271** | **–10.0** |

## Insurance Business Operating Expenses

| *Euro million* | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| Gross expenses | –1,273 | –1,194 | 6.6 |
| Reinsurers' share | 27 | 39 | –30.8 |
| **Total** | **–1,246** | **–1,155** | **7.9** |

## Administrative Expenses

| *Euro million* | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| Staff expenses | –8,668 | –8,952 | –3.2 |
| General and administrative expenses | –5,142 | –5,154 | –0.2 |
| Depreciation/amortization and impairment losses | –961 | –1,015 | –5.3 |
| **Total** | **–14,771** | **–15,121** | **–2.3** |

## Other Net Income

| *Euro million* | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| **Gains and losses on non-current assets classified as held for sale and disposal groups** | **2** | **–** | **–** |
| **Other net operating income** | **524** | **575** | **–8.9** |
| Other operating income | 1,271 | 1,274 | –0.2 |
| Other operating expenses | –747 | –699 | 6.9 |
| **Total** | **526** | **575** | **–8.5** |

## Income Taxes

| Euro million | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| Current tax expense | –691 | –1,164 | –40.6 |
| Deferred tax income and expense | 800 | –116 | > 100.0 |
| **Total** | **109** | **–1,280** | **> 100.0** |

Current taxes in relation to the German limited companies are calculated using an effective corporation tax rate of 15.825 percent (2007: 26.375 percent) based on a corporation tax rate of 15.0 percent (2007: 25.0 percent) plus the solidarity surcharge. The effective rate for trade tax is 14.000 percent (2007: 12.271 percent) based on an average trade tax multiplier of 400 percent. The changes in the rates of corporation tax and trade tax resulted from the business tax reforms introduced in Germany in 2008.

Deferred taxes must be calculated using tax rates expected to apply when the tax asset or liability arises. The tax rates used are therefore those that are valid or have been announced for the periods in question as at the balance sheet date. The reduction in the corporation tax rate and the related fact that trade tax is no longer deductible for the purposes of calculating corporation tax had therefore already been taken into account in 2007 in the calculation of deferred taxes.

The following table shows a reconciliation from expected income taxes to reported income taxes based on application of the current tax law in Germany:

| *Euro million* | **2008** | **2007** | **Change (percent)** |
|---|---|---|---|
| **Profit/loss before taxes** | **77** | **4,330** | **–98.2** |
| Notional rate of income tax in the cooperative financial services network (percent) | 29.825 | 38.646 | |
| **Expected income taxes** | **–23** | **–1,673** | **–98.6** |
| **Tax effects** | **132** | **393** | **–66.4** |
| Impact of tax-exempt income and non-deductible expenses | –25 | 304 | > 100.0 |
| Adjustments resulting from other types of income tax, other trade tax multipliers, and changes in tax rates | 24 | –177 | > 100.0 |
| Impact from components of net profit subject to taxation in other countries at different rates | –8 | 53 | > 100.0 |
| Current and deferred taxes relating to prior periods | 116 | 117 | –0.9 |
| Impairment losses on deferred tax assets | –122 | – | – |
| Other effects | 147 | 96 | 53.1 |
| **Recognized income taxes** | **109** | **–1,280** | **> 100.0** |

## Segment Information

**2008**

| *Euro million* | **Bank** | **Retail** | **Property Finance** | **Insurance** | **Other/ consolidation** | **Total** |
|---|---|---|---|---|---|---|
| Net interest income | 1,831 | 13,388 | 1,327 | – | –600 | 15,946 |
| Allowances for losses on loans and advances | –343 | –737 | –254 | – | –255 | –1,589 |
| Net fee and commission income | 470 | 4,846 | –235 | – | –373 | 4,708 |
| Gains and losses on trading activities | –1,519 | 157 | –11 | – | 7 | –1,366 |
| Gains and losses on investments | –490 | –2,532 | –130 | – | 9 | –3,143 |
| Other gains and losses on valuation of financial instruments | –25 | –150 | –519 | – | 35 | –659 |
| Premiums earned | – | – | – | 9,388 | – | 9,388 |
| Gains and losses on investments held by insurance companies and other insurance company gains and losses | – | – | – | 814 | –185 | 629 |
| Insurance benefit payments | – | – | – | –8,346 | – | –8,346 |
| Insurance business operating expenses | – | – | – | –1,625 | 379 | –1,246 |
| Administrative expenses | –1,584 | –12,970 | –582 | – | 365 | –14,771 |
| Other net income | 253 | 467 | 8 | –2 | –200 | 526 |
| **Profit/loss before taxes** | **–1,407** | **2,469** | **–396** | **229** | **–818** | **77** |
| Segment assets | 329,106 | 683,121 | 189,468 | 55,800 | –232,732 | 1,024,763 |
| Segment liabilities | 317,594 | 631,207 | 184,487 | 53,108 | –214,856 | 971,540 |
| Cost/income ratio (percent) | > 100.0 | 80.2 | > 100.0 | – | – | 89.9 |

**2007**

| *Euro million* | Bank | Retail | Property Finance | Insurance | Other/ consolidation | Total |
|---|---|---|---|---|---|---|
| Net interest income | 1,561 | 13,329 | 1,372 | – | –374 | 15,888 |
| Allowances for losses on loans and advances | –31 | –816 | –144 | – | –260 | –1,251 |
| Net fee and commission income | 436 | 5,114 | –231 | – | –388 | 4,931 |
| Gains and losses on trading activities | –207 | 247 | 19 | – | 3 | 62 |
| Gains and losses on investments | –59 | –1,315 | – | – | –2 | –1,376 |
| Other gains and losses on valuation of financial instruments | 5 | 1 | –55 | – | –1 | –50 |
| Premiums earned | – | – | – | 8,926 | – | 8,926 |
| Gains and losses on investments held by insurance companies and other insurance company gains and losses | – | – | – | 2,357 | –185 | 2,172 |
| Insurance benefit payments | – | – | – | –9,271 | – | –9,271 |
| Insurance business operating expenses | – | – | – | –1,533 | 378 | –1,155 |
| Administrative expenses | –1,587 | –13,464 | –598 | – | 528 | –15,121 |
| Other net income | 232 | 604 | –29 | –5 | –227 | 575 |
| **Profit/loss before taxes** | **350** | **3,700** | **334** | **474** | **–528** | **4,330** |
| Segment assets | 322,817 | 647,153 | 193,359 | 53,015 | –204,081 | 1,012,263 |
| Segment liabilities | 309,548 | 596,767 | 188,265 | 49,708 | –186,380 | 957,908 |
| Cost/income ratio (percent) | 80.6 | 74.9 | 55.6 | – | – | 73.0 |

**Definition of segments**

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

The Bank segment combines the activities in the Verbund division and in the central institutions' corporate and institutional customer businesses and investment banking. The segment focuses on corporate customers. This segment essentially comprises DZ BANK AG, WGZ BANK AG, the VR LEASING Group, the DVB Bank Group, DZ BANK Ireland plc, WGZ BANK Ireland plc, VR Kreditwerk Hamburg-Schwäbisch Hall AG, and ReiseBank AG.

The Retail segment primarily contains the business of the primary banks. It therefore covers private banking and activities relating to asset management. The segment focuses on retail customers. This segment includes DZ PRIVATBANK (Schweiz) AG, DZ BANK International S.A., WGZ BANK Luxembourg S.A., TeamBank AG, and the Union Investment Group.

The Property Finance segment encompasses the home savings and loan business, mortgage banking, and real-estate business. The entities allocated to this segment include Bausparkasse Schwäbisch Hall AG (BSH), Deutsche Genossenschafts-Hypothekenbank AG, WL BANK AG Westfälische Landschaft Bodenkreditbank, MHB, WGZ Immobilien + Treuhand Group, and WGZ Immobilien + Management GmbH.

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

The Other/Consolidation segment contains the BVR protection scheme, whose task is to avert impending or existing financial difficulties faced by member institutions by taking preventive action or implementing restructuring measures. This segment also includes intersegmental consolidation items.

**Presentation of segment information**

The segment information presents the interest income generated by the segments and the associated interest expenses on a netted basis as net interest income.

Segment assets comprise all financial and non-financial assets for the specialized service providers within the cooperative sector that are aggregated within a segment.

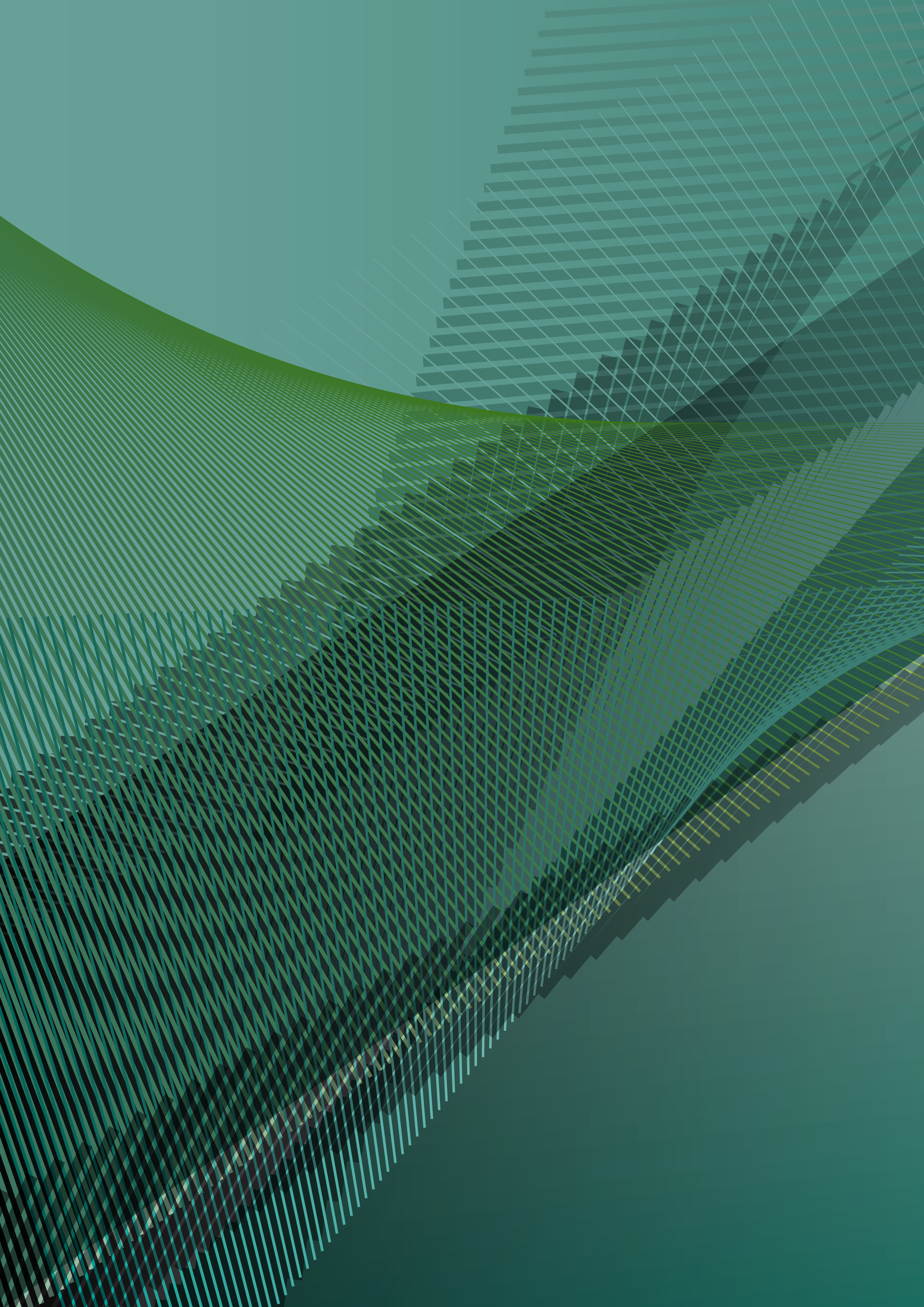
**Consolidation**

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

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

The figure under consolidation/reconciliation for administrative expenses includes the contributions paid to the BVR protection scheme by member institutions of the Cooperative Financial Services Network.

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



# Balance Sheet Disclosures

## Cash and Cash Equivalents

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Cash on hand | 5,377 | 5,149 | 4.4 |
| Balances with central banks and other government institutions | 11,563 | 10,446 | 10.7 |
| of which: with Deutsche Bundesbank | 10,955 | 10,085 | 8.6 |
| Bills of exchange eligible for refinancing by central banks | 8 | 27 | –70.4 |
| **Total** | **16,948** | **15,622** | **8.5** |

## Loans and Advances to Banks and to Customers

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| **Loans and advances to banks** | **55,705** | **54,283** | **2.6** |
| ***Payable on demand*** | ***17,817*** | ***14,655*** | ***21.6*** |
| ***Other loans and advances*** | ***37,888*** | ***39,628*** | ***–4.4*** |
| Mortgage loans | 5,678 | 7,189 | –21.0 |
| Local authority loans | 4,451 | 7,360 | –39.5 |
| Home savings loans | 41 | 26 | 57.7 |
| Finance leases | – | 49 | – |
| Other loans and advances | 27,718 | 25,004 | 10.9 |
| **Loans and advances to customers** | **547,882** | **524,563** | **4.4** |
| Mortgage loans | 195,050 | 183,063 | 6.5 |
| Local authority loans | 43,086 | 47,440 | –9.2 |
| Building loans advanced by home savings and loan institution | 19,310 | 18,100 | 6.7 |
| of which: from allotment (home savings loans) | 6,967 | 6,403 | 8.8 |
| for advance and interim financing | 11,521 | 10,872 | 6.0 |
| other building loans | 822 | 825 | –0.4 |
| Finance leases | 4,962 | 4,676 | 6.1 |
| Other loans and advances | 285,474 | 271,284 | 5.2 |

## Allowances for Losses on Loans and Advances

| *Euro million* | Specific loan loss allowances | Portfolio loan loss allowances | Total |
|---|---|---|---|
| **Balance as at Jan. 1, 2007** | **13.725** | **1.415** | **15.140** |
| Additions | 2.667 | 197 | 2.864 |
| Utilizations | –2.510 | –12 | –2.522 |
| Reversals | –1.948 | –214 | –2.162 |
| Other changes | –22 | – | –22 |
| **Balance as at Dec. 31, 2007** | **11.912** | **1.386** | **13.298** |
| Additions | 3.267 | 241 | 3.508 |
| Utilizations | –2.648 | –40 | –2.688 |
| Reversals | –1.777 | –225 | –2.002 |
| Other changes | 8 | – | 8 |
| **Balance as at Dec. 31, 2008** | **10.762** | **1.362** | **12.124** |

## Derivatives Used for Hedging (Positive and Negative Fair Values)

| *Euro million* | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| **Derivatives used for hedging (positive fair values)** | **942** | **1,071** | **–12.0** |
| Fair value hedges | 942 | 1,060 | –11.1 |
| Cash flow hedges | – | 11 | – |
| **Derivatives used for hedging (negative fair values)** | **2,429** | **1,278** | **90.1** |
| Fair value hedges | 2,406 | 1,278 | 88,3 |
| Cash flow hedges | 23 | – | – |

## Financial Assets Held for Trading

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| **Bonds and other fixed-income securities** | **55,737** | **72,460** | **–23.1** |
| **Shares and other variable-yield securities** | **437** | **1,060** | **–58.8** |
| **Derivatives (positive fair values)** | **31,570** | **17,568** | **79.7** |
| Interest-linked contracts | 22,722 | 14,092 | 61.2 |
| Currency-linked contracts | 2,280 | 1,104 | > 100.0 |
| Share-/index-linked contracts | 1,437 | 1,077 | 33.4 |
| Credit derivatives | 3,347 | 763 | > 100.0 |
| Other contracts | 1,784 | 532 | > 100.0 |
| **Promissory notes and registered bonds** | **2,987** | **3,775** | **–20.9** |
| **Money market placements** | **27,082** | **43,142** | **–37.2** |
| **Inventories and trade receivables** | **454** | **443** | **2.5** |
| **Total** | **118,267** | **138,448** | **–14.6** |

## Investments

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Bonds and other fixed-income securities | 183,365 | 179,749 | 2.0 |
| Shares and other variable-yield securities | 34,113 | 36,478 | –6.5 |
| Investments in subsidiaries | 1,926 | 1,817 | 6.0 |
| Interests in joint ventures | 367 | 328 | 11.9 |
| Investments in associates | 608 | 558 | 9.0 |
| Other shareholdings | 1,741 | 1,893 | –8.0 |
| **Total** | **222,120** | **220,823** | **0.6** |

## Investments Held by Insurance Companies

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Investment property | 991 | 956 | 3.7 |
| Investments in subsidiaries and associates | 365 | 381 | –4.2 |
| Mortgage loans | 3,847 | 3,581 | 7.4 |
| Promissory notes and loans | 10,620 | 8,683 | 22.3 |
| Registered bonds | 8,838 | 8,335 | 6.0 |
| Other loans | 1,027 | 976 | 5.2 |
| Variable-yield securities | 5,116 | 8,482 | –39.7 |
| Fixed-income securities | 12,419 | 11,182 | 11.1 |
| Money market placements | 225 | 131 | 71.8 |
| Derivatives (positive fair values) | 859 | 74 | > 100.0 |
| Deposits with ceding insurers | 180 | 167 | 7.8 |
| Investments related to unit-linked contracts | 3,994 | 3,907 | 2.2 |
| **Total** | **48,481** | **46,855** | **3.5** |

## Property, Plant and Equipment, and Investment Property

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Land and buildings | 6,346 | 6,458 | –1.7 |
| Office furniture and equipment | 1,367 | 1,397 | –2.1 |
| Assets subject to operating leases | 1,329 | 1,041 | 27.7 |
| Investment property | 93 | 105 | –11.4 |
| Other fixed assets | 1,243 | 1,277 | –2.7 |
| **Total** | **10,378** | **10,278** | **1.0** |

## Income Tax Assets and Liabilities

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| **Income tax assets** | **7,123** | **6,121** | **16.4** |
| Current income tax assets | 4,548 | 4,375 | 4.0 |
| Deferred tax assets | 2,575 | 1,746 | 47.5 |
| **Income tax liabilities** | **1,419** | **1,448** | **–2.0** |
| Current income tax liabilities | 604 | 674 | –10.4 |
| Deferred tax liabilities | 815 | 774 | 5..3 |

Deferred tax assets are recognized for tax loss carryforwards, Deferred tax assets and liabilities are also recognized for temporary differences in respect of the items shown below:

| | Deferred tax assets | | Deferred tax liabilities | |
|---|---|---|---|---|
| *Euro million* | **Dec. 31, 2008** | **Dec. 31, 2007** | **Dec. 31, 2008** | **Dec. 31, 2007** |
| Tax loss carryforwards | 1,438 | 445 | | |
| Loans and advances to banks and to customers (net) | 269 | 94 | 883 | 643 |
| Financial assets and liabilities held for trading, derivatives used for hedging (positive and negative fair values) | 2,282 | 738 | 2,041 | 78 |
| Investments | 784 | 672 | 352 | 325 |
| Investments held by insurance companies | 93 | 17 | 179 | 255 |
| Deposits from banks and amounts owed to other depositors | 886 | 581 | 618 | 529 |
| Debt certificates including bonds | 29 | 1 | 216 | 314 |
| Provisions | 411 | 682 | 54 | 121 |
| Insurance liabilities | 265 | 225 | 422 | 381 |
| Other balance sheet items | 261 | 449 | 193 | 286 |
| **Total (gross)** | **6,718** | **3,904** | **4,958** | **2,932** |
| Netting of deferred tax assets and deferred tax liabilities | –4,143 | –2,158 | –4,143 | –2,158 |
| **Total (net)** | **2,575** | **1,746** | **815** | **774** |

## Other Assets

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Other assets held by insurance companies | 3,253 | 2,266 | 43.6 |
| Goodwill | 124 | 38 | > 100.0 |
| Software and other intangible assets | 276 | 241 | 14.5 |
| Prepaid expenses | 331 | 365 | –9.3 |
| Other receivables | 2,781 | 2,322 | 19.8 |
| Non-current assets classified as held for sale and disposal groups | 70 | 172 | –59.3 |
| Fair value changes of the hedged items in portfolio hedges of interest-rate risk | 1,281 | 252 | > 100.0 |
| Residual other assets | 925 | 1,841 | –49.8 |
| **Total** | **9,041** | **7,497** | **20.6** |

## Deposits from Banks and Amounts Owed to Other Depositors

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| **Deposits from banks** | **101,736** | **87,512** | **16.3** |
| Payable on demand | 5,245 | 4,219 | 24.3 |
| With agreed maturity or notice period | 96,491 | 83,293 | 15.8 |
| **Amounts owed to other depositors** | **567,396** | **542,101** | **4.7** |
| ***Savings deposits and home savings deposits*** | ***180,658*** | ***195,737*** | ***–7.7*** |
| Savings deposits with agreed notice period of three months | 130,488 | 138,205 | –5.6 |
| Savings deposits with agreed notice period of more than three months | 19,652 | 25,852 | –24.0 |
| Home savings deposits | 30,518 | 31,680 | –3.7 |
| ***Other amounts owed to other depositers*** | ***386,738*** | ***346,364*** | ***11.7*** |
| Payable on demand | 167,178 | 157,015 | 6.5 |
| With agreed maturity or notice period | 219,560 | 189,349 | 16.0 |

## Debt Certificates Including Bonds

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| **Bonds issued** | **118,405** | **126,554** | **–6.4** |
| Mortgage Pfandbriefe | 19,513 | 20,678 | –5.6 |
| Public-sector Pfandbriefe | 44,240 | 51,749 | –14.5 |
| Other bonds | 54,652 | 54,127 | 1.0 |
| **Other debt certificates** | **3,497** | **2,700** | **29.5** |
| **Total** | **121,902** | **129,254** | **–5.7** |

## Financial Liabilities Held for Trading

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| **Share-/index-linked certificates** | **9,995** | **13,316** | **–24.9** |
| **Money market certificates and certificates of deposit** | **1,622** | **5,577** | **–70.9** |
| **Derivatives (negative fair values)** | **37,413** | **19,773** | **89.2** |
| Interest-linked contracts | 25,951 | 16,132 | 60.9 |
| Currency-linked contracts | 1,766 | 1,120 | 57.7 |
| Share-/index-linked contracts | 5,099 | 1,710 | > 100.0 |
| Credit derivatives | 3,544 | 428 | > 100.0 |
| Other contracts | 1,053 | 383 | > 100.0 |
| **Delivery commitments arising from short sales of securities** | **4,146** | **4,211** | **–1.5** |
| **Money market deposits** | **51,601** | **83,602** | **–38.3** |
| **Liabilities from commodities transactions and commodity lending** | **38** | **40** | **–5.0** |
| **Total** | **104,815** | **126,519** | **–17.2** |

## Provisions

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Provisions for pensions and other post-employment benefits | 4,689 | 5,732 | –18.2 |
| of which: provisions for defined benefit obligations | 4,607 | 5,624 | –18.1 |
| Provisions for losses on loans and advances | 288 | 492 | –41.5 |
| Provisions relating to home savings business | 311 | 294 | 5.8 |
| Remaining provisions | 2,705 | 2,895 | –6.6 |
| **Total** | **7,993** | **9,413** | **–15.1** |

**Provisions for defined benefit obligations**

The following table shows the breakdown of provisions for defined benefit obligations:

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Present value of defined benefit obligations not funded by plan assets | 4,612 | 5,622 | –18.0 |
| Present value of defined benefit obligations funded by plan assets | 817 | 963 | –15.2 |
| **Defined benefit obligations (gross)** | **5,429** | **6,585** | **–17.6** |
| Less fair value of plan assets | –935 | –978 | –4.4 |
| **Defined benefit obligations (net)** | **4,494** | **5,607** | **–19.9** |
| Unrecognized surplus | 2 | | |
| Recognized surplus | 111 | 17 | > 100.0 |
| **Recognized provisions for defined benefit obligations** | **4,607** | **5,624** | **–18.1** |
| Reimbursement rights recognized as assets | 16 | 18 | –11.1 |

The changes in the present value of the defined benefit obligations were as follows:

| Euro million | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| **Present value of defined benefit obligations as at Jan. 1** | **6,585** | **6,486** | **1.5** |
| Current service cost | 306 | 338 | –9.5 |
| Interest cost | 371 | 297 | 24.9 |
| Pension benefits paid | –266 | –254 | 4.7 |
| Unrecognized past service cost | – | –2 | – |
| Actuarial gains (–) / losses (+) | –1,019 | –38 | > 100.0 |
| Plan curtailments | –560 | –241 | > 100.0 |
| Other changes | 12 | –1 | > 100.0 |
| **Present value of defined benefit obligations as at Dec. 31** | **5,429** | **6,585** | **–17.6** |

The following table shows the changes in plan assets:

| Euro million | 2008 | 2007 | Change (percent) |
|---|---|---|---|
| **Fair value of plan assets as at Jan. 1** | **978** | **938** | **4.3** |
| Expected return on plan assets | 43 | 41 | 4.9 |
| Contributions to plan assets | 10 | 53 | –81.1 |
| Pension benefits paid | –42 | –39 | 7.7 |
| Actuarial gains (+) / losses (–) | –59 | –13 | > 100.0 |
| Other changes | 5 | –2 | > 100.0 |
| **Fair value of plan assets as at Dec. 31** | **935** | **978** | **–4.4** |

The following actuarial assumptions have been used in the annual consolidated financial statements:

| (percent) | Dec. 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Discount rate | 6.00 – 6.25 | 4.75 – 5.50 |
| Expected rate of return on plan assets | 2.25 – 4.59 | 4.19 – 4.50 |
| Expected rate of return on reimbursement rights recognized as assets | 4.52 | 4.34 |
| Salary increases | 2.50 – 3.50 | 2.50 – 4.50 |
| Pension increases | 1.00 – 2.25 | 1.00 – 2.00 |
| Staff turnover | 0.00 – 10.00 | 0.00 – 6.00 |

## Insurance Liabilities

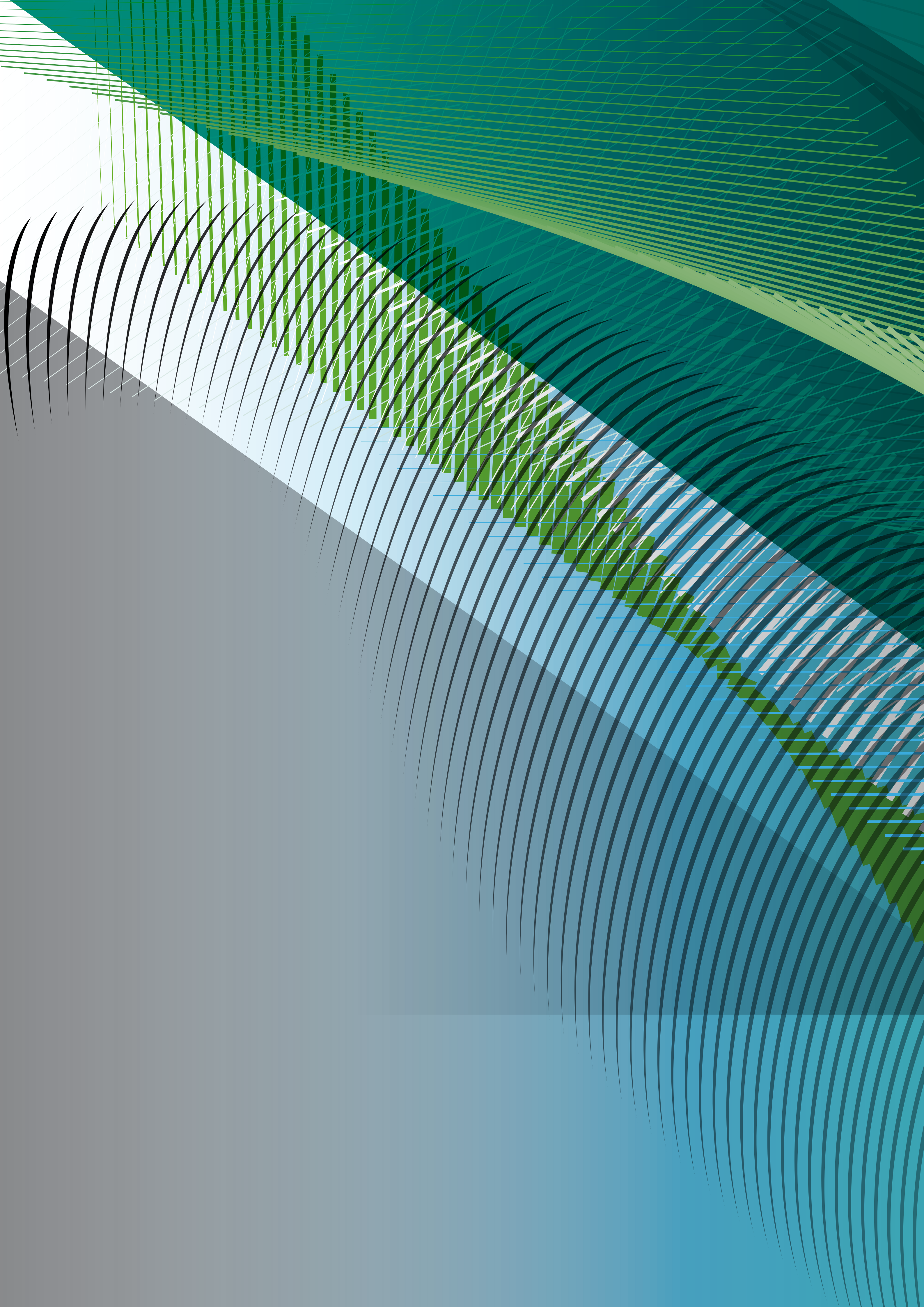
| *Euro million* | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Provision for unearned premiums | 1,061 | 1,039 | 2.1 |
| Benefit reserve | 34,251 | 30,545 | 12.1 |
| Provision for claims outstanding | 5,079 | 4,651 | 9.2 |
| Reserve for deferred policy holder participation | 4,322 | 5,778 | –25.2 |
| Other insurance liabilities | 58 | 72 | –19.4 |
| Reserve for unit-linked insurance contracts | 3,434 | 3,239 | 6.0 |
| **Total** | **48,205** | **45,324** | **6.4** |

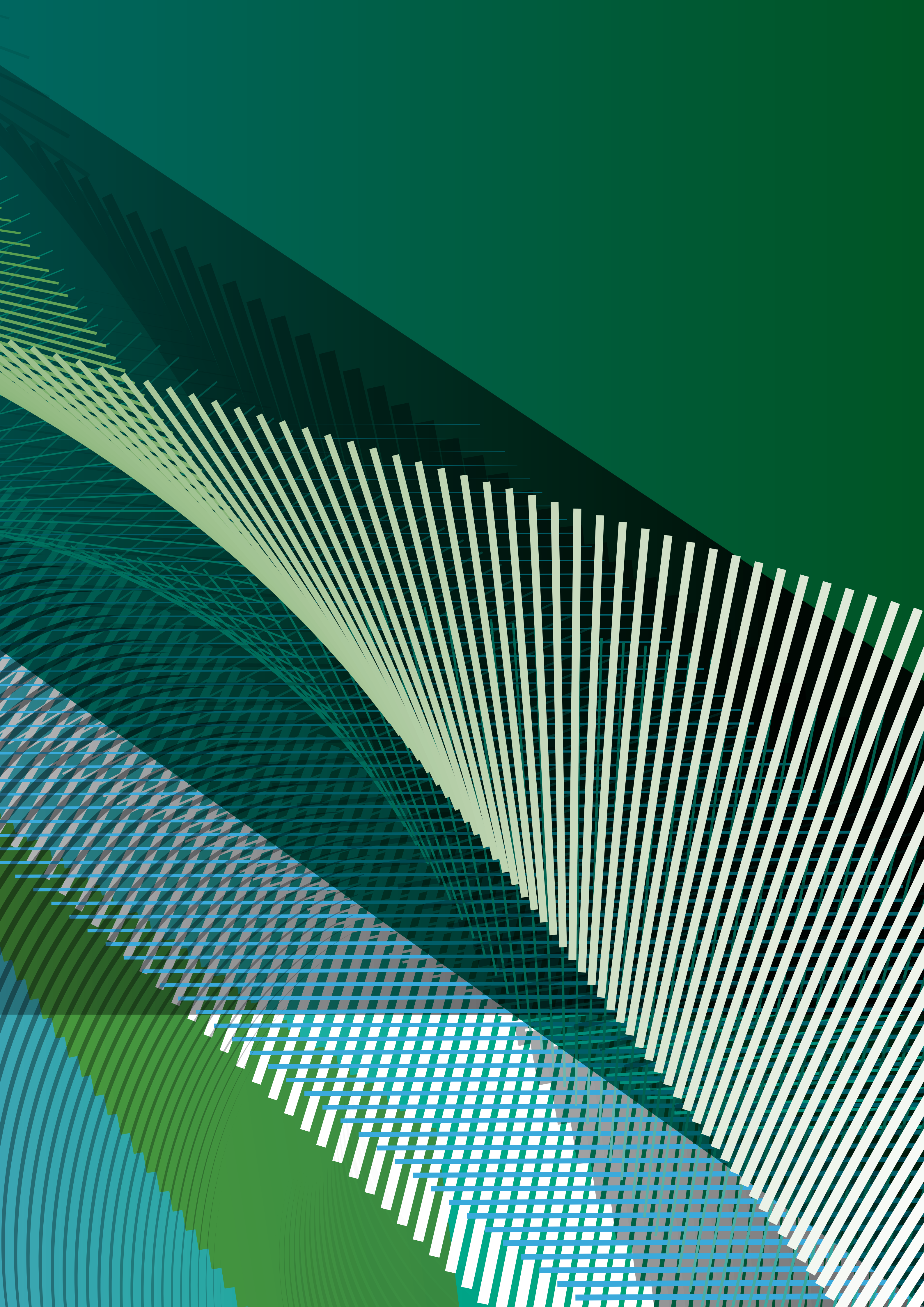
## Other Liabilities

| *Euro million* | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Other liabilities of insurance companies | 4,059 | 3,535 | 14.8 |
| Other payables and accruals | 2,924 | 3,128 | –6.5 |
| Liabilities included in disposal groups | 13 | 16 | –18.8 |
| Fair value changes of the hedged items in portfolio hedges of interest-rate risk | –73 | –263 | –72.2 |
| Residual other liabilities | 775 | 875 | –11.4 |
| **Total** | **7,698** | **7,291** | **5.6** |

## Subordinated Capital

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Subordinated liabilities | 4,830 | 4,600 | 5.0 |
| Profit-sharing rights | 2,713 | 2,785 | –2.6 |
| Other hybrid capital | 358 | 340 | 5.3 |
| Share capital repayable on demand | 46 | 43 | 7.0 |
| **Total** | **7,947** | **7,768** | **2.3** |





# Other Disclosures

## Financial Guarantee Contracts and Loan Commitments

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Financial guarantee contracts | 19,905 | 17,756 | 12.1 |
| Loan commitments | 49,867 | 46,829 | 6.5 |
| **Total** | **69,772** | **64,585** | **8.0** |

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

## Trust Activities

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| Trust assets | 4,956 | 5,898 | –16.0 |
| of which: trust loans | 3,567 | 4,119 | –13.4 |
| Trust liabilities | 4,956 | 5,898 | –16.0 |
| of which: trust loans | 3,567 | 4,119 | –13.4 |

## Asset Management by Union Investment Group

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| **Fund assets** | **132,730** | **158,972** | **–16.5** |
| **Other types of asset management** | **63,190** | **18,702** | **> 100.0** |
| Unit-linked asset management | 28 | 2,673 | –99.0 |
| Institutional asset management | 2,116 | 3,971 | –46.7 |
| Advisory and outsourcing | 59,352 | 9,279 | > 100.0 |
| Private banking | 1,694 | 2,779 | –39.0 |
| **Accounts managed by third parties** | **–51,745** | **–3,167** | **> 100.0** |
| **Total** | **144,175** | **174,507** | **–17.4** |

As at the balance sheet date, the Union Investment Group (through Union Asset Management Holding AG) had total assets under management of Euro 144,175 million (December 31, 2007: Euro 174,507 million). The fund assets comprise equity funds, fixed-income funds, money market funds, mixed funds, other securities funds, capital preservation funds, hedge funds, real estate funds and funds of funds issued by Union Investment Group.

Union Investment Group also manages assets as part of the following operations: unit-linked asset management, institutional asset management, advisory and outsourcing, and private banking. The fund value of funds not managed by the issuing fund management company is shown as a deduction. The definition of assets under management is based on the aggregate statistics from the Bundesverband Investment und Asset Management e. V. (BVI).

Under the amended BVI presentation for 2008, advisory and outsourcing within Union Investment Group are shown under both advisory and outsourcing as well as accounts managed by third parties. The 2007 figures using the present BVI system were as follows: advisory and outsourcing, Euro 70,477 million; accounts managed by third parties, minus Euro 64,365 million.

## Leases

The table below shows finance leases as part of the leasing business conducted by the Cooperative Financial Services Network:

| *Euro million* | **Dec. 31, 2008** | **Dec. 31, 2007** | **Change (percent)** |
|---|---|---|---|
| **Gross investment** | **5,787** | **5,391** | **7.3** |
| Up to 1 year | 1,847 | 1,786 | 3.4 |
| More than 1 year and up to 5 years | 3,371 | 3,221 | 4.7 |
| More than 5 years | 569 | 384 | 48.2 |
| **less unearned finance income** | **–825** | **–666** | **23.9** |
| **Net investment** | **4,962** | **4,725** | **5.0** |
| **less present value of unguaranteed residual values** | **–53** | **–42** | **26.2** |
| **Present value of minimum lease payment receivables** | **4,909** | **4,683** | **4.8** |
| Up to 1 year | 1,584 | 1,532 | 3.4 |
| More than 1 year and up to 5 years | 2,885 | 2,828 | 2.0 |
| More than 5 years | 440 | 323 | 36.2 |

As at the balance sheet date, the accumulated allowance for uncollectable minimum lease payments at lessor companies amounted to Euro 11 million (December 31, 2007: Euro 7 million).

## Capital Requirements and Capital Ratios

| Euro million | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| **Total capital** | **60,741** | **60,507** | **0.4** |
| Tier 1 capital | 38,442 | 37,485 | 2.6 |
| Tier 2 capital | 23,986 | 23,477 | 2.2 |
| **Capital requirements** | **39,650** | **39,210** | **1.1** |
| **Tier 1 capital ratio [1] (percent)** | **7.8** | **7.9** | |
| **Total capital ratio (percent)** | **12.3** | **12.3** | |

[1] In contrast to the calculation carried out as at the end of 2007, the capital ratio calculated as at December 31, 2008 includes the total capital requirements (as required by section 325 (2) No, 5 SolvV, including requirements for market risk exposures and operational risk),

## Changes in the Contract Portfolios Held by Bausparkasse Schwäbisch Hall

| | Not allocated | | Allocated | | Total | |
|---|---|---|---|---|---|---|
| *Home savings sum in Euro million* | Number of contracts | Home savings sum | Number of contracts | Home savings sum | Number of contracts | Home savings sum |
| **Balance as at Dec. 31, 2007** | **5,775,439** | **168,643** | **1,210,261** | **29,304** | **6,985,700** | **197,947** |
| **Additions in 2008 as a result of** | | | | | | |
| New business (activated contracts) [1] | 1,021,470 | 29,631 | – | – | 1,021,470 | 29,631 |
| Transfers | 23,780 | 603 | 5,186 | 167 | 28,966 | 770 |
| Allocation waivers and allocation cancelation | 6,674 | 186 | – | – | 6,674 | 186 |
| Splitting | 194,715 | – | 842 | – | 195,557 | – |
| Allocations and acceptance of allocations | – | – | 587,975 | 12,521 | 587,975 | 12,521 |
| Other | 232,651 | 6,231 | 112 | 6 | 232,763 | 6,237 |
| **Total** | **1,479,290** | **36,651** | **594,115** | **12,694** | **2,073,405** | **49,345** |
| **Disposal in 2008 as a result of** | | | | | | |
| Allocations and acceptance of allocations | –587,975 | –12,521 | – | – | –587,975 | –12,521 |
| Reductions | – | –1,155 | – | – | – | –1,155 |
| Termination | –368,565 | –7,323 | –393,269 | –7,045 | –761,834 | –14,368 |
| Transfers | –23,780 | –603 | –5,186 | –167 | –28,966 | –770 |
| Pooling [1] | –235,206 | – | –17 | – | –235,223 | – |
| Expiry of contracts | – | – | –188,253 | –4,024 | –188,253 | –4,024 |
| Allocation waivers and allocation cancelation | – | – | –6,674 | –186 | –6,674 | –186 |
| Other | –232,651 | –6,231 | –112 | –6 | –232,763 | –6,237 |
| **Total** | **–1,448,177** | **–27,833** | **–593,511** | **–11,428** | **–2,041,688** | **–39,261** |
| Net addition/disposal | 31,113 | 8,818 | 604 | 1,266 | 31,717 | 10,084 |
| **Balance as at Dec. 31, 2008** | **5,806,552** | **177,461** | **1,210,865** | **30,570** | **7,017,417** | **208,031** |

**Portfolio of non-activated contracts**

| *Home savings sum in Euro million* | **Number of contracts** | **Home savings sum** |
|---|---|---|
| Contracts concluded prior to January 1, 2008 | 42,734 | 1,879 |
| Contracts concluded in 2008 | 269,106 | 8,876 |

[1] Including increases

## Changes in the Allocation Assets of Bausparkasse Schwäbisch Hall

| *Euro million* | **2008** |
|---|---|
| **Additions** | |
| ***Amounts carried forward from 2007 (surplus)*** | |
| Amounts not yet disbursed | 26,258 |
| ***Additions in 2008*** | |
| Amounts saved (including credited residential bonuses) | 6,415 |
| Amounts repaid (including credited residential bonuses) [1] | 1,866 |
| Interest on home savings deposits | 647 |
| Building societies guarantee fund [2] | 53 |
| **Total** | **35,239** |
| **Withdrawals** | |
| ***Withdrawals in 2008*** | |
| Amounts allocated (if disbursed) | |
| Home savings deposits | 7,235 |
| Building loans | 2,452 |
| Repayment of home savings deposits for home savings contracts not yet allocated | 1,039 |
| Offsetting of reduced repayment owing to extension of redemption period (amount repaid) | – |
| ***Surplus of additions*** | |
| (Amounts not yet disbursed) at the end of 2008 [3] | 24,513 |
| **Total** | **35,239** |

[1] Amounts repaid are the portion of the loan principal actually repaid,

[2] Section 6 of the German Building and Loan Associations Act stipulates that income from the investment of allocations assets that temporarily cannot be allocated must be transferred to the special building societies guarantee fund in order to protect the interests of savers. Under IFRS, this fund is included in retained earnings as part of the cooperative network's capital.

[3] The surplus amounts of additions include amongst others:

| | |
|---|---|
| a) undisbursed home savings deposits from allocated home savings contracts | Euro 107 million |
| b) undisbursed home savings loans from funds allocated | Euro 3,125 million |

## Cover Statement for Mortgages and Local Authority Loans of the Mortgage Banks

| | Mortgage Pfandbriefe | | | Public-sector Pfandbriefe | | |
|---|---|---|---|---|---|---|
| *Euro million* | **Dec. 31, 2008** | **Dec. 31, 2007** | **Change (percent)** | **Dec. 31, 2008** | **Dec. 31, 2007** | **Change (percent)** |
| **Ordinary cover** | **35,808** | **34,177** | **4.8** | **72,045** | **81,689** | **–11.8** |
| Loans and advances to banks | 87 | 175 | –50.3 | 9,265 | 12,609 | –26.5 |
| of which: mortgage loans | 87 | 175 | –50.3 | 8 | 10 | –20.0 |
| local authority loans | – | – | – | 9,257 | 12,599 | –26.5 |
| Loans and advances to customers | 35,662 | 33,936 | 5.1 | 34,378 | 35,891 | –4.2 |
| of which: mortgage loans | 35,662 | 33,936 | 5.1 | 1,580 | 1,640 | –3.7 |
| local authority loans | – | – | – | 32,798 | 34,251 | –4.2 |
| Bonds and other fixed-income securities held as investments | – | – | – | 20,363 | 24,141 | –15.6 |
| Property, plant and equipment | 59 | 66 | –10.6 | 8,039 | 9,048 | –11.2 |
| **Extended cover** | **1,438** | **2,139** | **–32.8** | **5,975** | **5,593** | **6.8** |
| Loans and advances to banks | 465 | 343 | 35.6 | 3,573 | 2,964 | 20.5 |
| Bonds and other fixed-income securities held as investments | 974 | 1,789 | –45.6 | 2,395 | 2,581 | –7.2 |
| Derivatives held as cover | –1 | 7 | > 100.0 | 7 | 48 | –85.4 |
| **Total cover** | **37,246** | **36,316** | **2.6** | **78,020** | **87,282** | **–10.6** |
| **Pfandbriefe requiring cover** | **–32,685** | **–32,424** | **0.8** | **–73,848** | **–82,829** | **–10.8** |
| **Nominal excess cover** | **4,561** | **3,892** | **17.2** | **4,172** | **4,453** | **–6.3** |
| **Present value of excess cover** | **5,660** | **4,443** | **27.4** | **5,463** | **5,599** | **–2.4** |
| **Risk-weighed present value of excess cover** | **4,318** | **3,840** | **12.4** | **5,574** | **5,560** | **0.3** |

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

**Maturity structure of outstanding mortgage Pfandbriefe and public-sector Pfandbriefe**

| *Euro million* | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| **Mortgage Pfandbriefe** | **32,685** | **32,424** | **0.8** |
| Up to 1 year | 6,259 | 7,156 | –12.5 |
| More than 1 year and up to 5 years | 17,710 | 15,718 | 12.7 |
| More than 5 years and up to 10 years | 6,357 | 7,829 | –18.8 |
| More than 10 years | 2,359 | 1,721 | 37.1 |
| **Public-sector Pfandbriefe** | **73,848** | **82,829** | **–10.8** |
| Up to 1 year | 13,413 | 14,095 | –4.8 |
| More than 1 year and up to 5 years | 29,821 | 34,376 | –13.3 |
| More than 5 years and up to 10 years | 17,911 | 21,344 | –16.1 |
| More than 10 years | 12,703 | 13,014 | –2.4 |

**Fixed-interest periods of cover assets**

| *Euro million* | Dec. 31, 2008 | Dec. 31, 2007 | Change (percent) |
|---|---|---|---|
| **Mortgage Pfandbriefe** | **37,246** | **36,316** | **2.6** |
| Up to 1 year | 4,976 | 4,560 | 9.1 |
| More than 1 year and up to 5 years | 15,352 | 12,816 | 19.8 |
| More than 5 years and up to 10 years | 13,761 | 15,719 | –12.5 |
| More than 10 years | 3,157 | 3,221 | –2.0 |
| **Public-sector Pfandbriefe** | **78,020** | **87,282** | **–10.6** |
| Up to 1 year | 11,835 | 13,697 | –13.6 |
| More than 1 year and up to 5 years | 30,591 | 34,031 | –10.1 |
| More than 5 years and up to 10 years | 22,015 | 26,743 | –17.7 |
| More than 10 years | 13,579 | 12,811 | 6.0 |

633 properties were held in forced administration at the balance sheet date (December 31, 2007: 775). For the mortgage loans held as cover the past-due payments total Euro 100 million (December 31, 2007: Euro 68 million).

## Board of Managing Directors of the National Association of German Cooperative Banks (BVR)

**Dr. Christopher Pleister**
(President up to July 15, 2008)

**Uwe Fröhlich**
(from February 1, 2008; President since October 22, 2008)

**Gerhard P. Hofmann**

**Dr. Andreas Martin**
(from May 1, 2009)

Berlin, July 7, 2009

**National Association of German Cooperative Banks (BVR)**

The Board of Managing Directors

Uwe Fröhlich Gerhard Hofmann Dr. Andreas Martin

# Review Report

## Review Report (Translation)

To the National Association of German Cooperative Banks (BVR)

For the period from January 1 to December 31, 2008, the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR) [National Association of German Cooperative Banks], Berlin, has voluntarily aggregated the data presented in the consolidated financial statements of DZ BANK AG Deutsche Zentral-Genossenschaftsbank and of WGZ BANK AG Westdeutsche Genossenschafts-Zentralbank, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and in the separate financial statements of Münchener Hypothekenbank eG, the BVR protection scheme, and 1,189 primary banks, which have been prepared in accordance with German commercial law. The resultant aggregation of data is hereby referred to as the annual consolidated financial statements of the Cooperative Financial Services Network.

The BVR is under no legal obligation to prepare annual consolidated financial statements for the Cooperative Financial Services Network. The Cooperative Financial Services Network does not qualify as a corporate group as defined by IFRS, the German Commercial Code (HGB), or the German Stock Corporation Act (AktG). The annual consolidated financial statements of the Cooperative Financial Services Network have been prepared solely for information purposes and do not constitute consolidated financial statements either within the meaning of IAS 1.14 or as defined by German commercial law.

The annual consolidated financial statements of the Cooperative Financial Services Network incorporate the following components that have been aggregated on the basis of certain assumptions and simplifications: the consolidated income statement for the period January 1 to December 31, 2008; the consolidated balance sheet as at December 31, 2008; the consolidated statement of recognized income and expense as well as the consolidated explanatory notes on changes in the cooperative network's capital; the consolidated cash flow statement; and the notes to the annual consolidated financial statements.

The annual consolidated financial statements of the Cooperative Financial Services Network have been prepared on the basis of the accounting policies presented in the notes to the annual consolidated financial statements. The separate financial statements of Münchener Hypothekenbank eG, the BVR protection scheme, and the primary banks, which have been prepared in accordance with German commercial law, have been aligned with the accounting policies presented in the notes to the annual consolidated financial statements and take account of appropriate and plausible assumptions. When the relevant data is aggregated, certain selected measures that reflect the unique structure of the Cooperative Financial Services Network are carried out to eliminate intra-network balance sheet and income statement items. The preparation of the annual consolidated financial statements of the Cooperative Financial Services Network is the responsibility of the BVR's Board of Managing Directors. Our responsibility is to issue a review report on the annual consolidated financial statements of the Cooperative Financial Services Network with respect to the aforementioned measures as part of the aggregation of the relevant data based on our review.

We reviewed the annual consolidated financial statements of the Cooperative Financial Services Network with respect to the measures and procedures used in the full consolidation of the aforementioned entities, the adequacy of the collection and aggregation of the data of the consolidated entities, the appropriateness of the measures taken based on certain assumptions and simplifications to eliminate intra-network transactions, the preparation of the annual consolidated financial statements in accordance with the accounting policies presented in the notes to the annual consolidated financial statements, and the transparent and appropriate presentation of the notes to the annual consolidated financial statements.

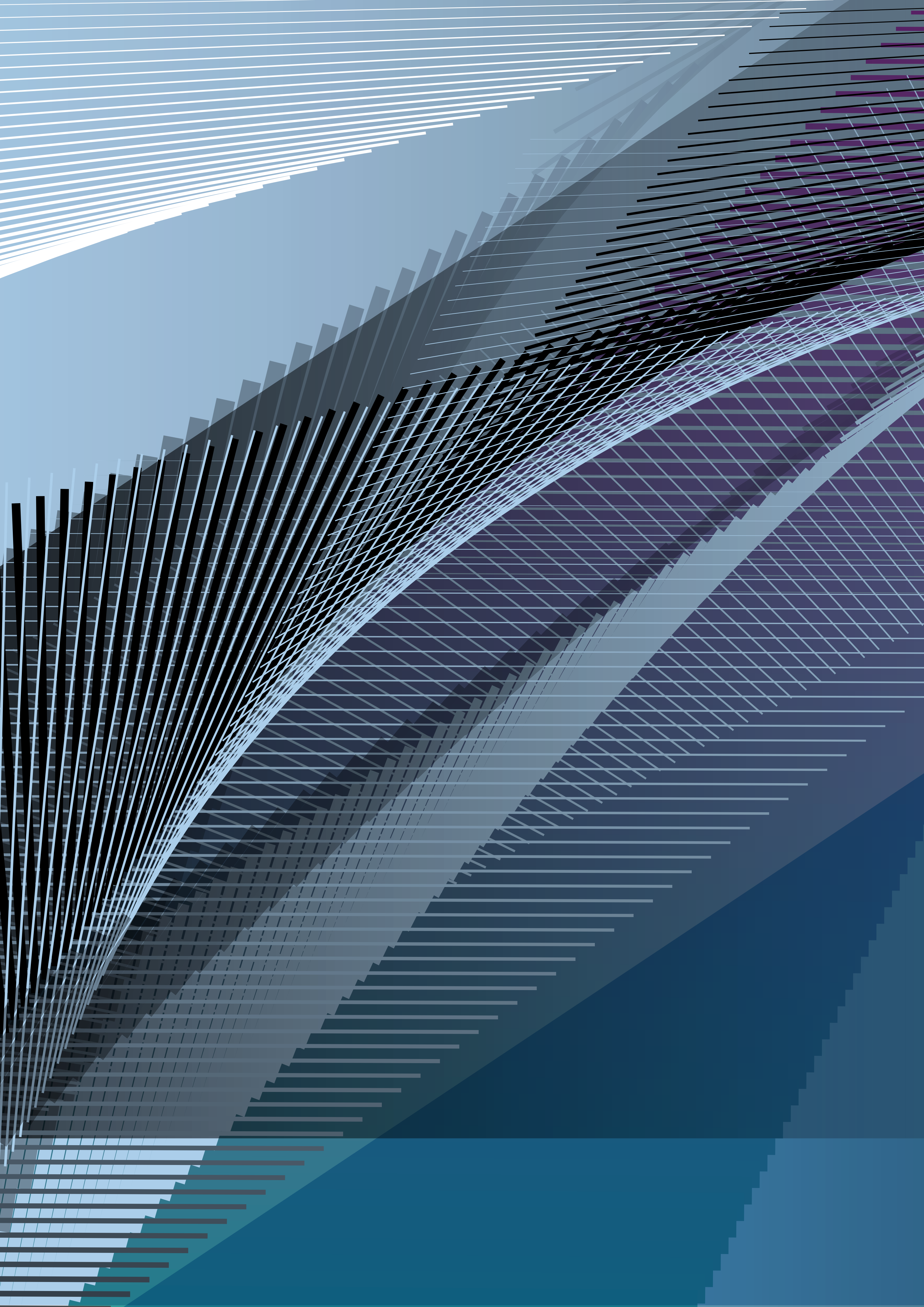
We conducted our review of the annual consolidated financial statements of the Cooperative Financial Services Network with respect to the aforementioned measures as part of the aggregation of the relevant data in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. Those standards require that we plan and perform our review such that, having conducted a critical assessment, we can with reasonable certainty exclude the possibility that the aforementioned entities have not been fully consolidated, the methods and procedures used to collect and aggregate the data of the consolidated entities are inappropriate, the measures taken based on certain assumptions and simplifications to eliminate intra-network transactions have been carried out inappropriately, the annual consolidated financial statements have not been prepared in accordance with the accounting policies presented in the notes to the annual consolidated financial statements, and that the presentation of the notes to the annual consolidated financial statements is intransparent or inappropriate. Our review was essentially restricted to interviews of employees and to analytical assessments and therefore does not offer the degree of certainty provided by an audit. As we did not conduct an audit under the terms of our engagement, we cannot issue an audit opinion.

Our review of the aforementioned measures as part of the aggregation of the relevant data used to prepare the annual consolidated financial statements of the Cooperative Financial Services Network did not reveal any findings that might lead us to conclude that the aforementioned entities have not been fully consolidated, the methods and procedures used to collect and aggregate the data of the consolidated entities are inappropriate, the measures taken based on certain assumptions and simplifications to eliminate intra-network transactions have been carried out inappropriately, the annual consolidated financial statements have not been prepared in accordance with the accounting policies presented in the notes to the annual consolidated financial statements, or that the presentation of the notes to the annual consolidated financial statements is intransparent or inappropriate.

Eschborn/Frankfurt am Main, July 15, 2009

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Müller-Tronnier | Wagner |
| (German public auditor) | (German public auditor) |



**Publisher**

National Association
of German Cooperative Banks · BVR
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**Primary banks**

| *Euro million* | **2008** | **2007** | **Change (percent)** |
|---|---|---|---|
| **Financial performance** | | | |
| Net interest income | 12,874 | 12,885 | – 0.1 |
| Net fee and commission income | 4,103 | 4,184 | – 1.9 |
| Profit/loss on financial and commodities transactions [1] | – 2,150 | – 951 | > 100.0 |
| Other net income | 448 | 535 | – 16.3 |
| Net income for the year | 1,947 | 2,326 | – 16.3 |
| Cost/income ratio (percent) | 79.7 | 75.5 | |
| **Net assets** | | | |
| Loans and advances to banks | 98,052 | 82,424 | 19.0 |
| Loans and advances to customers | 380,110 | 371,001 | 2.5 |
| Investments | 157,488 | 146,674 | 7.4 |
| Other assets | 21,540 | 21,109 | 2.0 |
| **Financial position** | | | |
| Deposits from banks | 95,011 | 79,706 | 19.2 |
| Amounts owed to other depositors | 461,669 | 440,371 | 4.8 |
| Debt certificates including bonds | 38,317 | 39,262 | – 2.4 |
| Remaining liabilities | 11,783 | 13,384 | – 12.0 |
| Cooperative network's capital | 50,410 | 48,485 | 4.0 |
| **Total assets / total equity and liabilities** | **657,190** | **621,208** | **5.8** |
| **Volume of business [2]** | **699,196** | **661,396** | **5.7** |
| **Regulatory capital ratios under SolvV [3]** | | | |
| Tier 1 capital ratio (percent) | 10.6 | 9.4 | |
| Total capital ratio (percent) | 14.2 | 12.8 | |
| **Employees as at Dec. 31** | **159,250** | **160,750** | **– 0.9** |

[1] Gains and losses on trading activities plus gains and losses on investments

[2] Total assets / total equity and liabilities, including financial guarantee contracts and loan commitments plus trust activities

[3] For 2007: in accordance with Principle I

BVR