Consolidated Financial Statements

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

50 JAHRE BVR

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	2021 € million	2020 € million	Change (percent)
Financial performance			
Net interest income	18,232	18,272[6]	–0.2
Net fee and commission income	8,675	7,439	16.6
Gains and losses on financial and commodities activities[1]	377	813[6]	–53.6
Net income from insurance business[2]	1,293	722	79.1
Loss allowances	337	–2,327	>100.0
Profit before taxes	10,522	7,216[6]	45.8
Net profit	7,505	5,027[6]	49.3
Net assets			
Loans and advances to banks	15,843	19,730	–19.7
Loans and advances to customers	944,028	890,576	6.0
Financial assets held for trading	47,442	42,586[6]	11.4
Investments	248,390	255,374	–2.7
Loss allowances	–9,562	–10,470	–8.7
Investments held by insurance companies	127,793	120,580	6.0
Remaining assets	192,517	157,515[6]	22.2
Financial position			
Deposits from banks	193,809	160,924	20.4
Deposits from customers	984,926	937,876	5.0
Debt certificates issued including bonds	63,521	58,365	8.8
Financial liabilities held for trading	40,045	46,802[6]	–14.4
Insurance liabilities	118,863	111,213	6.9
Remaining liabilities	35,744	38,965	–8.3
Equity	129,543	121,747[6]	6.4
Total assets/total equity and liabilities	**1,566,451**	**1,475,891**	**6.1**
Volume of business[3]	**2,170,546**	**1,995,551**	**8.8**
Profitability/efficiency			
Cost/income ratio (percent)	64.6	65.4	
Return on equity (percent)[4]	8.4	6.1	
Average equity	125,645	118,880[6]	5.7
Return on capital employed (percent)[5]	0.5	0.3	
Regulatory capital ratios			
Tier 1 capital ratio (percent)	15.2	15.3[7]	
Total capital ratio (percent)	15.8	16.3[7]	
Employees as at reporting date	**170,614**	**172,334**	**–1.0**

See back inside cover for footnotes 1–7.

Consolidated Financial Statements 2021

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

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In brief

In 2021, the Volksbanken Raiffeisenbanken Cooperative Financial Network generated a consolidated profit before taxes of €10.5 billion despite an environment impacted by the coronavirus pandemic and expansionary monetary policy. This rise of nearly 46 percent compared with the prior-year figure of €7.2 billion was attributable to growth in the operating business and a marked reduction in the need to recognize loss allowances. The increased volume of customer business meant that consolidated total assets increased further by 6.1 percent to €1,566 billion.

The annual consolidated financial statements of the Cooperative Financial Network provide information on the 2021 financial year of the local cooperative banks, Sparda banks, PSD banks, and other specialized institutions in the Cooperative Financial Network as well as the DZ BANK Group and Münchener Hypothekenbank. For the purposes of the consolidated reporting, the cooperative banks' financial statements, which are based on the German Commercial Code (HGB), are reconciled to International Financial Reporting Standards (IFRS).

Net interest income was once again influenced by the European Central Bank's policy of low interest rates in 2021. This meant that margins remained tight, but the cooperative institutions were able to offset this through volume growth in the lending business. Consequently, the Cooperative Financial Network delivered a stable performance, with net interest income remaining virtually unchanged on the previous year at €18.2 billion. By contrast, net fee and commission income jumped by 16.6 percent to €8.7 billion in 2021, mainly thanks to the thriving securities business and payments processing.

The level of loss allowances in 2021 was better than expected, resulting in income from the reversal of loss allowances of around €0.3 billion. Following a net addition of €2.3 billion in the previous year, this item has thus normalized over the past two years.

Administrative expenses came to €18.6 billion and were thus slightly higher than in the previous year. Staff expenses again accounted for a large part of these expenses (€10.4 billion), while other administrative expenses accounted for €8.2 billion. The slight increase was mainly attributable to salary adjustments and continued investment in digitalization. The cost/income ratio of the Cooperative Financial Network decreased from 65.4 percent to 64.6 percent. The Cooperative Financial Network paid €3.1 billion in income taxes. After taxes, consolidated net profit amounted to just over €7.5 billion, compared with €5 billion in the previous year.

The Cooperative Financial Network's loans and advances to retail and corporate customers went up significantly again, by 6 percent, to €944 billion. Deposits from customers increased by 5 percent to €985 billion.

The Cooperative Financial Network continued to strengthen its capital base in 2021. Equity rose by 6.4 percent to €129.5 billion. Around 84 percent of the network's equity continues to be held by the local cooperative banks.
The consolidated Tier 1 capital ratio, the calculation of which has been aligned with IFRS requirements since 2021, remained virtually unchanged at 15.2 percent (down by 0.1 percent) despite strong customer growth. The total capital ratio declined from 16.3 percent to 15.8 percent as the application period for the transitional guidance came to an end. The leverage ratio remained unchanged at 8.0 percent and thus above the average for the industry.

Management Report 2021

General Information about the Volksbanken Raiffeisenbanken Cooperative Financial Network

Structure, business model, and features of the IPS*

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

The Volksbanken Raiffeisenbanken Cooperative Financial Network consists of 771 cooperative banks (2020: 814), the DZ BANK Group, Münchener Hypothekenbank eG, the BVR protection scheme, and BVR Institutssicherung GmbH as consolidated entities. The consolidated cooperative banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

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

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

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

Definition of the main operating segments

The definitions of the operating segments referred to in the management report – "Retail Customers and SMEs", "Central Institution and Major Corporate Customers", "Real Estate Finance", and "Insurance" – can be found in the notes to the consolidated financial statements starting on page 84.

* Institutional protection scheme.

Management Report 2021

Business Performance

Economic conditions

In 2021, the German economy recovered from the slump that it had experienced in 2020 as a result of the COVID-19 pandemic. Adjusted for inflation, gross domestic product (GDP) rose by a substantial 2.9 percent year on year, compared with a sharp fall of 4.6 percent in the crisis year of 2020.

However, economic output did not bounce back to pre-crisis levels. Firstly, this was because cases of COVID-19 remained high, necessitating infection control measures. Other service providers – including those working in sport, culture and entertainment, and the creative industries – were hit particularly hard by the pandemic. Secondly, growing supply disruptions and shortages of materials acted as a brake on macroeconomic activity.

The ongoing pandemic meant that consumer spending on a price-adjusted basis stagnated at its low prior-year level. Government spending, by contrast, was stepped up markedly. This was partly due to the procurement of COVID-19 vaccines and the operation of test and vaccination centers. Construction investment increased at a slower rate than before owing to shortages of workers and materials. Spending on capital equipment went up. There was also a rise in exports and imports, which had contracted significantly in the crisis year of 2020.

Consumer prices rose rapidly in 2021. They climbed by an average of 3.1 percent year on year, the biggest increase since 1993. Inflation had stood at just 0.5 percent in 2020.

Unemployment fell slightly, reflecting the advancing recovery. The average number of people out of work in 2021 fell by almost 82,000 year on year to around 2.6 million. As a result, the unemployment rate edged down from 5.9 percent to 5.7 percent. However, the number of people in work was essentially unchanged compared with 2020, remaining at around 44.9 million people throughout the year despite the noticeable rebound once the economy began to open up again in early summer.

The European Central Bank (ECB) maintained its course of expansionary monetary policy in 2021. Until part way through December, it stood by its pandemic emergency purchase program (PEPP), which had a total envelope of €1,850 billion for the purchase of securities, and its asset purchase program (APP) with net purchases of €20 billion per month. It committed to reinvesting maturing securities under the APP until at least the end of 2023. Key interest rates were left at their low levels of 0.0 percent for main refinancing operations, 0.25 percent for the marginal lending facility, and minus 0.5 percent for the deposit facility. The ECB also retained its longer-term refinancing options, which are designed to stimulate lending by banks.

In December, the ECB announced that it would stop making purchases under PEPP in March 2022 but would continue to invest maturing paper until at least the end of 2024. It also said that purchases under APP would increase in parallel in the first half of 2022, returning to the level of €20 billion per month in the second half of the year. At the same time, the ECB stressed the continued need for flexible monetary policy and did not move away from its low-interest-rate approach.

Volksbanken Raiffeisenbanken Cooperative Financial Network

Business situation

Despite the persistently difficult market conditions resulting from the effects of the COVID-19 pandemic and the extremely low level of interest rates, the Volksbanken Raiffeisenbanken Cooperative Financial Network reported a profit before taxes of €10,522 million in 2021 (2020: €7,216 million).

The cooperative banks' lending to retail and corporate customers increased by 6.9 percent in 2021 and thus grew at a faster pace than in the previous year (2020: 6.2 percent). The cooperative banks' market share in the retail and corporate customer segment increased by 0.3 percentage points year on year to 17.9 percent.

The Cooperative Financial Network's deposit-taking business saw customer deposits grow by a further 5.0 percent to €984,926 million (December 31, 2020: €937,876 million). These deposits played a crucial part in funding the Cooperative Financial Network's lending business.

Equity increased again, by 6.4 percent, to €129,543 million at the end of the reporting year (December 31, 2020: €121,747 million). The Cooperative Financial Network's capital resources provide it with a risk buffer and, at the same time, the foundations on which it can expand its lending business with retail and corporate customers.

The Cooperative Financial Network received a rating of A+ (2020: AA–) from credit rating agency Standard & Poor's, while the rating from Fitch Ratings was unchanged at AA–.

In 2021, the number of members of the Cooperative Financial Network fell slightly year on year, predominantly due to demographic change. As at the end of the financial year, the cooperative banks had 18.2 million members (individuals and companies) in total, compared with 18.4 million at the end of 2020.

Financial performance

Net interest income amounted to €18,232 million in the year under review (2020: €18,272 million). This figure was primarily influenced by the low-interest-rate policy of the ECB and the resulting deterioration of margins. However, the decrease was partially offset by growth in lending. Net interest income in 2021 was therefore in line with expectations. The cooperative banks' net interest income, the biggest source of income for the Cooperative Financial Network, amounted to €15,681 million in 2021 (2020: €15,368 million).

The ECB made additional liquidity available under the TLTRO III program in order to support lending to households and companies. In accordance with the rules of the TLTRO III program, the interest rate depends on the net lending volume in the specified comparative periods. The marketoriented basic interest rate in 2021 was minus 0.5 percent. In addition, a 0.5 percentage point lower interest rate is achievable if the net lending volume of the eligible loans (loans to the non-financial sector in the eurozone, excluding consumer home finance) was positive and thus higher than the required reference volume. In the reporting year, participation in the ECB's TLTRO III program gave rise to bonus interest in the "Central Institution and Major Corporate Customers" segment and in the "Real Estate Finance" segment of €201 million, based on a volume of €36,660 million. The TLTRO III volume in the "Retail Customers and SMEs" segment stood at €42,168 million as at December 31, 2021. Assuming that the cooperative banks achieve the required net lending with eligible loans, this volume will give rise to bonus interest of €211 million. This will result in total bonus interest for the Cooperative Financial Network of €412 million.

Net fee and commission income improved by €1,236 million to €8,675 million in 2021 (2020: €7,439 million) and was therefore comfortably above the forecast figure. The main sources of income continued to be payments processing (including card processing) and securities brokerage business with entities in the Cooperative Financial Network. Making a contribution of €6,340 million, the cooperative banks accounted for the bulk of net fee and commission income (2020: €5,885 million). There was also a sharp rise due to the volume-related net income contribution resulting from an increase in the average assets under management and due to net income from performance-based management fees in the Union Investment Group.

As expected, the Cooperative Financial Network's **gains and losses on trading activities** fell sharply to a net gain of €339 million (2020: net gain of €868 million). Gains and losses on trading activities are largely influenced by the DZ BANK Group. The change in this key performance indicator was attributable to various factors, notably the fair value gains and losses on own issues.

The net loss under **gains and losses on investments** came to €152 million (2020: net gain of €7 million). This significant deterioration had been anticipated and was largely attributable to realized gains and losses on sales of securities during the year and to measurement effects at the cooperative banks. The net loss was partly offset by, in particular, the positive trend in the DZ BANK Group resulting from income from the sale of direct long-term equity investments.

Loss allowances for the year under review had been expected to be on a par with 2020 but ultimately ended up with a net reversal of €337 million (2020: net addition of €2,327 million). This reflected the economic recovery – with company insolvencies remaining at a low level – and income from the reversal of loss allowances for individual exposures. In 2020, a significant addition to loss allowances had been required because of the COVID-19 pandemic.

Other gains and losses on valuation of financial instruments improved from a net loss of €62 million to a net gain of €190 million, primarily due to a positive change in the valuation of guarantee commitments in the Union Investment Group and IFRS-related valuation effects in the DZ BANK Group. Gains and losses from fair value hedge accounting amounted to a net gain of €20 million (2020: €41 million), gains and losses on derivatives used for purposes other than trading amounted to a net gain of €58 million (2020: net loss of €173 million), and gains and losses on financial instruments designated as at fair value through profit or loss amounted to a net gain of €111 million (2020: €70 million).

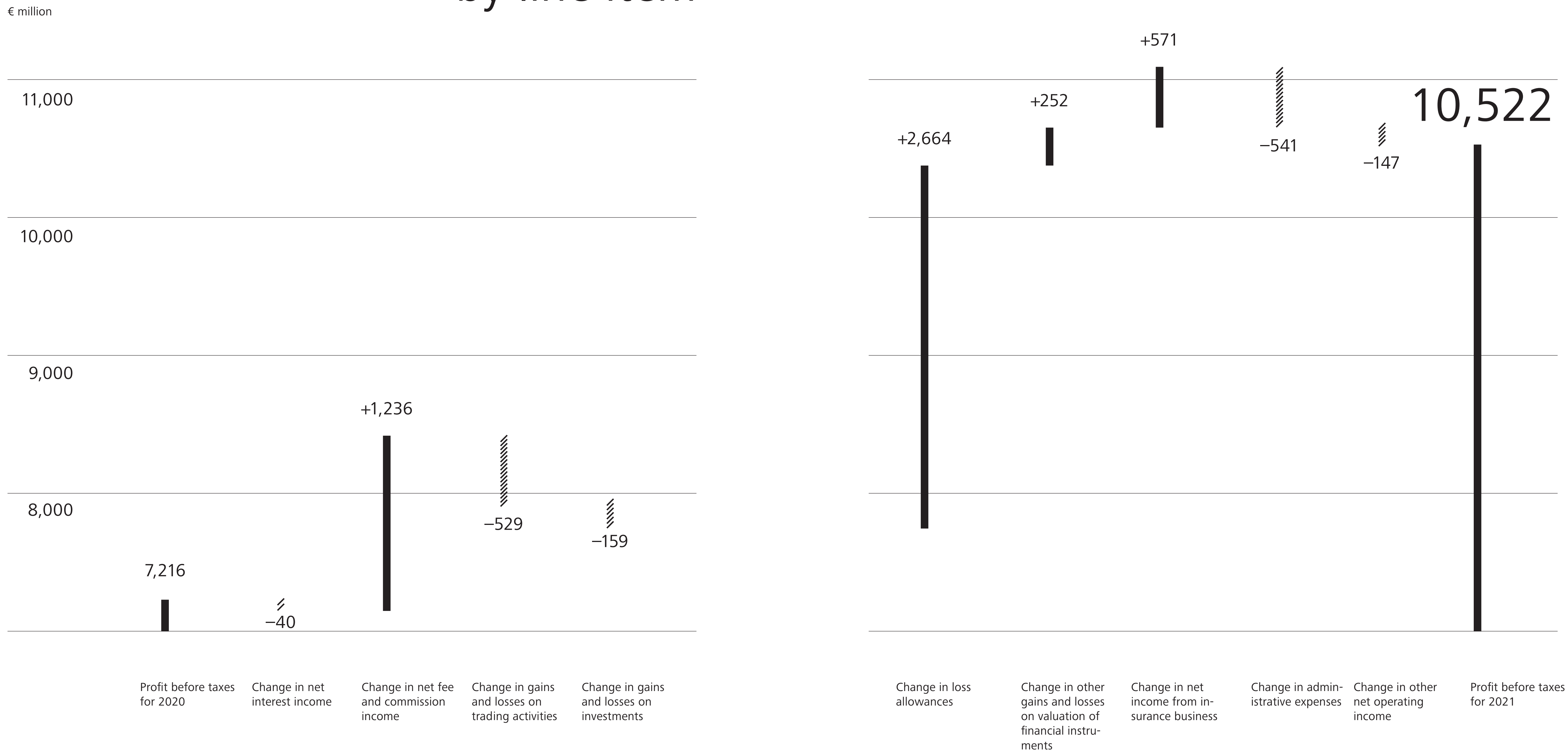
Net income from insurance business, which is exclusively attributable to the R+V Group, comprises premiums earned, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance benefit payments, and insurance business operating expenses. As expected, net income from insurance business rose sharply in 2021 to reach €1,293 million (2020: €722 million).

Financial performance

	2021 € million	2020 € million	Change (percent)
Net interest income	18,232	18,272[1]	–0.2
Net fee and commission income	8,675	7,439	16.6
Gains and losses on trading activities	339	868[1]	–60.9
Gains and losses on investments	–152	7	>100.0
Loss allowances	337	–2,327	>100.0
Other gains and losses on valuation of financial instruments	190	–62[1]	>100.0
Net income from insurance business	1,293	722	79.1
Administrative expenses	–18,577	–18,036	3.0
Other net operating income	186	333	–44.1
Profit before taxes	**10,522**	**7,216**	**45.8**
Income taxes	–3,017	–2,188[1]	37.9
Net profit	**7,505**	**5,027**	**49.3**

1 Amount restated.

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



This year-on-year rise was due to the increase in premiums earned to €18,994 million (2020: €18,741 million) and the improvement – reflecting the performance of the capital markets – in gains and losses on investments held by insurance companies and other insurance company gains and losses to a net gain of €5,233 million (2020: net gain of €2,007 million). Some of these increases were offset by a rise in insurance benefit payments to €20,356 million (2020: €17,561 million). The non-life insurance business saw an accumulation of natural disaster claims owing to storms (notably Storm Bernd), resulting in claims incurred of €418 million as at the reporting date. In the inward reinsurance business, major claims of €75 million arose in 2021 in connection with the Texas Freeze winter storm in the United States. An amount of €100 million (net, after claims covered by reinsurers) was recognized for Storm Bernd, and €63 million for the storms in June 2021. Hurricane Ida was the source of net claims amounting to €38 million and the tornado outbreak in December 2021 gave rise to net claims of €30 million. In addition, insurance business operating expenses incurred in the course of ordinary business activities increased to €2,578 million (2020: €2,465 million).

Administrative expenses held steady at €18,577 million in the year under review, which was a little higher than the prior-year figure of €18,036 million. The bulk of the administrative expenses were attributable to staff expenses, which came to €10,402 million (2020: €10,092 million), and other administrative expenses, which amounted to €8,175 million (2020: €7,944 million). The latter comprised not only general and administrative expenses but also depreciation/amortization and impairment losses. In 2020, the expectation had been that staff expenses would fall slightly and general and administrative expenses would remain largely unchanged. The rise in staff expenses was attributable to appointments to new and vacant positions and average pay rises, although there was a mitigating effect from people leaving – mainly due to retirement.

Income taxes amounted to €3,017 million (2020: €2,188 million), with most of this amount (€3,084 million; 2020: €2,606 million) attributable to current income taxes.

The **consolidated net profit** after taxes rose to €7,505 million in 2021 (2020: €5,027 million).

The Cooperative Financial Network's **cost/income ratio** came to 64.6 percent in 2021 (2020: 65.4 percent).

Financial position

The consolidated **total assets** of the Volksbanken Raiffeisenbanken Cooperative Financial Network rose by €90,560 million to €1,566,451 million as at December 31, 2021 (December 31, 2020: €1,475,891 million). The **volume of business** increased from €1,995,551 million as at December 31, 2020 to €2,170,546 million at the end of the reporting year. Trust activities amounted to a volume of €3,830 million (December 31, 2020: €3,670 million). Of the total assets before consolidation, 62.3 percent was attributable to the cooperative banks (December 31, 2020: 62.2 percent) and 34.7 percent to the DZ BANK Group (December 31, 2020: 34.8 percent). As had also been the case at the end of 2020, the remaining 3.0 percent was attributable to Münchener Hypothekenbank, the BVR protection scheme, and BVR Institutssicherung GmbH.

On the **assets** side of the balance sheet, loans and advances to banks declined by €3,887 million to €15,843 million (December 31, 2020: €19,730 million), whereas cash and cash equivalents jumped to €156,973 million (December 31, 2020: €120,961 million) and loans and advances to customers by €53,452 million to €944,028 million (December 31, 2020: €890,576 million). As in previous years, this upward trend was mainly driven by increased lending by the cooperative banks.

Financial assets held for trading surged by €4,856 million to €47,442 million at the end of 2021 (December 31, 2020: €42,586 million). This increase was predominantly due to a rise in receivables to €18,294 million (December 31, 2020: €8,310 million), a rise in bonds and other fixed-income securities to €10,815 million (December 31, 2020: €10,261 million), and a rise in shares and other variable-yield securities to €1,772 million (December 31, 2020: €1,460 million). By contrast, derivatives (positive fair values) declined to €16,188 million (December 31, 2020: €22,246 million).

Investments fell to €248,390 million as at December 31, 2021 (December 31, 2020: €255,374 million). The principal reason for this was the decrease in bonds and other fixed-income securities to €163,582 million (December 31, 2020: €179,256 million), whereas shares and other variable-yield securities increased to €79,710 million (December 31, 2020: €71,694 million).

Investments held by insurance companies went up from €120,580 million as at December 31, 2020 to €127,793 million at the end of 2021. Mortgage loans increased to €13,005 million (December 31, 2020: €10,882 million) and variable-yield securities to €13,742 million (December 31, 2020: €11,639 million). Assets related to unit-linked contracts rose to €18,730 million (December 31, 2020: €14,820 million). However, registered bonds declined to €7,795 million (December 31, 2020: €8,551 million). Derivatives (positive fair values) decreased to €199 million (December 31, 2020: €553 million) and fixed-income securities to €60,951 million (December 31, 2020: €61,160 million). Promissory notes and loans increased to €7,072 million (December 31, 2020: €6,873 million).

On the **equity and liabilities** side of the balance sheet, deposits from banks swelled to €193,809 million (December 31, 2020: €160,924 million). This growth reflects the expansion of support loan business in connection with the COVID-19 pandemic. The Volksbanken Raiffeisenbanken Cooperative Financial Network's participation in the TLTRO III program, which had been launched by the ECB in 2020, amounted to a total volume of €78,828 million as at December 31, 2021.

Deposits from customers grew from €937,876 million as at December 31, 2020 to €984,926 million as at the end of the reporting year. This can be explained by the rise in customer deposits as a result of the ECB's policy of low and zero interest rates. Debt certificates issued including bonds advanced to €63,521 million (December 31, 2020: €58,365 million), mainly because other debt certificates issued increased to €13,223 million (December 31, 2020: €9,878 million) and bonds issued rose to €50,298 million (December 31, 2020: €48,487 million).

Financial liabilities held for trading stood at €40,045 million as at December 31, 2021 (December 31, 2020: €46,802 million). This reduction was attributable, in particular, to derivatives (negative fair values) amounting to €15,402 million (December 31, 2020: €20,144 million) and liabilities of €804 million (December 31, 2020: €3,790 million). By contrast, short positions rose to €1,548 million (December 31, 2020: €603 million).

Equity increased by €7,796 million to €129,543 million as at December 31, 2021 (December 31, 2020: €121,747 million), primarily because of the level of profit earned in 2021. The cooperative banks accounted for 84.4 percent of equity while the other entities in the Cooperative Financial Network accounted for 15.6 percent. This equity allocation highlights the local corporate responsibility and great significance of the cooperative banks for the Cooperative Financial Network.

Capital adequacy and regulatory ratios

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

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

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

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

The Cooperative Financial Network's Tier 1 capital ratio was virtually unchanged at 15.2 percent as at December 31, 2021 (December 31, 2020: 15.3 percent). The regulatory total capital ratio went down year on year owing to phase-out rules and subordinated bonds that had become due, standing at 15.8 percent as at the end of 2021 (December 31, 2020: 16.3 percent). In absolute terms, the Cooperative Financial Network's own funds increased by €4.3 billion to €119.7 billion. This rise was largely attributable to the retention of profits by the cooperative banks.

As at December 31, 2021, risk-weighted assets amounted to €757.7 billion, which was up by €50.9 billion year on year (see table on page 21). This increase was predominantly due to the growth of loans and advances in customer-related business. In total, credit risk exposures made up 90.9 percent of risk-weighted assets (December 31, 2020: 90.6 percent). The banks in the Cooperative Financial Network primarily use the Standardized Approach to credit risk to determine their regulatory capital requirements. Some institutions also apply internal ratings-based (IRB) approaches, including the DZ BANK Group, Münchener Hypothekenbank eG, and Deutsche Apotheker- und Ärztebank eG.

The leverage ratio was unchanged at 8.0 percent as at December 31, 2021. Once again, this ratio underlines the sound and conservatively calculated capital adequacy of the Cooperative Financial Network.

Breakdown of risk-weighted assets

	Dec. 31, 2021 € million	Dec. 31, 2020 € million	Change (percent)
Credit risk			
of which Standardized Approach to credit risk			
corporates	186,026	174,109	6.8
retail business	151,832	141,663	7.2
secured by mortgages on immovable property	95,763	90,288	6.1
Total under the Standardized Approach to credit risk	**567,398**	**520,320**	**9.0**
of which IRB approaches			
corporates	49,944	50,158	–0.4
retail business	26,805	25,881	3.6
equity investments	29,382	27,857	5.5
Total under IRB approaches	**117,468**	**115,464**	**1.7**
Total credit risk	**689,052**	**640,221**	**7.6**
Total market risk	**14,501**	**13,123**	**10.5**
Total operational risk	**50,894**	**50,537**	**0.7**
Total other exposures (including CVAs*)	**3,272**	**2,941**	**11.3**
Total	**757,719**	**706,821**	**7.2**

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

Operating segments of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Retail Customers and SMEs

The **net interest income** generated by the "Retail Customers and SMEs" operating segment amounted to €16,249 million in the reporting year (2020: €15,939 million). This increase was achieved despite the ECB's low-interest-rate policy and the resulting squeezing of margins and was due, in particular, to the growth of lending at the cooperative banks and a further rise in the average volume of consumer finance at TeamBank.

Net fee and commission income advanced from €7,609 million in 2020 to €8,843 million in the year under review. In 2021, this line item was again positively influenced by income from payments processing (including cards processing) and from the securities and funds business. The volume-related income contribution generated by the Union Investment Group as a result of the average assets under management of €421.3 billion (December 31, 2020: €365.1 billion) was another key factor in the increase in net fee and commission income in the "Retail Customers and SMEs" operating segment. Net income from performance-based management fees totaled €381 million (2020: €32 million). This increase was largely the result of a higher number of high-volume funds fulfilling the conditions for the transfer of a performance-related management fee in 2021. Income from real estate fund transaction fees came to €90 million in the reporting year (2020: €55 million). DZ PRIVATBANK's contributions to income from private banking and the fund services business were also up year on year. As at December 31, 2021, high-net-worth individuals' assets under management, which comprise the volume of securities, derivatives, and deposits of customers in the private banking business, amounted to €23.2 billion (December 31, 2020: €20.0 billion). The value of funds under management amounted to €182.1 billion as at December 31, 2021 (December 31, 2020: €139.5 billion).

Gains and losses on trading activities in the "Retail Customers and SMEs" operating segment came to a net gain of €218 million (2020: net gain of €211 million). This line item is derived from trading in financial instruments, gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals business, and gains and losses on commodities trading.

The net loss under **gains and losses on investments** came to €427 million in the year under review (2020: net loss of €162 million). The change in the gains and losses was attributable to realized gains and losses on sales of securities during the year and to measurement effects at the cooperative banks.

Loss allowances amounted to a net reversal of €137 million (2020: net addition of €1,659 million). This was due to the economic recovery during the reporting year – with company insolvencies remaining at a low level – and the strong regional and sectoral diversification of the lending business. In 2020, loss allowances had been mainly affected by the need for additions as a result of the COVID-19 pandemic.

The Cooperative Financial Network's **administrative expenses** are subject to constant cost management. In the "Retail Customers and SMEs" operating segment, they amounted to €16,369 million in the reporting year (2020: €15,758 million). They included the effects of the first-time consolidation of the ZBI Group in the Union Investment Group and continued investment in digitalization. Staff expenses increased to €9,129 million in 2021 (2020: €8,811 million). The biggest influences on staff expenses were appointments to new and vacant positions and average pay rises, although there was a mitigating effect from people leaving – mainly due to retirement. Other administrative expenses advanced to €7,240 million (2020: €6,947 million), notably because of IT costs as a result of capital investment, public relations and marketing activities, consultancy costs, and the bank levy.

The **profit before taxes** of the "Retail Customers and SMEs" operating segment amounted to €8,833 million in the reporting year (2020: €6,253 million). The cost/income ratio was 65.3 percent (2020: 66.6 percent).

Central Institution and Major Corporate Customers

The **net interest income** of the "Central Institution and Major Corporate Customers" operating segment rose to €1,385 million in the year under review (2020: €1,227 million).

In the Corporate Banking business line, net interest income went up owing to the rise in the average lending volume, higher commitment fees for loans, and the recognition of bonus interest as a result of participating in the TLTRO III program. Net interest income from structured finance was higher than in the previous year. This increase was predominantly driven by international trade finance, especially export finance.

The year-on-year increase in net interest income from the investment promotion business resulted from substantial portfolio growth in recent years in response to high demand for development and support loans in all development lending segments. In the Capital Markets business line, the fall in net interest income attributable to business with institutional customers and the treasury portfolios resulted largely from the positive impact of the specific funding structure in 2020, which no longer applied in 2021.

Net fee and commission income in the "Central Institution and Major Corporate Customers" operating segment came to €530 million and was therefore slightly higher than in the previous year (2020: €521 million).

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

Gains and losses on trading activities in the "Central Institution and Major Corporate Customers" operating segment came to a net gain of €133 million in 2021, down from a net gain of €646 million in the previous year.

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

Gains and losses on trading activities in the Capital Markets business line amounted to a net gain of €616 million, up from a net gain of €521 million in 2020. In the customer business, which is mainly attributable to the cooperative banks, a year-on-year increase of 72 percent was achieved in own issues of structured products, with particularly strong growth for investment certificates. Flow business (direct sales of structured products without a subscription period) was also up by 14 percent as a result of significant market movement in 2021. As anticipated, the institutional customer business did not reach the previous year's record level, which had been caused by exceptional factors (outbreak of the COVID-19 pandemic). In 2021, income remained at a very high level in the various customer groups but was down compared with the previous year. From an asset class perspective, a particularly significant proportion of the income was generated from the trading volume of bank bonds and interest-rate derivatives. The trading volume of interest-rate derivatives and in individual bond segments, such as government bonds and supranational, subsovereign, and agency (SSA) bonds, went up year on year. Interest-rate and currency management activities in corporate banking also saw higher trading volumes. Spot exchange trading was one of the main areas of volume growth, although income remained at the prior-year level.

Gains and losses on trading activities reflected the gains and losses from IFRS-related effects with an adverse change of €546 million. In both 2020 and 2021, the key factors behind this figure were the fair value gains and losses relating to own issues in the subcategories 'financial assets and liabilities measured at fair value through profit or loss' (fair value PL) and 'financial assets and liabilities designated as at fair value through profit or loss' (fair value option). In the prior year, a net gain had arisen for these issues under fair value gains and losses, primarily due to the widening of mark-ups in the bond market in the context of the COVID-19 pandemic. However, this item had the opposite effect on the income statement in 2021 due to the calmer conditions in the bond markets. In 2021, the fair value gains and losses on issues in the aforementioned categories amounted to a net loss of €257 million (2020: net gain of €149 million). Within this amount, a net gain of €34 million arose from other gains and losses on valuation of financial instruments. Reserves increased in the category of financial instruments measured at amortized cost. There was also an adverse impact from derivative hedging transactions that are related to group finance and are therefore not permitted to be included in hedge accounting. In subsequent years, this adverse impact on earnings will be eliminated due to the pull-to-par effect. To a lesser extent, ineffectiveness in hedge accounting also took its toll on earnings. This expense was matched by income in the same amount recognized under other gains and losses on valuation of financial instruments.

Gains and losses on investments improved markedly from a net gain of €53 million in 2020 to a net gain of €225 million in the reporting year. This was predominantly due to income from the sale of securities, although some of the gains were offset by expenses arising from the unwinding of hedges in the context of portfolio fair value hedge accounting.

In 2021, **loss allowances** in the "Central Institution and Major Corporate Customers" segment amounted to a net reversal of €241 million (2020: net addition of €517 million), which was mainly attributable to the progress made with scaling back the portfolio at DVB Bank and reversals in connection with individual exposures as a consequence of the better economic environment in some shipping sectors. The elevated expense for loss allowances in 2020 had been primarily due to the COVID-19 pandemic.

Other gains and losses on valuation of financial instruments came to a net gain of €102 million in 2021 (2020: net loss of €74 million). While there was an improvement in the credit-risk-related measurement effects relating to financial assets designated as at fair value through profit or loss (fair value option) and derivatives used for purposes other than trading, the gain/loss from ineffectiveness in hedge accounting declined.

Administrative expenses amounted to €1,851 million in 2021 (2020: €1,866 million).

Due to the factors described above, **profit before taxes** in the "Central Institution and Major Corporate Customers" operating segment rose to €717 million in the year under review (2020: €109 million). The cost/income ratio was 79.5 percent in 2021 (2020: 74.9 percent).

Real Estate Finance

The **net interest income** of the "Real Estate Finance" operating segment of the Cooperative Financial Network amounted to €1,717 million in 2021 (2020: €1,552 million). The main reason for this increase was the portfolio growth generated from new business. In the previous year, net interest income had been impacted by an additional charge arising from a special addition to provisions relating to building society operations of €115 million at Bausparkasse Schwäbisch Hall. Net interest income arising on investments declined once again because capital market rates for investments remained low.

The net expense traditionally reported in the "Real Estate Finance" operating segment under **net fee and commission income** amounted to €100 million in 2021 (2020: €112 million).

Gains and losses on investments in the "Real Estate Finance" operating segment improved to a net gain of €73 million (2020: net gain of €67 million).

Loss allowances in the "Real Estate Finance" operating segment saw a net addition of €43 million in the reporting year (2020: net addition of €108 million). The prior-year loss allowance requirement had largely been attributable to additions in connection with the COVID-19 pandemic.

Other gains and losses on valuation of financial instruments in the "Real Estate Finance" operating segment deteriorated year on year, amounting to a net gain of €56 million in 2021 (2020: net gain of €115 million). This decrease was mainly due to the movement of credit spreads. A narrowing of credit spreads on bonds from eurozone periphery countries was evident in both 2021 and 2020, although this had resulted in a significantly more positive valuation effect in 2020.

Administrative expenses held steady at €894 million in 2021 (2020: €891 million).

Profit before taxes in the "Real Estate Finance" operating segment amounted to €865 million in the year under review (2020: €684 million). The cost/income ratio of the "Real Estate Finance" operating segment improved to 49.6 percent (2020: 52.9 percent).

Insurance

Premiums earned rose to €18,994 million (2020: €18,741 million), reflecting the integral position held by the R+V subgroup within the Cooperative Financial Network.

Premium income earned in the life insurance and health insurance business grew by a total of €89 million to €9,400 million (2020: €9,311 million).

Premiums earned from the life insurance business fell by €10 million to €8,635 million. The new guarantees and occupational pension businesses performed well, but activities contracted in traditional product business, unit-linked life insurance, and credit insurance. In the health insurance business, net premiums earned rose by €100 million to €766 million, with notably strong growth in private supplementary health insurance and full health insurance product groups, but a fall in premiums for international health insurance.

In the non-life insurance business, premium income earned grew by €217 million to €6,564 million, with most of this growth being generated from retail customer business, motor vehicle insurance, and corporate customer business.

Premiums earned from the inward reinsurance business fell by €54 million to €3,029 million. Europe remained the largest market for inward reinsurance. Growth was generated from the motor vehicle, fire, and property classes of insurance, and from other products. However, the positive effects were outweighed by a contraction in the loan/deposit product group.

Gains and losses on investments held by insurance companies and other insurance company gains and losses improved to a net gain of €5,280 million (2020: net gain of €2,072 million). This figure includes the fair value-based gains and losses on investments held by insurance companies in respect of insurance products constituting unit-linked life insurance for the account and at the risk of employees, employers, and holders of life insurance policies (unit-linked contracts). The gains and losses on investments held by insurance companies attributable to unit-linked contract products generally have no impact on profit/loss before taxes, because this line item is matched by an insurance liability addition or reversal of the same amount. The net gain on investments held by insurance companies, excluding unit-linked contracts, amounted to €2,985 million in 2021 (2020: €2,137 million).

The level of long-term interest rates was higher than in 2020. The movement of spreads on interest-bearing securities had a positive impact on this item. Spreads had widened in 2020 but held steady in the reporting year, although some widening was evident again at the end of 2021. A weighted spread calculated in accordance with R+V's portfolio structure stood at 66.7 points as at December 31, 2021 (December 31, 2020: 50.3 points; December 31, 2019: 53.5 points).

During 2021, equity markets relevant to R+V performed better than in 2020. For example, the EURO STOXX 50, a share index comprising 50 large listed companies in the eurozone, saw a rise of 745 points from the start of 2021, closing the year on 4,298 points. This index had fallen by 192 points in 2020. In the reporting year, movements in exchange rates between the euro and various currencies were generally more favorable than in the previous year. For example, the US dollar/euro exchange rate on December 31, 2021 was 0.879 compared with 0.817 as at December 31, 2020. For comparison with the previous twelve months, the corresponding rate as at December 31, 2019 had been 0.891.

Overall, these trends in 2021 essentially resulted in a €2,109 million positive change in unrealized gains and losses to a net gain of €2,616 million (2020: net gain of €507 million), a €38 million increase in the contribution to earnings from the derecognition of investments to a gain of €70 million (2020: gain of €32 million), an improvement of €1,513 million in the foreign exchange gains and losses to a net gain of €761 million (2020: net loss of €752 million), and an €89 million improvement in the balance of depreciation, amortization, impairment losses, and reversals of impairment losses to a net expense of €76 million (2020: net expense of €165 million). In addition, net income under current income and expense fell by €36 million to €2,096 million (2020: €2,132 million). Other insurance gains and losses and non-insurance gains and losses deteriorated by €505 million to a net loss of €187 million (2020: net gain of €318 million).

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

Insurance benefit payments amounted to €20,356 million, which equated to a rise of €2,795 million compared with the corresponding figure of €17,561 million in the prior year.

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

At the companies offering personal insurance, the changes in insurance benefit payments were in line with the change in premium income and in gains and losses on investments held by insurance companies and other insurance company gains and losses. For example, a large part of the net gain of €2,846 million under gains and losses on investments held by insurance companies from unit-linked life insurance was also reflected in insurance benefit payments. An amount of €730 million (2020: €739 million) was added to the supplementary change-in-discount-rate reserve.

The overall claims rate was above the level of the prior year; as were the rates for major claims, basic claims, and natural disaster claims. An accumulation of natural disaster claims occurred in 2021 owing to storms in the early summer (notably Storm Bernd), resulting in claims incurred of €418 million as at the reporting date. There was again a mitigating impact from motor vehicle insurance as a result of the COVID-19 pandemic.

In the inward reinsurance business, the net claims ratio was down by 9.7 percentage points compared with the prior year at 73.5 percent (2020: 83.2 percent). The ratios for major and basic claims were below those in 2020, but the ratio for medium claims went up. As a result, the overall claims rate was below the level of the prior year. In 2020, the COVID-19 pandemic had given rise to a provision of €323 million, with a corresponding impact on earnings. As at the reporting date, claims of €138 million had been received from ceding insurers, an increase of €42 million compared with the figure of €96 million at the end of 2020. The Texas Freeze winter storm in the US gave rise to major claims of €75 million. An amount of €100 million (net, after claims covered by reinsurers) was recognized for Storm Bernd, and €63 million for the storms in June 2021. Hurricane Ida was the source of net claims amounting to €38 million and the tornado outbreak in December 2021 gave rise to net claims of €30 million.

Insurance business operating expenses incurred in the course of ordinary business activities went up by €137 million to €3,183 million (2020: €3,046 million). The largest portion of the change was attributable to the non-life division, which saw an increase of €59 million or 4.0 percent. Expenses also rose in the inward reinsurance business, by €41 million or 5.4 percent. In addition, the life/health division accounted for an increase of €36 million, which equated to a 4.4 percent rise.

The factors described above meant that **profit before taxes** improved by €557 million to €772 million (2020: €215 million).

Management Report 2021

Human Resources and Sustainability

Human resources

As in 2020, the COVID-19 pandemic once again had a significant impact on people's working lives and on their personal lives in 2021. Human resources management in the cooperative banks thus continued to be focused on identifying ways of overcoming the problems created by the pandemic, especially how to balance work-related requirements with other requirements. As well as ensuring compliance with the obligation to work from home, the banks' HR departments expanded and professionalized the various arrangements that had been introduced at short notice at the start of the pandemic to allow more flexible working hours. They also had to monitor the statutory requirements, such as the '3G' rules (vaccinated, recovered, or negative test result).

The workplace itself has seen a further increase in the use of digital media and virtual communications, irrespective of whether employees are working in the office or at home. This has automatically strengthened the ability to adapt to technological progress. Nevertheless, managers and employees have come up with new ways of communicating and keeping in touch with each other effectively. The task of human resources management was to help them find new communication methods.

The Cooperative Financial Network's more rapid adaptation to digital and societal change may help to make the local cooperative banks a more attractive employer. As in 2020, the local cooperative banks were once again included in the trendence institute's ranking of the most sought-after employers for school-leavers in 2021.

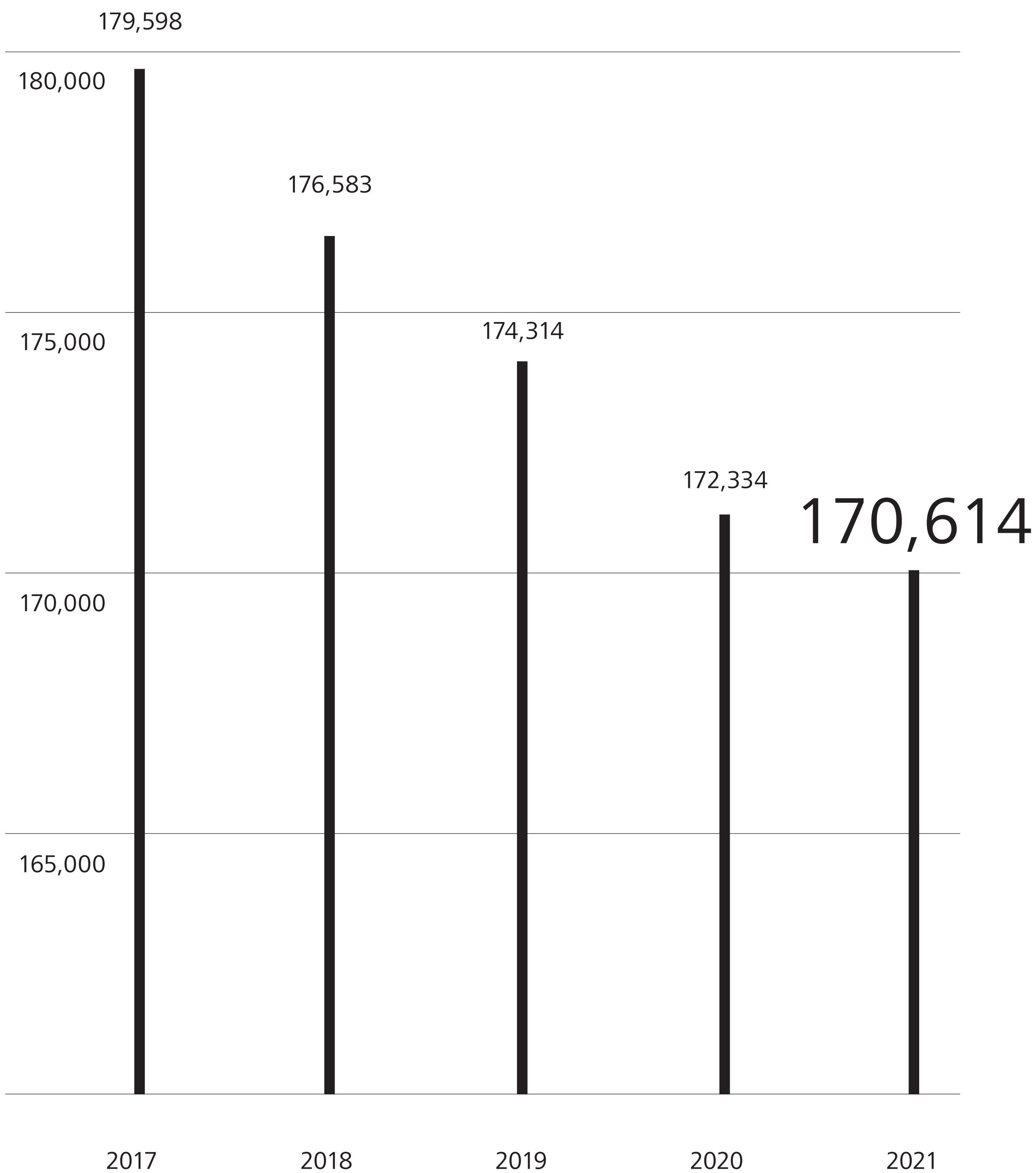
The cooperative banks are very aware of their central role as providers of employment and training in their regions. The ratio of trainees to other employees increased again to reach 6.6 percent in 2021 (see chart on page 38), showing that initial vocational training has traditionally been – and will remain – highly important in helping to secure the skilled workforce needed. As in other industries, the banking sector therefore has to continually counteract the shortage of skilled workers by carrying out innovative recruitment activities and steadily improving working conditions.

The continuing professional development (CPD) opportunities are complemented by a wide range of training and development activities offered by regional associations and academies. These include combined work and degree courses. Many trainees are keen to study for a degree too, and this is encouraged by the cooperative banks. The proportion of trainees undertaking these degree apprenticeships stands at 10.5 percent. University graduates also view the cooperative banks as an attractive employer. The proportion of employees with a degree remained at the high level of 8.7 percent in the reporting year (see chart on page 39).

A company cannot continue to perform strongly over the long term unless it has highly skilled and motivated employees. They lay the foundations for long-term customer relationships. Long periods of service are one of the indications of loyalty and a close bond between employees and their company. The chart on page 37 shows that approximately 70 percent of employees in the cooperative banks have been working at these organizations for more than 10 years and that nearly one in three employees has been with their bank for more than 25 years.

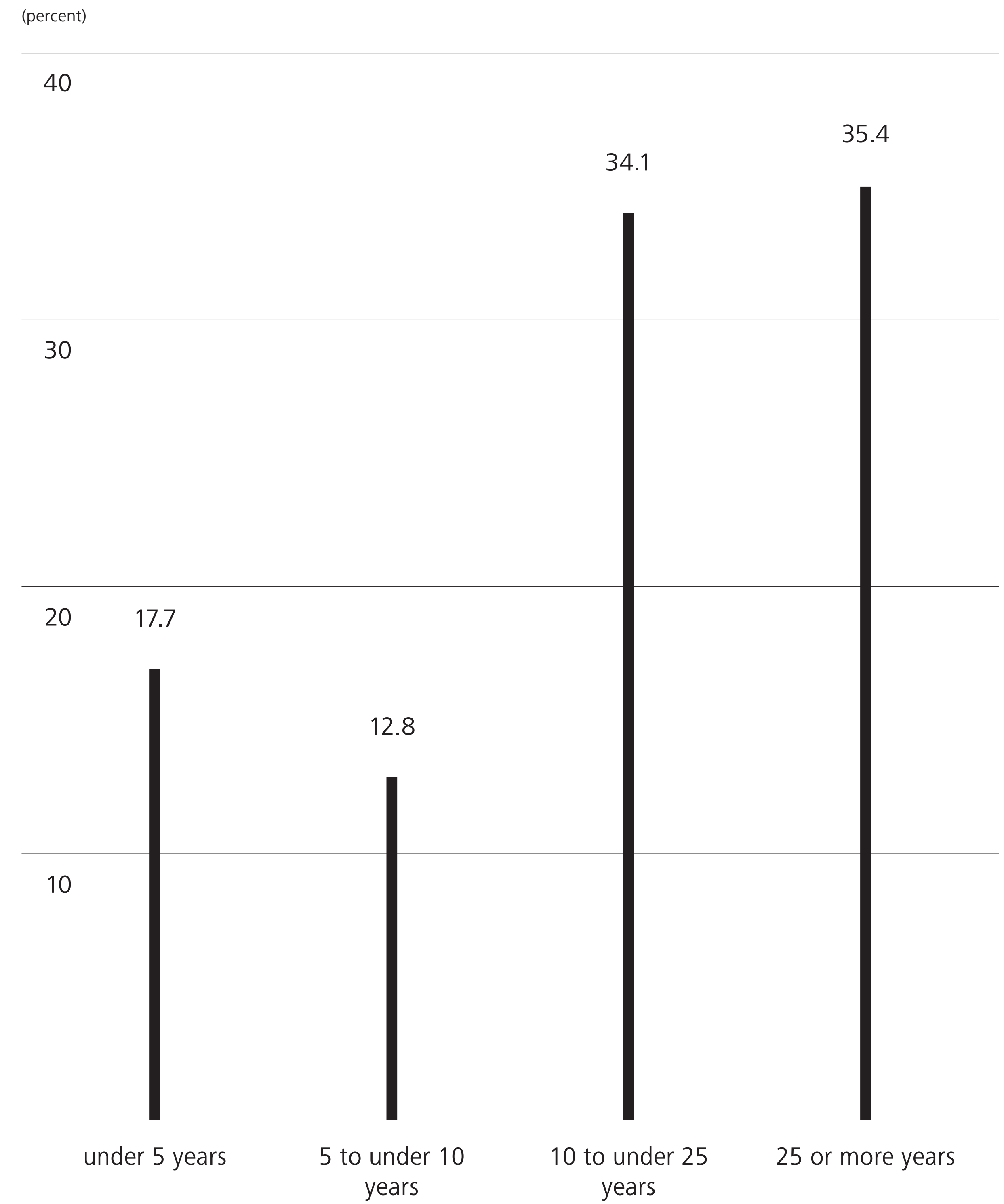
There was a further decrease in the number of employees of the Cooperative Financial Network to 170,614 in 2021 (see chart on page 36). At just 1.0 percent, however, this fall was less pronounced than in 2020.

Number of employees*



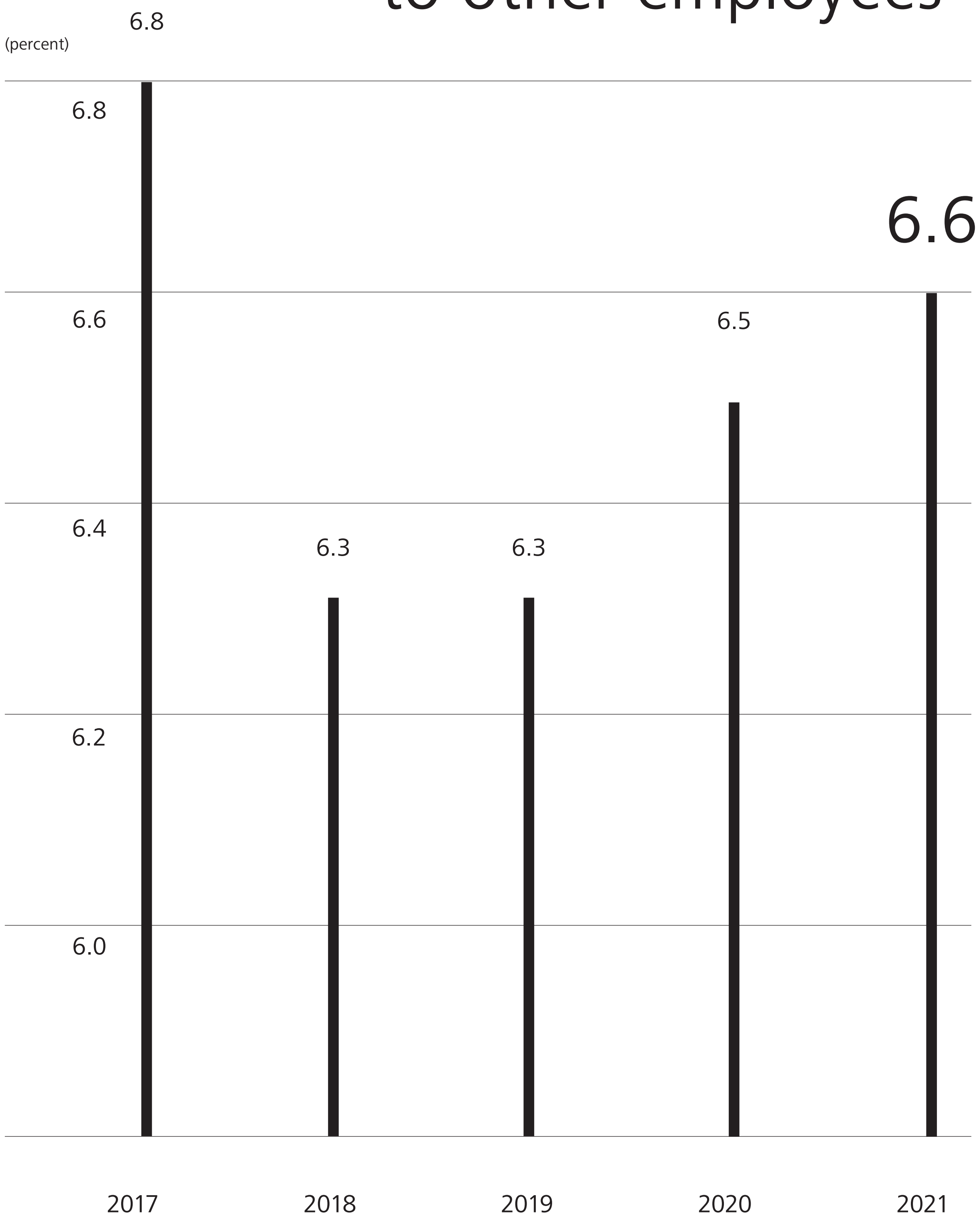
* Volksbanken Raiffeisenbanken Cooperative Financial Network.

Years of service*



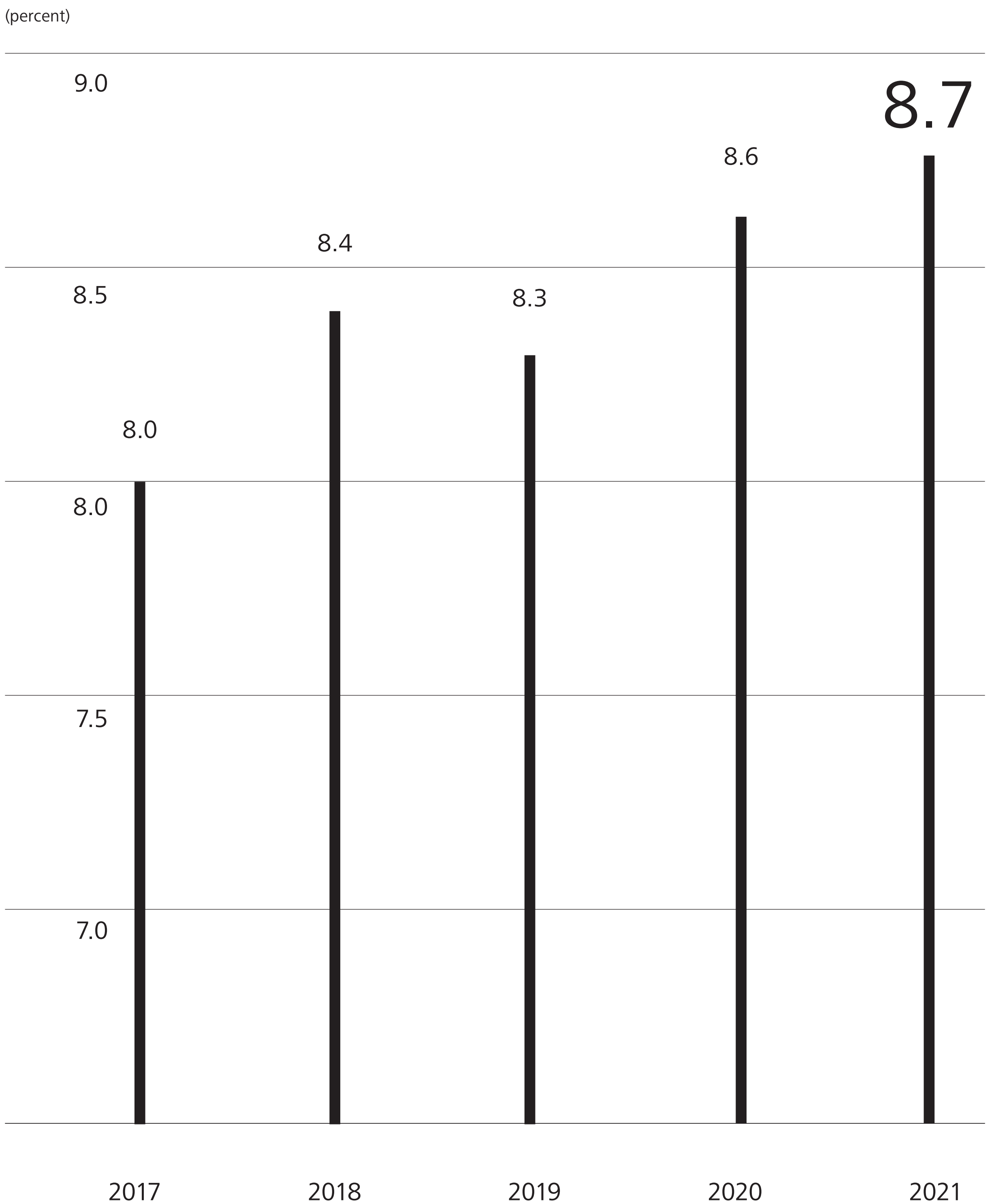
* Employees of cooperative banks and DZ BANK AG.

Ratio of trainees to other employees*



* Cooperative banks and DZ BANK AG.

Proportion of employees with a degree*



* Cooperative banks and DZ BANK AG.

Sustainability

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

Owners: achieving more together

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

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

Regional responsibility

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

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

Systematic integration of sustainability factors into management

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

Seizing market opportunities: increasing number of sustainability-oriented products

A growing portfolio of sustainability products is becoming established across the Cooperative Financial Network. These products are distributed by the cooperative banks. In addition to sustainable securities products (e.g. sustainability-oriented funds from Union Investment and GLS Gemeinschaftsbank eG), they also offer credit products (e.g. sustainable loans from Münchener Hypothekenbank eG). The BVR added a function to the central cooperative advisory process in May 2021 that allows the banks to check sustainability preferences in the system's database when providing investment advice. The banks are free to use this function as they wish. The partners in the Cooperative Financial Network have also expanded their portfolios of sustainability-oriented products, including impact-oriented investment funds (UniZukunft Klima A) and DZ BANK AG's investment certificates based on sustainable underlying instruments. The BVR is currently preparing for implementation of the further-reaching regulatory requirements that will apply with effect from August 2, 2022 under the Markets in Financial Instruments Directive (MiFID II).

Corporate social responsibility (CSR)

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

The latest figures for 2021 show that the Volksbanken Raiffeisenbanken Cooperative Financial Network provided reliably strong support for social issues and initiatives, despite the many difficulties, uncertainties, and social-distancing restrictions that characterized last year. The local cooperative banks and their specialized institutions provided financial assistance totaling €157 million to people in Germany. Donations from the Volksbanken Raiffeisenbanken and other cooperative banks reached around €111 million and local communities benefited from sponsorship worth €32 million; income from charitable foundations added a further €14 million. This ever stronger commitment, not just in 2021 but also in the years before, reflects the healthy financial results of the Cooperative Financial Network. Moreover, this shows that good financial performance is not an end in itself but leads to more being done for local needs.

The foundation assets of the Volksbanken Raiffeisenbanken Cooperative Financial Network amounted to €352 million as at December 31, 2021. This sum has been rising steadily for years. To put that into context, the equivalent amount at the end of 2011 was only €183 million. Reflecting the sustainability and long-term orientation of the 771 cooperative banks' business philosophy, this commitment to charitable foundations represents a very durable way of backing local projects.

Management Report 2021

Combined Opportunity and Risk Report

Principles

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

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

Risk management in a decentralized organization

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

Institutional protection scheme of the Cooperative Financial Network

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

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

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

As can be seen from its annual report, BVR-SE was able to fulfill the responsibilities set out in its articles of association – especially its responsibilities as a bank-protection scheme – in 2021. A total of 781 institutions of the Cooperative Financial Network belonged to BVR-SE as at December 31, 2021 (December 31, 2020: 824 members). The decrease stemmed solely from mergers within the Cooperative Financial Network.

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

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

Together, BVR-ISG and BVR-SE form the Cooperative Financial Network's dual protection scheme. The members of the BVR-ISG protection scheme are those CRR credit institutions that also belong to the BVR and are affiliated to BVR-SE. As at December 31, 2021, the membership comprised 779 CRR credit institutions (December 31, 2020: 822), which is all of the banks in the Cooperative Financial Network that are authorized in Germany by BaFin.

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

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

The focus of the activities of BVR-ISG in 2021 was on fulfilling its responsibilities as defined by law, the articles of association, and regulatory requirements. These activities centered on the risk-based collection of contributions, which is compliant with the relevant guidance of the European Banking Authority (EBA), the management of funds, extensive operational stress tests, and introduction of the IPS recovery plan in accordance with the Minimum Requirements for the Design of Recovery Plans (MaSan). BVR-ISG can look back on a highly successful year, having not had to take any action to protect depositors or banks or pay any compensation in accordance with section 145 of the German Bank Recovery and Resolution Act (SAG) at any time in 2021.

Risk identification and analysis

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

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

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

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

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

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

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

The classification process in 2021 was based on an analysis of data from the 2020 financial statements, which revealed that the classification results were weaker than those from the previous year. The deterioration was primarily due to gains and losses on securities, which fell back to a normal level following a sharp improvement in the previous year. This particularly affected any key figures for financial performance that include net profit. In absolute terms, income in the core business remained static and did not keep pace with the increase in the volume of business. Net interest income, for example, was virtually unchanged in absolute terms, while there was a further rise in net fee and commission income. The cost/income ratio rose a little owing to slightly higher administrative expenses. By contrast, operating profit held more or less steady. Loss allowances for loans and advances increased but were still at a low level by historical comparison. This is because the effects are gradually starting to be felt of the new rules on recognizing general loan loss allowances in accordance with accounting guidance statement 7, which has been issued by the banking committee of the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) [Institute of Public Auditors in Germany] and is required to be applied from 2022 onward. The key figures for financial position declined slightly because the sum of the asset items grew at a slower rate than the total increase in the volume of business. The key figures for the risk position improved slightly owing to decreases in unsecured lending classed as weaker loans. Overall, the aforementioned effects resulted in reductions in the points awarded and thus to a poorer overall distribution of the classification results.

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

Risk management and monitoring

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

The results of the classification process provide an important basis for BVR-SE's systematic preventive management. A bank is brought into the scope of this preventive management approach no later than when it is classified as B– or lower on the basis of its annual financial statements. Building on the classification results, other key figures were added in previous years (e.g. from the banks' reporting systems and from the stress tests that the supervisory authority now regularly conducts even for domestic, not systemically important banks) so that any anomalies at institutions can be identified at an early stage. In 2021, this data included multi-year planning information from the banks' reporting systems, all of which was made available to BVR-SE, and – for the first time – the key figures that the banks are required to disclose in respect of the IPS recovery plan on the basis of the German Regulation on the Minimum Requirements for the Design of Recovery Plans for Institutions (MaSanV).

Before the prevention phase, the monitoring of conspicuous institutions is playing an ever more significant role in the early analysis of institutions. In 2021, the monitoring program once again also reached out to institutions that were not showing any particular indications of risk but that could potentially represent a major risk simply because of the size of their balance sheet. This underpins the long-term trend of shifting the focus of BVR-SE's work away from restructuring and toward end-to-end preventive management that also includes monitoring.

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

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

There was a continued absence of any uptick in recovery activities by BVR-SE in 2021. In particular, costs were not incurred as a result of COVID-19-related effects. Only very minor costs were incurred for legacy cases where risks already covered had materialized or for which loss allowances were recognized in BVR-SE's annual financial statements. These legacy cases are being progressively reduced. The total restructuring amounts in need of protection resulting from such legacy cases were significantly lower than expected and there were only a few isolated repayments under debtor warrant obligations and other guarantee release obligations.

The overall business performance meant that the capital base of the dual cooperative institutional protection scheme was strengthened once more in 2021 and the statutory guarantee fund resources at its disposal were able to be increased again as planned.

Outlook for the BVR protection scheme and BVR Institutssicherung GmbH

The main influences on the financial performance of the cooperative institutional protection scheme in 2022 will be the ongoing war in Ukraine – and its impact on the German and wider European economy – and the return to rising market interest rates. These may result in risks and costs, for example due to new restructuring cases. At the time of preparation of the consolidated financial statements and management report, however, these risks and costs had not materialized/been incurred.

This year, BVR-ISG is again focusing on implementing regulatory requirements. For the first time, the IPS recovery plan will be managed on a regular, full-year cycle. The MaSanV requirements, which have been incorporated into the IPS recovery plan specified by BVR-ISG, must be fulfilled at individual institution level. BVR-ISG produces and maintains centralized documents and resources to help the institutions with this. The EBA is again due to carry out activities in connection with the regular review of the EU Deposit Guarantee Schemes Directive, which was initiated in 2019 (e.g. the assessment of contributions). BVR-ISG will be supporting these activities by participating in a number of the EBA task force's working groups.

Capital management

Regulatory capital management

The consolidated financial statements of the Cooperative Financial Network provide a comprehensive overview of the main capital ratios, particularly the consolidated regulatory capital ratios. These capital ratios are fundamentally calculated in accordance with the provisions of the CRR using the extended aggregated calculation pursuant to article 49 (3) CRR in conjunction with article 113 (7) CRR. Information concerning the regulatory capital ratios relates to the reporting date of December 31, 2021 and does not include the retention of the profits reported in the 2021 annual financial statements. Profit is retained after the individual institution's relevant committees have given their approval. This retention of profits will further strengthen the capital base in 2022.

The Tier 1 capital ratio held largely steady at 15.2 percent (December 31, 2020: 15.3 percent). As expected, the Cooperative Financial Network's regulatory total capital ratio declined to 15.8 percent as at December 31, 2021 owing to phase-out rules (December 31, 2020: 16.3 percent). Overall, regulatory own funds increased by €4.3 billion to €119.7 billion. The rise in own funds was largely attributable to the retention of profits from 2020 by the cooperative banks, which was reflected in the ratios as at December 31, 2021. The Cooperative Financial Network's capital is predominantly held by the cooperative banks.

The total risk exposure as at December 31, 2021 amounted to €757.7 billion (December 31, 2020: €706.8 billion). This 7.2 percent increase was driven by growth in both the retail and the corporate customer lending business.

BVR-SE analyzes the regulatory capital ratios of each member bank on an ongoing basis. The institutions themselves are responsible for fulfilling the regulatory requirements at all times, including in respect of bank-specific SREP surcharges. As shown by the chart on pages 54/55, the capital adequacy of the individual institutions in the Cooperative Financial Network was at a healthy level as at the reporting date of December 31, 2021. This had also been the case as at December 31, 2020.

The Cooperative Financial Network has healthy capital adequacy thanks to equity of €129.5 billion (December 31, 2020: €121.7 billion). It has continually boosted its level of capital in recent years by retaining profit. This trend substantiates the Cooperative Financial Network's sustainable business model with its broad diversification of sources of risk and income.

The Cooperative Financial Network's consolidated leverage ratio pursuant to the CRR came to 8.0 percent as at December 31, 2021 (December 31, 2020: 8.0 percent). This is further proof of the healthy capital adequacy of the Cooperative Financial Network. The ratio is calculated for the Cooperative Financial Network in accordance with the provisions of article 429 CRR. It is based on Tier 1 capital as determined in the extended aggregated calculation in accordance with article 49 (3) CRR. The risk exposures are determined by aggregating the individual leverage ratio submissions of all the member banks and adjusting them for material internal exposures within the joint liability scheme. The leverage ratio total exposure measure increased by 5.8 percent year on year to reach €1,430.3 billion.

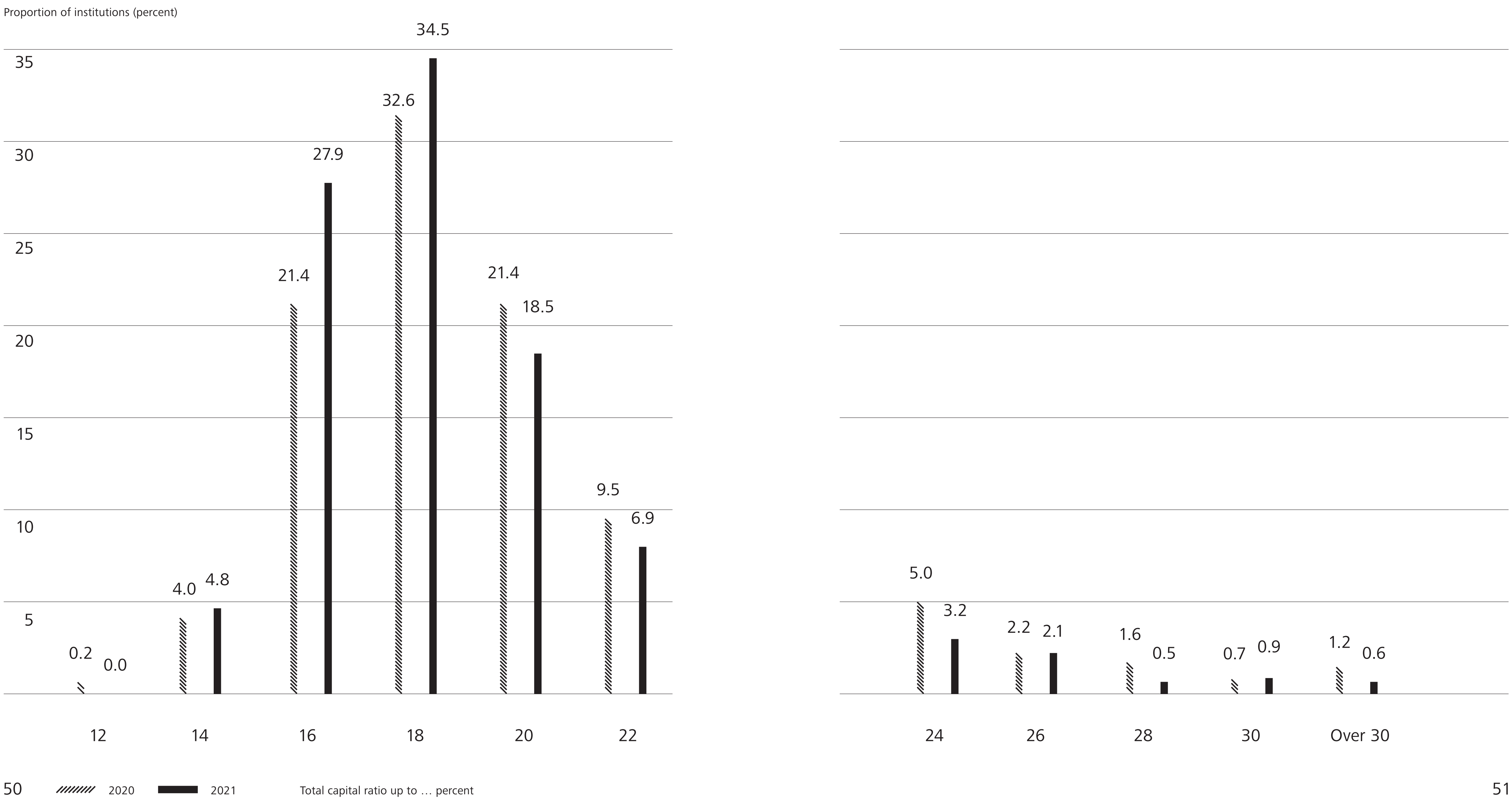
Economic capital management

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

Alongside these business considerations, the banking regulator has supplemented risk measurement in Pillar 1 with its own Supervisory Review and Evaluation Process (SREP) and worked out a system of bank-specific surcharges for interest-rate risk in the banking book on the one hand and for other material risks on the other, as well as a stress scenario surcharge that reflects the banking regulator's expectation that this risk amount will be backed by common equity Tier 1 capital in the medium term. The surcharges for the individual cooperative banks were once again met in 2021.

Starting with the disclosure pursuant to the German Financial and Internal Capital Adequacy Information Regulation (FinaRisikoV) as at the reporting date of December 31, 2020, all institutions have had to submit their capital planning to the banking supervisor in the form of an expected scenario and an adverse scenario. The disclosure of capital planning constitutes the normative perspective for institutions that have begun to use the new procedure to disclose their risk-bearing capacity. The own funds that would be required in the event of the scenarios materializing are compared with the eligible capital that is available. In view of the growing lending business, resulting in a rise in risk-weighted assets (RWAs) across all of the main exposure classes, the task of managing the capital ratios and own funds in order to prevent shortfalls is becoming increasingly important. The BVR will work out how to support the institutions with this task in 2022. Specifically, it plans to establish ways in which the cooperative banks can reduce their capital requirement and strengthen their capital adequacy. This new concept means a change of method for the institutions, because more than 99 percent of them previously applied a going-concern approach using HGB results. Switching to the new risk-bearing capacity method needs to be completed by the end of 2022. From 2023, the banking supervisor wants the risk-bearing capacity disclosures to be submitted in accordance with the new approach. In the meantime, all of the banks are switching over their relevant processes, supported by consultancy and IT services from the associations, Atruvia, and parcIT.

Distribution of total capital ratios in the Cooperative Financial Network



Credit ratings of the Cooperative Financial Network

The Cooperative Financial Network has been awarded a credit rating of AA– from Fitch and of A+ from Standard & Poor's, in both cases with a stable outlook. Standard & Poor's changed the credit rating from AA– to A+ in 2021. The agencies point to the consistently successful business model focused on retail and corporate banking as the reason for the current credit ratings. Capital adequacy is also judged to be above average in terms of quantity and quality. The rating agencies recognize the Cooperative Financial Network's ability to build up capital from its own resources by retaining profits. The granular credit structure and high proportion of mortgages in the retail business are the hallmarks of the overall high level of quality in the customer lending business. Funding is secured by the use of customer deposits. Liquidity is ensured by means of an extensive and highly diversified portfolio of marketable securities, combined with the cash pooling that takes place within the Cooperative Financial Network. The dual protection scheme is seen by the rating agencies as an important connecting link and a crucial element of the risk management system of the Cooperative Financial Network.

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

Credit risk

Credit risk is the risk of losses that may arise as a result of the default or deterioration in the creditworthiness of a borrower, issuer, counterparty, or equity investment. As at December 31, 2021, the credit risk-weighted assets of the Cooperative Financial Network amounted to €689.1 billion (December 31, 2020: €640.2 billion), which equated to 90.9 percent of total risk-weighted assets (December 31, 2020: 90.6 percent). This means that credit risk is the most significant risk category for the cooperative banks in the normative perspective for risk-bearing capacity.

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

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

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

The Cooperative Financial Network continued to register significant growth in its lending business in 2021. Loans and advances to customers increased by 6.0 percent year on year (2020: 5.4 percent). Once again, long-term home finance was a key growth driver. Home finance lending by the cooperative banks benefited from the favorable economic conditions. The combination of low interest rates, a healthy level of employment, and rising household incomes fueled strong demand for real estate loans. In 2021, this trend was again overshadowed by concerns about rising risks as a result of the fallout from the COVID-19 crisis. In many sectors offering face-to-face services, businesses had to close temporarily due to a number of lockdowns and therefore made use of government support and of loans from Germany's KfW development bank. Nonetheless, credit risk remained at a moderate level in all sectors in 2021. An analysis of the changes in the banks' credit ratings and of defaults among all their corporate and retail customers shows that default rates in the corporate customer lending business remained at the low level recorded in 2020. Overall, corporate customers' credit balances increased during the reporting year. Credit balances in the retail customer lending business are returning to pre-crisis levels. The monthly analyses have been facilitating the early identification of crisis-driven changes to the risk situation in the corporate and retail customer lending businesses since the outbreak of the pandemic.

Following a fall of 4.6 percent in 2020, GDP bounced back with an increase of 2.9 percent in 2021. Nevertheless, the COVID-19 pandemic took a heavy toll on the hospitality, tourism, and retail sectors. Emergency support measures and further lending programs helped to stabilize the economic situation, particularly in the sectors hit hardest by the pandemic.

Residential real estate prices in Germany continued to rise rapidly in 2021. According to data from the Verband deutscher Pfandbriefbanken (vdp) [Association of German Pfandbrief Banks], prices for owner-occupied housing went up by 11.3 percent. This is the biggest jump since the start of the German housing market's upturn ten years ago. Prices increased in both urban and rural areas. In addition to continued high demand for residential properties, the increase in prices was driven by higher costs for the materials used to construct new homes.

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

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

In 2021, loss allowances amounted to a net reversal of €0.3 billion (2020: net addition of €2.4 billion), predominantly due to individual reversals of the loss allowances recognized in 2020 in connection with COVID-19. The level of loss allowances was also influenced by the still historically low level of company insolvencies. The Cooperative Financial Network's NPL ratio (non-performing loans as a proportion of the total lending volume) decreased again slightly to stand at 1.3 percent as at December 31, 2021 (December 31, 2020: 1.5 percent). This fall in the NPL ratio was attributable to the increase in the total lending volume and a simultaneous reduction in the volume of NPLs. In summary, the cooperative banks operate a healthy lending business overall.

Market risk

Market risk is the risk of losses that could arise from adverse changes in market prices or in factors that influence prices. Market risks are generally grouped into the following categories: equity risk, interest-rate risk, and currency/commodity risk. As at December 31, 2021, the market risk-weighted assets of the Cooperative Financial Network amounted to €14.5 billion (December 31, 2020: €13.1 billion), which equated to 1.9 percent of total risk-weighted assets (December 31, 2020: 1.9 percent).

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

Interest-rate risk has a significant influence on the banks' financial performance. The persistently low interest rates caused the Cooperative Financial Network's net interest income in 2021 to decline slightly, by 0.2 percent, compared with the previous year. As in prior years, the largest proportion of net interest income was generated from the net interest margin contribution in the customer business, primarily the customer lending business.

At consolidated level, there was a rise in market risk in 2021. This was mainly due to increased spread risk and heightened volatility. The switch to the new approach to risk-bearing capacity with effect from 2023 will make it necessary to also measure, and set limits for, asset-specific market risk under the economic perspective. In 2022, parcIT intends to validate and enhance the existing historical simulation method used to measure market risk (particularly interest-rate risk). This will be carried out on the basis of criteria specified by the banks that use the method, such as in relation to model assumptions, the degree of coverage of product catalogs, sensitivities, and the different steering committees affected by the methodology. Now that interest rates have started rising, we anticipate a significant increase in market risk over the course of 2022.

Liquidity risk

Liquidity risk refers to the risk that a bank becomes unable to meet its payment obligations. In accordance with the cooperative principle of subsidiarity, each cooperative bank is in charge of its own liquidity and risk management. Compliance with the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), which are Pillar 1 regulatory key figures, is mandatory. The business management tools that are available enable the individual cooperative banks to define and manage their own bank-specific internal liquidity adequacy assessment process (ILAAP).

A temporary process for closely monitoring the liquidity situation of the entire Cooperative Financial Network had been introduced in response to the COVID-19 crisis in 2020. In the year under review, it was possible to revert to the usual observation and reporting modalities.

The degree to which a bank is able to guarantee its ability to meet its payment obligations in the short term is measured using the LCR. Banks are required to maintain a sufficiently high level of liquidity as measured by this key figure. As at December 31, 2021, the median LCR of all cooperative institutions was 160.1 percent (December 31, 2020: 177.6 percent).

For many years, the Cooperative Financial Network has had a reliable liquidity structure that is deemed crisis-resistant. The loan to deposit ratio of the Cooperative Financial Network is 95.8 percent (December 31, 2020: 95.0 percent). The basis for this lies in the diversifying, risk-mitigating effect created by the stable business structure of the banks, which tends to be divided into small units, and, in particular, in the institutions' traditional method of obtaining funding through customer deposits. Customers therefore recognize and reward the effectiveness of the institutional protection provided by BVR-SE and BVR-ISG, which particularly aim to safeguard deposits.

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

Operational risk

Based on the definition used by the banking regulator, operational risk is the risk of losses arising from inadequate or failed internal processes, personnel, or systems, or from external events. As at December 31, 2021, the risk-weighted assets of the Cooperative Financial Network attributable to operational risk amounted to €50.9 billion (December 31, 2020: €50.5 billion), which equated to 6.7 percent of total risk-weighted assets (December 31, 2020: 7.1 percent).

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

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

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

Opportunities and opportunity management

Customer membership is a distinctive feature of the cooperative banks' business model and one that is ideally suited to conveying the values of the cooperative idea. It offers the cooperative banks the opportunity to distinguish themselves from rival banking groups. The cooperative banks' distinctive characteristics are reflected in their continued ability to reach a wide range of customers. Strong customer retention results in measurable economic benefits, e.g. income growth for the cooperative banks and the protection of their market share. The cooperative principle has received a boost as a result of the coronavirus pandemic and greater regionalization, creating new opportunities for the cooperative banks to strengthen their competitive position.

The return to rising interest rates, a market-driven trend that emerged in autumn 2021, is now discernible at the main central banks too and we believe that this will create new opportunities over the next few years. The increase in interest rates for home finance in recent months will serve to stabilize the institutions' net interest income. However, the actual effect will depend on the extent to which risks materialize as a result of the geopolitical environment and the return to rising interest rates.

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

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

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

Outlook

Real economy and banking industry

Economic conditions are currently gloomy in Germany. Although the lifting of COVID-19 restrictions is favorable to economic growth, substantial problems are arising due to the war in Ukraine, the related energy price rises, and supply bottlenecks, which have recently worsened again. Against this backdrop, Deutsche Bundesbank has significantly lowered its 2022 growth outlook for Germany. In December 2021, the Bundesbank's economists had projected a rise in GDP of 4.1 percent. However, in their latest assessment from June 2022, they predict GDP growth of just 1.9 percent in the baseline scenario.

The underlying assumption for this updated scenario is that the war in Ukraine and its fallout will not escalate. In addition to this baseline scenario, the experts at the Bundesbank have also produced an alternative risk scenario in which the supply of energy from Russia is cut off. They anticipate that economic activity would contract markedly if this scenario were to materialize. In this scenario, they forecast an increase in GDP of only 0.5 percent in 2022, probably followed by a substantial 3.2 percent drop in economic output in 2023.

With regard to consumer prices in Germany, the Bundesbank's baseline scenario for 2022 envisages the inflation rate – as measured by the Harmonized Index of Consumer Prices (HICP) – rising to 7.1 percent. They believe that upward pressure on prices has built up significantly, the effects of which will continue to be felt even if – as is expected – commodity prices go back down a little and supply bottlenecks gradually ease in the second half of the year. The economic researchers anticipate that the labor market will remain robust. The number of people in work is likely to rise by 1.3 percent this year, while the unemployment rate is expected to fall to 5.0 percent.

Fueled by the war in Ukraine, inflation shot up not only in Germany but also in the rest of the eurozone and other European countries in spring 2022. Although initially driven by energy and commodity prices due to Europe's dependency on imports from Russia, inflation has become more broad-based over the course of the year. In May 2022, consumer prices in Germany (measured by the HICP) were up by 8.7 percent compared with May 2021 (eurozone: up by 8.1 percent). The core inflation rate, i.e. excluding energy and food prices, was 4.8 percent (eurozone: 3.8 percent). US inflation has also jumped to an unprecedented high (8.8 percent in April).

Central banks around the world have responded by raising interest rates, in some cases significantly. The US Federal Reserve (Fed) increased its key interest rate by 25 basis points for the first time in March 2022, followed by a hike of 50 basis points in May and then of 75 basis points in June to a range of 1.5 percent to 1.75 percent. The Fed also began to scale back the assets on its balance sheet that it had built up during the pandemic by buying bonds. It has raised the prospect of further interest-rate rises over the course of the year. On June 9, 2022, the ECB announced that it would raise its three main interest rates by 25 basis points in July. It also intends to discontinue net bond purchases under APP with effect from July 1, having ended PEPP in the second quarter. However, the paper held on the ECB's balance sheet is to be fully reinvested for the time being. Further moves on interest rates by the ECB will depend on medium-term inflation levels and on the situation in the eurozone's bond markets.

The expected influences on the overall economy also have an impact on the banking sector and its outlook for 2022. The risks resulting from the recent jump in interest rates lie in valuation effects on own-account investments and resulting from standard 3 issued by IDW's banking committee. Opportunities will arise in the customer business. Higher interest rates should mean higher margins in the assets-side business. The expectation that interest rates will continue to rise is generating increased demand for loans based on current terms and conditions. This phenomenon will also lead to higher interest income. Rising interest rates have an impact on the equity and liabilities side too, and we anticipate that customers will soon no longer have to worry about negative interest rates. However, a marked increase in interest rates for liabilities to above zero will be heavily dependent on the performance of alternative investments and is therefore only likely to materialize with a certain time lag. Given the substantial economic and geopolitical uncertainty, loss allowances for corporates and private households are expected to go up.

The banking sector still faces considerable pressure in terms of both adjustment and costs caused by the need for structural change in order to adapt to the competitive environment and comply with regulatory reforms. A large number of competitors, frequently with approaches based on the use of technology, are presenting the banking sector with the challenge of scrutinizing its existing business models, adapting them as required, and substantially improving its efficiency by digitalizing business processes, including sales channels. The corresponding capital investment is likely to continue to push up costs in the industry before the anticipated profitability gains can be realized.

In response to the regulatory requirements, the financial industry has reduced its leverage over the last few years and substantially bolstered its risk-bearing capacity by improving liquidity and capital adequacy. The current implementation of the final Basel III framework and the corresponding requirements imposed by EU banking regulators in Brussels should be seen in this context. In addition, BaFin will address the specific risks in Germany by imposing a countercyclical buffer and a sectoral systemic risk buffer for the residential real estate sector from 2023. The potential ramifications of these changes for lending and for the loan terms and conditions will need to be studied.

Volksbanken Raiffeisen-banken Cooperative Financial Network

The Cooperative Financial Network started 2022 with a tailwind from the very good results that it achieved in 2021. However, future earnings may be affected by the aforementioned risks resulting from the general economic climate, and this would weigh heavily on the financial position and financial performance of the Cooperative Financial Network.

Based on current assessments, net interest income will hold more or less steady in 2022 because interest rates are rising and TLTRO III open market operations are being reduced. Net interest income is expected to be stabilized by the forecast growth in the interest-bearing business, although this will be heavily dependent on the level of new business going forward.

Net fee and commission income is projected to be down slightly in 2022 compared with the exceptionally high level achieved in 2021. However, it will still make a hefty contribution to earnings thanks, in particular, to an increase in assets under management and the income that these will generate.

Profit before taxes will be adversely affected by the greatly elevated valuation effects for securities investments resulting from the much higher level of interest rates. This will particularly affect gains and losses on investments, which are therefore expected to deteriorate significantly in 2022. However, we do not anticipate lasting material declines attributable to credit ratings.

Expenses for loss allowances are likely to rise sharply in 2022 compared with their relatively low level in 2021. However, the exact change in loss allowances is subject to significant uncertainty, primarily because corporate and retail customers are not yet experiencing the full impact of the surge in energy and commodity prices and because many supply chains are now facing renewed delays and disruptions. Overall, there is a risk of an increasing number of insolvencies, which will then affect the banks' loan books.

Net income from insurance business is predicted to decline sharply in 2022. This forecast is largely based on the anticipated deterioration in gains and losses on investments held by insurance companies, which is expected to be greater than the forecast growth in premiums earned from the insurance business in the various divisions of the "Insurance" operating segment.

Administrative expenses are likely to increase slightly in 2022 compared with 2021 because of growth-related capital investment combined with unchanged or slightly higher staff expenses and rigorous management of costs. The cost/income ratio is predicted to climb sharply in 2022 as a result of the expected marked fall in income compared with 2021 and a small increase in expenses.

The regulatory capital ratios will decline in 2022 owing to interest-rate-related valuation effects and regulatory changes (e.g. elimination of members' commitments). Moreover, RWAs are predicted to continue growing, albeit at a slightly slower rate.

Following a very healthy 2021 and taking account of all the factors than can currently be assessed, we anticipate that profit before taxes will fall sharply in 2022.

Consolidated Financial Statements 2021

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

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Income statement for the period January 1 to December 31, 2021

	note	2021 € million	2020 € million
Net interest income	7.	18,232	18,272
Interest income and current income and expense		*20,854*	*22,268*[1]
Interest expense		*–2,622*	*–3,996*[1]
Net fee and commission income	8.	8,675	7,439
Fee and commission income		*10,387*	*8,929*
Fee and commission expenses		*–1,712*	*–1,490*
Gains and losses on trading activities	9.	339	868[1]
Gains and losses on investments	10.	–152	7
Loss allowances	11.	337	–2,327
Other gains and losses on valuation of financial instruments	12.	190	–62[1]
Premiums earned	13.	18,994	18,741
Gains and losses on investments held by insurance companies and other insurance company gains and losses	14.	5,233	2,007
Insurance benefit payments	15.	–20,356	–17,561
Insurance business operating expenses	16.	–2,578	–2,465
Administrative expenses	17.	–18,577	–18,036
Other net operating income	18.	186	333
Profit before taxes		**10,522**	**7,216**
Income taxes	19.	–3,017	–2,188[1]
Net profit		**7,505**	**5,027**
Attributable to:			
Shareholders of the Cooperative Financial Network		7,319	4,924[1]
Non-controlling interests		186	103[1]

1 Amount adjusted.

Statement of comprehensive income for the period January 1 to December 31, 2021

	2021 € million	2020 € million
Net profit	**7,505**	**5,027**[1]
Other comprehensive income/loss	**133**	**377**
Items that may be reclassified to the income statement	***–941***	***742***
Gains and losses on debt instruments measured at fair value through other comprehensive income	–1,389	1,185
Exchange differences on currency translation of foreign operations	–16	–32
Gains and losses on hedges of net investments in foreign operations	5	3
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	15	–6
Income taxes	445	–408
Items that will not be reclassified to the income statement	***1,074***	***–365***
Gains and losses on equity instruments for which the fair value OCI option has been exercised	473	–77
Gains and losses in relation to financial liabilities for which the fair value option has been exercised, attributable to changes in own credit risk	39	–60
Gains and losses arising on remeasurements of defined benefit plans	864	–317
Income taxes	–303	89
Total comprehensive income	**7,638**	**5,404**
Attributable to:		
Shareholders of the Cooperative Financial Network	7,496	5,257[1]
Non-controlling interests	143	147[1]

1 Amount adjusted.

Balance sheet as at December 31, 2021

Assets

	note	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Cash and cash equivalents	20.	156,973	120,961
Loans and advances to banks	21.	15,843	19,730
Loans and advances to customers	21.	944,028	890,576
Hedging instruments (positive fair values)	22.	389	160
Financial assets held for trading	23.	47,442	42,586[1]
Investments	24.	248,390	255,374
Loss allowances	25.	–9,562	–10,470
Investments held by insurance companies	26.	127,793	120,580
Property, plant and equipment, investment property and right-of-use assets	27.	15,742	14,564
Income tax assets	28.	4,427	4,268[1]
Other assets	29.	14,986	17,562
Total assets		**1,566,451**	**1,475,891**

1 Amount adjusted.

Equity and liabilities

	note	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Deposits from banks	30.	193,809	160,924
Deposits from customers	30.	984,926	937,876
Debt certificates issued including bonds	31.	63,521	58,365
Hedging instruments (negative fair values)	22.	3,869	7,557
Financial liabilities held for trading	32.	40,045	46,802[1]
Provisions	33.	13,145	13,574
Insurance liabilities	34.	118,863	111,213
Income tax liabilities	28.	1,927	1,781
Other liabilities	35.	12,048	11,612
Subordinated capital	36.	4,755	4,441
Equity	37.	129,543	121,747
Equity of the Cooperative Financial Network		127,652	119,045
Subscribed capital		*14,938*	*13,614*
Capital reserves		*783*	*766*
Retained earnings		*102,555*	*97,131*[1]
Reserve from other comprehensive income		*1,947*	*2,500*
Additional equity components		*110*	*111*
Unappropriated earnings		*7,319*	*4,924*[1]
Non-controlling interests		1,891	2,702[1]
Total equity and liabilities		**1,566,451**	**1,475,891**

1 Amount adjusted.

Statement of changes in equity

€ million	Subscribed capital	Capital reserves	Equity earned by the Cooperative Financial Network	Reserves from other comprehensive income	Additional equity components
Equity as at Jan. 1, 2020	**12,919**	**766**	**97,611**	**1,984**	**114**
Adjustments pursuant to IAS 8	–	–	–34	–	–
Adjusted equity as at Jan. 1, 2020	**12,919**	**766**	**97,577**	**1,984**	**114**
Net profit	–	–	4,924[1]	–	–
Other comprehensive income/loss	–	–	–228	561	–
Total comprehensive income	**–**	**–**	**4,696**	**561**	**–**
Issue and repayment of equity	695	–	–	–	–3
Changes in the scope of consolidation	–	–	–	–	–
Acquisition/disposal of non-controlling interests	–	–	–44	–1	–
Reclassifications within equity	–	–	44	–44	–
Dividends paid	–	–	–216	–	–
Distribution on additional equity components	–	–	–2	–	–
Equity as at Dec. 31, 2020	**13,614**	**766**	**102,055**	**2,500**	**111**
Net profit	–	–	7,319	–	–
Other comprehensive income/loss	–	–	603	–426	–
Total comprehensive income	**–**	**–**	**7,922**	**–426**	**–**
Issue and repayment of equity	1,325	18	–28	–	–1
Changes in the scope of consolidation	–	–	–19	–	–
Acquisition/disposal of non-controlling interests	–	–	107	–2	–
Reclassifications within equity	–	–	125	–125	–
Dividends paid	–	–	–284	–	–
Distribution on additional equity components	–	–	–4	–	–
Equity as at Dec. 31, 2021	**14,938**	**783**	**109,874**	**1,947**	**110**

1 Amount adjusted.

€ million	Equity of the Cooperative Financial Network	Non-controlling interests	Total equity
Equity as at Jan. 1, 2020	**113,394**	**2,619**	**116,013**
Adjustments pursuant to IAS 8	–34	–2	–36
Adjusted equity as at Jan. 1, 2020	**113,360**	**2,617**	**115,977**
Net profit	4,924	103[1]	5,027
Other comprehensive income/loss	333	44	377
Total comprehensive income	**5,257**	**147**	**5,404**
Issue and repayment of equity	692	–22	670
Changes in the scope of consolidation	–	5	5
Acquisition/disposal of non-controlling interests	–45	–17	–62
Reclassifications within equity	–	–	–
Dividends paid	–216	–29	–245
Distribution on additional equity components	–2	–	–2
Equity as at Dec. 31, 2020	**119,045**	**2,702**	**121,747**
Net profit	7,319	186	7,505
Other comprehensive income/loss	177	–43	133
Total comprehensive income	**7,496**	**143**	**7,638**
Issue and repayment of equity	1,313	–855	458
Changes in the scope of consolidation	–19	–2	–21
Acquisition/disposal of non-controlling interests	105	–55	50
Reclassifications within equity	–	–	–
Dividends paid	–284	–42	–326
Distribution on additional equity components	–4	–	–4
Equity as at Dec. 31, 2021	**127,652**	**1,891**	**129,543**

1 Amount adjusted.

The composition of equity is detailed in Note 37.

Statement of cash flows

	2021 € million	2020 € million
Net profit	**7,505**	**5,027**[1]
Non-cash items included in net profit and reconciliation to cash flows from operating activities		
Depreciation, amortization, impairment losses, and reversal of impairment losses on assets, and other non-cash changes in financial assets and liabilities	–2,483	3,110[1]
Non-cash changes in provisions	757	606[1]
Changes in insurance liabilities	6,620	6,867
Other non-cash income and expenses	1,082	829[1]
Gains and losses on the disposal of assets and liabilities	–111	–70[1]
Other adjustments (net)	–19,115	–17,900[1]
Subtotal	**–5,745**	**–1,531**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	–50,498	–44,158[1]
Other assets from operating activities	–1,663	–555
Hedging instruments (positive and negative fair values)	–145	314
Financial assets and financial liabilities held for trading	–11,101	789[1]
Deposits from banks and customers	80,193	98,639[1]
Debt certificates issued including bonds	5,281	–21,245[1]
Other liabilities from operating activities	1,135	177
Interest, dividends and operating lease payments received	21,976	23,128[1]
Interest paid	–3,252	–4,066[1]
Income taxes paid	–1,167	–743
Cash flows from operating activities	**35,014**	**50,749**

	2021 € million	2020 € million
Cash flows from operating activities	**35,014**	**50,749**
Proceeds from the sale of investments	22,913	17,312[1]
Proceeds from the sale of investments held by insurance companies	23,507	21,394[1]
Payments for acquisitions of investments	–16,127	–24,437
Payments for acquisitions of investments held by insurance companies	–27,815	–30,043
Net payments for acquisitions of property, plant and equipment, and investment property (excl. assets subject to operating leases)	–1,895	–2,040
Net payments for the acquisition of intangible non-current assets	–148	–374
Changes in the scope of consolidation	70	–85
of which: proceeds from the disposal of consolidated subsidiaries less cash disposed	70	–
of which: payments for the acquisition of consolidated subsidiaries less cash acquired	–	–85
Cash flows from investing activities	**505**	**–18,273**
Proceeds from capital increases by shareholders of the Cooperative Financial Network	1,313	692
Dividends paid to shareholders of the Cooperative Financial Network	–284	–216
Dividends paid to non-controlling interests	–42	–29
Distribution on additional equity components	–4	–2
Other payments to non-controlling interests	–855	–22
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	365	641[1]
Cash flows from financing activities	**493**	**1,064**

	2021 € million	2020 € million
Cash and cash equivalents as at January 1	**120,961**	**87,421**
Cash flows from operating activities	35,014	50,749[1]
Cash flows from investing activities	505	–18,273[1]
Cash flows from financing activities	493	1,064[1]
Cash and cash equivalents as at December 31	**156,973**	**120,961**

1 Amount adjusted.

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

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

Notes to the consolidated financial statements

A General information

1. Explanatory information on the consolidated financial statements

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

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

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

The financial year corresponds to the calendar year. The consolidated companies prepare their financial statements as at the reporting date of December 31, 2021. With 18 exceptions (2020: 20 exceptions), the separate financial statements of the entities accounted for using the equity method are prepared using the same balance sheet date as that of the consolidated financial statements.

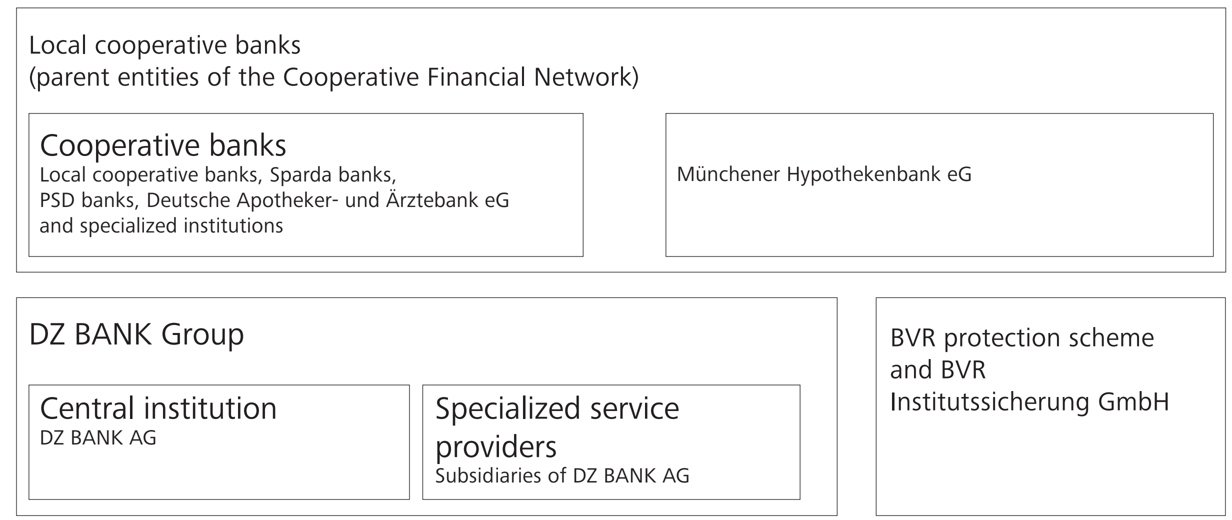
In the interest of clarity, some items on the face of the income statement and the balance sheet have been aggregated and are explained by additional disclosures.

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

2. Scope of consolidation

The consolidated financial statements comprise, as consolidated entities, 771 primary banks (2020: 814) as well as all companies included in the consolidated financial statements of DZ BANK, Münchener Hypothekenbank eG (MHB), the BVR protection scheme, and BVR Institutssicherung GmbH. The consolidated cooperative banks include Deutsche Apotheker- und Ärztebank eG, the Sparda banks, the PSD banks, and specialized institutions such as BAG Bankaktiengesellschaft.

Volksbanken Raiffeisenbanken Cooperative Financial Network



The cooperative banks and MHB are the legally independent, horizontally structured parent entities of the Cooperative Financial Network, whereas the other companies and the DZ BANK Group are consolidated as subsidiaries. The cooperative central institution and a total of 151 subsidiaries (2020: 183) have been consolidated in the DZ BANK Group. In the year under review, the scope of consolidation of the DZ BANK Group changed primarily due to the disposal of the companies established by the DZ BANK Group for the purpose of increasing own funds in accordance with Section 10a of the German Banking Act (*Kreditwesengesetz* – KWG).

The consolidated financial statements include 5 joint ventures between a consolidated entity and at least one other non-network entity (2020: 6) and 24 associates (2020: 25) over which a consolidated entity has significant influence, that are accounted for using the equity method.

B Selected disclosures of interests in other entities

3. Investments in subsidiaries

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

The shares of DZ BANK, with its headquarters in Frankfurt/Main, Germany, are held by the cooperative banks and by MHB, with ownership interests amounting to 95.1 percent (2020: 95.0 percent). The remaining shares of 4.9 percent (2020: 5.0 percent) are attributable to shareholders that are not part of the Cooperative Financial Network. The pro-rata share in net profit attributable to non-controlling interests amounted to €186 million (2020: €103 million). The carrying amount of non-controlling interests amounted to €1,891 million (2020: €2,702 million). In the financial year under review, the dividend payment made to non-controlling interests amounts to €42 million (2020: €29 million).

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

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Assets	**108,619**	**100,934**
Loans and advances to banks	1,870	2,490[1]
Loans and advances to customers	5,327	2,717[1]
Investments	1,882	2,014[1]
Investments held by insurance companies	99,074	93,204[1]
Other assets	467	509
Liabilities	**162,897**	**156,385**
Deposits from banks	1,755	1,799[1]
Deposits from customers	66,222	64,709[1]
Provisions	1,398	1,443
Insurance liabilities	93,522	88,434

1 Amount adjusted.

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

4. Interests in joint arrangements and investments in associates

Nature, extent and financial effects of interests in joint arrangements
The carrying amount of individually immaterial joint ventures accounted for using the equity method totaled €329 million as at the balance sheet date (2020: €309 million).

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

	2021 € million	2020 € million
Share of profit/loss from continuing operations	54	81
Share of other comprehensive income/loss	42	–2
Share of total comprehensive income	96	79

Nature, extent and financial effects of interests in associates
The carrying amount of individually immaterial associates accounted for using the equity method totaled €72 million as at the balance sheet date (2020: €112 million).

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

	2021 € million	2020 € million
Share of profit/loss from continuing operations	–3	–2
Share of other comprehensive income/loss	–	1
Share of total comprehensive income	–3	–1

5. Interests in unconsolidated structured entities

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

– Interests in investment funds issued by the Cooperative Financial Network
– Interests in investment funds not issued by the Cooperative Financial Network
– Interests in securitization vehicles

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

The maximum exposure of the investment funds issued and managed by the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €8,505 million as at the reporting date (2020: €7,979 million). These investment fund assets resulted in losses of €24 million (2020: losses of €66 million) as well as income of €3,541 million (2020: €2,561 million).

Interests in investment funds not issued by the Cooperative Financial Network
The interests in the investment funds not issued by the Cooperative Financial Network above all comprise investment funds managed by entities in the Union Investment Group within the scope of their own decision-making powers and investment funds that have been issued by entities outside the Cooperative Financial Network and parts of such investment funds. Their total volume amounted to €44,013 million (2020: €39,836 million). Moreover, loans to investment funds are extended in order to generate interest income. In addition, there are investment funds issued by entities outside the Cooperative Financial Network in connection with unit-linked life insurance of the R+V Group (R+V) amounting to €13,679 million (2020: €10,056 million) that, however, do not result in a maximum exposure.

The maximum exposure arising of the investment funds not issued by the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €7,846 million as at the reporting date (2020: €7,318 million). Income generated from these investment fund assets in the financial year 2021 amounted to €195 million (2020: €195 million).

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

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

The maximum exposure of the interests in securitization vehicles in the Cooperative Financial Network is determined as a gross value, excluding deduction of available collateral, and amounts to €4,909 million as at the reporting date (2020: €4,583 million). Income generated from these interests in the financial year 2021 amounted to €60 million (2020: €59 million).

C Income statement disclosures

6. Information on operating segments

Financial year 2021

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

Financial year 2020

€ million	Retail Customers and SMEs	Central Institutions and Major Corporate Customers	Real Estate Finance	Insurance	Other/ Consolidation	Total
Net interest income	15,939	1,227[1]	1,552	–	–446	18,272
Net fee and commission income	7,609	521	–112	–	–579	7,439
Gains and losses on trading activities	211	646[1]	10	–	1	868
Gains and losses on investments	–162	53	67	–	49	7
Loss allowances	–1,659	–517	–108	–	–43	–2,327
Other gains and losses on valuation of financial instruments	–101	–74[1]	115	–	–2	–62
Premiums earned	–	–	–	18,741	–	18,741
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	2,072	–64	2,008
Insurance benefit payments	–	–	–	–17,561	–	–17,561
Insurance business operating expenses	–	–	–	–3,046	581	–2,465
Administrative expenses	–15,758	–1,866	–891	–	479	–18,036
Other net operating income	174	119	51	9	–21	332
Profit/loss before taxes	**6,253**	**109**	**684**	**215**	**–45**	**7,216**
Cost/income ratio (percent)	66.6	74.9	52.9	–	–	65.4

1 Amount adjusted.

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

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

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

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

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

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

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

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

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

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

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

7. Net interest income

	2021 € million	2020 € million
Interest income and current income and expense	**20,854**	**22,268**
Interest income from	***19,448***	***20,909***
Lending and money market business	18,674	19,729[1]
of which: Building society operations	1,110	1,105
of which: Finance leases	33	46
Fixed-income securities	1,586	1,848
Other assets	–382	–421[1]
Financial assets with a negative effective interest rate	–429	–247
Current income from	***1,308***	***1,241***
Shares and other variable-yield securities	1,168	1,051
Investments in subsidiaries and equity investments	140	193
Operating leases	–	–3
Income/loss from using the equity method for	***19***	***49***
Investments in joint ventures	28	39
Investments in associates	–9	10
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***79***	***70***
Interest expense	**–2,622**	**–3,996**
Interest expense on	***–2,258***	***–3,772***
Deposits from banks and customers	–3,003	–3,443[1]
of which: Building society operations	–790	–938
Debt certificates issued including bonds	–555	–793
Subordinated capital	–122	–115
Other liabilities	7	2
Financial liabilities with a positive effective interest rate	1,416	578
Other interest expense	***–364***	***–224***
Total	**18,232**	**18,272**

1 Amount adjusted.

To 7. Net interest income
The interest income from other assets and the interest expense on other liabilities result from gains and losses on the amortization of fair value changes of the hedged items in portfolio hedges of interest-rate risk. Owing to the current low level of interest rates in the money markets and capital markets, there may be a negative effective interest rate for financial assets and a positive effective interest rate for financial liabilities.

8. Net fee and commission income

	2021 € million	2020 € million
Fee and commission income	**10,387**	**8,929**
Securities business	5,351	4,206
Asset management	681	516
Payments processing including card processing	2,983	2,899
Lending business and trust activities	157	150
Financial guarantee contracts and loan commitments	191	186
International business	157	148
Building society operations	43	39
Other	824	785
Fee and commission expenses	**–1,712**	**–1,490**
Securities business	–564	–529
Asset management	–230	–158
Payments processing including card processing	–209	–196
Lending business	–92	–75
Financial guarantee contracts and loan commitments	–34	–31
International business	–22	–27
Building society operations	–55	–62
Other	–507	–412
Total	**8,675**	**7,439**

9. Gains and losses on trading activities

	2021 € million	2020 € million
Gains and losses on trading in financial instruments	10	701[1]
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	146	-10[1]
Gains and losses on commodities trading	184	178
Total	**339**	**868**

1 Amount adjusted.

10. Gains and losses on investments

	2021 € million	2020 € million
Gains and losses from securities	–397	–152
Gains and losses on investments in subsidiaries and equity investments	245	159
Total	**–152**	**7**

11. Loss allowances

	2021 € million	2020 € million
Additions	–3,789	–6,314
Reversals	4,047	4,005
Directly recognized impairment losses	–92	–116
Recoveries on loans and advances previously impaired	242	189
Other	49	26
Changes in the provisions for loan commitments, provisions for financial guarantee contracts and other provisions for loans and advances	–121	–117
Total	**337**	**–2,327**

12. Other gains and losses on valuation of financial instruments

	2021 € million	2020 € million
Gains and losses from fair value hedges	20	41
Gains and losses on derivatives held for purposes other than trading	58	–173
Gains and losses on financial instruments designated as at fair value through profit or loss	111	70[1]
Total	**190**	**–62**

1 Amount adjusted.

13. Premiums earned

	2021 € million	2020 € million
Net premiums written	**18,982**	**18,754**
Gross premiums written	19,184	18,952
Reinsurance premiums ceded	–202	–198
Change in provision for unearned premiums	**11**	**–13**
Gross premiums	21	–14
Reinsurers' share	–10	1
Total	**18,994**	**18,741**

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

	2021 € million	2020 € million
Interest income and current income	2,247	2,250
Administrative expenses	–202	–178
Gains and losses on valuation and disposals as well as from additions to and reversals of loss allowances	3,372	–383
Other gains and losses of insurance companies	–184	318
Total	**5,233**	**2,007**

The net amount of additions to and reversals of loss allowances as well as directly recognized impairment losses recorded in the financial year was income in the amount of €8 million (2020: expenses of €59 million).

15. Insurance benefit payments

	2021 € million	2020 € million
Expenses for claims	**–12,412**	**–12,122**
Gross expenses for claims	–13,255	–12,201
Reinsurers' share	843	79
Changes in benefit reserve, reserve for premium refunds, and in other insurance liabilities	**–7,944**	**–5,439**
Changes in gross provisions	–7,952	–5,453
Reinsurers' share	8	14
Total	**–20,356**	**–17,561**

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

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

€ million	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
At the end of the year	5,782	4,845	4,716	4,551	4,276	4,173	3,856	3,634	3,901	3,345	3,341
1 year later		4,507	4,606	4,471	4,142	4,103	3,767	3,523	3,847	3,336	3,359
2 years later			4,519	4,405	4,067	4,046	3,682	3,457	3,769	3,247	3,279
3 years later				4,409	4,021	4,020	3,647	3,389	3,731	3,220	3,254
4 years later					4,017	3,980	3,625	3,382	3,696	3,189	3,241
5 years later						3,980	3,624	3,389	3,691	3,198	3,250
6 years later							3,549	3,329	3,626	3,126	3,183
7 years later								3,310	3,616	3,118	3,172
8 years later									3,603	3,108	3,165
9 years later										3,098	3,153
10 years later											3,144
Settlements	**–**	**338**	**197**	**142**	**259**	**193**	**307**	**324**	**298**	**247**	**197**

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

€ million	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
At the end of the year	5,750	4,787	4,702	4,518	4,255	4,110	3,827	3,574	3,669	3,313	3,298
1 year later		4,455	4,589	4,438	4,118	4,050	3,736	3,460	3,613	3,300	3,317
2 years later			4,502	4,373	4,044	3,994	3,655	3,393	3,533	3,211	3,236
3 years later				4,376	3,999	3,965	3,624	3,331	3,490	3,180	3,208
4 years later					3,995	3,928	3,601	3,361	3,465	3,139	3,194
5 years later						3,929	3,602	3,369	3,670	3,166	3,191
6 years later							3,526	3,309	3,605	3,095	3,144
7 years later								3,290	3,594	3,087	3,134
8 years later									3,581	3,076	3,127
9 years later										3,066	3,115
10 years later											3,106
Settlements	**–**	**332**	**200**	**142**	**260**	**181**	**301**	**284**	**88**	**247**	**192**

Claims rate trend for inward reinsurance business

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

€ million	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Gross provisions for claims outstanding	**5,704**	**5,009**	**4,411**	**3,642**	**3,197**	**2,718**	**2,433**	**1,976**	**1,710**	**1,506**	**1,409**
Cumulative payments for the year concerned and prior years											
1 year later		1,240	1,082	955	852	569	622	464	481	385	463
2 years later			1,627	1,396	1,237	852	867	783	685	630	640
3 years later				1,674	1,482	1,062	1,022	919	897	764	345
4 years later					1,660	1,189	1,154	1,026	987	930	891
5 years later						1,294	1,249	1,117	1,051	996	1,029
6 years later							1,315	1,171	1,114	1,035	1,072
7 years later								1,214	1,155	1,085	1,103
8 years later									1,185	1,117	1,140
9 years later										1,139	1,161
10 years later											1,177
Gross provisions for claims outstanding and payments made against the original provision											
At the end of the year	5,704	5,009	4,411	3,642	3,197	2,718	2,433	1,976	1,710	1,506	1,409
1 year later		5,373	4,313	3,951	3,392	2,654	2,434	2,157	1,840	1,593	1,536
2 years later			4,373	3,651	3,315	2,561	2,271	2,004	1,859	1,569	1,472
3 years later				3,733	3,131	2,486	2,224	1,915	1,779	1,628	1,014
4 years later					3,166	2,361	2,179	1,887	1,720	1,580	1,528
5 years later						2,363	2,088	1,848	1,699	1,550	1,501
6 years later							2,096	1,779	1,677	1,536	1,486
7 years later								1,794	1,627	1,526	1,481
8 years later									1,636	1,490	1,468
9 years later										1,499	1,444
10 years later											1,452
Settlements	**–**	**–364**	**38**	**–91**	**31**	**355**	**337**	**182**	**74**	**7**	**–43**

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

€ million	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net provisions for claims outstanding	**5,587**	**5,001**	**4,408**	**3,639**	**3,193**	**2,710**	**2,428**	**1,970**	**1,695**	**1,491**	**1,389**
Cumulative payments for the year concerned and prior years											
1 year later		1,235	1,082	955	851	567	622	464	473	383	461
2 years later			1,626	1,396	1,236	849	866	782	677	620	636
3 years later				1,674	1,480	1,058	1,020	918	888	754	333
4 years later					1,658	1,186	1,153	1,025	978	919	878
5 years later						1,290	1,247	1,115	1,042	985	1,016
6 years later							1,313	1,170	1,105	1,024	1,059
7 years later								1,212	1,146	1,074	1,090
8 years later									1,175	1,105	1,126
9 years later										1,128	1,147
10 years later											1,163
Net provisions for claims outstanding and payments made against the original provision											
At the end of the year	5,587	5,001	4,408	3,639	3,193	2,710	2,428	1,970	1,695	1,491	1,389
1 year later		5,365	4,310	3,950	3,388	2,648	2,429	2,152	1,827	1,576	1,519
2 years later			4,370	3,649	3,312	2,555	2,267	1,999	1,845	1,554	1,454
3 years later				3,732	3,129	2,482	2,219	1,911	1,766	1,612	997
4 years later					3,163	2,356	2,176	1,883	1,708	1,566	1,510
5 years later						2,358	2,086	1,845	1,687	1,536	1,484
6 years later							2,093	1,777	1,666	1,522	1,470
7 years later								1,791	1,616	1,513	1,464
8 years later									1,625	1,477	1,453
9 years later										1,486	1,429
10 years later											1,437
Settlements	**–**	**–364**	**38**	**–93**	**30**	**352**	**335**	**179**	**70**	**5**	**–48**

16. Insurance business operating expenses

	2021 € million	2020 € million
Gross expenses	–2,610	–2,489
Reinsurers' share	32	24
Total	**–2,578**	**–2,465**

17. Administrative expenses

	2021 € million	2020 € million
Staff expenses	–10,402	–10,092
General and administrative expenses	–7,050	–6,843
Depreciation/amortization and impairment losses	–1,125	–1,101
Total	**–18,577**	**–18,036**

18. Other net operating income

	2021 € million	2020 € million
Gains and losses on non-current assets classified as held for sale and disposal groups	70	49
Other operating income	954	998
Other operating expenses	–838	–714
Total	**186**	**333**

19. Income taxes

	2021 € million	2020 € million
Current tax expense	–3,084	–2,606
Income from deferred taxes	66	417[1]
Total	**–3,017**	**–2,188**

1 Amount adjusted.

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

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

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

	2021 € million	2020 € million
Profit before taxes	**10,522**	**7,216[1]**
Notional rate of income tax of the Cooperative Financial Network (percent)	31.085	31.085
Income taxes based on notional rate of income tax	**–3,271**	**–2,243**
Tax effects	**254**	**55**
Tax effects of tax-exempt income and non-tax deductible expenses	176	29
Tax effects of different tax types, different trade tax multipliers, and changes in tax rates	6	17
Tax effects of different tax rates in other countries	13	–1
Current and deferred taxes relating to prior reporting periods	–6	19
Change in deferred tax assets due to valuation adjustments	42	–30
Other tax effects	23	21[1]
Total	**–3,017**	**–2,188**

1 Amount adjusted.

D Balance sheet disclosures

20. Cash and cash equivalents

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Cash on hand	9,536	9,395
Balances with central banks	147,436	111,566
Total	**156,973**	**120,961**

21. Loans and advances to banks and customers

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Loans and advances to banks	**15,843**	**19,730**
Repayable on demand	***8,179***	***10,544***
Other loans and advances	***7,663***	***9,186***
Mortgage loans and other loans secured by mortgages on real estate	67	74
Local authority loans	3,070	3,801
Finance leases	1	–
Other loans and advances	4,525	5,311
Loans and advances to customers	**944,028**	**890,576**
Mortgage loans and other loans secured by mortgages on real estate	378,127	348,663
Local authority loans	32,739	33,297
Home savings loans advanced by building society	60,439	55,698
Finance leases	751	1,096
Other loans and advances	471,972	451,822

22. Hedging instruments (positive and negative fair values)

The positive fair values of hedging instruments amount to €389 million (2020: €160 million), the negative fair values of hedging instruments amount to €3,869 million (2020: €7,557 million). Both positive and negative fair values of hedging instruments exclusively result from derivative hedging instruments for fair value hedges.

23. Financial assets held for trading

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Derivatives (positive fair values)	**16,188**	**22,246**
Interest-linked contracts	13,478	19,431[1]
Currency-linked contracts	1,481	1,758
Share- and index-linked contracts	847	719
Credit derivatives	380	337
Other contracts	2	1
Securities	**12,586**	**11,721**
Bonds and other fixed-income securities	10,815	10,261
Shares and other variable-yield securities	1,772	1,460
Loans and advances	**18,294**	**8,310**
Inventories and trade receivables	**372**	**308**
Other assets held for trading	**2**	**1**
Total	**47,442**	**42,586**

1 Amount adjusted.

24. Investments

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Securities	**243,292**	**250,950**
Bonds and other fixed-income securities	163,582	179,256
Shares and other variable-yield securities	79,710	71,694
Investments in subsidiaries	**2,395**	**2,134**
Equity investments	**2,703**	**2,290**
Investments in joint ventures	329	309
Investments in associates	75	113
Other shareholdings	2,299	1,868
Total	**248,390**	**255,374**

25. Loss allowances

Loss allowances for cash and cash equivalents

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2020	**1**	**–**	**–**	**–**	**1**
Additions	8	–	–	–	8
Reversals	–9	–	–	–	–9
Balance as at Jan. 1, 2021	**–**	**–**	**–**	**–**	**–**
Additions	–	–	–	–	–
Reversals	–	–	–	–	–
Balance as at Dec. 31, 2021	**–**	**–**	**–**	**–**	**–**

Loss allowances for loans and advances to banks

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2020	**257**	**15**	**4**	**–**	**276**
Additions	22	40	4	–	66
Reversals	–257	–3	–2	–	–262
Other changes	–	–1	–	–	–1
Balance as at Jan. 1, 2021	**22**	**51**	**6**	**–**	**79**
Additions	33	1	7	–	41
Reversals	–32	–33	–5	–	–70
Balance as at Dec. 31, 2021	**22**	**19**	**8**	**–**	**49**

Loss allowances for loans and advances to customers

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2020	**1,123**	**2,332**	**5,187**	**2**	**8,644**
Additions	338	2,860	2,613	16	5,827
Utilizations	–	–1	–923	–1	–925
Reversals	–1,031	–797	–1,847	–16	–3,691
Other changes	143	–248	73	7	–25
Balance as at Jan. 1, 2021	**573**	**4,146**	**5,103**	**8**	**9,830**
Additions	624	1,007	2,017	19	3,667
Utilizations	–	–1	–731	–	–732
Reversals	–719	–739	–2,203	–16	–3,677
Other changes	192	–254	141	3	82
Balance as at Dec. 31, 2021	**668**	**4,160**	**4,329**	**13**	**9,170**

Loss allowances for investments

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2020	**90**	**89**	**18**	**–**	**197**
Additions	5	392	4	–	401
Reversals	–20	–12	–5	–	–37
Other changes	11	–13	–	–	–2
Balance as at Jan. 1, 2021	**86**	**456**	**17**	**–**	**559**
Additions	17	57	–	–	74
Utilizations	–	–	–1	–	–1
Reversals	–45	–236	–12	–	–293
Other changes	14	–14	1	–	1
Balance as at Dec. 31, 2021	**72**	**264**	**5**	**–**	**341**

Loss allowances for other assets

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2020	**1**	**–**	**–**	**–**	**1**
Additions	1	–	–	–	1
Balance as at Jan. 1, 2021	**2**	**–**	**–**	**–**	**2**
Additions	–	–	–	–	–
Balance as at Dec. 31, 2021	**2**	**–**	**–**	**–**	**2**

26. Investments held by insurance companies

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Investment property	3,813	3,835
Investments in subsidiaries, joint ventures and associates	923	849
Mortgage loans	13,005	10,882
Promissory notes and loans	7,072	6,873
Registered bonds	7,795	8,551
Other loans	968	863
Variable-yield securities	13,742	11,639
Fixed-income securities	60,951	61,160
Derivatives (positive fair values)	199	553
Loss allowances	–	–23
Deposits with ceding insurers and other investments	594	578
Assets related to unit-linked contracts	18,730	14,820
Total	**127,793**	**120,580**

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

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Land and buildings	6,717	6,655
Office furniture and equipment	1,270	1,315
Investment property	279	235
Other fixed assets	6,947	5,914
Right-of-use assets	530	445
Total	**15,742**	**14,564**

28. Income tax assets and liabilities

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Income tax assets	**4,427**	**4,268**
Current income tax assets	838	781
Deferred tax assets	3,589	3,487[1]
Income tax liabilities	**1,927**	**1,781**
Current income tax liabilities	1,115	859
Deferred tax liabilities	811	922

1 Amount adjusted.

	Deferred tax assets		Deferred tax liabilities	
€ million	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Tax loss carryforwards	17	14		
Loans and advances to banks and customers	74	86	816	966
Financial assets and liabilities held for trading, and hedging instruments (positive and negative fair values)	719	810	4	89[1]
Investments	12	15	666	1,150
Loss allowances	1,313	1,468	–	2
Investments held by insurance companies	140	109	1,086	1,248
Deposits from banks and customers	669	917	136	158
Debt certificates issued including bonds	80	210	23	–
Provisions	2,644	2,647	93	99
Insurance liabilities	83	74	52	49
Other balance sheet items	284	314	379	337
Total (gross)	**6,034**	**6,664**	**3,256**	**4,098**
Netting of deferred tax assets and deferred tax liabilities	–2,445	–3,177[1]	–2,445	–3,177[1]
Total (net)	**3,589**	**3,487**	**811**	**922**

1 Amount adjusted.

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

29. Other assets

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Other assets held by insurance companies	4,471	3,405
Goodwill	176	165
Other intangible assets	730	777
Prepaid expenses	242	229
Other receivables	5,167	4,647
Non-current assets and disposal groups classified as held for sale	164	199
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	3,118	7,037
Residual other assets	917	1,103
Total	**14,986**	**17,562**

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

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Intangible assets	**151**	**157**
Reinsurers' share of insurance liabilities	**782**	**149**
Provision for unearned premiums	2	12
Benefit reserves	37	39
Provisions for claims outstanding	743	98
Loans and advances	**1,703**	**1,604**
Receivables arising out of direct insurance operations	467	428
Receivables arising out of reinsurance operations	384	294
Other receivables	851	882
Credit balances with banks, checks and cash on hand	**702**	**357**
Property, plant and equipment	**399**	**416**
Residual other assets	**736**	**724**
Prepaid expenses	64	82
Remaining assets held by insurance companies	673	642
Loss allowances	**–2**	**–2**
Total	**4,471**	**3,405**

Property, plant and equipment includes right-of-use assets in the amount of €60 million (2020: €55 million).

30. Deposits from banks and customers

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Deposits from banks	**193,809**	**160,924**
Repayable on demand	8,559	8,430
With agreed maturity or notice period	185,250	152,494
Deposits from customers	**984,926**	**937,876**
Savings deposits and home savings deposits	***247,383***	***248,714***
Savings deposits with agreed notice period of three months	176,841	178,789
Savings deposits with agreed notice period of more than three months	4,347	5,252
Home savings deposits	66,194	64,673
Other deposits from customers	***737,543***	***689,162***
Repayable on demand	644,858	594,755
With agreed maturity or notice period	92,685	94,407

31. Debt certificates issued including bonds

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Bonds issued	**50,298**	**48,487**
Mortgage Pfandbriefe	48,166	44,459
Public-sector Pfandbriefe	1,723	1,860
Other bonds	409	2,168
Other debt certificates issued	**13,223**	**9,878**
Total	**63,521**	**58,365**

32. Financial liabilities held for trading

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Derivatives (negative fair values)	**15,402**	**20,144**
Interest-linked contracts	11,911	16,505[1]
Currency-linked contracts	1,682	1,807[1]
Share- and index-linked contracts	1,577	1,550
Credit derivatives	82	94
Other contracts	150	188
Short positions	**1,548**	**603**
Bonds issued including share- and index and other debt certificates	**22,245**	**22,224**
Liabilities	**804**	**3,790**
Liabilities from commodities transactions and commodity lending	**46**	**40**
Total	**40,045**	**46,802**

1 Amount adjusted.

33. Provisions

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Provisions for defined benefit plans	7,218	8,118
Provisions for loan commitments	365	317
Provisions for financial guarantee contracts	132	152
Other provisions for loans and advances	38	43
Provisions relating to building society operations	1,398	1,444
Residual provisions	3,993	3,500
Total	**13,145**	**13,574**

Funding status of defined benefit obligations

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Present value of defined benefit obligations not funded by plan assets	6,613	7,465
Present value of defined benefit obligations funded by plan assets	3,906	3,188
Present value of defined benefit obligations	**10,519**	**10,653**
less fair value of plan assets	–3,358	–2,535
Defined benefit obligations (net)	**7,161**	**8,118**
Unrecognized surplus (asset ceiling)	54	–
Recognized surplus	3	–
Provisions for defined benefit plans	**7,218**	**8,118**

Changes in the present value of the defined benefit obligations

	2021 € million	2020 € million
Present value of defined benefit obligations as at Jan. 1	**10,653**	**10,399**
Current service cost	201	102
Interest expense	79	104
Pension benefits paid including plan settlements	–367	–369
Past service cost	–1	2
Actuarial gains (-)/losses (+)	–69	405
Other changes	23	10
Present value of defined benefit obligations as at Dec. 31	**10,519**	**10,653**

Changes in plan assets

	2021 € million	2020 € million
Fair value of plan assets as at Jan. 1	**2,535**	**2,466**
Interest income	19	25
Contributions to plan assets	30	23
Pension benefits paid	–75	–73
Return on plan assets (excluding interest income)	836	95
Other changes	13	–1
Fair value of plan assets as at Dec. 31	**3,358**	**2,535**

Actuarial assumptions used for defined benefit obligations

	Dec. 31, 2021 in percent	Dec. 31, 2020 in percent
Weighted discount rate	1.10	0.75
Weighted salary increase	1.80	1.87
Weighted pension increase	1.80	1.75

34. Insurance liabilities

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Provision for unearned premiums	1,179	1,194
Benefit reserve	74,167	70,470
Provision for claims outstanding	16,429	14,627
Provision for premium refunds	11,237	12,569
Other insurance liabilities	53	50
Reserve for unit-linked insurance contracts	15,799	12,303
Total	**118,863**	**111,213**

Change in provision for unearned premiums

	2021 € million	2020 € million
Balance as at Jan. 1	**1,194**	**1,188**
Additions	1,238	1,253
Utilizations/reversals	–1,259	–1,239
Changes attributable to currency translation	6	–8
Balance as at Dec. 31	**1,179**	**1,194**

Change in benefit reserve

	2021 € million	2020 € million
Balance as at Jan. 1	**70,470**	**65,502**
Additions	7,268	8,093
Interest component	918	982
Utilizations/reversals	–4,516	–4,106
Other measurement gains or losses	6	–
Changes attributable to currency translation	1	–1
Changes in the scope of consolidation	20	–
Balance as at Dec. 31	**74,167**	**70,470**

Supplementary change-in-discount-rate reserves totaling €5,451 million have been recognized for policies with a discount rate in excess of the reference rate specified in the German Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV) (December 31, 2020: €4,698 million).

Change in the provision for claims outstanding

	2021 € million	2020 € million
Balance as at Jan. 1	**14,627**	**13,415**
Claims expenses	8,424	7,821
less payments	–6,847	–6,427
Changes attributable to currency translation	225	–182
Balance as at Dec. 31	**16,429**	**14,627**

Change in the provision for premium refunds

	2021 € million	2020 € million
Balance as at Jan. 1	**12,569**	**12,149**
Additions	599	516
Utilizations/reversals	–820	–759
Other measurement gains or losses	1,767	–
Changes resulting from unrealized gains and losses on investments (through other comprehensive income)	–2,947	857
Changes resulting from other remeasurements (through profit or loss)	49	–171
Changes attributable to currency translation	20	–23
Balance as at Dec. 31	**11,237**	**12,569**

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

Balance as at Dec. 31, 2021

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

Balance as at Dec. 31, 2020

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

35. Other liabilities

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Other liabilities of insurance companies	7,697	7,388
Other liabilities and accruals	2,671	2,435
Liabilities included in disposal groups	2	2
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	263	455
Lease liabilities	539	452
Residual other liabilities	876	880
Total	**12,048**	**11,612**

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

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Residual provisions	**426**	**436**
Provisions for employee benefits	391	403
Provisions for share-based payment transactions	3	3
Other provisions	31	30
Payables and residual other liabilities	**7,271**	**6,952**
Subordinated capital	80	75
Deposits received from reinsurers	36	41
Payables arising out of direct insurance operations	1,398	1,525
Payables arising out of reinsurance operations	597	566
Debt certificates issued including bonds	31	31
Deposits from banks	473	532
Derivatives (negative fair values)	103	23
Liabilities from capitalization transactions	3,592	3,053
Lease liabilities from insurance business	76	58
Other liabilities	318	293
Residual other liabilities	567	755
Total	**7,697**	**7,388**

Provisions for defined benefit plans

The following table presents the provisions for defined benefit plans included in the other liabilities held by insurance companies.

Funded status of defined benefit pension plans

	2021 € million	2020 € million
1. Pension commitments funded with plan assets		
Present value of vested pension entitlements	2,031	381
Fair value of plan assets	–1,888	–217
Recognized net liability	143	164
2. Pension commitments funded with reimbursement rights		
Fair value of reimbursement rights	3	3
Funded status	140	161
3. Pension commitments not funded with external assets		
Present value of vested pension entitlements	60	62
Recognized net liability	60	62
of which total recognized net liability	**203**	**226**
Total	**200**	**223**

Present value of entitlements earned under defined benefit pension plans

	2021 € million	2020 € million
Balance as at Jan. 1	**443**	**444**
Transition due to reassessment of a defined benefit plan previously treated as a defined contribution plan	1,670	–
Actuarial gains (–)/losses (+)	–11	8
of which: from changes in demographic assumptions	–	10
of which: from changes in financial assumptions	–11	–2
Current service cost	6	6
Interest expense	3	5
Employee contributions to the pension plan	1	1
Payments made from the plan	–21	–21
Balance as at Dec. 31	**2,091**	**443**

Plan assets for defined benefit plans

	2021 € million	2020 € million
Balance as at Jan. 1	**217**	**213**
Transition due to reassessment of a defined benefit plan previously treated as a defined contribution plan	1,670[1]	–
Actuarial gains (+)/losses (–)	2	2
Interest income	1	2
Employee contributions to the pension plan	10	12
Payments made from the plan	–12	–12
Balance as at Dec. 31	**1,888**	**217**
Present value of vested entitlements less plan assets	203	226
Carrying amount of provisions for pensions as at Dec. 31	**203**	**226**

1 After asset ceiling.

36. Subordinated capital

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Subordinated liabilities	4,737	4,360
Profit-sharing rights	6	68
Share capital repayable on demand	12	13
Total	**4,755**	**4,441**

37. Equity

Breakdown of subscribed capital

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Cooperative shares	14,704	13,385
Share capital	186	175
Capital of silent partners	48	54
Total	**14,938**	**13,614**

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

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

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

	No reclassification to the income statement		**Reclassification to the income statement**		
€ million	Reserve from equity instruments for which the fair value OCI option has been exercised	Reserve from gains and losses in relation to financial liabilities for which the fair value option has been exercised, attributable to changes in own credit risk	Reserve from debt instruments measured at fair value through other comprehensive income	Cash flow hedge reserve	Currency translation reserve
Equity as at Jan. 1, 2020	**559**	**–40**	**1,378**	**1**	**86**
Other comprehensive income/loss	–78	–40	705	–	–26
Total comprehensive income	**–78**	**–40**	**705**	**–**	**–26**
Acquisition/disposal of non-controlling interests	–1	–	–	–	–
Reclassifications within equity	–52	8	–	–	–
Equity as at Dec. 31, 2020	**428**	**–72**	**2,083**	**1**	**60**
Other comprehensive income/loss	411	26	–863	–1	2
Total comprehensive income	**411**	**26**	**–863**	**–1**	**2**
Acquisition/disposal of non-controlling interests	–	–	–1	–	–1
Reclassifications within equity	–120	–5	–	–	–
Equity as at Dec. 31, 2021	**719**	**–51**	**1,218**	**–**	**61**

The additional equity components include AT1 capital issued by MHB, reduced by shares held by companies included in the consolidated financial statements. The AT1 capital was issued in the financial year 2019 in a nominal amount of CHF 125 million in order to generate additional regulatory Tier 1 capital.

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

E Financial instruments disclosures

38. Fair value of financial instruments

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

	Dec. 31, 2021 € million		Dec. 31, 2020 € million	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents[1, 2]	147,436	147,436	111,566	111,566
Loans and advances to banks[1]	15,792	17,386	19,651	23,384
Loans and advances to customers[1]	934,859	937,050	880,746	884,650
Hedging instruments (positive fair values)	389	389	160	160
Financial assets held for trading[2]	47,071	47,128	42,278[4]	42,335
Investments[1, 3]	247,649	248,304	254,393	255,337
Investments held by insurance companies[1, 2, 3]	123,386	123,344	116,166	116,914
Other assets[1, 2]	9,835	8,915	12,918	10,938
Equity and liabilities				
Deposits from banks	193,809	195,667	160,924	165,151
Deposits from customers	984,926	986,272	937,876	940,266
Debt certificates issued including bonds	63,521	63,839	58,365	59,571
Hedging instruments (negative fair values)	3,869	3,869	7,557	7,557
Financial liabilities held for trading[2]	39,999	39,985	46,762[4]	46,756
Other liabilities[2]	3,793	3,643	3,709	3,395
Subordinated capital	4,755	4,827	4,441	4,591

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

39. Maturity analysis

Balance as at Dec. 31, 2021

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

Balance as at Dec. 31, 2020

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

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

F Other disclosures

40. Capital requirements and regulatory indicators

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Total capital	**119,861**	**115,480**
Tier 1 capital	114,799	108,259[1]
of which: Common Equity Tier 1	114,649	108,172[1]
of which: Additional Tier 1 capital	150	87
Tier 2 capital	5,061	7,221[1]
Total risk exposure	**757,719**	**706,821**
Common Equity Tier 1 capital ratio (percent)	15.1	15.3[1]
Tier 1 capital ratio (percent)	15.2	15.3[1]
Total capital ratio (percent)	15.8	16.3[1]
Leverage ratio (percent)	8.0	8.0

1 Amount adjusted.

The capital ratios as well as the leverage ratio have been calculated since the reporting date (December 31, 2021) on the basis of IFRS-based rules. The disclosure of the consolidated leverage ratio of the bank-specific protection system is determined using the transitional definition for Tier 1 capital pursuant to article 429 (2) CRR in conjunction with article 499 (1) CRR.

41. Financial guarantee contracts and loan commitments

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Financial guarantee contracts	22,588	21,037
Loan commitments	123,577	109,018
Total	**146,165**	**130,055**

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

42. Trust activities

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Trust assets	**3,830**	**3,670**
of which: trust loans	3,540	3,098[1]
Trust liabilities	**3,830**	**3,670**
of which: trust loans	3,540	3,098[1]

1 Amount adjusted.

43. Asset management by the Union Investment Group

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Fund assets	**410,304**	**347,270**
Other types of asset management	**61,263**	**53,842**
Unit-linked asset management	7,245	3,191
Institutional asset management	7,366	9,069
Advisory and outsourcing	46,652	41,582
Accounts managed by third parties	**–17,467**	**–15,177**
Total	**454,100**	**385,935**

As at the balance sheet date, the Union Investment Group (through Union Asset Management Holding AG) had total assets under management of €454,100 million (December 31, 2020: €385,935 million). The fund assets comprise equity funds, fixed-income funds, money market funds, mixed funds, other securities funds, capital preservation funds, real estate funds, alternative investment funds and hybrid funds issued by Union Investment Group.

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

44. Leases

Finance leases with the Cooperative Financial Network as lessor

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Gross investment	**789**	**1,154**
Up to 1 year	314	431
More than 1 year and up to 2 years	207	308
More than 2 year and up to 3 years	125	195
More than 3 year and up to 4 years	68	110
More than 4 year and up to 5 years	40	53
More than 5 years	34	57
less unearned finance income	**–37**	**–58**
Net investment	**752**	**1,096**
less present value of unguaranteed residual values	**–17**	**–30**
Present value of minimum lease payment receivables	**735**	**1,066**

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

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

Home savings sum (€ million)	Not allocated: Number of contracts	Not allocated: Home savings sum	Allocated: Number of contracts	Allocated: Home savings sum	Total: Number of contracts	Total: Home savings sum
Balance as at Dec. 31, 2020	**7,468,998**	**301,079**	**526,061**	**14,475**	**7,995,059**	**315,554**
Additions in 2021 as a result of						
New contracts (redeemed contracts)[1]	436,096	22,233	–	–	436,096	22,233
Transfers	18,156	613	419	13	18,575	626
Allocation waivers and cancellations	6,372	281	–	–	6,372	281
Splitting	106,050	–	22	–	106,072	–
Allocations and acceptance of allocations	–	–	437,742	11,768	437,742	11,768
Other	48,468	1,774	13	–	48,481	1,774
Total	**615,142**	**24,901**	**438,196**	**11,781**	**1,053,338**	**36,682**
Disposals in 2021 as a result of						
Allocations and acceptance of allocations	–437,742	–11,768	–	–	–437,742	–11,768
Reductions	–	–1,125	–	–	–	–1,125
Termination	–364,337	–12,668	–368,825	–9,146	–733,162	–21,814
Transfers	–18,156	–613	–419	–13	–18,575	–626
Pooling[1]	–45,128	–	–	–	–45,128	–
Expiration	–	–	–99,075	–2,695	–99,075	–2,695
Allocation waivers and cancellations	–	–	–6,372	–281	–6,372	–281
Other	–48,468	–1,774	–13	–	–48,481	–1,774
Total	**–913,831**	**–27,948**	**–474,704**	**–12,135**	**–1,388,535**	**–40,083**
Net addition/disposal	–298,689	–3,047	–36,508	–354	–335,197	–3,401
Balance as at Dec. 31, 2021	**7,170,309**	**298,032**	**489,553**	**14,121**	**7,659,862**	**312,153**

1 Including increases.

Volume of unredeemed contracts

	Number of contracts	Home savings sum € million
Contracts signed prior to Jan. 1, 2021	33,580	2,578
Contracts signed in 2021	137,050	10,843

46. Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2021 € million
Additions	
Amounts carried forward from 2020 (surplus)	
Amounts not yet disbursed	62,875
Additions in 2021	
Savings deposits (including credited residential construction bonuses)	10,067
Repayable amounts (including credited residential construction bonuses)[1]	1,248
Interest on home savings deposits	755
Total	**74,945**
Withdrawals	
Withdrawals in 2021	
Amounts allocated (if disbursed)	
Home savings deposits	7,169
Home savings loans	1,198
Repayment of deposits on non-allocated home savings contracts	2,223
Surplus of additions	
Amounts not yet disbursed at the end of 2021[2]	64,355
Total	**74,945**

1 Repayable amounts are the portion of the loan principal actually repaid.
2 The surplus amounts allocated include:
a) undisbursed home savings deposits from allocated home savings contracts: €109 million
b) undisbursed home savings loans from funds allocated: €2,819 million

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

	Mortgage Pfandbriefe		Public-sector Pfandbriefe	
	Dec. 31, 2021 € million	Dec. 31, 2020 € million	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Ordinary cover	**79,773**	**75,148**	**15,512**	**17,220**
Loans and advances to banks	32	23	320	216
of which: Mortgage loans	32	23	–	–
of which: Local authority loans	–	–	320	216
Loans and advances to customers	79,594	74,978	12,806	14,445
of which: Mortgage loans	79,594	74,978	34	37
of which: Local authority loans	–	–	12,772	14,408
Investments consisting of bonds and other fixed-income securities	–	–	2,386	2,559
Property, plant and equipment	147	147	–	–
Extended cover	**2,148**	**2,062**	**–**	**62**
Loans and advances to banks	225	250[1]	–	62
Investments consisting of bonds and other fixed-income securities	1,923	1,812[1]	–	–
Total cover	**81,921**	**77,210**	**15,512**	**17,282**
Pfandbriefe requiring cover	**–73,228**	**–69,075**	**–13,679**	**–14,866**
Nominal excess cover	**8,693**	**8,135**	**1,833**	**2,416**
Present value of excess cover	**14,420**	**14,033**	**2,758**	**3,702**
Risk-related present value of excess cover	**12,900**	**12,635**	**2,208**	**3,140**

1 Amount adjusted.

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

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

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Mortgage Pfandbriefe	**73,229**	**69,075**
≤ 6 months	3,301	3,166
> 6 months and ≤ 12 months	2,696	3,379
> 12 months and ≤ 18 months	3,461	3,300
> 18 months and ≤ 2 years	2,991	2,574
> 2 years and ≤ 3 years	6,195	5,517
> 3 years and ≤ 4 years	6,232	4,750
> 4 years and ≤ 5 years	7,935	5,812
> 5 years and ≤ 10 years	24,010	25,194
> 10 years	16,408	15,383
Public-sector Pfandbriefe	**13,679**	**14,866**
≤ 6 months	877	1,513
> 6 months and ≤ 12 months	1,573	693
> 12 months and ≤ 18 months	514	677
> 18 months and ≤ 2 years	395	302
> 2 years and ≤ 3 years	1,004	961
> 3 years and ≤ 4 years	1,331	1,052
> 4 years and ≤ 5 years	911	1,302
> 5 years and ≤ 10 years	2,504	3,375
> 10 years	4,570	4,991

	Dec. 31, 2021 € million	Dec. 31, 2020 € million
Mortgage Pfandbriefe	**81,921**	**77,210**
≤ 6 months	3,121	2,953
> 6 months and ≤ 12 months	3,987	3,395
> 12 months and ≤ 18 months	3,387	2,753
> 18 months and ≤ 2 years	3,573	3,672
> 2 years and ≤ 3 years	7,632	6,682
> 3 years and ≤ 4 years	7,662	7,308
> 4 years and ≤ 5 years	7,355	6,926
> 5 years and ≤ 10 years	26,533	26,002
> 10 years	18,671	17,519
Public-sector Pfandbriefe	**15,512**	**17,282**
≤ 6 months	583	722
> 6 months and ≤ 12 months	693	662
> 12 months and ≤ 18 months	585	551
> 18 months and ≤ 2 years	630	652
> 2 years and ≤ 3 years	1,186	1,170
> 3 years and ≤ 4 years	1,098	1,379
> 4 years and ≤ 5 years	1,183	1,070
> 5 years and ≤ 10 years	3,492	4,422
> 10 years	6,062	6,654

17 properties were in forced administration as at the reporting date (December 31, 2020: 28). The mortgage loans held as cover include past-due payments for interests to be paid in the amount of €0 million (December 31, 2020: €1 million).

48. Board of Managing Directors of the BVR

Marija Kolak (President)

Gerhard Hofmann (until February 28, 2022)

Dr. Andreas Martin

Daniel Quinten (since January 1, 2022)

Berlin, July 1, 2022

National Association of German Cooperative Banks
BVR

Board of Managing Directors

Marija Kolak Dr. Andreas Martin Daniel Quinten

Annex:
Significant Financial
Reporting Principles

Basis of preparation of the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network

The consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network for the period from January 1 to December 31, 2021, prepared by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR), has to be prepared for a specific purpose pursuant to the significant financial reporting principles set out below. Significant financial reporting principles have to be incorporated only for accounting issues that are material to the consolidated financial statements of the Volksbanken Raiffeisenbanken Cooperative Financial Network. They have been prepared for informational purposes and to present the business development and performance of the Volksbanken Raiffeisenbanken Cooperative Financial Network, which is treated as a single economic entity in terms of its risks and strategies. In addition, the financial statements have been prepared in compliance with the provisions set out in article 113(7)(e) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (Capital Requirements Regulation – CRR).

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

- Consolidated financial statements that have to include the following components:
  - Income statement for the period January 1 to December 31, 2021 (pursuant to IAS 1.81A, IAS 1.81B and IAS 1.82 (b) to IAS 1.105)
  - Statement of comprehensive income for the period from January 1 to December 31, 2021 (pursuant to IAS 1.81A, IAS 1.81B and IAS 1.82 (b) to IAS 1.105)
  - Balance sheet as at December 31, 2021 (pursuant to IAS 1.54 to IAS 1.80A)
  - Statement of changes in equity for the period from January 1 to December 31, 2021 (pursuant to IAS 1.106 to IAS 1.110)
  - Statement of cash flows for the period from January 1 to December 31, 2021 (pursuant to IAS 7.1 to IAS 7.47)
  - Explanatory information on the consolidated financial statements
- Management report including risk report for the period from January 1 to December 31, 2021

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

Statement of cash flows

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

Scope of consolidation

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

Procedures of consolidation

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

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

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

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

Financial instruments

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

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

Financial assets mandatorily measured at fair value through profit or loss
The subcategory "financial assets mandatorily measured at fair value through profit or loss" has to comprise financial assets that either do not meet the cash flow criteria pursuant to IFRS 9.B.4.1.2C or that are acquired for the purpose of selling them in the near term. To this end, these financial assets must be part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or must be derivatives, except for derivatives that are designated hedging instruments in effective hedging relationships.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities measured at amortized cost (AC)
For measurement subsequent to initial recognition, all financial liabilities have to be categorized generally as "financial liabilities measured at amortized cost," except in the following cases:
– Financial liabilities measured at fair value through profit or loss
– Financial liabilities that arise when a transfer of a financial asset does not satisfy the condition for derecognition or accounting treatment is based on a continuing involvement
– Financial guarantee contracts
– Loan commitments with an interest rate below the market interest rate
– Contingent consideration recognized by the acquirer in a business combination pursuant to IFRS 3.39 et seqq.

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

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

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

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

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

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

Initial recognition and derecognition of financial assets and financial liabilities
Derivatives have to be initially recognized on

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

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

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

Impairment of financial assets
Loss allowances are only recognized for financial assets that represent debt instruments. In contrast, equity instruments do not fall within the scope of the impairment provisions set out in IFRS 9. Loss allowances have to be recognized for the following financial assets:
– Financial assets of the category "financial assets measured at amortized cost"
– Financial assets (only debt instruments) of the category "financial assets measured at fair value through other comprehensive income"
– Undrawn loan commitments where there is a current legal obligation to extend credit (irrevocable loan commitments), to the extent that these are not measured at fair value through profit or loss
– Financial guarantee contracts, to the extent that these are not measured at fair value through profit or loss
– Lease receivables that fall within the scope of IFRS 16
– Trade receivables and contract assets that fall within the scope of IFRS 15

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

– Stage 2: As at each reporting date, assets have to be allocated to Stage 2 if their credit risk has increased significantly since initial recognition, but where there is no objective evidence of impairment. The identification of a significant increase in credit risk and thus the definition of the stages for the cooperative banks have to be made on the basis of the current rating grade allocation. For these assets, the impairment has to be measured at the amount of the lifetime expected credit losses. Cooperative banks have to assess the relevant assets by similar risk classes; discounting is not applicable. In addition, portfolio-specific average residual maturities are used, and values of collateral observable as of the relevant reporting date and included in the analysis of loss rates are not extrapolated into the future. The stages have to be defined on the basis of the rating grade allocation.

Provided that historical probabilities of default for financial instruments are not available without undue effort and, to that extent, there is no original estimate of the probability of default over the remaining term, financial instruments have to be assigned to Stage 2 if the current credit assessment no longer meets the criteria for a rating equivalent to investment grade.

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

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

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

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

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

If a hybrid contract contains a host contract that is a financial liability, an embedded derivative has to be separated from the host contract and accounted for separately if:
– the economic characteristics and risks of the derivative are not closely related to the economic characteristics and risks of the host contract;
– a separate instrument with the same terms would meet the definition of a derivative, and
– the hybrid contract is not measured at fair value through profit or loss.

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

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

Hedge accounting

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

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

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

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

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

Currency translation

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

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

Netting of financial assets and financial liabilities

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

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

Sale and repurchase agreements and securities lending transactions

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

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

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

Collateral

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

Insurance business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The benefit reserve for life insurance and casualty insurance with premium refund has to be generally calculated on the basis of individual policies taking into account starting dates in accordance with approved business plans and the principles declared to the relevant regulatory authorities. The prospective method has to be used for life insurance (except for unit-linked insurance products and account management arrangements) and for casualty insurance (with the exception of premium-based policies that started prior to 1982). The retrospective method has to be used for other types of insurance. Negative benefit reserves on an individual policy basis have to be recognized with an amount of €0.

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

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

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

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

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

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

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

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

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

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

Provision for premium refunds

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

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

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

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

Other insurance liabilities

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

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

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

Reinsurance business

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

Reserve for unit-linked insurance contracts

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

Adequacy test for insurance liabilities

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

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

Leases

Cooperative Financial Network as lessor

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

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

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

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

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

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

Income

Interest and dividends received
Interest income has to be accrued and recognized in the relevant period. Any mismatches in the presentation of net interest income and gains and losses on trading activities have to be eliminated based on internal derivatives concluded for hedging purposes.

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

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

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

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

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

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

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

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

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

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

Cash and cash equivalents

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

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

Loans and advances to banks and customers

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

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

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

Hedging instruments (positive and negative fair values)

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

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

Financial assets and liabilities held for trading

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

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

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

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

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

Investments

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

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

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

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

Loss allowances

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

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

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

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

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

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

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

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

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

Income tax assets and liabilities

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

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

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

Other assets

Other assets comprise intangible assets and assets held for sale.

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

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

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

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

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

Deposits from banks and customers

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

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

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

Debt certificates issued including bonds

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

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

Provisions

Provisions are liabilities in which the amounts or due dates are uncertain. Provisions have to be recognized for present obligations arising out of past events, in which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. The provisions have to be recognized and measured based on the best estimate of the present value of their anticipated utilization, taking into account risks and uncertainties associated with the issues concerned as well as future events.

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

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

Plan assets in accordance with IAS 19 include both the amount determined for the consolidated financial statements of DZ BANK and the amount that is offset against the pension obligations of the initial fund for the cooperative banks and is determined by compertis. The remaining plan assets reported by the cooperative banks is not used for the consolidated financial statements as they cannot be subjected to a review in accordance with IAS 19.8.

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

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

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

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

Residual provisions
The residual provisions have to include, among others, additional provisions for employee

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

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

Subordinated capital

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

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

Equity

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

Trust activities

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

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

Explanatory information on the consolidated financial statements

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

- The disclosures required in accordance with IFRS 12 "Disclosure of Interests in Other Entities" have to be made
- Disclosure of a segment report in accordance with IFRS 8.5–19 "Operating Segments"
- Further explanations and breakdowns of the material components of income statement and balance sheet items
- Presentation of the changes in the development of loss allowances (balance sheet and income statement; reconciliation of opening balance to closing balance)
- Reconciliation in accordance with IAS 12.81(c) to present the relationship between notional income taxes and recognized income taxes, based on application of the current tax law in Germany
- Changes in the present value of defined benefit obligations as well as changes in plan assets in accordance with IAS 19.140
- Disclosures on financial instruments in accordance with IFRS 7.25 and IFRS 7.39(a)
- Disclosures on capital requirements and regulatory indicators:
  - The disclosures have to refer to the institutional protection system (cooperative joint liability scheme). The disclosures in relation to own funds and capital requirements are based on the results of the extended aggregated calculation (EAC) in accordance with article 49 (3) CRR in conjunction with article 113 (7) CRR.
  - As at December 31, 2021, the presentation of the leverage ratio of the bank-specific protection system of the Cooperative Financial Network has to comply with the requirements set out in article 429 CRR. Tier 1 capital has to be used as the capital measure pursuant to the extended aggregated calculation in accordance with article 49 (3) CRR, adjusted by any Tier 1 capital items of the members of the bank-specific protection system held internally within the Cooperative Financial Network. The exposure values have to be determined by aggregating the individual figures reported for the leverage ratio of all member institutions and adjusted by material items held internally within the Cooperative Financial Network.
  - The cooperative banks and Münchener Hypothekenbank have to be included on an individual basis using the respective reports. DZ BANK has to be taken into account based on its own reporting on a consolidated basis. The report submitted by the DZ BANK Group has to be based on the regulatory scope of consolidation.
- Using the underlying report forms of IPS members as of December 31, 2021 has to comply with Commission Implementing Regulation (EU) No. 680/2014, which was amended by Commission Implementing Regulation (EU) No. 2021/451 to the amendments of Regulation (EU) No. 2019/876 dated May 20, 2019 (CRR II).
- Breakdowns of the composition of financial guarantee contracts and loan commitments, trust activities, asset management of Union Investment Group, changes in the contract portfolios as well as changes in the allocation assets of Bausparkasse Schwäbisch Hall, cover statement for the mortgages and local authority loans extended by the mortgage banks
- Disclosures on leases in accordance with IFRS 16.94
- A list of the members of BVR's Board of Managing Directors
- The signing of the consolidated financial statements by the Board of Managing Directors, including the signature date.

Management report including risk report

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

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

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

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

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