BVR

Consolidated Financial Statements

of the Volksbanken Raiffeisenbanken Cooperative Financial Network

2023

Volksbanken Raiffeisenbanken Cooperative Financial Network

	2023 € million	2022 € million	Change (percent)
Financial performance			
Net interest income	24,107	20,546	17.3
Net fee and commission income	8,829	8,646	2.1
Gains and losses on financial and commodities activities[1]	1,584	−5,976	>100.0
Net income from insurance business[2]	1,293	697[3]	85.5
Loss allowances	−1,809	−1,472[3]	22.9
Administrative expenses	−20,370	−19,078	6.8
Other net operating income	742	875	−15.2
Profit before taxes	14,375	4,238[3]	>100.0
Net profit	10,805	2,294[3]	>100.0
Net assets			
Loans and advances to banks	38,158	45,292	−15.8
Loans and advances to customers	1,023,602	999,937	2.4
Financial assets held for trading	34,127	49,015	−30.4
Investments	241,273	240,192	0.5
Loss allowances	−12,048	−10,658[3]	13.0
Investments held by insurance companies	114,329	104,356[3]	9.6
Remaining assets	157,739	154,077[3]	2.4
Financial position			
Deposits from banks	137,444	166,002	−17.2
Deposits from customers	1,033,200	1,032,861	0.0
Debt certificates issued including bonds	97,433	71,149	36.9
Financial liabilities held for trading	44,043	48,825	−9.8
Insurance contract liabilities	105,151	98,328[3]	6.9
Remaining liabilities	36,671	33,147[3]	10.6
Equity	143,238	131,899[3]	8.6
Total assets/total equity and liabilities	**1,597,180**	**1,582,211**	**0.9**

	2023 € million	2022 € million	Change (percent)
Profitability/efficiency			
Cost/income ratio (percent)	55.7	77.0[3]	
Return on equity before taxes (percent)[4]	10.4	3.2[3]	
Average equity	137,569	130,721[3]	5.2
Return on capital employed (percent)[5]	0.7	0.1	
Regulatory capital ratios			
Tier 1 capital ratio (percent)	15.6	15.0[3]	
Total capital ratio (percent)	16.2	15.6[3]	
Employees as at reporting date	**171,689**	**170,488**	**0.7**

1 Gains and losses on trading activities, gains and losses on investments, other gains and losses on valuation of financial instruments.
2 Insurance service result, gains and losses on investments held by insurance companies and other insurance company gains and losses, insurance finance income or expenses.
3 Amount restated.
4 Ratio of profit before taxes to average equity.
5 Ratio of net profit to total assets.

Consolidated Financial Statements

des Bundesverbandes
der Deutschen Volksbanken
und Raiffeisenbanken

2023

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In brief

In 2023, the Volksbanken Raiffeisenbanken Cooperative Financial Network achieved a consolidated profit before taxes of €14.4 billion. This represents a significant increase compared with the 2022 figure of €4.2 billion, which had been influenced by interest-rate-related valuation effects. The biggest drivers were reversals of impairment losses in the securities portfolios and, in particular, the cooperative banks' traditional customer banking business. Consolidated loans and advances to customers rose by 2.4 percent. Moreover, deposits from customers – which saw a significant reallocation to fixed-term products – held steady year on year at €1,033 billion.

Net interest income rose to €24.1 billion thanks to slight growth in the lending business and more risk-appropriate terms and conditions in view of the currently difficult economic situation. Customers reallocated their deposits to higher-interest liability-side products, causing interest expense to increase fourfold, primarily on deposits from customers. Solid intermediary and payments processing business fueled the growth in net fee and commission income to €8.8 billion.

Loss allowances went up by €0.3 billion to €1.8 billion, reflecting muted economic prospects, interest-rate rises, and the higher number of corporate and retail customer insolvencies. Gains and losses on investments improved from a net loss of €6.8 billion in 2022 to a net gain of €1.3 billion in 2023. This was largely attributable to reversals of impairment losses in the cooperative banks' securities portfolios. Administrative expenses advanced by €1.3 billion to €20.4 billion. This rise of 6.8 percent was predominantly due to higher staff expenses resulting from measures previously introduced in response to inflation. The cost/income ratio fell from 77 percent in 2022 to approximately 56 percent in 2023 due to the aforementioned valuation effects. Consolidated total assets increased to around €1.6 trillion as at December 31, 2023.

The Cooperative Financial Network strengthened its equity position in 2023. Equity rose by 8.6 percent to €143.2 billion due to profit retention. The consolidated Tier 1 capital ratio and the total capital ratio each rose by 0.6 percentage points to stand at 15.6 percent and 16.2 percent respectively. The Cooperative Financial Network has very sound capital adequacy and is well equipped to cope with risks and future funding needs. This is confirmed by the major rating agencies: Both Fitch and Standard & Poor's rate the Cooperative Financial Network very highly relative to the rest of the sector and have awarded ratings of AA– and A+ respectively with a stable outlook.

Management Report 2023

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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 ('Cooperative Financial Network').

The Cooperative Financial Network consists of 695 cooperative banks (2022: 735), 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 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 institutions are linked – through the dual cooperative protection scheme – on the basis of the rules in the statutes and in the articles of association. The protection scheme is mainly focused on avoiding and, if necessary, eliminating threats to the ability of individual institutions to continue as a going concern.

The principles and methods of the dual cooperative 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 85.

* Institutional protection scheme.

Business Performance of the Volksbanken Raiffeisenbanken Cooperative Financial Network

Economic conditions

In 2023, conditions in the German economy were influenced by the impact of Russia's war of aggression against Ukraine and the resulting energy crisis as well as by high inflation, a weak global economy, and escalation of the conflict in the Middle East. The difficulties created by this situation caused inflation-adjusted gross domestic product (GDP) to edge down by 0.3 percent year on year, compared with a marked increase of 1.8 percent in 2022. Moreover, inflationary pressure remained exceptionally high, even though the rate of inflation fell from an average of 6.9 percent in 2022 to 5.9 percent in 2023.

The period of economic weakness that had begun in the second half of 2022 essentially continued for the whole of 2023 as dampening factors continued to stack up. At the start of the year, the effect of elevated inflation and shortages of materials eased only slowly, acting as a brake on the economy. As the year continued, sharp interest-rate hikes introduced by western central banks to tackle inflation took their toll on the economic situation both in Germany and worldwide. These effects were further exacerbated by the ongoing shortages of labor and skills and from heightened uncertainty stemming from, for example, the fallout from Hamas's terrorist attack on Israel in October 2023 and the Israeli military campaign launched in response.

On the demand side, the main drivers of the fall in GDP in 2023 were consumer spending and exports, both of which declined noticeably due to the reduction in purchasing power resulting from the rise in consumer prices and global economic conditions. In terms of investment, the picture was mixed. Spending on capital equipment went up thanks to the easing of supply bottlenecks. By contrast, construction investment slumped, primarily because of rising interest rates and the only slowly diminishing surge in construction costs. There was also a decline in foreign trade owing to muted conditions in the global economy and feeble domestic demand. However, imports fell more sharply than exports, which meant that foreign trade overall notionally helped to offset the decrease in GDP.

Despite the general weakness of the economy, the labor market remained in fundamentally good health. The statistics showed a rise in the number of people out of work from 2.4 million in 2022 to 2.6 million in the reporting year, although this was partly because refugees were increasingly included in the data. Nevertheless, the unemployment rate of 5.7 percent remained relatively low and was up only slightly on the prior-year figure of 5.3 percent. Moreover, employment levels climbed once again, with the number of people in work growing by just over 300,000 year on year to set a record of around 45.9 million.

The European Central Bank (ECB) continued to tighten monetary policy in 2023, raising its key interest rates by 200 basis points in the period between its first meeting of the year in February and September 20, 2023. At the end of the year, the deposit

facility rate stood at 4 percent, the interest rate for main refinancing operations at 4.5 percent, and the marginal lending facility interest rate at 4.75 percent. The ECB kept its interest rates unchanged from October onward, stating that it would adjust them if the inflation situation made this necessary.

In parallel, the ECB set out the timetable for ending its bond-buying programs. Starting in March 2023, it stopped fully reinvesting the principal payments from maturing securities under the asset purchase program (APP). By the end of June, an average of €15 billion per month was no longer being reinvested and, from July onward, no amounts from maturing bonds were being used to purchase assets. The ECB also announced at the end of 2023 that it would stop fully reinvesting maturing bonds under the pandemic emergency purchase program (PEPP) in July 2024, from which point it would reduce the portfolio by €7.5 billion per month. It plans to stop reinvestment entirely at the end of 2024.

Business situation

Against a backdrop of challenging market conditions fueled by continued high levels of inflation and geopolitical crises, the Cooperative Financial Network generated a significantly higher profit before taxes of €14,375 million in 2023 compared with the figure of €4,238 million reported for 2022.

The institutions in the Cooperative Financial Network increased their loans and advances to customers by 2.4 percent in the year under review (December 31, 2022: 5.9 percent).

In the Cooperative Financial Network's deposit-taking business, the higher level of interest rates led to reallocations to fixed-term products but the overall volume held steady over the course of the year, with customer deposits coming to €1,033,200 million (December 31, 2022: €1,032,861 million). These deposits played a crucial part in funding the Cooperative Financial Network's lending business.

Equity amounted to €143,238 million at the end of the reporting year (December 31, 2022: €131,899 million).

The Cooperative Financial Network had a rating of A+ (2022: A+) from credit rating agency Standard & Poor's, while the rating from Fitch Ratings was AA− (2022: AA−). In 2023, the number of members of the Cooperative Financial Network fell slightly year on year. As at the end of the financial year, the cooperative banks had 17.8 million members (individuals and companies) in total, compared with 17.9 million at the end of 2022.

Financial performance

Net interest income amounted to €24,107 million in the year under review (2022: €20,546 million). As had been predicted in 2022, the growth in net interest income was predominantly due to the increase in market interest rates and the 2.4 percent rise in loans and advances to customers at the institutions in the Cooperative Financial Network. The increase in interest rates, combined with the reallocation of customer assets to higher-interest deposits and the almost unchanged volume of customer deposits, led to higher interest expense overall. Within the net figure, interest income rose sharply to €36,988 million (2022: €22,593 million) and interest expense surged to €14,291 million (2022: €3,499 million). The cooperative banks' net interest income is the biggest source of income for the Cooperative Financial Network.

Net fee and commission income rose slightly to €8,829 million in the year under review (2022: €8,646 million). It was therefore in line with expectations. The main sources of income continued to be payments processing (including card processing) and securities brokerage business. The bulk of net fee and commission income is attributable to the cooperative banks.

The Cooperative Financial Network's **gains and losses on trading activities** deteriorated significantly compared with the previous year to stand at a net gain of €19 million in 2023 (2022: net gain of €1,009 million). The year-on-year change in gains and losses on trading activities was largely influenced by the DZ BANK Group. This change was due to the significant volatility of market prices, which – as a result of risk management – had opposing effects on gains and losses on non-derivative financial instruments on the one hand and on gains and losses on derivatives on the other.

Gains and losses on investments came to a net gain of €1,338 million (2022: net loss of €6,774 million). This significant improvement had been anticipated and was primarily due to the absence of the negative interest-rate-related valuation effects at the cooperative banks that had weighed heavily on the prior-year figure. These valuation effects had been attributable to reversals of write-downs and realized gains and losses on sales of securities during the year.

The **loss allowances** calculated in 2023 were up substantially, as had been forecast in 2022, and amounted to a net addition of €1,809 million (2022: net addition of €1,472 million). This increase in additions to loss allowances was a reflection of the still gloomy economic conditions, with muted economic prospects, the rise in interest rates, and a growing number of corporate and personal insolvencies over the course of the year.

Other gains and losses on valuation of financial instruments improved markedly compared with the previous year and came to a net gain of €227 million in the reporting year (2022: net loss of €211 million). This was primarily attributable to a year-on-year improvement in the valuation of guarantee commitments and in the fair value measurement of Union Investment's own-account investments. Within the overall line item, gains and losses on financial instruments designated as at fair value through profit or loss amounted to a net gain of €114 million (2022: net loss of €160 million), gains and losses on derivatives used for purposes other than trading amounted to a net gain of €156 million (2022: net loss of €6 million), and gains and losses from fair value hedge accounting amounted to a net loss of €44 million (2022: net loss of €45 million).

Net income from insurance business, which is exclusively attributable to the R+V Group, comprises the insurance service result, gains and losses on investments held by insurance companies and other insurance company gains and losses, and insurance finance income or expenses.

IFRS 17 superseded the previous standard for accounting for insurance contracts (IFRS 4) with effect from January 1, 2023. IFRS 17 requires comparative information to be presented for the period immediately preceding the date of initial application of IFRS 17. Retrospective initial application thus resulted in adjustments to the income statement for the previous year.

As expected, net income from insurance business rose sharply, amounting to €1,293 million in 2023 (2022: €697 million). The increase was primarily due to the improvement – driven by the situation in 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 €2,982 million (2022: net loss of €3,776 million). Some of the increase was offset by a deterioration in insurance finance income or expenses to a net expense of €4,107 million (2022: net income of €1,951 million) and in the insurance service result to a profit of €2,418 million (2022: profit of €2,522 million). Major claims in the non-life insurance business amounted to €246 million as at December 31, 2023. Expenses of €279 million arose for major claims in the inward reinsurance business.

As predicted in 2022, **administrative expenses** were up year on year, totaling €20,370 million in 2023, compared with €19,078 million in 2022. The bulk of the administrative expenses were attributable to staff expenses of €11,063 million (2022: €10,456 million), which primarily went up owing to appointments, pay rises (including collectively agreed increases), and the non-recurring effect of the inflation compensation payment that many entities in the Cooperative Financial Network paid to their employees. Other administrative expenses, which comprise general and administrative expenses plus depreciation/amortization and impairment losses, rose to €9,307 million (2022: €8,622 million). This rise was predominantly attributable to general inflation, additional capital expenditure on IT, and consultancy expenses, although it was partly offset by smaller contributions to the bank levy.

Other net operating income declined to €742 million (2022: €875 million), mainly as a result of larger additions to provisions in connection with restructuring in the DZ BANK Group and impairment of recognized customer relationships at Union Investment. By contrast, the prior-year figure had included higher income from the reversal of provisions and contributions to earnings from the cooperative banks, including gains on the disposal of assets and income from property rentals.

Profit before taxes jumped to €14,375 million (2022: €4,238 million) and was thus higher than had been predicted in the previous year.

Income taxes amounted to €3,571 million (2022: €1,944 million), with most of this amount (€3,558 million; 2022: €2,807 million) attributable to current income taxes.

The **consolidated net profit** after taxes stood at €10,805 million in 2023 (2022: €2,294 million).

The Cooperative Financial Network's **cost/income ratio** came to 55.7 percent in 2023 (2022: 77.0 percent).

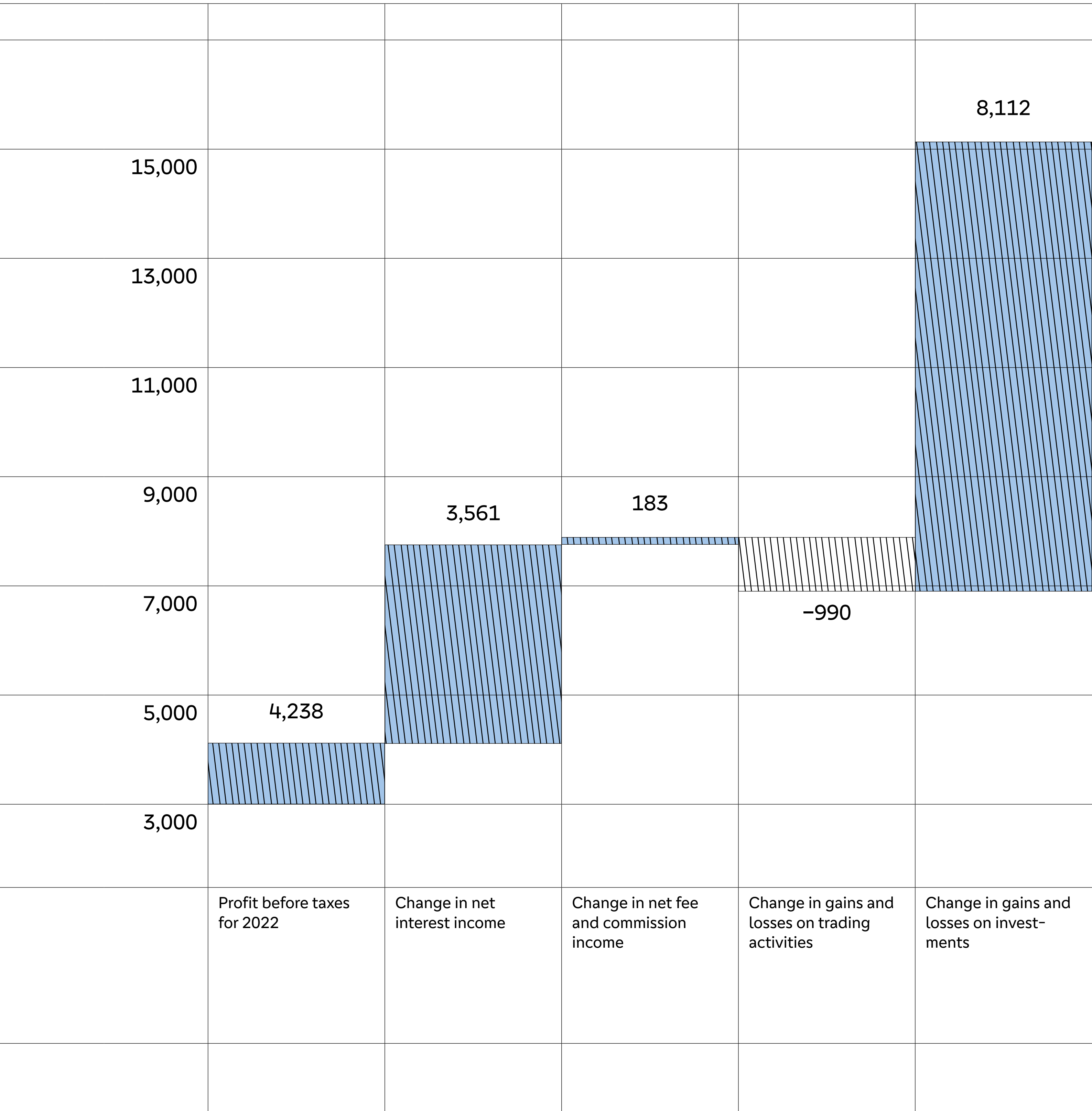
Financial performance

	2023 € million	2022 € million	Change (percent)
Net interest income	24,107	20,546	17.3
Net fee and commission income	8,829	8,646	2.1
Gains and losses on trading activities	19	1,009	−98.1
Gains and losses on investments	1,338	−6,774	>100.0
Loss allowances	−1,809	−1,472[1]	22.9
Other gains and losses on valuation of financial instruments	227	−211	>100.0
Net income from insurance business	1,293	697[1]	85.5
Administrative expenses	−20,370	−19,078	6.8
Other net operating income	742	875	−15.2
Profit before taxes	**14,375**	**4,238**	**>100.0**
Income taxes	−3,571	−1,944[1]	83.7
Net profit	**10,805**	**2,294**	**>100.0**

1 Amount restated.

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

€ million



596

438

−337

−1,292

−133

14,375

Change in loss allowances

Change in other gains and losses on valuation of financial instruments

Change in net income from insurance business

Change in administrative expenses

Change in other net operating income

Profit before taxes for 2023

Financial position

The consolidated **total assets** of the Cooperative Financial Network advanced to €1,597,180 million as at December 31, 2023 (December 31, 2022: €1,582,211 million). Trust activities amounted to a volume of €3,239 million (December 31, 2022: €3,579 million).

On the **assets** side of the balance sheet, loans and advances to banks contracted to €38,158 million (December 31, 2022: €45,292 million). Loans and advances to customers rose to €1,023,602 million (December 31, 2022: €999,937 million). This upward trend in the year under review was mainly driven by increased lending by the cooperative banks. Cash and cash equivalents swelled to €119,757 million (December 31, 2022: €117,964 million).

Hedging instruments (positive fair values) fell to €5,259 million (December 31, 2022: €10,169 million). Financial assets held for trading decreased to €34,127 million at the end of 2023 (December 31, 2022: €49,015 million). This reduction was predominantly due to a decline in receivables to €7,735 million (December 31, 2022: €18,064 million), a fall in derivatives (positive fair values) to €16,482 million (December 31, 2022: €21,474 million), and a drop in shares and other variable-yield securities to €1,346 million (December 31, 2022: €1,408 million). However, bonds and other fixed-income securities rose to €8,188 million (December 31, 2022: €7,602 million).

Investments increased to €241,273 million as at December 31, 2023 (December 31, 2022: €240,192 million), predominantly due to the growth in holdings of shares and other variable-yield securities to €85,751 million (December 31, 2022: €82,289 million). By contrast, the volume of bonds and other fixed-income securities contracted to €149,864 million (December 31, 2022: €152,460 million).

Investments held by insurance companies went up from €104,356 million as at December 31, 2022 to €114,329 million at the end of 2023. This increase was largely due to the rise in fixed-income securities to €53,193 million (December 31, 2022: €47,259 million), in assets related to unit-linked contracts to €20,563 million (December 31, 2022: €16,429 million), in mortgage loans to €12,008 million (December 31, 2022: €10,960 million), in registered bonds to €4,859 million (December 31, 2022: €4,790 million), and in promissory notes and loans to €5,913 million (December 31, 2022: €5,857 million). Conversely, variable-yield securities declined to €11,871 million (December 31, 2022: €13,023 million), investment property to €3,866 million (December 31, 2022: €4,028 million), and derivatives (positive fair values) to €159 million (December 31, 2022: €278 million).

On the **equity and liabilities** side of the balance sheet, deposits from banks contracted to €137,444 million (December 31, 2022: €166,002 million). Deposits from customers amounted to €1,033,200 million (December 31, 2022: €1,032,861 million).

Debt certificates issued including bonds advanced to €97,433 million (December 31, 2022: €71,149 million), mainly because bonds issued rose to €81,504 million (December 31, 2022: €56,733 million) and other debt certificates issued increased to €15,929 million (December 31, 2022: €14,416 million).

Financial liabilities held for trading stood at €44,043 million as at December 31, 2023 (December 31, 2022: €48,825 million). This reduction was attributable, in particular, to derivatives (negative fair values) amounting to €17,136 million (December 31, 2022: €26,642 million) and short positions of €701 million (December 31, 2022: €1,017 million). By contrast, liabilities swelled to €5,329 million (December 31, 2022: €1,104 million) and bonds issued including share certificates, index-linked certificates, and other debt certificates issued advanced to €20,836 million (December 31, 2022: €20,014 million).

Insurance contract liabilities increased to €105,151 million (December 31, 2022: €98,328 million), primarily owing to the growth of the liability for remaining coverage to €93,033 million (December 31, 2022: €86,740 million).

Equity rose to €143,238 million as at the end of 2023 (December 31, 2022: €131,899 million). Within this figure, retained earnings increased to €123,107 million (December 31, 2022: €113,400 million), subscribed capital to €17,410 million (December 31, 2022: €16,485 million), and the reserve from other comprehensive income to minus €360 million (December 31, 2022: minus €874 million).

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 entrepreneurial responsibility and the great significance of a decentralized governance model for the cooperative banks in 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.

The cooperative banks hold 85.4 percent of consolidated own funds. Growth in own funds 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, the related amounts are generally not consolidated. The consolidation measures carried out

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. The own funds instruments are consolidated in the relevant own funds categories and in the total risk exposure.

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

The Cooperative Financial Network's Tier 1 capital ratio was slightly higher year on year at 15.6 percent as at December 31, 2023 (December 31, 2022: 15.0 percent). There was also a small improvement in the regulatory total capital ratio to 16.2 percent (December 31, 2022: 15.6 percent). In absolute terms, the Cooperative Financial Network's consolidated own funds increased by €9.2 billion to €130.4 billion. The changes in the capital ratios – both overall and in-year fluctuation – were influenced by the rise in own funds resulting from the retention of the profits reported in the 2022 financial statements and by a change in accounting treatment affecting the valuation of the equity investment in R+V Versicherung AG following the initial application of IFRS 17 for insurance contracts in the DZ BANK Group.

As at December 31, 2023, risk-weighted assets stood at €803.1 billion, which was up by €27.1 billion year on year (see table on page 26). This increase was predominantly due to the higher valuation of the equity investment in R+V Versicherung AG following the initial application of IFRS 17 for insurance contracts. In total, credit risk exposures made up 91.9 percent of risk-weighted assets (December 31, 2022: 91.2 percent). The institutions 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 institutions in the DZ BANK Group, Münchener Hypothekenbank eG, and Deutsche Apotheker- und Ärztebank eG.

The leverage ratio stood at 8.0 percent as at December 31, 2023 (December 31, 2022: 7.4 percent). This increase was driven by the €8.6 billion rise in Tier 1 capital and a simultaneous slight decline in the total exposure measure.

Breakdown of risk-weighted assets

	Dec. 31, 2023 € million	Dec. 31, 2022 € million	Change (percent)
Total credit risk	**737,956**	**707,250**[1]	**4.3**
Total under the Standardized Approach to credit risk	***605,244***	***601,467***[1]	***0.6***
of which: corporates	193,809	195,712[1]	−1.0
of which: retail business	150,300	157,297[1]	−4.4
of which: secured by mortgages on immovable property	112,063	103,324[1]	8.5
of which: undertakings for collective investment in transferable securities (UCITS)	54,904	56,055[1]	−2.1
Total under IRB approaches	***127,808***	***101,014***	***26.5***
of which: corporates	54,814	51,554	6.3
of which: retail business	27,635	25,935	6.6
of which: equity investments	32,398	13,284	> 100
Securitization exposures	***4,754***	***4,683***	***1.5***
Exposure amount for contributions to the default fund of a CCP[2]	***149***	***86***	***74.1***
Total market risk	**10,289**	**13,186**[1]	**−22.0**
Total operational risk	**52,116**	**51,949**[1]	**0.3**
Total other exposures (including CVAs[3]**)**	**2,690**	**3,524**[1]	**−23.7**
Total	**803,051**	**775,909**	**3.5**

1 Amount restated.
2 Central counterparty (CCP).
3 Total risk exposure based on the credit value adjustment (CVA).

Operating segments

Retail Customers and SMEs

Net interest income amounted to €20,417 million in the year under review (2022: €17,771 million). The growth in net interest income was predominantly due to the increase in market interest rates and the 2.7 percent rise in loans and advances to customers at the cooperative banks (2022: 6.4 percent). The increase in interest rates, combined with the reallocation of customer assets to higher-interest deposits and the almost unchanged volume of customer deposits, led to higher interest expense overall. TeamBank recorded a rise in net interest income that was partly the result of growth in the average volume of loans and advances to customers. The net interest income of DZ PRIVATBANK received a particular boost from higher income in the money market business and from interest on deposits due to the changed interest-rate regime.

Net fee and commission income came to €8,713 million (2022: €8,697 million). In 2023, this line item was again influenced primarily by income from payments processing (including card processing) and from securities brokerage business. A further driver of net fee and commission income in the Retail Customers and SMEs operating segment was the volume-related income contribution generated by the Union Investment Group as a result of the average assets under management. DZ PRIVATBANK's contributions to income from private banking and the fund services business held steady year on year. As at December 31, 2023, high-net-worth individuals' assets under management, which comprise the volume of securities, derivatives, and deposits of customers in the private banking business, came to €23.4 billion (December 31, 2022: €21.2 billion). The value of funds under management was €189.0 billion as at December 31, 2023 (December 31, 2022: €168.0 billion).

Gains and losses on trading activities came to a net gain of €203 million (2022: €234 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.

There was a net gain under **gains and losses on investments** of €1,151 million in the year under review (2022: net loss of €6,524 million). This improvement was primarily due to the absence of negative interest-rate-related valuation effects at the cooperative banks that had weighed heavily on the prior-year figure and to the reversal of write-downs in 2023.

Loss allowances amounted to a net addition of €1,337 million (2022: net addition of €1,223 million). This increased requirement for additions to loss allowances was a reflection of the still gloomy economic conditions (including muted economic prospects), the rise in interest rates, and a growing number of corporate and personal insolvencies over the course of the year.

Other gains and losses on valuation of financial instruments improved markedly compared with the previous year and came to a net gain of €156 million in the reporting year (2022: net loss of €118 million). This was predominantly attributable to a year-on-year improvement in the valuation of guarantee commitments and in the fair value measurement of Union Investment's own-account investments.

The Cooperative Financial Network's **administrative expenses** in the Retail Customers and SMEs operating segment amounted to €17,911 million in the reporting year (2022: €16,811 million). Staff expenses totaled €9,677 million (2022: €9,143 million) and included an increased financial commitment in the area of non-collectively-negotiated allowances in view of the shortage of skilled workers. Other administrative expenses advanced to €8,234 million (2022: €7,668 million), chiefly due to general inflation, additional capital expenditure on IT, and consultancy expenses.

Other net operating income declined to €559 million (2022: €757 million), mainly as a result of larger additions to provisions in connection with restructuring and impairment of recognized customer relationships at Union Investment. By contrast, the prior-year figure had included higher income from the reversal of provisions and contributions to earnings from the cooperative banks, including gains on the disposal of assets and income from property rentals.

As a result of the factors described above, **profit before taxes** amounted to €11,951 million in the reporting year (2022: €2,783 million). The cost/income ratio was 57.4 percent (2022: 80.8 percent).

Central Institution and Major Corporate Customers

The **net interest income** of the Central Institution and Major Corporate Customers operating segment rose to €2,612 million in the year under review (2022: €1,577 million). In the Corporate Banking business line, net interest income went up owing to the growth of the lending volume in the operating lending business. Net interest income from structured finance edged down compared with the previous year. The increased volume of lending did not make up for the lower margins, which were partly due to the competitive situation. Net interest income from money market and capital markets business rose sharply. This increase was firstly attributable to the deposit-taking operating business in the short-dated maturity segment, particularly deposits from corporate customers. Secondly, the rise in interest rates in the money market led to increased net interest income from the investment of liquidity from the excess of non-interest-bearing liabilities (e.g. equity) over non-interest-bearing assets.

Net fee and commission income came to €638 million in 2023 and was therefore higher than in the previous year (2022: €575 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 from the currency service business). In the Corporate Banking business line, net fee and commission income was up significantly year on year. The increase was mainly attributable to fees and commissions in connection with loan processing and to financial guarantee contracts / loan commitments. The contribution to net fee and commission income in the Capital Markets business line rose considerably. One of the main reasons for this was the increase in transaction fees from the securitization business. Net fee and commission income in the Transaction Banking business line was up slightly year on year, principally owing to fees from the payments processing business and from the safe custody and securities management business. By contrast, income from currency service business declined.

Gains and losses on trading activities came to a net loss of €103 million in 2023, deteriorating markedly from a net gain of €710 million in the previous year. Gains and losses on trading activities essentially relate to DZ BANK's business activities in the capital markets. This change was due to the significant volatility of market prices, which – as a result of risk management – had opposing effects on gains and losses on non-derivative financial instruments on the one hand and on gains and losses on derivatives on the other.

Gains and losses on investments improved from a net gain of €37 million in 2022 to a net gain of €48 million in the reporting year. This was predominantly due to gains arising from the unwinding of hedges in the context of portfolio fair value hedge accounting expenses, although some of the gains were offset by expenses from the sale of securities.

Loss allowances amounted to a net addition of €99 million (2022: net addition of €93 million).

Other gains and losses on valuation of financial instruments came to a net loss of €103 million in 2023 (2022: net gain of €41 million). Within this figure, there was a decline in credit-risk-related measurement effects relating to financial assets measured using the fair value option. In 2022, the positive influences on this line item had included measurement effects at DVB Bank SE.

Administrative expenses amounted to €2,017 million in 2023 (2022: €1,915 million). Staff expenses rose to €906 million (2022: €858 million), mainly because the higher number of employees led to increases in wages and salaries and in the associated expenses for social security. Other administrative expenses increased to €1,111 million (2022: €1,057 million), largely owing to a rise in IT costs, office expenses, and consultancy expenses.

Other net operating income declined to €79 million (2022: €116 million), mainly as a result of larger additions to provisions in connection with restructuring. The income from the reversal of provisions included in the prior-year figure had been higher than that included in the figure for 2023.

Profit before taxes rose to €1,055 million (2022: €1,048 million). The cost/income ratio was 63.6 percent in 2023 (2022: 62.7 percent).

Real Estate Finance

Net interest income came to €1,868 million (2022: €2,070 million). Within this figure, the net interest income of Bausparkasse Schwäbisch Hall fell sharply and included a rise of €111 million in additions to provisions relating to building society operations. By contrast, the 2022 figure had mainly been influenced by a positive one-off item of €185 million in connection with the reversal of provisions relating to building society operations.

A net expense is traditionally reported in the Real Estate Finance operating segment under **net fee and commission income** as a result of agents’ fees. This net expense amounted to €71 million in the reporting year (2022: €82 million), representing a small year-on-year improvement that was predominantly due to lower fee and commission payments on the back of the fall in new business at Münchener Hypothekenbank eG.

Gains and losses on investments improved to a net gain of €10 million (2022: net loss of €84 million). The net loss report-

ed for 2022 had been adversely affected, in particular, by the sale of bonds at Bausparkasse Schwäbisch Hall and the sale of government bonds at DZ HYP, whereas there were no material disposals during the year under review.

Loss allowances amounted to a net addition of €255 million in 2023 (2022: net addition of €166 million). The changes in the economic environment and the related increase in interest rates led to sharp falls in the value of properties in Münchener Hypothekenbank's portfolio, particularly in the case of real estate markets outside Germany. At DZ HYP, the addition to loss allowances in 2023 was mainly a reflection of specific loan loss allowances on a small number of exposures, whereas the addition in 2022 had predominantly been due to portfolio loan loss allowances.

Other gains and losses on valuation of financial instruments improved year on year, amounting to a net gain of €82 million in 2023 (2022: net gain of €9 million). This was largely thanks to the contribution to earnings from issued instruments measured at fair value at DZ HYP.

Administrative expenses rose to €947 million in 2023 (2022: €930 million). Staff expenses increased to €463 million (2022: €443 million), principally as a result of salary increases, headcount growth and higher provisions for pensions and other post-employment benefits. Other administrative expenses decreased to €484 million (2022: €487 million), mainly due to a reduction in the bank levy.

Profit before taxes amounted to €801 million (2022: €856 million). The cost/income ratio in 2023 was 47.3 percent (2022: 47.6 percent).

Insurance

IFRS 17 Insurance Contracts superseded the previous standard for accounting for insurance contracts (IFRS 4 Insurance Contracts) with effect from January 1, 2023. IFRS 17 requires comparative information to be presented for the period immediately preceding the date of initial application of IFRS 17. Retrospective initial application thus resulted in adjustments to the income statement for the previous year.

The **insurance service result** amounted to a profit of €1,972 million (2022: profit of €1,980 million). This figure included insurance revenue amounting to €12,317 million (2022: €12,424 million) and insurance service expenses of €10,267 million (2022: €10,321 million). Net expenses from reinsurance contracts held stood at €78 million (2022: €123 million).

In the life and health insurance business, insurance revenue amounted to €3,042 million (2022: €3,674 million). Insurance service expenses amounted to €1,956 million (2022: €2,282 million). Net expenses from reinsurance contracts held in this business stood at €0 million (2022: €16 million). This included amortization of the contractual service margin in an amount of €273 million (2022: €243 million) and release of the risk adjustment in an amount of €53 million (2022: €36 million).

In the non-life insurance business, insurance revenue amounted to €7,239 million (2022: €6,831 million). The main influence on this revenue was premiums earned on portfolios measured under the premium allocation approach. The insurance service expenses of the non-life insurance business stood at €6,887 million (2022: €6,104 million). Of this sum, €5,104 million (2022: €4,656 million) was attributable to expenses for claims, comprising payments for claims of €4,980 million (2022: €4,614 million) and the change in the liability for incurred claims amounting to a decrease of €124 million (2022: decrease of €42 million). It also included the change in losses on insurance contracts, which amounted to a decrease of €119 million (2022: increase of €136 million). Other insurance service expenses totaled €1,664 million (2022: €1,584 million) and primarily consisted of insurance acquisition cash flows and administration costs of €1,664 million (2022: €1,584 million). Net expenses from reinsurance contracts held in this business came to €63 million (2022: €58 million). The combined ratio (gross), which is the ratio of insurance service expenses to insurance revenue, stood at 95.14 percent (2022: 89.36 percent). Major claims in this business amounted to €246 million as at December 31, 2023.

Insurance revenue in the inward reinsurance business amounted to €2,036 million (2022: €1,920 million). This included not only premium income but also amortization of the contractual service margin in an amount of €231 million (2022: €174 million) under the general measurement model. Insurance service expenses came to €1,424 million (2022: €1,936 million). Net expenses from reinsurance contracts

totaled €15 million (2022: €49 million). Expenses of €279 million arose for major claims in the inward reinsurance business.

Gains and losses on investments held by insurance companies and other insurance company gains and losses improved by €6,883 million to a net gain of €3,143 million (2022: net loss of €3,740 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), which amounted to a net gain of €2,070 million (2022: net loss of €2,764 million).

Long-term interest rates were lower than in 2022. The ten-year Bund/swap rate was 2.49 percent as at December 31, 2023 (December 31, 2022: 3.20 percent). Spreads on interest-bearing securities largely narrowed during the reporting year and had a more positive impact on gains and losses on investments held by insurance companies and other insurance company gains and losses than in the previous year, when spreads had widened. A weighted spread calculated in accordance with R+V's portfolio structure stood at 77.0 points as at December 31, 2023 (December 31, 2022: 89.8 points). In the comparative period, this spread had risen from 66.7 points as at December 31, 2021 to 89.8 points as at December 31, 2022.

During the reporting year, equity markets relevant to R+V performed better than in 2022. For example, the EURO STOXX 50, a share index comprising 50 large, listed companies in the eurozone, saw a rise of 728 points from the start of 2023, closing the year under review on 4,522 points (December 31, 2022: 3,794 points). The index had dropped by 504 points in 2022.

In the reporting year, movements in exchange rates between the euro and various currencies were generally less favorable than in the previous year. For example, the US dollar/euro exchange rate on December 31, 2023 was 0.9053 compared with 0.9370 as at December 31, 2022. In the previous year, the exchange rate had moved from 0.8794 as at December 31, 2021 to 0.9370 as at December 31, 2022.

These trends resulted in a €7,213 million positive change – resulting from the effects of changes in positive fair values – in unrealized gains and losses to a net gain of €1,915 million (2022: net loss of €5,298 million), a €687 million increase in the contribution to earnings from the derecognition of investments to a loss of €255 million (2022: loss of €942 million), and a €145 million rise in net income under current income and expense to €2,423 million (2022: €2,278 million). However, there was a €681 million deterioration in foreign-exchange gains and losses to a net loss of €276 million (2022: net gain of €407 million) and a €133 million decline in the balance of depreciation, amortization, impairment losses, and reversals of impairment losses to a net expense of €234 million (2022: net expense of €101 million). Furthermore, other non-insurance gains

and losses declined by €346 million to a net loss of €429 million (2022: net loss of €84 million). Changes in gains and losses on investments held by insurance companies are offset to an extent by corresponding changes in insurance finance income or expenses, so the effect on profit or loss is only partial.

Insurance finance income or expenses deteriorated by €6,058 million to a net expense of €4,107 million (2022: net income of €1,951 million). In the life and health insurance business, this line item deteriorated by €5,884 million to a net expense of €3,813 million (2022: net income of €2,071 million), which was mainly due to the aforementioned compensatory effect. Insurance finance income or expenses came to a net expense of €179 million in the non-life insurance business (2022: net expense of €48 million) and a net expense of €115 million in inward reinsurance (2022: net expense of €72 million). The amount within insurance finance income or expenses relating to discounting at the discount rate used at initial measurement (locked-in discount rate) amounted to a net expense of €125 million in non-life insurance (2022: net expense of €66 million) and a net expense of €115 million in inward reinsurance (2022: net expense of €73 million).

The factors described above resulted in an increase in **profit before taxes** to €1,008 million (2022: €186 million).

Human Resources

The success of the institutions in the Cooperative Financial Network heavily depends on its employees and their ability and dedication. HR activities in the Cooperative Financial Network are designed to create an environment in which employees can unlock their full potential and carry out their work even in challenging business conditions. The loyalty and close bond that exists between employees and their company is reflected in the long periods of service at the member institutions.

As can be seen from the chart on page 39, which shows years of service, around 66 percent of employees in the cooperative banks and at DZ BANK have been working at these organizations for more than 10 years and one in three employees has been with their bank for more than 25 years. Internal surveys confirm that the absolute majority of the employees who participated in these surveys are very satisfied with their job and regard it as important.

Strengthening the culture of learning and offering high-quality training are key pillars of the Cooperative Financial Network's HR strategy. In 2023, the institutions supported their employees' personal development by offering a variety of continuing professional development (CPD) activities alongside training courses that are mandatory due to regulatory requirements. The CPD opportunities for employees are complemented by a wide range of training and development activities offered by regional auditing associations and academies, including initial vocational training, advanced vocational training geared to current demands, and personal development.

For HR management at the institutions in the Cooperative Financial Network, this means introducing innovative HR concepts to continually counteract the shortage of skilled workers that prevails in the banking industry, as it does in other sectors. A strategic vision for HR has been drawn up to make sure that the HR divisions within the Cooperative Financial Network and the people working in it are fully equipped for the future. This strategic vision is aimed at helping the individual institutions' transformation activities at local bank level. In 2023, work began in the following action areas: employer branding, employees as the key to success, and HR innovation.

Another challenge is to use active talent management to positively shape the changes in the institutions' workforces resulting from demographic change. Attracting talented employees therefore remained a central plank of HR work in 2023, with an ongoing strategic focus on recruiting trainees and students, including those pursuing combined work and degree courses. This is reflected, for example, in the trainee statistics. In 2023, the ratio of trainees to other employees in the cooperative banks and at DZ BANK rose slightly to 6.7 percent (see chart on page 40).

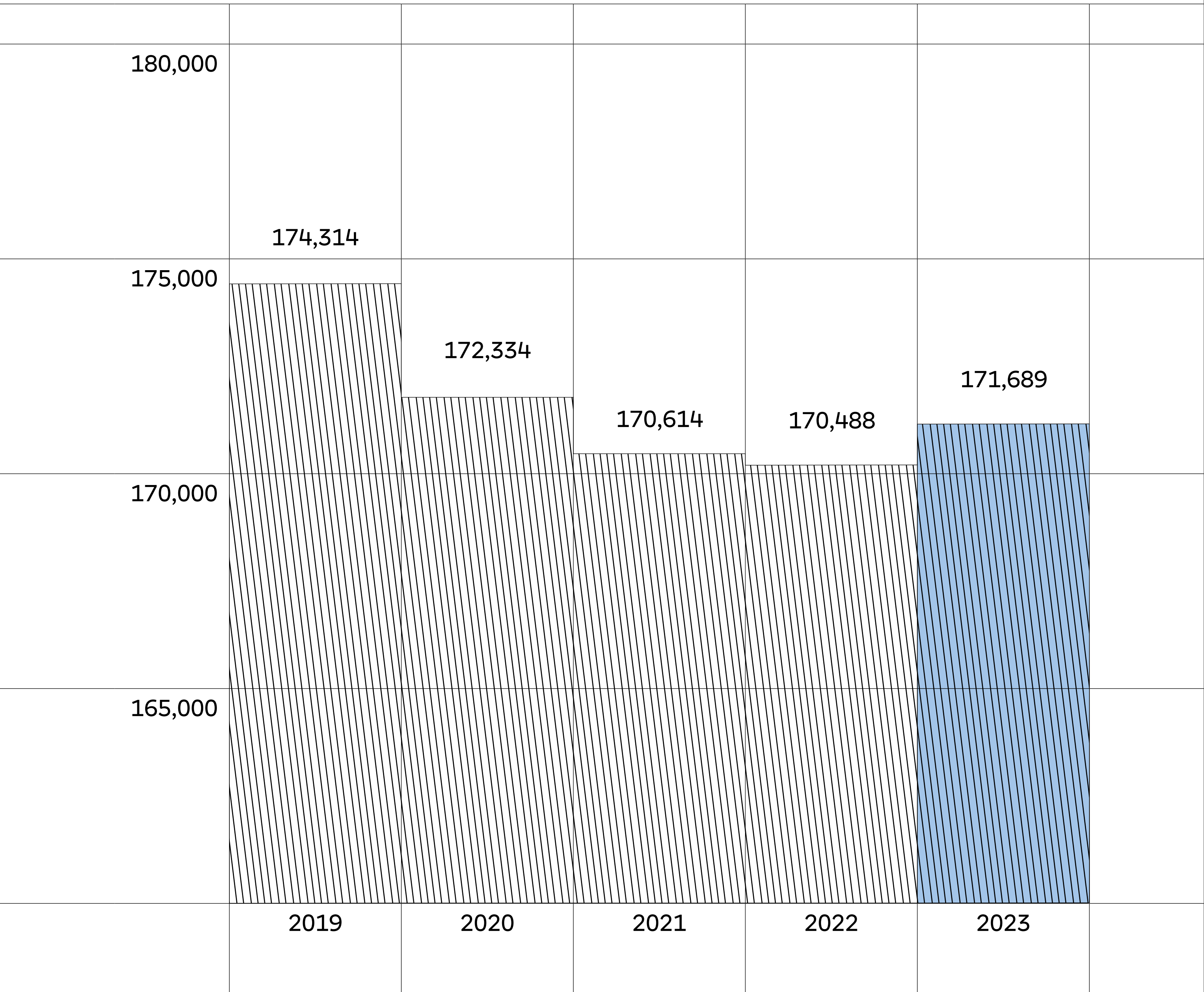
The BVR believes that university graduates – particularly those who studied a business-related subject – view the cooperative banks as an attractive employer. The

proportion of trainees undertaking degree apprenticeships combining work and study stood at 9.5 percent as at the reporting date. The proportion of employees with a degree increased to 9.8 percent (2022: 9.3 percent; see chart on page 41).

Further success in the Trendence School Leavers Barometer, a survey carried out by Trendence Institut GmbH, confirms the strong appeal of the institutions in the Cooperative Financial Network. For the 18th time in succession, the cooperative banks were once again among Germany's best 100 employers, as chosen by schoolchildren, and received the '2023 employer of choice' seal of approval. With more than 34,000 participants, the School Leavers Barometer is one of the biggest surveys regarding schoolchildren's career goals and preferred employers.

Headcount in the cooperative institutions went up again for the first time in around a decade. Overall, the number of employees in the Cooperative Financial Network rose from 170,488 to 171,689 in 2023 (see chart on page 38).

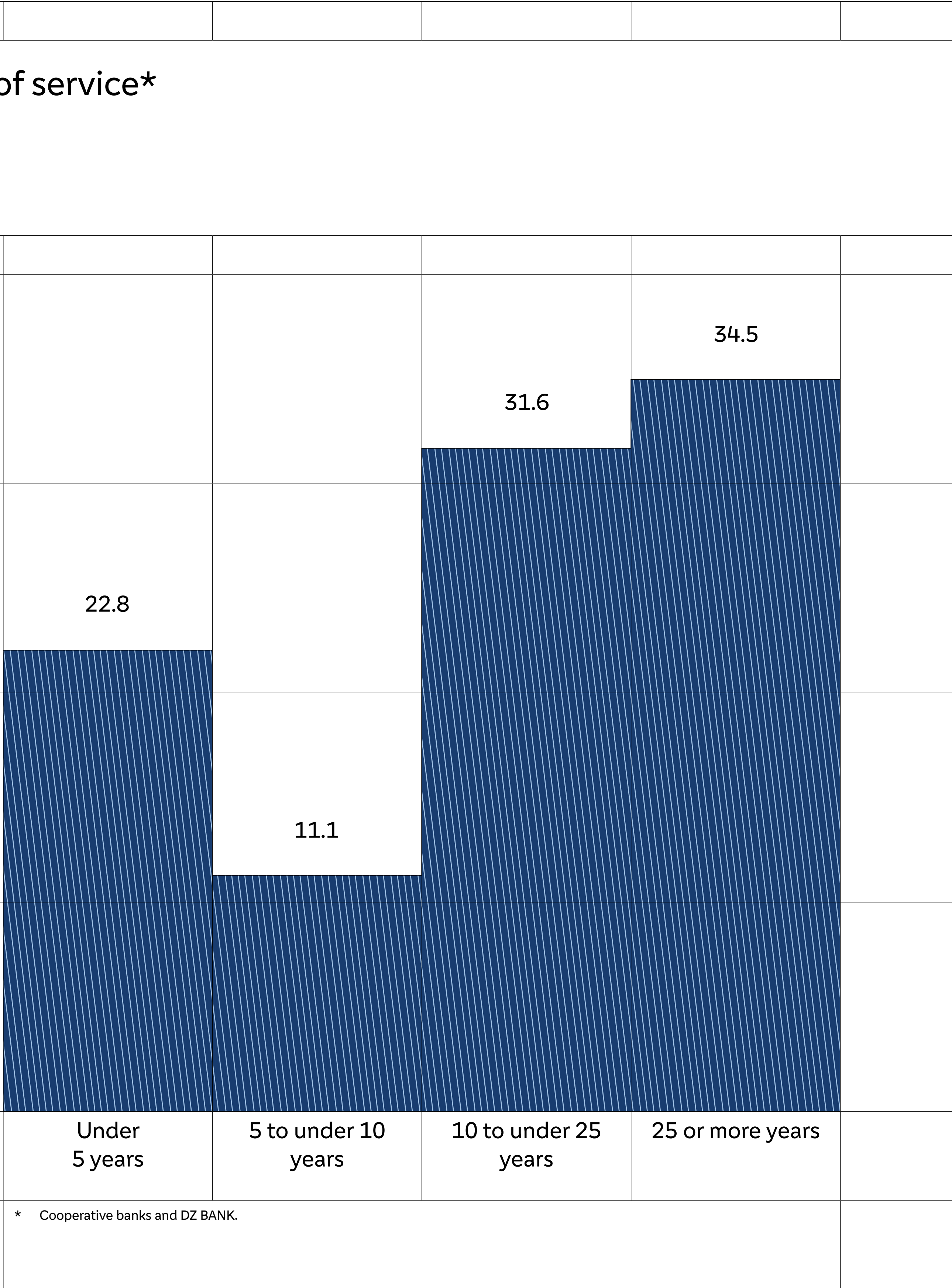
Number of employees*



* Volksbanken Raiffeisenbanken Cooperative Financial Network.

Years of service*

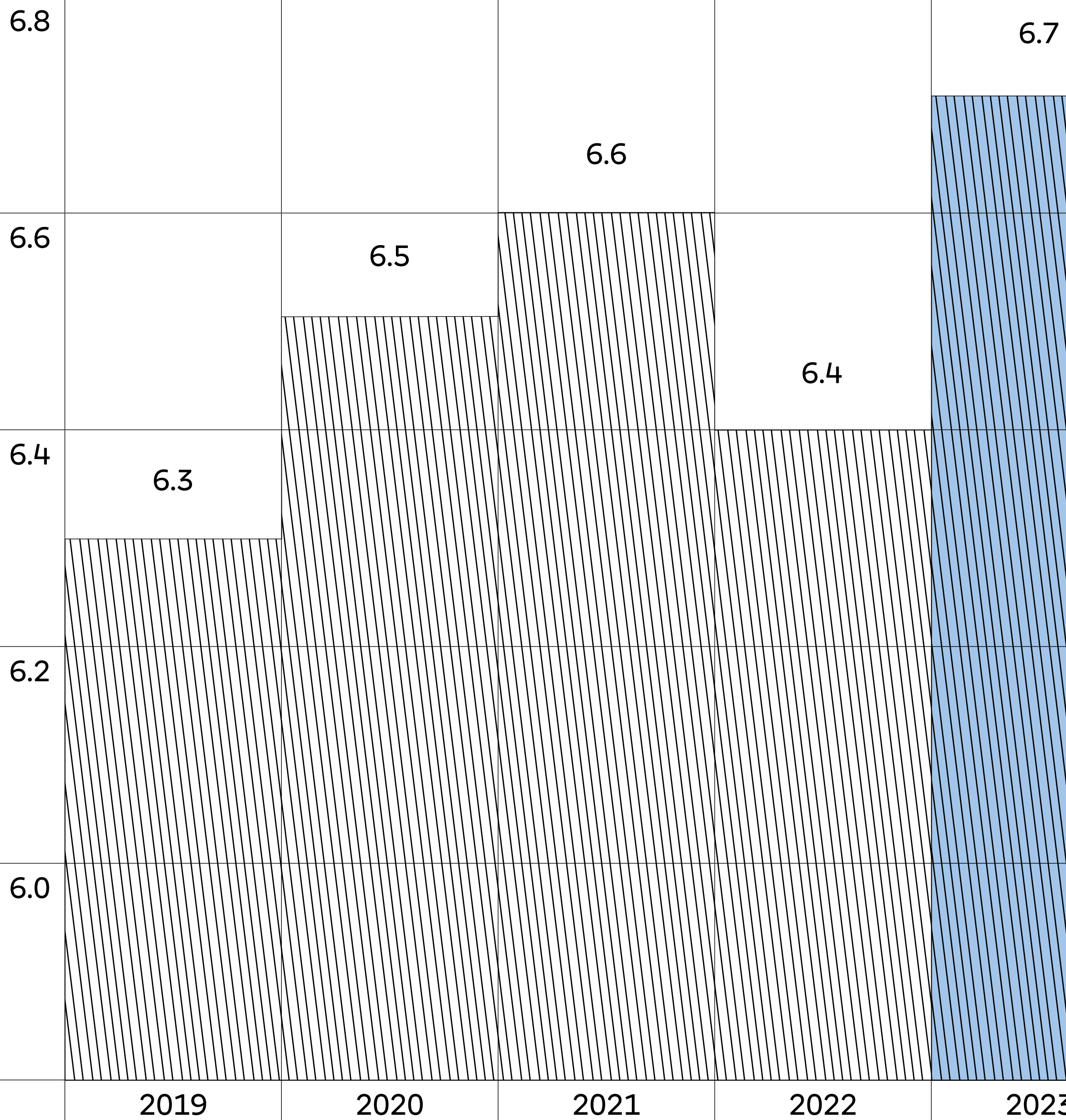
(percent)



* Cooperative banks and DZ BANK.

Ratio of trainees to other employees*

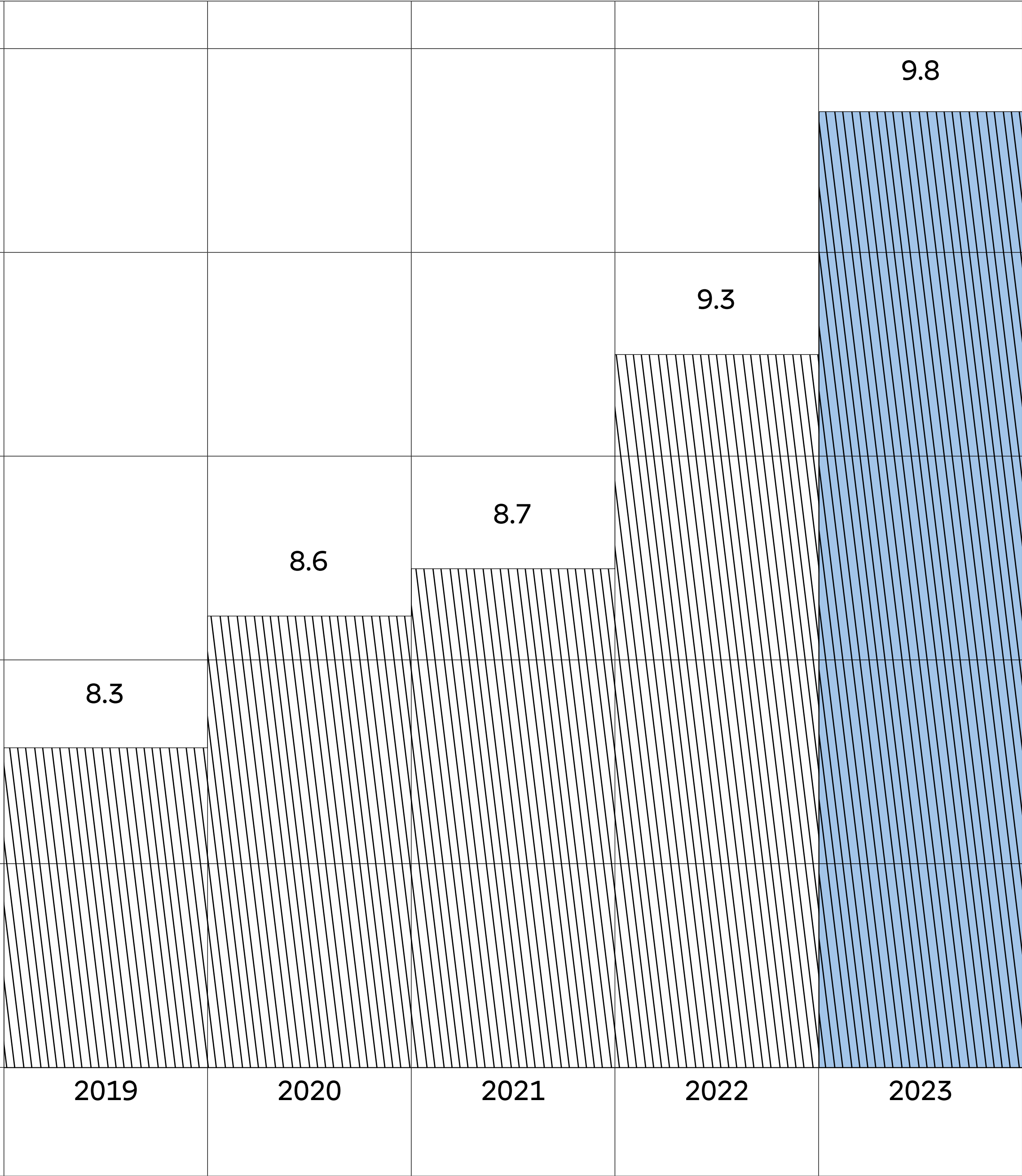
(percent)



* Cooperative banks and DZ BANK.

Proportion of employees with a degree*

(percent)



* Cooperative banks and DZ BANK.

Sustainability

One of the most widely used definitions of the term sustainability is the one developed by the United Nations back in 1987, but which still holds true today: "Sustainable development is development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs" (report of the World Commission on Environment and Development, 'Our Common Future'). This concept of intergenerational justice depends on ensuring that current business practices take appropriate account of social, economic, and environmental aspects. The international community has therefore set itself ambitious goals for greater sustainability and climate neutrality. 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 this endeavor in its role as an intermediary.

Strategy

The Cooperative Financial Network upholds its responsibility to support the transition to a more sustainable economy and, as part of its sustainability guidelines, has set itself the objective of playing its part in mitigating climate change and achieving the UN's sustainable development goals. In doing so, the Cooperative Financial Network is pursuing its strategy of doing business sustainably for the benefit of society, the environment and the regions in which it operates. The Cooperative Financial Network derives its strength from shared cooperative values and an open and transparent culture.

In accordance with their remit to provide development finance, the cooperative focus their corporate strategy on the long-term success of their members and customers. 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 are based. 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 institutions in the Cooperative Financial Network are updating their values-based business model for the future, in dialogue with their members and for their benefit.

The implementation of sustainability requirements calls for effective collaboration between the institutions of the Cooperative Financial Network, associations, and other cooperative partner companies,

their service providers, and specialist organizations. Back in 2020, the BVR and its partners in the Cooperative Financial Network therefore undertook, in the context of the sustainability guidelines, to play a greater part in supporting global sustainability objectives.

Under the sustainability action plan, which has been in place since 2023, the sustainability guidelines were translated for the first time into specific levels of ambition and key performance indicators for the Cooperative Financial Network in the environmental, social, and corporate governance (ESG) dimensions:

- **E**nvironmental: achieve climate neutrality (net zero) in operations by 2045
- **S**ocial: maintain the engagement volume in the region at no less than its current level
- Corporate **g**overnance: aim for a membership ratio of 75 percent in the long term

Further key figures are being discussed.

Process management (rules and structures)

To coordinate collaboration within the network more efficiently, the BVR established a center of excellence for sustainability in 2022 and thereby completed a key step in updating the Cooperative Financial Network's sustainability strategy. Various supporting project activities took place on this basis, including the development of an online sustainability portal that the BVR offers in conjunction with its network partners and other associations and is now used by more than 500 institutions. The portal includes a sustainability cockpit, which is a tool for systematic self-assessments, and numerous sustainability-related offerings from the Cooperative Financial Network, such as product solutions incorporating sustainability aspects, training, and examples of best practice at institutions.

The factors that are driving the institutions in 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 those emanating from the institutions' own operations and investment activities. These complex matters require the institutions to devote significant resources to transformation. The BVR and the specialized service providers in the Cooperative Financial Network therefore provide support services for the cooperative banks.

In addition, the BVR's activities in 2023 focused on both incorporating sustainability aspects into the institutions' core business and satisfying regulatory requirements, such as reporting the green asset ratio.

An extensive portfolio of sustainability products is becoming established across the Cooperative Financial Network. These products are distributed by the cooperative

banks. The entities in 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.

Environmental aspects of sustainability

The Cooperative Financial Network's climate initiative 'Morgen kann kommen' (we're ready for tomorrow) has been running for a number of years and pursues two objectives. Firstly, the initiative aims to consolidate communications in connection with the member institutions' many local climate action projects. Secondly, the cooperative banks support a large number of charitable projects each year and wish to increase the proportion that relate to the environment. The two Germany-wide projects launched in partnership with woodland protection organization Schutzgemeinschaft Deutscher Wald (SDW) have seen strong take-up. Under the auspices of the 'Wurzeln' (roots) project, along with other tree planting schemes at local level, more than a million saplings have been funded by the Cooperative Financial Network over the past three years. > Up to April 2024, the cooperative banks had also provided funding for more than 670 elementary school classes as part of the climate education project 'Wir und der Wald' (the forest and us), which was launched in June 2023. Furthermore, over 230 local climate projects have been brought together under the climate initiative, with around 270 institutions participating. The initiative's progress is documented online at https://klima-initiative.vr.de/.

Corporate social responsibility (CSR)

Every year, the BVR conducts a survey of all member institutions in order to record Germany-wide information on corporate citizenship in 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 Financial Network makes to society (CSR reports and CSR portal of the local cooperative banks, www.vielefuerviele.de).

An internal survey found that the Cooperative Financial Network continued to fulfill its role as a champion of the regions in all kinds of ways in 2023. The institutions of the Cooperative Financial Network provided financial assistance totaling €167.5 million to people in Germany. Around €112 million of this amount was disbursed in the form of donations; €41.7 million was in the form of sponsorship and €13.8 million was in the form of income for charitable foundations for the benefit of people in local communities. The institutions provided an additional amount of just over €18 million in the form of benefits in kind – such as donations of goods and free services – for the benefit of local people and organizations.

The foundation assets of the Cooperative Financial Network amounted to €385 million as at December 31, 2023. This sum has been rising steadily for years. To put that into context, the equivalent amount at the end of 2013 was only €209 million. In line with the sustainability and long-term orientation of the Cooperative Financial Network's business philosophy, this commitment to charitable foundations represents a very durable way of backing local projects.

Principles of good corporate governance

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. 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 dialogue within society on economic, social, and environmental issues, especially in view of current challenges in the sustainability sphere.

Combined Opportunity and Risk Report

Principles

The following description of the risk governance system is based on the structure and functional principles of the Cooperative Financial Network's institutional protection scheme – the dual cooperative protection scheme – but also takes into account the risk management of the individual institutions as a secondary element. In this context, risk governance at the level of the dual cooperative protection scheme is mainly focused on avoiding threats to the ability of individual institutions to continue as a going concern.

In addition to the institutions in the dual cooperative protection scheme, risk reporting covers all entities that are consolidated for the purposes of commercial law in the consolidated financial statements.

Risk governance in a decentralized organization

The dual cooperative protection scheme – comprising the BVR protection scheme and BVR Institutssicherung GmbH – plays a key part in ensuring the stability of the entire Cooperative Financial Network and confidence in the creditworthiness of all its members.

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 establishment in 1934, this system has always ensured that all institutions 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 institutional 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 institutions. 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 an institutional protection scheme – in 2023. A total of 704 institutions of the Cooperative Financial Network belonged to BVR-SE as at December 31, 2023 (December 31, 2022: 744 members). The decrease stemmed 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 cooperative 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, 2023, the membership comprised 702 CRR credit institutions (December 31, 2022: 742).

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. These include monitoring and assessing risks for all CRR credit institutions that are members of BVR-ISG.

The activities of BVR-ISG in 2023 related to the fulfillment of 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 management of the IPS recovery plan in accordance with the Regulation on the Minimum Requirements for the Design of Recovery Plans for Institutions (MaSanV). BVR-ISG can look back on a highly successful year, having not had to take any action to protect depositors or member institutions or pay any compensation in accordance with section 145 of the German Bank Recovery and Resolution Act (SAG) at any time in 2023.

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 cooperative protection scheme – on the basis of the rules in the statutes of BVR-SE and in the articles of association of BVR-ISG. 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 the analytical activities of the dual cooperative protection scheme. The focus is primarily on overall analysis of the financial risk carriers – i.e. the institutions – rather than on isolated examination 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 cooperative 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, comprising the monitoring process and ongoing support for an institution in the form of preventive measures. The purpose of monitoring is to analyze and assess abnormalities at member institutions at an early stage, so that a decision can then be made about whether to include an institution in preventive measures. Preventive measures involve providing intensive support for the institution affected by abnormalities in order to eliminate the identified weaknesses and ensure that it has a strong and sustainable business model, primarily in order to avoid threats to its ability to continue as a going concern.

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.

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).

BVR-SE classification process

The classification system uses eight key figures relating to financial position, financial performance, and risk position to assign the institutions 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 institutions' audited annual financial statements and audit reports. BVR-SE receives this data from the regional auditing association responsible for the individual institution. In 2023, the general meeting of members of the BVR adopted changes to the key figures and to the parameterization of the classification process. These changes are being applied for the first time in 2024.

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

The 2023 risk assessment partly drew on the classification process based on an analysis of data from the 2022 financial statements. This risk assessment was supplemented with further up-to-date information and reporting data over the course of 2023. The classifications revealed that the distribution of the classification results was much worse than in the previous year owing to the shift in interest rates. However, this trend started to reverse again with regard to the level of interest rates during the reporting year. The classification results can be explained as follows. In terms of the income statement line items above fair value gains and losses, financial performance was healthy because there was an increase in both net interest income and net fee and commission income from the traditional banking business and the cost/income ratio improved thanks to a smaller rise in administrative expenses relative to gross profit. Within fair value gains and losses, this positive effect was far outweighed by high interest-rate-related impairment losses and a sharp increase in write-downs to the

lower of cost and market that were avoided in respect of own-account investments. The resulting loss before taxes and net reversal of/addition to reserves, combined with the deduction of write-downs to the lower of cost and market, constituted the main reason for the deterioration in the overall distribution. Nonetheless, the financial position remained stable as the volumes of business grew at only a slightly faster rate than the components of equity. The risk position was also stable because, in the lending business, the volumes of unsecured lending within more critical lending exposures declined slightly.

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 main structural elements and the details of the calculation methodology are drawn from EBA Guidelines EBA/2015/10, in accordance with which deposit guarantee schemes and institutional protection schemes are required to collect risk-related contributions. The EBA revised and finalized this standard in 2023, replacing it with the new Guidelines EBA/GL/2023/02. The new requirements regarding the contribution rating come into force in mid-2024 and must be applied by BVR-ISG.

Risk management and monitoring

Preventive management

The aim of preventive management is to identify and counteract adverse economic trends in the member institutions at an early stage, thereby helping to prevent the need for supporting measures and providing impetus for improving the financial situation of institutions in the Cooperative Financial Network. An analysis is carried out of the available data and other information in order to identify institutions with potential issues. Further discussions are then held with the senior management of the institutions in order to agree the measures required to stabilize and improve business performance.

The results of the classification process form the basis for BVR-SE's systematic preventive management. An institution 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. For some years now, however, other key figures (e.g. key figures from institutions' reporting systems or their financial planning and reporting data) and qualitative information have been added that supplement the classification results so that any abnormalities at institutions can be identified at an early stage. In 2023, this data included the multi-year planning, the institutions' regular reporting, the key figures used in the IPS recovery plan, and the statutory ad hoc

disclosures required pursuant to section 24 (1) no. 4 of the German Banking Act (KWG).

Before the prevention phase, the monitoring of conspicuous institutions plays a significant role in the early identification of possible risk situations at institutions. Developments in the real estate markets were significant to this aspect of BVR-SE's work in 2023. However, the problem was not so much one of decreases in new traditional home finance business with retail customers – the core assets-side business of many cooperative banks – but of increased risk in the commercial finance business. This was the focus of many of the analyses of institutions already receiving support and also the reason for a lot of the instances of first-time contact.

As had become established practice in previous years, the monitoring program once again also reached out to institutions that were not showing any indications of particular risk but that could potentially represent a major risk simply because of the size of their balance sheet. The number of institutions continued to go up in this area of activity, primarily due to mergers.

In addition to restructuring, the work of BVR-SE continues to focus on systematic and end-to-end preventive management that also includes monitoring.

Restructuring management

As before, the work of the dual cooperative protection scheme in restructuring member institutions is primarily aimed at ensuring that these institutions' annual financial statements can be prepared on a going concern basis so that regulatory measures against member institutions can be avoided. 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. BVR-SE's statutes and BVR-ISG's articles of association provide the legal basis for all actions of the dual cooperative protection scheme.

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 institutions with guidance on re-establishing competitive structures, e.g. through recovery, and describe concepts for restoring their fundamental profitability. The aim is for the institutions to complete this restructuring phase within no more than five years. The manual is also specifically aimed at institutions undergoing preventive measures and any institutions that have themselves identified the need for reorganization. In addition, it includes a dedicated section setting out in detail the restructuring steps 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.

Despite the highly challenging economic conditions, there was a continued absence of any uptick in recovery activities in 2023. However, there was one recovery case involving a high restructuring amount. Only very minor costs were incurred for legacy cases where risks already covered had materialized or for which a loss allowance had been recognized. 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 2023 despite the aforementioned case where support was required.

Outlook for the dual cooperative institutional protection scheme

The main influence on the financial performance of the cooperative institutional protection scheme in 2024 will be the macroeconomic environment in Germany. This may lead to new restructuring cases, resulting in risks for BVR-SE and demands on its resources. In 2024, BVR-ISG will achieve the target funding level required by law.

Capital

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 CRR provisions 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, 2023 and does not include the retention of the profits reported in the 2023 annual financial statements. Profit is retained after the individual institution's relevant committees have given their approval. This retention of profits will further strengthen capital in 2024.

The Tier 1 capital ratio improved to 15.6 percent as at December 31, 2023 (December 31, 2022: 15.0 percent). There was also an improvement in the Cooperative Financial Network's regulatory total capital ratio, which stood at 16.2 percent as at December 31, 2023 (December 31, 2022: 15.6 percent).

Overall, regulatory own funds increased by €9.2 billion to €130.5 billion as at the reporting date (December 31, 2022: €121.3 billion). This change was influenced by the rise in own funds resulting from the retention of the profits reported in the 2022 financial statements and by a change in accounting treatment affecting the valuation of the equity investment in R+V Versicherung AG following the initial application of IFRS 17 for insurance contracts in the DZ BANK Group. The Cooperative Financial Network's capital is predominantly held by the cooperative banks.

The total risk exposure as at December 31, 2023 amounted to €803.1 billion (December 31, 2022: €775.9 billion). This growth of 3.5 percent was due to a valuation-related rise in DZ BANK's equity-accounted equity exposure to R+V Versicherung AG resulting from the initial application of IFRS 17 and to increases in exposures in both the retail and the corporate customer lending business.

BVR-SE analyzes the regulatory capital ratios of each member institution 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.

The Cooperative Financial Network has healthy capital adequacy thanks to equity of €143.2 billion as at the reporting date (December 31, 2022: €131.9 billion) (see the chart on pages 58–59). 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, 2023 (December 31, 2022: 7.4 percent). This is continued proof of the healthy capital adequacy of the Cooperative Financial Network. This increase was driven by the €8.6 billion rise in Tier 1 capital and a simultaneous slight decline in the total exposure measure. The leverage 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 institutions in the Cooperative Financial Network and adjusting them for material internal exposures within the joint liability scheme. The leverage ratio total exposure measure decreased by 0.3 percent year on year to €1,569.8 billion. The reasons for this fall included maturing securities financing transactions with the central bank and a reduction in derivative exposures.

Normative and economic risk-bearing capacity

Capital is proactively managed to ensure that an institution always has an adequate level of capital. This is achieved with calculations of risk-bearing capacity, in which the available risk capital is compared with the capital risks taken on. Risk-bearing capacity must be examined from two perspectives that complement each other, namely the normative and the economic perspectives. The normative perspective is centered on the institutions having adequate levels of regulatory capital. The economic perspective focuses on the institutions adequately and efficiently allocating their available internal capital across their material risk types.

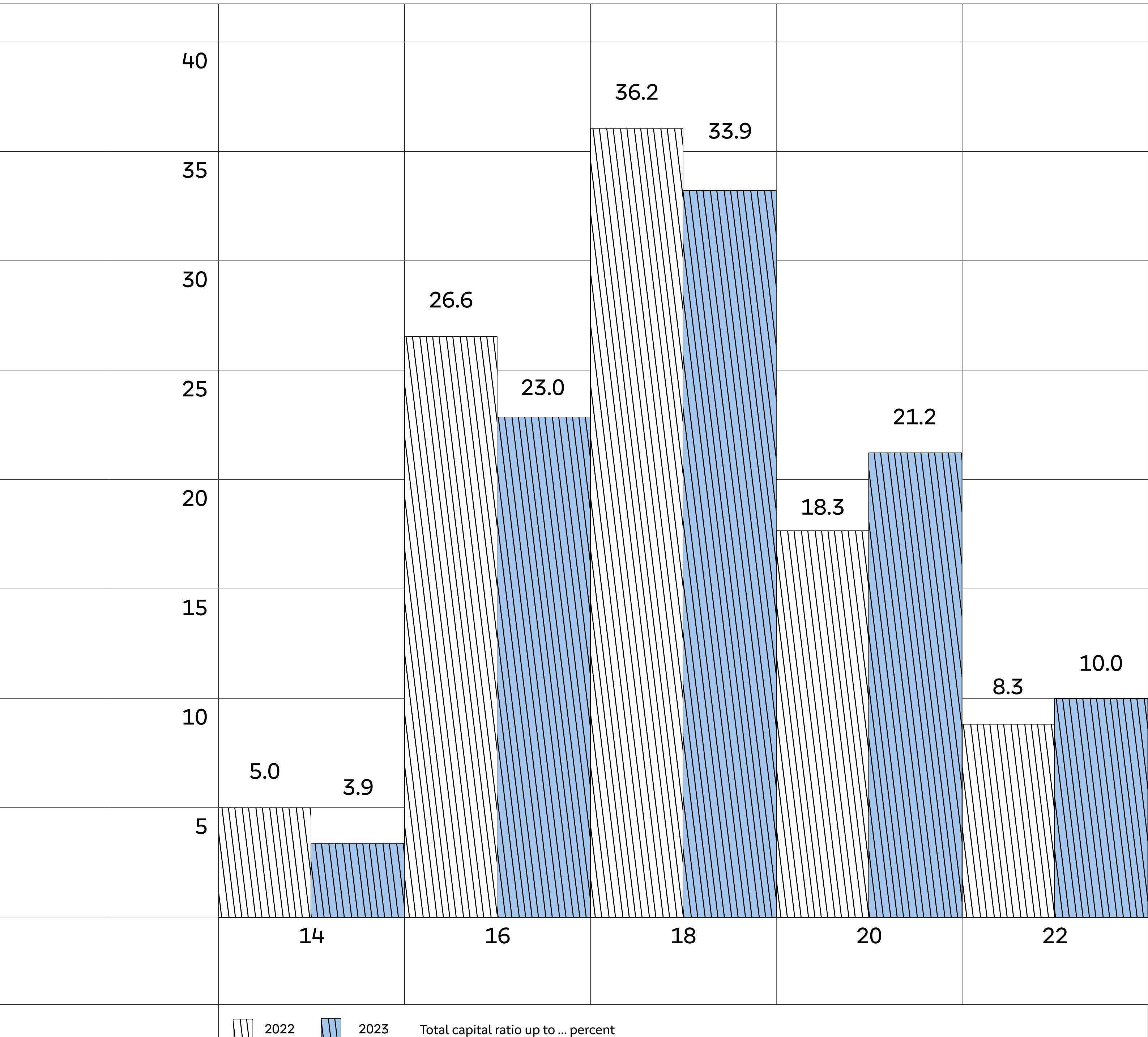
Since January 1, 2023, all institutions in the Cooperative Financial Network have – according to the internal reporting – completed the transition to the normative and economic perspectives of risk-bearing capacity and integrated them into their risk management processes.

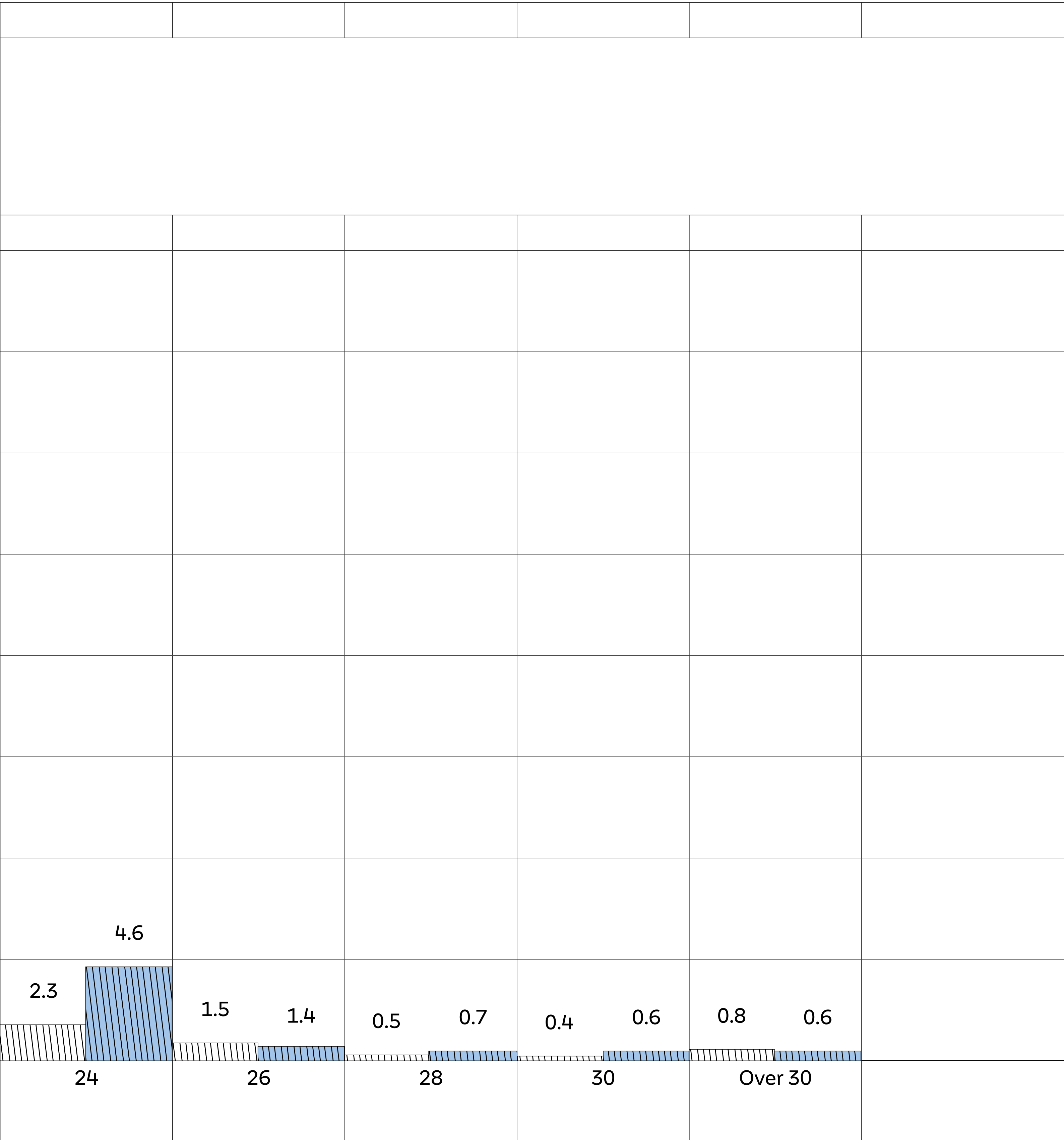
Capital management is a core management task for all institutions in the Cooperative Financial Network. Pursuant to the Minimum Requirements for Risk Management (MaRisk), the institutions must structure it according to the specifics of their organization, reflecting their complexity, scope of business activities, and size. The cooperative banks' main risk types in this context are usually counterparty risk, market risk (including interest-rate risk), liquidity risk, and operational risk.

The German economy performed poorly in 2023, primarily due to heightened uncertainty stemming from geopolitical conflicts (especially those in Ukraine and the Middle East), ongoing effects from interest-rate hikes in 2022, and the high rate of inflation. Moreover, pandemic-related support measures expired. Despite these difficult economic conditions, the internal reporting shows that the median

Distribution of total capital ratios in the Cooperative Financial Network

Proportion of institutions (percent)




2.3
4.6
1.5
1.4
0.5
0.7
0.4
0.6
0.8
0.6
24
26
28
30
Over 30

utilization of own funds – including freely available allowances for general banking risks pursuant to section 340f of the German Commercial Code (HGB) – for the cooperative banks stood at 75.6 percent as at December 31, 2023 in the normative calculation of risk-bearing capacity. In the economic calculation of risk-bearing capacity, the median stood at 57.6 percent of the present value of assets as at December 31, 2023.

parcIT GmbH, the center of excellence for management processes in the Cooperative Financial Network helped the cooperative banks to apply and refine their procedural and calculation methods for risk-bearing capacity. An area of focus in 2023 was the ongoing optimization of the processes for the risk inventory check and for documentation in connection with the risk report. Furthermore, parcIT GmbH provided up-to-date scenario parameters for analyzing the impact of interest-rate movements. It also provided proof of adequacy with regard to real-estate risk, which is becoming increasingly important, and developed stress parameters. In addition, the range of tools for managing ESG risks was further expanded, for example methods for measuring such risks were introduced.

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. 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 based on customer deposits remains stable, even though the interest-rate environment has changed. The dual cooperative protection scheme is seen by the rating agencies as an important connecting link and a crucial element of the risk governance system in 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, 2023, the credit risk-weighted assets of the Cooperative Financial Network amounted to €738.0 billion (December 31, 2022: €707.3 billion), which equated to 91.9 percent of total risk-weighted assets (December 31, 2022: 91.2 percent). This means that credit risk is the most significant risk category for the cooperative banks' risk-bearing capacity in the normative perspective.

To assess the creditworthiness of individual borrowers in the customer business, the institutions use segment-specific rating systems. Most of the institutions measure risk on the basis of value at risk (VaR), which is calculated using a credit-portfolio model. These processes are validated annually at both parameter level and overall model level.

To assess the credit quality of own-account investments, the institutions use segment-specific rating systems and, in some cases, assessments from external rating agencies. In the case of own-account investments too, risk is usually measured on the basis of VaR, which is calculated using a continually validated portfolio model. Furthermore, scenario analysis and stress analysis are regularly used both in the customer lending business and for own-account investments.

Lending to regional retail and corporate customers is a core element of the Cooperative Financial Network's strategy. This involves the profit-oriented assumption of risk, taking account of the level of equity and pursuing a risk-conscious lending policy. For the institutions in the Cooperative Financial Network, knowledge about customers plays a central role in lending, as does the capacity of customers to meet their obligations. Overall, the Cooperative Financial Network's customer lending business has a predominantly granular credit structure and a high proportion of loans secured against real estate. The granularity and extensive regional diversification of the Cooperative Financial Network's business activities in Germany limit the formation of risk clusters.

The Cooperative Financial Network's lending business grew slightly in 2023 but did not match the high growth rates seen in previous years. Loans and advances to customers increased by 2.4 percent year on year (2022: 5.9 percent). Long-term home finance remained the principal driver of the growth in lending. However, interest-rate hikes introduced by the ECB in order to tackle inflation, the resulting rise in lending rates, and high construction costs led to a fall in demand for mortgages. Against this backdrop, prices in the German housing market began to fall following many years

of rising prices. The housing market has been going through a process of adjustment since mid-2022, and this may last for several years. According to data from the Verband deutscher Pfandbriefbanken (vdp) [Association of German Pfandbrief Banks], prices for owner-occupied housing went down by 4.1 percent in 2023, having risen by 9.0 percent in the previous year. Prices also fell sharply in the commercial real estate market, which recorded a year-on-year decrease of 10.2 percent (2022: decrease of 0.4 percent).

The growth in the local cooperative banks' corporate banking business was predominantly driven by lending to companies in the service and construction sectors. Because of their regional roots, the local cooperative banks also regularly assist with projects 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. The DZ BANK Group's lending business was primarily focused on entities within the Cooperative Financial Network and on real estate finance in the reporting year.

The risk of loan defaults was higher in 2023 than in the previous year but remains at a moderate level when viewed over the long term. In the institutions' retail customer business, the principal reasons for this rise were increased energy costs and high inflation that resulted in a fall in disposable incomes. In the corporate customer business, the reasons included the wars in Ukraine and the Middle East, ongoing supply bottlenecks, higher prices for input products, rising financing costs, and the weak Chinese economy. Companies in the construction, manufacturing, chemicals, pharmaceuticals, power, wholesale, and retail sectors were hit particularly hard. In 2023, the number of defaults across the entire corporate customer segment went up by almost 20 percent compared with 2022.

The main methodological changes in 2023 were the expansion of the segment-specific rating systems and credit-portfolio models with the aim of ensuring that all relevant segments in the lending business are covered. In addition, parcIT GmbH continued to focus on developing stress scenarios based on historical analysis.

The expense for loss allowances amounted to €1.8 billion in 2023 (2022: €1.5 billion) and was mainly attributable to the larger addition required for loss allowances as a result of the gloomier economic conditions and the increase in corporate and personal insolvencies over the course of the reporting year. According to the internal reporting, the Cooperative Financial Network's NPL ratio (non-performing loans as a proportion of the total lending volume) went up slightly to stand at 1.5 percent as at December 31, 2023 (December 31, 2022: 1.2 percent). This rise in the NPL ratio was attributable to the increase in the volume of NPLs. Nevertheless, the NPL ratio remains at a low level. In summary, the institutions in the Cooperative Financial Network 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, currency risk, and commodity risk. As at December 31, 2023, the risk-weighted assets of the Cooperative Financial Network for market risk amounted to €10.3 billion (December 31, 2022: €13.2 billion), which equated to 1.3 percent of total risk-weighted assets (December 31, 2022: 1.7 percent).

The institutions in the Cooperative Financial Network chiefly use value-at-risk models to measure and manage their market risk. They also use various scenario analyses (planning, adverse, and stress scenarios), for example to produce their capital plans and create transparency about the impact of developments in the markets.

The assumption of market risk – particularly interest-rate risk – has a significant influence on the institutions' financial performance. As in previous years, the largest proportion of net interest income was generated from net interest margin contributions in the customer business.

Following sharp interest-rate hikes in 2022, interest rates in the financial markets generally moved sideways during 2023, although volatility remained high. In 2023, net interest income in the Cooperative Financial Network jumped by 17.3 percent year on year.

The cooperative banks have a suitable system for managing market risk in the economic perspective. This process, the present-value market risk model, is based on the historical simulation method and is continually refined by parcIT GmbH. To help the institutions to use the model, guidelines have been developed for checking the appropriateness of the parameters of the market data scenarios for present-value risk measurement. The guidelines are reviewed and updated regularly.

Liquidity risk

In the Cooperative Financial Network, liquidity risk is managed with the aim of ensuring that a bank can meet its payment obligations at all times. In accordance with the cooperative principle of subsidiarity, each cooperative bank is in charge of its own liquidity management and risk management. Compliance with the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), which are regulatory key figures, is a core aspect of liquidity analysis for the institutions in the Cooperative Financial Network. The institutions also deploy business management tools, for example to determine liquidity risk and any changes in liquidity levels. Stress tests are carried out too.

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 99.1 percent (December 31, 2022: 96.8 percent). The basis for this lies in the diversifying, risk-mitigating effect created by the stable and granular business structure of the cooperative banks and, in particular, in the institutions' traditional method of obtaining funding through customer deposits. This reflects the recognition by customers of the Cooperative Financial Network of the effectiveness of the institutional protection provided by BVR-SE and BVR-ISG, which is particularly aimed at safeguarding deposits and goes beyond the statutory requirements regarding deposit protection.

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. Excess 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 the excess liquidity from individual cooperative banks and balancing out differences in their liquidity levels. BVR-SE shares information about the liquidity situation of the individual institutions with DZ BANK on an ongoing basis.

The shift in the ECB's interest-rate policy posed a challenge for liquidity management in 2023, especially in the first half of the year. At the start of the year, the monthly LCRs declined slightly but then rose sharply from mid-2023 onward. As at December 31, 2023, the median LCR for the institutions in the Cooperative Financial Network stood at 185.9 percent, which was significantly higher than the figure of 158.5 percent as at December 31, 2022. The minimum level of 100 percent was achieved at all times.

The NSFRs were also monitored as a way of measuring the institutions' ability to meet their payment obligations over the longer term. The median NSFR for all institutions in the Cooperative Financial Network exhibited a very low level of volatility during the reporting year. As at December 31, 2023, this figure came to 120.5 percent (December 31, 2022: 120.0 percent), re-

maining at the largely stable level seen over a longer-term observation period. Once again, the Cooperative Financial Network's liquidity structures proved resilient even during a year of sharply rising interest rates.

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, 2023, the risk-weighted assets of the Cooperative Financial Network attributable to operational risk amounted to €52.1 billion (December 31, 2022: €51.9 billion), which equated to 6.5 percent of total risk-weighted assets (December 31, 2022: 6.7 percent).

The cooperative banks' internal control system (ICS) is aimed at reducing operational risk. It comprises an internal management system and an internal monitoring system that, in turn, consists of monitoring mechanisms that are built into processes as well as cross-process monitoring mechanisms. The various mechanisms include procedural instructions, separation of functions, the use of standardized contract templates that have been reviewed by a legal expert, and the appointment of IT 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 method is quantification in the form of a lump sum, although value-at-risk approaches are sometimes used too.

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 and product suppliers in the Cooperative Financial Network the opportunity to differentiate themselves from rival banking groups. The extensive branch network allows the institutions in the Cooperative Financial Network to continue to reach a wide range of customers in a way that online banks cannot. Strong customer loyalty results in measurable economic benefits, such as income growth for the institutions in the Cooperative Financial Network and protection of their market share. In our view, the cooperative principle has received a boost – partly because the coronavirus pandemic and geopolitical tensions have resulted in a trend toward regionalization – that creates new opportunities for the cooperative banks to strengthen their competitive position.

Sustainability is firmly enshrined in the DNA of the cooperative identity. Financial success and socially responsible business are inextricably linked for the institutions in the Cooperative Financial Network and are always geared toward working together to support the common good. In its sustainability guidelines, the Cooperative Financial Network has made a commitment to the Paris climate goals and the UN's global sustainable development goals (SDGs). It has also set itself the objective of playing a significant role in creating sustainable forms of employment in the regions and a climate-friendly economy.

Even in the digital age, the business model of the institutions in the Cooperative Financial Network puts people and their wishes and objectives first. The aim is to forge ahead with digitalizing the cooperative banks' products and services and to offer all of the touchpoints that customers want (local branches as well as online and hybrid banking).

The advance of digitalization and automation, along with the expanded availability of omnichannel products and services on the new sales platform, 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.

By marketing new digital payment services, implementing an online inquiry process for all of the main products, and

offering digital membership, banks can address customer needs and should be able to attract new customers. This also enables them to target young, tech-savvy customers and members. The BVR believes that, by establishing the smart data company Truuco, it has created the structures that allow highly tailored recommendations to be created for customers based on smart data. Furthermore, the new strategic equity investment and company-building unit Amberra, which invests in relevant start-ups and develops new business models, allows ecosystem offerings to be provided that go beyond banking products in the traditional sense.

In view of current interest rates, we believe that the institutions continue to have good potential for generating income in the lending business. This can be seen from the rise in interest rates on home finance, which will have a positive impact on net interest income even if the absolute volume of new business stabilizes at a low level. However, the actual impact depends on the materialization of risks as a result of these higher interest rates, in particular with regard to the level and speed of changes in interest rates on liability-side products and – based on the implications for lending demand and credit risk – the geopolitical situation this year.

Outlook

Real economy and banking industry

In the spring of 2024, the German economy remained in a phase of persistent weakness. The economic recovery that had been predicted last autumn for the six winter months of 2023/24 failed to materialize. Although the economy is expected to pick up from the first quarter of 2024 onward, the pace of recovery is likely to be muted. Against this backdrop, the economic research institutes contributing to the Joint Economic Forecast have significantly lowered their growth forecast for Germany. In their recent spring report, they predict a small year-on-year increase of 0.1 percent for inflation-adjusted GDP in 2024. In their autumn report, the research institutes had anticipated a growth rate of 1.3 percent.

According to the recent spring report, the main growth stimulus in 2024 will be consumer spending, driven by declining inflation, rising wages, and a robust labor market. The economic researchers believe that the prospects for investment have deteriorated, however. Investment in residential and commercial construction is projected to fall once again. Furthermore, foreign trade and spending on capital equipment are unlikely to provide any growth impetus in 2024. German companies' international business is not expected to become a strong driver of economic growth again until next year.

The research institutions anticipate that consumer prices will increase by an average of 2.3 percent in 2024, followed by 1.8 percent in 2025. With prices for energy commodities falling, inflation is expected to stem primarily from domestic price rises in the forecast period. In the labor market, the number of people in work is predicted to rise by just under 200,000 to 46.1 million. The unemployment rate is likely to edge up by just 0.1 percentage points to 5.8 percent.

This year, western central banks' tightening of monetary policy has reached a peak for now. The US Federal Reserve and the Bank of England kept their key interest rates unchanged in June, whereas the ECB decided to lower its rates for the first time in June. It reduced the deposit facility rate by 25 basis points to 3.75 percent on June 6, 2024, citing falling inflation in the eurozone. However, it did not provide any clear indication of its interest-rate policy going forward in view of ongoing inflation risk.

On March 13, 2024, the ECB published changes to the operational framework for implementing monetary policy. Under these changes, the central bank will establish a demand-driven system of money market management with a lower bound on interest rates in the form of the deposit facility rate once there has been sufficient progress with reducing bond holdings and excess liquidity. This system is based on the premise of a greater volume of excess liquidity than before the financial crisis in the Eurosystem. The reason for this given by the ECB is that banks' liquidity preferences

have changed, partly due to regulatory requirements regarding loss allowances. In view of this higher demand for liquidity, the central bank intends to establish longer-term refinancing operations and a structural portfolio of bonds.

The aforementioned effects on the overall economy also impact on the outlook for the banking sector in various ways. For example, risk costs in the lending business are expected to go up again owing to economic uncertainties and the rise in interest rates. Weaker economic conditions are likely to cause many companies' resilience to stagnate or even decline, which, in combination with higher interest rates, could adversely affect the servicing of debt. Net interest income is predicted to hold steady or fall in 2024, partly because the ECB will probably reduce its key interest rates further and partly because interest rates on liability-side products will continue to rise in 2024. Although only relatively modest growth in the volume of new lending is anticipated in 2024, the extension of existing loans will provide a boost to interest income. The volume of real estate finance in 2024 is expected to be on a par with 2023 because the higher level of interest rates will push up the overall costs of home ownership significantly and lead more frequently to a situation in which taking on the servicing of the debt is inappropriate. However, growth will be around the lower end of the long-term trend. Moreover, the general fall in property prices along with an increase in average debt service capacity, primarily due to collectively agreed pay rises, should result in a new equilibrium being reached.

Outlook for the Volksbanken Raiffeisenbanken Cooperative Financial Network

From an operational perspective, the Cooperative Financial Network made a successful start to 2024. The aforementioned risks posed by macroeconomic conditions and competition based on rates on the liabilities side will have a significant impact on financial performance over the course of the year. In light of the muted economic outlook, the associated moderate prospects for new business, and the likely rise in interest expense, net interest income is predicted to fall markedly in 2024 compared with the level recorded in 2023. Net fee and commission income will increase slightly year on year in 2024 and continue to make a significant contribution to earnings. The bulk of fees and commissions will continue to be generated from payments processing and the brokerage of investment products.

There will be a further net gain under gains and losses on investments in 2024 thanks to anticipated reversals of impairment losses on investments, although the net gain will be considerably smaller than in 2023. We still do not anticipate any material credit-quality-related risks in connection with investments. Weak macroeconomic conditions mean that expenses for loss allowances will rise once again in 2024 due to the expected rise in loan defaults in the customer business, especially among corporate customers. Net income from insurance business is predicted to rise sharply in 2024. This projection is based on the expectation of a healthy operating performance in the insurance business.

Administrative expenses are expected to be slightly higher in 2024 than in 2023, primarily owing to inflation-related wage increases.

The regulatory capital ratios will rise sharply over the course of 2024 because growth rates in the customer lending business – and in the resulting volume of risk-weighted assets – will be less pronounced than the increase in profit retention.

In spite of the challenging geopolitical conditions, the Volksbanken Raiffeisenbanken Cooperative Financial Network was able to generate significantly higher profit before taxes in the reporting year than originally projected. Based on current assessments, profit before taxes in 2024 is predicted to be much lower than in 2023 as the macroeconomic environment is expected to remain difficult.

Consolidated Financial Stateme

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Income statement
for the period January 1 to December 31, 2023

	(Note no.)	2023 € million	2022 € million
Net interest income	7	24,107	20,546
Interest income and current income and expense		*38,399*	*24,045*
Interest expense		*-14,291*	*-3,499*
Net fee and commission income	8	8,829	8,646
Fee and commission income		*10,407*	*10,278*
Fee and commission expenses		*-1,578*	*-1,632*
Gains and losses on trading activities	9	19	1,009
Gains and losses on investments	10	1,338	-6,774
Loss allowances	11	-1,809	-1,472[1]
Other gains and losses on valuation of financial instruments	12	227	-211
Other insurance gains and losses	13	2,418	2,522[1]
Gains and losses on investments held by insurance companies and other insurance company gains and losses	14	2,982	-3,776[1]
Insurance finance income or expenses	15	-4,107	1,951[1]
Administrative expenses	16	-20,370	-19,078
Other net operating income	17	742	875
Profit before taxes		**14,375**	**4,238**
Income taxes	18	-3,571	-1,944[1]
Net profit		**10,805**	**2,294**
Attributable to:			
Shareholders of the Cooperative Financial Network		10,691	2,203[1]
Non-controlling interests		114	91[1]

1 Amount restated

Statement of comprehensive income for the period January 1 to December 31, 2023

	2023 € million	2022 € million
Net profit	**10,805**	**2,294**[1]
Other comprehensive income/loss	**144**	**-1,909**
Items that may be reclassified to the income statement	***566***	***-2,896***
Gains and losses on debt instruments measured at fair value through other comprehensive income	4,679	-22,777[1]
Exchange differences on currency translation of foreign operations	-12	13[1]
Insurance finance income or expenses included in other comprehensive income	-3,745	18,452[1]
Share of other comprehensive income/loss of joint ventures and associates accounted for using the equity method	-8	1
Income taxes	-349	1,415[1]
Items that will not be reclassified to the income statement	***-421***	***987***
Gains and losses on equity instruments for which the fair value OCI option has been exercised	-47	-636[1]
Gains and losses in relation to financial liabilities for which the fair value OCI option has been exercised, attributable to changes in own credit risk	300	170
Gains and losses arising on remeasurements of defined benefit plans	-743	1,899[1]
Income taxes	69	-447[1]
Total comprehensive income/loss	**10,949**	**385**
Attributable to:		
Shareholders of the Cooperative Financial Network	10,761	605[1]
Non-controlling interests	188	-220[1]

1 Amount restated

Balance sheet as at December 31, 2023

Assets	(Note no.)	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Cash and cash equivalents	19	119,757	117,964
Loans and advances to banks	20	38,158	45,292
Loans and advances to customers	20	1,023,602	999,937
Hedging instruments (positive fair values)	21	5,259	10,169
Financial assets held for trading	22	34,127	49,015
Investments	23	241,273	240,192
Loss allowances	24	-12,048	-10,658[1]
Investments held by insurance companies	25	114,329	104,356[1]
Property, plant and equipment, investment property and right-of-use assets	26	18,117	17,341
Income tax assets	27	8,929	9,841[1]
Other assets	28	5,677	-1,238[1]
Total assets		**1,597,180**	**1,582,211**

1 Amount restated

Equity and liabilities

	(Note no.)	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Deposits from banks	29	137,444	166,002
Deposits from customers	29	1,033,200	1,032,861
Debt certificates issued including bonds	30	97,433	71,149
Hedging instruments (negative fair values)	21	624	442
Financial liabilities held for trading	31	44,043	48,825
Provisions	32	11,592	11,027
Insurance contract liabilities	33	105,151	98,328[1]
Income tax liabilities	27	5,859	5,907[1]
Other liabilities	34	11,883	9,642[1]
Subordinated capital	35	6,713	6,129
Equity	36	143,238	131,899
Equity of the Cooperative Financial Network		141,158	129,987
Subscribed capital		*17,410*	*16,485*
Capital reserves		*811*	*795*
Retained earnings		*123,107*	*113,400*[1]
Reserve from other comprehensive income		*-360*	*-874*[1]
Additional equity components		*190*	*180*
Non-controlling interests		2,080	1,912[1]
Total equity and liabilities		**1,597,180**	**1,582,211**

1 Amount restated

Statement of changes in equity

€ million	Subscribed capital	Capital reserve	Retained earnings	Reserves from other comprehensive income	Additional equity components
Equity as at Jan. 1, 2022	**14,938**	**783**	**109,874**	**1,947**	**110**
Restatements according to IAS 8	–	–	416	184	–
Equity restated as at Jan. 1, 2022	**14,938**	**783**	**110,290**	**2,131**	**110**
Net profit	–	–	2,203[1]	–	–
Other comprehensive income/loss	–	–	1,295[1]	-2,892[1]	–
Total comprehensive income/loss	**–**	**–**	**3,498**	**-2,892**	**–**
Issue and repayment of equity	1,547	11	–	–	70
Changes in the scope of consolidation	–	–	-1	5	–
Acquisition/disposal of non-controlling interests	–	–	-44[1]	3	–
Reclassifications within equity	–	–	120[1]	-120[1]	–
Dividends paid	–	–	-458	–	–
Distribution on additional equity components	–	–	-4	–	–
Equity as at Dec. 31, 2022	**16,485**	**795**	**113,400**	**-874**	**180**
Net profit	–	–	10,691	–	–
Other comprehensive income/loss	–	–	-504	575	–
Total comprehensive income/loss	**–**	**–**	**10,187**	**575**	**–**
Issue and repayment of equity	925	16	–	–	10
Acquisition/disposal of non-controlling interests	–	–	-35	–	–
Reclassifications within equity	–	–	61	-61	–
Dividends paid	–	–	-497	–	–
Distribution on additional equity components	–	–	-8	–	–
Equity as at Dec. 31, 2023	**17,410**	**811**	**123,107**	**-360**	**190**

1 Amount restated

The composition of equity is detailed in Note 36.

€ million	Equity of the Cooperative Financial Network	Non-controlling interests	Total equity
Equity as at Jan. 1, 2022	**127,652**	**1,891**	**129,543**
Restatements according to IAS 8	600	296	896
Equity restated as at Jan. 1, 2022	**128,252**	**2,187**	**130,439**
Net profit	2,203	91[1]	2,294
Other comprehensive income/loss	-1,598	-311[1]	-1,909
Total comprehensive income/loss	**605**	**-220**	**385**
Issue and repayment of equity	1,629	–	1,629
Changes in the scope of consolidation	4	1	4
Acquisition/disposal of non-controlling interests	-41	-3	-44
Reclassifications within equity	–	–	–
Dividends paid	-458	-53	-511
Distribution on additional equity components	-4	–	-4
Equity as at Dec. 31, 2022	**129,987**	**1,912**	**131,899**
Net profit	10,691	114	10,805
Other comprehensive income/loss	71	74	144
Total comprehensive income/loss	**10,761**	**188**	**10,949**
Issue and repayment of equity	951	-1	950
Acquisition/disposal of non-controlling interests	-35	13	-21
Reclassifications within equity	–	–	–
Dividends paid	-497	-32	-529
Distribution on additional equity components	-8	–	-8
Equity as at Dec. 31, 2023	**141,158**	**2,080**	**143,238**

1 Amount restated

Statement of cash flows

	2023 € million	2022 € million
Net profit	**10,805**	**2,294[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	407	13,537[1]
Non-cash changes in provisions	1,229	-1,532[1]
Non-cash changes in insurance contract liabilities	3,194	-9,594[1]
Other non-cash income and expenses	-4,213	866[1]
Gains and losses on the disposal of assets and liabilities	-2,463	-1,656[1]
Other adjustments (net)	-22,352	-19,658[1]
Subtotal	**-13,393**	**-15,743**
Cash changes in assets and liabilities arising from operating activities		
Loans and advances to banks and customers	-17,979	-85,425[1]
Other assets from operating activities	1,019	-635[1]
Hedging instruments (positive and negative fair values)	-1,211	2,112[1]
Financial assets and financial liabilities held for trading	10,640	8,247[1]
Deposits from banks and customers	-25,158	20,035[1]
Debt certificates issued including bonds	27,299	7,623[1]
Other liabilities from operating activities	575	2,904[1]
Interest, dividends and operating lease payments received	38,990	23,299[1]
Interest paid	-14,120	-3,438[1]
Income taxes paid	-1,404	-1,459
Cash flows from operating activities	**5,258**	**-42,480**

1 Amount restated

	2023 € million	2022 € million
Proceeds from the sale of investments	29,919	15,058[1]
Proceeds from the sale of investments held by insurance companies	26,841	40,134[1]
Payments for acquisitions of investments	-29,043	-15,968
Payments for acquisitions of investments held by insurance companies	-30,222	-35,327[1]
Net payments for acquisitions of property, plant and equipment, and investment property (excl. assets subject to operating leases)	-1,920	-2,372
Net payments for acquisitions of intangible non-current assets	-158	-131
Changes in the scope of consolidation	–	-248
Cash flows from investing activities	**-4,583**	**1,146**
Proceeds from capital increases by shareholders of the Cooperative Financial Network	951	1,629
Dividends paid to shareholders of the Cooperative Financial Network	-497	-458
Dividends paid to non-controlling interests	-32	-53
Distribution on additional equity components	-8	-4
Other payments to non-controlling interests	-1	–
Net change in cash and cash equivalents from other financing activities (including subordinated capital)	829	1,211[1]
Cash flows from financing activities	**1,242**	**2,325**

	2023 € million	2022 € million
Cash and cash equivalents as at January 1	**117,964**	**156,973**
Cash flows from operating activities	5,258	-42,480[1]
Cash flows from investing activities	-4,583	1,146[1]
Cash flows from financing activities	1,242	2,325[1]
Cash and cash equivalents as at December 31	**119,881**	**117,964**

1 Amount restated

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 as well as from cash and cash equivalents in the amount of €124 million (2022: €0 million) resulting from non-current assets held for sale and disposal groups. 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, particularly from subordinated capital.

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

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

The underlying data presented in these consolidated financial statements is provided by the separate and consolidated financial statements of the entities in the Cooperative Financial Network and also includes data from supplementary surveys of the local cooperative banks. The consolidated financial statements of DZ BANK AG Deutsche Zentralgenossenschaftsbank (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, 2023. With 19 exceptions (2022: 18 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.

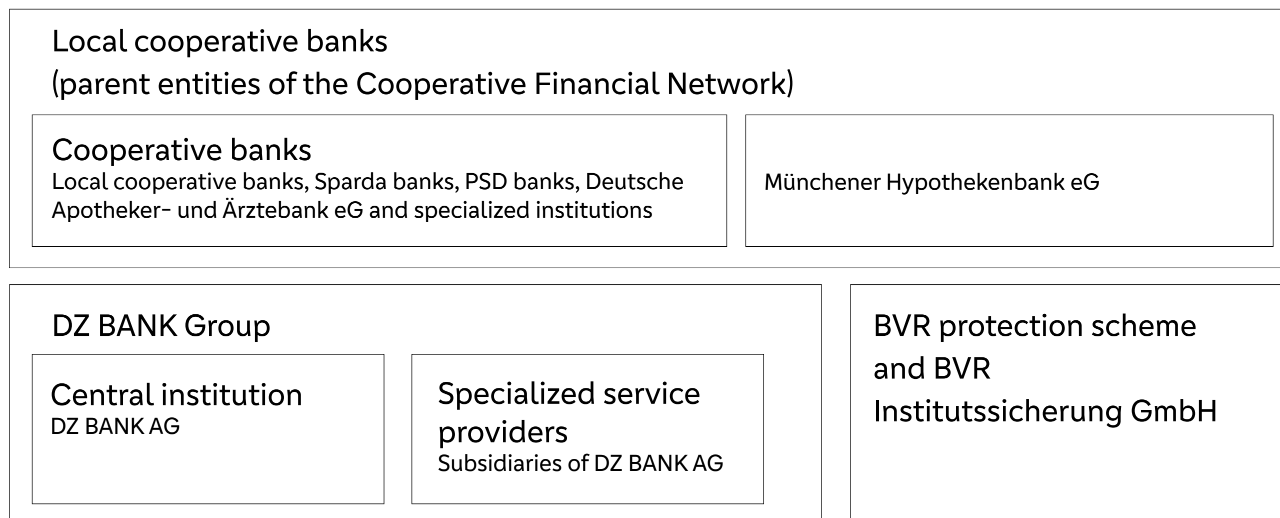
In the interest of clarity, some items on the face of the income statement and the balance sheet have been aggregated and are explained by additional disclosures. All figures are rounded to the nearest whole number. This may result in minor discrepancies in the calculation of totals and percentages.

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, 695 primary banks (2022: 735) 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 111 subsidiaries (2022: 112) 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 merger of an immaterial subsidiary with DZ BANK AG.

The consolidated financial statements include 5 joint ventures between a consolidated entity and at least one other non-network entity (2022: 5) and 23 associates (2022: 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 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 (2022: 95.1 percent). The remaining shares of 4.9 percent (2022: 4.9 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 €114 million (2022: €91 million, amount restated). The carrying amount of non-controlling interests amounted to €2,080 million (2022: €1,912 million). In the financial year under review, the dividend payment made to non-controlling interests amounts to €32 million (2022: €53 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, 2023 € million	Dec. 31, 2022 € million
Assets	**110,433**	**107,222**
Loans and advances to banks	431	523
Loans and advances to customers	4,974	3,297
Investments	731	1,614
Investments held by insurance companies	103,852	101,324
Other assets	445	464
Liabilities	**162,409**	**165,000**
Deposits from banks	962	1,962
Deposits from customers	63,708	66,318
Provisions	913	1,053
Insurance contract liabilities	96,825	95,667

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 €293 million as at the balance sheet date (2022: €298 million).

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

	2023 € million	2022 € million
Share of profit/loss from continuing operations	80	27
Share of other comprehensive income/loss	-26	-9
Share of total comprehensive income	54	18

Nature, extent and financial effects of interests in associates
The carrying amount of individually immaterial associates accounted for using the equity method totaled €139 million as at the balance sheet date (2022: €131 million).

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

	2023 € million	2022 € million
Share of profit/loss from continuing operations	-1	6
Share of total comprehensive income	-1	6

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.

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 €3,102 million as at the reporting date (2022: €2,618 million, amount restated). These investment fund assets resulted in income of €3,203 million (2022: €2,936 million) as well as losses of €4 million (2022: €98 million).

Moreover, the Cooperative Financial Network holds investment fund assets issued by itself in connection with unit-linked life insurance policies of the R+V Group (R+V) amounting to €5,064 million (2022: €4,149 million) that, however, do not result in a maximum exposure.

Interests in investment funds not issued by the Cooperative Financial Network
The interests in the investment fund assets 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 €38,100 million (2022: €38,500 million). Moreover, loans to investment funds are extended in order to generate interest income. In addition, there are investment funds in connection with unit-linked life insurance of R+V amounting to €15,428 million (2022: €12,043 million) that were issued by entities outside the Cooperative Financial Network. The unit-linked life insurance policies 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 €10,244 million as at the reporting date (2022: €9,672 million). Income generated from these investment funds in the financial year 2022 amounted to €394 million (2022: losses of €202 million). Losses arising from shares in investment funds not issued by the Cooperative Financial Network amounted to €0 million (2022: €8 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 as well as the asset-backed securities (ABS) of R+V. DZ BANK acts as sponsor and program agent for CORAL and AUTOBAHN. 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 €7,535 million as at the reporting date (2022: €7,613 million). Income generated from these interests in the financial year 2023 amounted to €236 million (2022: €62 million). Income recognized outside profit or loss amounts to €39 million in the year under review (2022: losses of €68 million recognized outside profit or loss).

C Income statement disclosures

6. Information on operating segments

Financial year 2023						
€ million	Retail Customers and SMEs	Central Institution and Major Corporate Customers	Real Estate Finance	Insurance	Other/ Consolidation	**Total**
Net interest income	20,417	2,612	1,868	–	-790	**24,107**
Net fee and commission income	8,713	638	-71	–	-451	**8,829**
Gains and losses on trading activities	203	-103	-1	–	-80	**19**
Gains and losses on investments	1,151	48	10	–	129	**1,338**
Loss allowances	-1,337	-99	-255	–	-118	**-1,809**
Other gains and losses on valuation of financial instruments	156	-103	82	–	91	**227**
Other insurance gains and losses	–	–	–	1,972	446	**2,418**
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	3,143	-161	**2,982**
Insurance finance income or expenses	–	–	–	-4,107	–	**-4,107**
Administrative expenses	-17,911	-2,017	-947	–	505	**-20,370**
Other net operating income	559	79	115	–	-11	**742**
Profit before taxes	**11,951**	**1,055**	**801**	**1,008**	**-440**	**14,375**
Cost/income ratio (percent)	57.4	63.6	47.3	–	–	**55.7**

Financial year 2022						
€ million	Retail Customers and SMEs	Central Institution and Major Corporate Customers	Real Estate Finance	Insurance	Other/ Consolidation	**Total**
Net interest income	17,771	1,577	2,070	–	-872	**20,546**
Net fee and commission income	8,697	575	-82	–	-544	**8,646**
Gains and losses on trading activities	234	710	-1	–	66	**1,009**
Gains and losses on investments	-6,524	37	-84	–	-203	**-6,774**
Loss allowances	-1,223[1]	-93	-166[1]	–	10	**-1,472**
Other gains and losses on valuation of financial instruments	-118	41	9	–	-143	**-211**
Other insurance gains and losses	–	–	–	1,980[1]	542[1]	**2,522**
Gains and losses on investments held by insurance companies and other insurance company gains and losses	–	–	–	-3,740[1]	-36[1]	**-3,776**
Insurance finance income or expenses	–	–	–	1,951[1]	–	**1,951**
Administrative expenses	-16,811	-1,915	-930	–	578	**-19,078**
Other net operating income	757	116	40	-5	-33	**875**
Profit before taxes	**2,783**	**1,048**	**856**	**186**	**-635**	**4,238**
Cost/income ratio (percent)	80.8	62.7	47.6	–	–	**77.0**

1 Amount restated

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. 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 DZ PRIVATBANK, TeamBank AG Nürnberg (TeamBank) and the 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 and the VR Smart Finanz sub-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 (BVR-SE) 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 also largely attributable to the consolidation of income and expenses.

7. Net interest income

	2023 € million	2022 € million
Interest income and current income and expense	**38,399**	**24,045**
Interest income from	***36,988***	***22,593***
Lending and money market business	33,181	21,304
of which: Building society operations	1,117	1,059
of which: Finance leases	20	23
Fixed-income securities	2,408	1,658
Other assets	1,405	-77
Financial assets with a negative effective interest rate	-6	-293
Current income from	***1,313***	***1,357***
Shares and other variable-yield securities	1,148	1,055
Investments in subsidiaries and equity investments	164	302
Income/loss from using the equity method for	***34***	***17***
Investments in joint ventures	34	10
Investments in associates	–	6
Income from profit-pooling, profit-transfer and partial profit-transfer agreements	***64***	***77***
Interest expense	**-14,291**	**-3,499**
Interest expense on	***-14,007***	***-3,352***
Deposits from banks and customers	-11,649	-3,435
of which: Building society operations	-698	-457
Debt certificates issued including bonds	-1,696	-723
Subordinated capital	-238	-155
Other liabilities	-465	-62
Financial liabilities with a positive effective interest rate	40	1,023
Other interest expense	***-284***	***-147***
Total	**24,107**	**20,546**

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.

8. Net fee and commission income

	2023 € million	2022 € million
Fee and commission income	**10,407**	**10,278**
Securities business	4,804	4,877
Asset management	625	596
Payments processing including card processing	3,473	3,254
Lending business and trust activities	200	192
Financial guarantee contracts and loan commitments	231	200
International business	164	196
Building society operations	35	45
Other	875	918
Fee and commission expenses	**-1,578**	**-1,632**
Securities business	-507	-529
Asset management	-140	-154
Payments processing including card processing	-280	-234
Lending business	-99	-104
Financial guarantee contracts and loan commitments	-41	-38
International business	-28	-25
Building society operations	-51	-49
Other	-430	-499
Total	**8,829**	**8,646**

9. Gains and losses on trading activities

	2023 € million	2022 € million
Gains and losses on trading in financial instruments	-219	661
Gains and losses on trading in foreign exchange, foreign notes and coins, and precious metals	68	150
Gains and losses on commodities trading	171	199
Total	**19**	**1,009**

10. Gains and losses on investments

	2023 € million	2022 € million
Gains and losses from securities	1,730	-6,856
Gains and losses on investments in subsidiaries and equity investments	-393	82
Total	**1,338**	**-6,774**

11. Loss allowances

	2023 € million	2022 € million
Additions	-5,849	-4,752[1]
Reversals	3,935	3,341[1]
Directly recognized impairment losses	-152	-126
Recoveries on loans and advances previously impaired	213	197
Other	33	34
Changes in the provisions for loan commitments, provisions for financial guarantee contracts and other provisions for loans and advances	11	-166
Total	**-1,809**	**-1,472**

1 Amount restated

12. Other gains and losses on valuation of financial instruments

	2023 € million	2022 € million
Gains and losses from fair value hedges	-44	-45
Gains and losses on derivatives held for purposes other than trading	156	-6
Gains and losses on financial instruments designated as at fair value through profit or loss	114	-160
Total	**227**	**-211**

13. Other insurance gains and losses

	2023 € million	2022 € million
Other insurance gains	12,317	12,424[1]
Other insurance losses	-9,821	-9,779[1]
Net gains or losses from reinsurance contracts	-78	-123[1]
Total	**2,418**	**2,522**

1 Amount restated

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

	2023 € million	2022 € million
Interest income and current income	2,512	2,384[1]
Administrative expenses	-154	-168[1]
Gains and losses on valuation and disposals as well as from additions to and reversals of loss allowances	1,155	-5,903[1]
Other non-insurance gains and losses	-530	-89[1]
Total	**2,982**	**-3,776**

1 Amount restated

The net amount of additions to and reversals of loss allowances as well as directly recognized impairment losses recorded in the financial year was an expense in the amount of €62 million (2022: expense of €10 million).

15. Insurance finance income or expenses

	2023 € million	2022 € million
Insurance finance income or expenses from insurance contracts	-4,109	1,951[1]
Insurance finance income or expenses from reinsurance contracts	2	–[1]
Total	**-4,107**	**1,951**

1 Amount restated

16. Administrative expenses

	2023 € million	2022 € million
Staff expenses	-11,063	-10,456
General and administrative expenses	-7,924	-7,494
Depreciation/amortization and impairment losses	-1,383	-1,128
Total	**-20,370**	**-19,078**

17. Other net operating income

	2023 € million	2022 € million
Gains and losses on non-current assets held for sale and disposal groups	25	49
Other operating income	1,499	1,620
Other operating expenses	-782	-793
Total	**742**	**875**

18. Income taxes

	2023 € million	2022 € million
Current tax expense	-3,558	-2,807
Expense on/income from deferred taxes	-13	863[1]
Total	**-3,571**	**-1,944**

1 Amount restated

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.

	2023 € million	2022 € million
Profit before taxes	**14,375**	**4,238**[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	**-4,468**	**-1,317**
Tax effects	**898**	**-627**
Tax effects of tax-exempt income and non-tax deductible expenses	71	94[1]
Tax effects of different tax types, different trade tax multipliers, and changes in tax rates	69	-83[1]
Tax effects of different tax rates in other countries	26	25
Current and deferred taxes relating to prior reporting periods	-38	-21
Change in deferred tax assets due to valuation adjustments	38	21
Other tax effects	732	-663[1]
Total	**-3,571**	**-1,944**

1 Amount restated

D Balance sheet disclosures

19. Cash and cash equivalents

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Cash on hand	6,243	6,753
Balances with central banks	113,513	111,192
Public-sector debt instruments and bills of exchange eligible for refinancing by central banks	–	19
Total	**119,757**	**117,964**

20. Loans and advances to banks and customers

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Loans and advances to banks	**38,158**	**45,292**
Repayable on demand	***29,104***	***32,745***
Other loans and advances	***9,054***	***12,547***
Mortgage loans and other loans secured by mortgages on real estate	14	58
Local authority loans	1,592	2,380
Other loans and advances	7,448	10,109
Loans and advances to customers	**1,023,602**	**999,937**
Mortgage loans and other loans secured by mortgages on real estate	422,604	404,209
Local authority loans	30,306	31,795
Home savings loans advanced by building society	64,631	63,660
Finance leases	463	565
Other loans and advances	505,598	499,708

21. Hedging instruments (positive and negative fair values)

The positive fair values of hedging instruments amount to €5,259 million (2022: €10,169 million), the negative fair values of hedging instruments amount to €624 million (2022: €442 million). Both positive and negative fair values of hedging instruments exclusively result from derivative hedging instruments for fair value hedges.

22. Financial assets held for trading

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Derivatives (positive fair values)	**16,482**	**21,474**
Interest-linked contracts	13,799	17,779
Currency-linked contracts	1,759	2,956
Share- and index-linked contracts	688	547
Credit derivatives	225	187
Other contracts	11	6
Securities	**9,533**	**9,011**
Bonds and other fixed-income securities	8,188	7,602
Shares and other variable-yield securities	1,346	1,408
Loans and advances	**7,735**	**18,064**
Inventories and trade receivables	**377**	**466**
Other assets held for trading	**–**	**1**
Total	**34,127**	**49,015**

23. Investments

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Securities	**235,614**	**234,749**
Bonds and other fixed-income securities	149,864	152,460
Shares and other variable-yield securities	85,751	82,289
Investments in subsidiaries	**3,054**	**2,772**
Equity investments	**2,604**	**2,670**
Investments in joint ventures	293	300
Investments in associates	145	144
Other shareholdings	2,167	2,226
Total	**241,273**	**240,192**

24. Loss allowances

Loss allowances for loans and advances to banks

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2022	**22**	**19**	**8**	**–**	**49**
Restatements according to IAS 8	–	1	–	–	1
Restated balance as at Jan. 1, 2022	**22**	**21**	**8**	**–**	**51**
Additions	35	128[1]	46	–	210
Reversals	-30	-16	-24	–	-70
Other changes	-1	-2	2	–	-1
Balance as at Dec. 31, 2022	**26**	**131**	**32**	**–**	**190**
Additions	28	31	8	–	66
Reversals	-30	-76	-13	–	-119
Other changes	–	–	-1	–	-1
Balance as at Dec. 31, 2023	**25**	**85**	**26**	**–**	**136**

1 Amount restated

Loss allowances for loans and advances to customers

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2022	**668**	**4,160**	**4,329**	**13**	**9,170**
Restatements according to IAS 8	–	206	–	–	206
Restated balance as at Jan. 1, 2022	**668**	**4,365**	**4,329**	**13**	**9,376**
Additions	340[1]	2,013[1]	2,102	28	4,482
Utilizations	–	-1	-575	-4	-580
Reversals	-536	-816	-1,832	-19	-3,203
Other changes	182	-305	172	1	50
Balance as at Dec. 31, 2022	**654**	**5,256**	**4,196**	**18**	**10,124**
Additions	311	1,359	3,964	31	5,664
Utilizations	–	-2	-495	-5	-501
Reversals	-558	-1,241	-1,785	-21	-3,606
Other changes	196	-357	152	-5	-13
Balance as at Dec. 31, 2023	**603**	**5,015**	**6,032**	**18**	**11,669**

1 Amount restated

Loss allowances for investments

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2022	**72**	**264**	**5**	**–**	**341**
Restatements according to IAS 8	-1	1	–	–	–
Restated balance as at Jan. 1, 2022	**71**	**265**	**5**	**–**	**341**
Additions	13	45	1	–	59
Reversals	-9	-49[1]	-3	–	-60
Balance as at Dec. 31, 2022	**76**	**261**	**4**	**–**	**341**
Additions	4	95	1	–	101
Reversals	-20	-177	-2	–	-199
Other changes	8	-8	–	–	–
Balance as at Dec. 31, 2023	**67**	**172**	**4**	**–**	**242**

1 Amount restated

Loss allowances for other assets

€ million	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at Jan. 1, 2022	**2**	**–**	**–**	**–**	**2**
Balance as at Dec. 31, 2022	**2**	**–**	**–**	**–**	**2**
Reversals	-1	–	–	–	-1
Balance as at Dec. 31, 2023	**1**	**–**	**–**	**–**	**1**

25. Investments held by insurance companies

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Investment property	3,866	4,028
Investments in subsidiaries, joint ventures and associates	872	910
Mortgage loans	12,008	10,960
Promissory notes and loans	5,913	5,857
Registered bonds	4,859	4,790
Other loans	984	764
Variable-yield securities	11,871	13,023
Fixed-income securities	53,193	47,259
Derivatives (positive fair values)	159	278
Deposits with ceding insurers and other investments	40	56[1]
Assets related to unit-linked contracts	20,563	16,429
Total	**114,329**	**104,356**

1 Amount restated

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

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Land and buildings	6,996	6,963
Office furniture and equipment	1,312	1,308
Investment property	280	293
Other fixed assets	8,980	8,162
Right-of-use assets	549	615
Total	**18,117**	**17,341**

27. Income tax assets and liabilities

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Income tax assets	**8,929**	**9,841**
Current income tax assets	1,072	1,052
Deferred tax assets	7,858	8,789[1]
Income tax liabilities	**5,859**	**5,907**
Current income tax liabilities	1,704	1,185
Deferred tax liabilities	4,155	4,722[1]

	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2023 € million	Dec. 31, 2022 € million	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Tax loss carryforwards	118	91		
Loans and advances to banks and customers	33	37	222	446
Financial assets and liabilities held for trading, and hedging instruments (positive and negative fair values)	812	1,145	29	63
Investments	635	1,100	5	9
Loss allowances	1,485	1,563[1]	–	–
Investments held by insurance companies	2,745	3,602[1]	223	–[1]
Deposits from banks and customers	196	219	310	470
Debt certificates issued including bonds	2	2	713	827
Provisions	3,085	2,686	106	90
Insurance contract liabilities	1,162	1,033[1]	4,746	5,307[1]
Other balance sheet items	471	529[1]	687	728[1]
Total (gross)	**10,744**	**12,008**	**7,041**	**7,941**
Netting of deferred tax assets and deferred tax liabilities	-2,886	-3,219[1]	-2,886	-3,219[1]
Total (net)	**7,858**	**8,789**	**4,155**	**4,722**

1 Amount restated

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.

28. Other assets

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Other assets held by insurance companies	3,570	3,759[1]
Goodwill	171	171
Other intangible assets	607	696
Prepaid expenses	351	322
Other receivables	4,536	4,916
Non-current assets and disposal groups classified as held for sale	1,790	19
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	-6,463	-12,763
Residual other assets	1,115	1,642
Total	**5,677**	**-1,238**

1 Amount restated

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

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Intangible assets	**160**	**145**
Reinsurance contract assets	**368**	**560**
Benefit reserve	34	36[1]
Provision for claims outstanding	334	524[1]
Insurance contract assets	**1**	**2**
Benefit reserve	1	3[1]
Provision for claims outstanding	–	-1[1]
Receivables	**1,028**	**1,002**
Receivables arising out of direct insurance operations	114	106[1]
Receivables arising out of reinsurance operations	41	48[1]
Other receivables	873	848
Credit balances with banks, checks and cash on hand	**647**	**703**
Property, plant and equipment	**416**	**401**
Residual other assets	**952**	**947**
Prepaid expenses	53	47
Remaining assets held by insurance companies	899	900[1]
Loss allowances	**-2**	**-1**
Total	**3,570**	**3,759**

1 Amount restated

Property, plant and equipment includes right-of-use assets in the amount of €57 million (2022: €56 million).

29. Deposits from banks and customers

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Deposits from banks	**137,444**	**166,002**
Repayable on demand	14,834	13,485
With agreed maturity or notice period	122,610	152,517
Deposits from customers	**1,033,200**	**1,032,861**
Savings deposits and home savings deposits	***204,453***	***239,988***
Savings deposits with agreed notice period of three months	131,577	169,677
Savings deposits with agreed notice period of more than three months	9,174	4,001
Home savings deposits	63,702	66,310
Other deposits from customers	***828,747***	***792,873***
Repayable on demand	606,512	673,363
With agreed maturity or notice period	222,235	119,510

30. Debt certificates issued including bonds

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Bonds issued	**81,504**	**56,733**
Mortgage Pfandbriefe	56,187	50,579
Public-sector Pfandbriefe	1,737	1,273
Other bonds	23,580	4,880
Other debt certificates issued	**15,929**	**14,416**
Total	**97,433**	**71,149**

31. Financial liabilities held for trading

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Derivatives (negative fair values)	**17,136**	**26,642**
Interest-linked contracts	13,692	21,218
Currency-linked contracts	1,897	3,148
Share- and index-linked contracts	1,362	1,899
Credit derivatives	73	107
Other contracts	112	270
Short positions	**701**	**1,017**
Bonds issued including share- and index and other debt certificates	**20,836**	**20,014**
Liabilities	**5,329**	**1,104**
Liabilities from commodities transactions and commodity lending	**41**	**48**
Total	**44,043**	**48,825**

32. Provisions

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Provisions for defined benefit plans	5,939	5,276
Provisions for loan commitments	345	352
Provisions for financial guarantee contracts	233	199
Other provisions for loans and advances	52	51
Provisions relating to building society operations	913	1,053
Residual provisions	4,109	4,096
Total	**11,592**	**11,027**

33. Insurance contract liabilities

	2023 € million	2022 € million
Insurance contract liabilities	**105,150**	**98,328**
Benefit reserve	93,033	86,740[1]
Provision for claims outstanding	12,117	11,587[1]
Reinsurance contract liabilities	**1**	**–**
Benefit reserve	2	1[1]
Total	**105,151**	**98,328**

1 Amount restated

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

The following table shows the change in the gross provision for claims outstanding for direct non-life insurance business plus payments made against the original provision:

€ million	Total	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Gross provision for claims outstanding											
At the end of the year		5,237	4,779	5,067							
1 year later			4,882	5,152	3,930						
2 years later				5,196	3,885	4,074					
3 years later					3,865	4,057	3,927				
4 years later						4,027	3,904	3,583			
5 years later							3,896	3,574	3,574		
6 years later								3,559	3,559	3,240	
7 years later									3,531	3,231	3,059
8 years later										3,220	3,044
9 years later											3,038
Total claim payments made	***34,172***	***2,531***	***3,853***	***4,468***	***3,430***	***3,681***	***3,579***	***3,332***	***3,322***	***3,072***	***2,904***
Provision for claims outstanding in respect of claims that occurred in 2014 to 2023	**6,279**	**2,706**	**1,029**	**728**	**435**	**346**	**317**	**227**	**209**	**148**	**134**
Provision for claims outstanding in respect of claims that occurred before 2014	1,031										
Effect of discounting	-953										
Risk adjustment	82										
Gross provision for claims outstanding	**6,439**										

The following table shows the change in the net provision for claims outstanding for direct non-life insurance business plus payments made against the original provision:

€ million	Total	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Net provision for claims outstanding											
At the end of the year		5,099	4,762	5,057							
1 year later			4,864	5,142	3,948						
2 years later				5,072	3,900	4,078					
3 years later					3,882	4,061	3,946				
4 years later						4,029	3,922	3,588			
5 years later							3,914	3,578	3,604		
6 years later								3,562	3,589	3,247	
7 years later									3,561	3,238	3,061
8 years later										3,227	3,048
9 years later											3,043
Total claim payments made	***34,184***	***2,462***	***3,843***	***4,465***	***3,449***	***3,686***	***3,599***	***3,339***	***3,354***	***3,079***	***2,908***
Provision for claims outstanding in respect of claims that occurred in 2014 to 2023	**6,069**	**2,637**	**1,021**	**607**	**433**	**343**	**315**	**223**	**207**	**148**	**135**
Provision for claims outstanding in respect of claims that occurred before 2014	1,008										
Effect of discounting	-943										
Risk adjustment	78										
Net provision for claims outstanding	**6,212**										

Claims rate trend for inward reinsurance business

The following table shows the change in the gross provision for claims outstanding for inward business plus payments made against the original provision:

€ million	Total	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Gross provision for claims outstanding											
At the end of the year		1,937	1,989	2,079							
1 year later			2,385	2,512	2,944						
2 years later				2,543	2,974	2,688					
3 years later					2,922	2,749	2,352				
4 years later						2,748	2,364	2,355			
5 years later							2,363	2,379	1,631		
6 years later								2,367	1,637	1,391	
7 years later									1,616	1,380	1,225
8 years later										1,364	1,237
9 years later											1,218
Total claim payments made	***15,591***	***325***	***1,253***	***1,695***	***2,250***	***2,284***	***2,001***	***2,050***	***1,404***	***1,208***	***1,121***
Provision for claims outstanding in respect of claims that occurred in 2014 to 2023	**5,872**	**1,612**	**1,132**	**848**	**672**	**464**	**362**	**317**	**212**	**156**	**97**
Provision for claims outstanding in respect of claims that occurred before 2014	360										
Effect of discounting	-959										
Risk adjustment	72										
Gross provision for claims outstanding	**5,345**										

The following table shows the change in the net provision for claims outstanding for inward business plus payments made against the original provision:

€ million	Total	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Net provision for claims outstanding											
At the end of the year		1,893	1,978	1,942							
1 year later			2,374	2,369	2,947						
2 years later				2,391	2,974	2,686					
3 years later					2,924	2,747	2,350				
4 years later						2,745	2,362	2,353			
5 years later							2,361	2,377	1,632		
6 years later								2,366	1,639	1,389	
7 years later									1,618	1,378	1,225
8 years later										1,362	1,237
9 years later											1,218
Total claim payments made	***15,489***	***324***	***1,248***	***1,601***	***2,253***	***2,282***	***1,999***	***2,049***	***1,406***	***1,207***	***1,120***
Provision for claims outstanding in respect of claims that occurred in 2014 to 2023	**5,763**	**1,569**	**1,126**	**790**	**671**	**463**	**362**	**317**	**212**	**155**	**98**
Provision for claims outstanding in respect of claims that occurred before 2014	358										
Effect of discounting	-954										
Risk adjustment	71										
Net provision for claims outstanding	**5,238**										

Maturity analysis

The following table contains an analysis of the remaining undiscounted contractual net cash flows for insurance contracts, by estimated maturity. Benefit reserves measured under the premium allocation approach were excluded from this analysis.

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
≤ 1 year	5,768	5,913
> 1 year – 2 years	3,517	3,461
> 2 years – 3 years	3,145	2,817
> 3 years – 4 years	2,549	2,972
> 4 years – 5 years	2,727	2,610
> 5 years – 10 years	17,808	17,618
> 10 years – 20 years	32,449	32,892
> 20 years – 30 years	34,501	36,269
> 30 years – 40 years	26,134	27,845
> 40 years – 50 years	18,805	19,202
> 50 years	24,604	27,350

The insurance contract liabilities repayable on demand amounted to €61,991 million (December 31, 2022: €56,083 million).

34. Other liabilities

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Other liabilities of insurance companies	5,529	5,429[1]
Other liabilities and accruals	3,838	3,468
Liabilities included in disposal groups	1,533	–
Fair value changes of the hedged items in portfolio hedges of interest-rate risk	-577	-1,062
Lease liabilities	571	631
Residual other liabilities	988	1,176
Total	**11,883**	**9,642**

1 Amount restated

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

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Residual provisions	**394**	**354**
Provisions for employee benefits	344	311
Provisions for share-based payment transactions	4	3
Other provisions	46	39
Payables and residual other liabilities	**5,136**	**5,075**
Subordinated capital	100	90
Deposits received from reinsurers	6	24[1]
Payables arising out of direct insurance operations	340	305[1]
Payables arising out of reinsurance operations	8	61[1]
Debt certificates issued including bonds	39	36
Deposits from banks	348	318
Derivatives (negative fair values)	44	223
Liabilities from investment contracts	3,145	2,932[1]
Lease liabilities from insurance business	68	72
Other liabilities	345	327[1]
Residual other liabilities	694	686[1]
Total	**5,529**	**5,429**

1 Amount restated

35. Subordinated capital

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Subordinated liabilities	6,699	6,113
Profit-sharing rights	9	4
Share capital repayable on demand	5	12
Total	**6,713**	**6,129**

36. Equity

Breakdown of subscribed capital

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Cooperative shares	17,145	16,260
Share capital	228	188
Capital of silent partners	37	37
Total	**17,410**	**16,485**

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.

Accumulated other comprehensive income consists of the following items:

€ million	No reclassification to the income statement		Reclassification to the income statement		
	Reserve from equity instruments for which the fair value OCI option has been exercised	Reserve from gains and losses in relation to financial liabilities for which the fair value option has been exercised, attributable to changes in own credit risk	Reserve from debt instruments measured at fair value through other comprehensive income	Currency translation reserve	Reserve from insurance contracts measured at fair value through other comprehensive income
Equity as at Jan. 1, 2022	**719**	**-51**	**1,218**	**61**	**–**
Restatements according to IAS 8	590	–	2,432	3	-2,842
Equity restated as at Jan. 1, 2022	**1,309**	**-51**	**3,650**	**64**	**-2,842**
Other comprehensive income/loss	-405[1]	113	-14,528[1]	19[1]	11,909[1]
Total comprehensive income/loss	**-405**	**113**	**-14,528**	**19**	**11,909**
Changes in the scope of consolidation	4	–	–	1	–
Acquisition/disposal of non-controlling interests	–	–	3	–	–
Reclassifications within equity	-115[1]	-5	–	–	–
Equity as at Dec. 31, 2022	**793**	**56**	**-10,874**	**84**	**9,067**
Other comprehensive income/loss	-120	196	2,977	-18	-2,460
Total comprehensive income/loss	**-120**	**196**	**2,977**	**-18**	**-2,460**
Acquisition/disposal of non-controlling interests	–	–	-4	–	4
Reclassifications within equity	-62	1	–	–	–
Equity as at Dec. 31, 2023	**611**	**254**	**-7,901**	**66**	**6,611**

1 Amount restated

The additional equity components include Additional Tier 1 (AT1) capital issued by MHB, reduced by shares held by companies included in the consolidated financial statements. The AT1 capital was issued in the previous years in a nominal amount of CHF 200 million in order to generate additional regulatory Tier 1 capital. In the financial year 2023, the AT1 capital increased by €10 million as a result of the acquisition of a mortgage bank by MHB.

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

37. 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, 2023 € million		Dec. 31, 2022 € million	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents[1, 2]	113,513	113,512	111,211	111,206
Loans and advances to banks[1]	38,022	33,396	45,102[4]	35,077[4]
Loans and advances to customers[1]	1,011,933	1,002,314	989,812[4]	974,154[4]
Hedging instruments (positive fair values)	5,259	5,259	10,169	10,169
Financial assets held for trading[2]	33,750	33,765	48,549	48,563
Investments[1, 3]	240,599	240,525	239,423[4]	239,198[4]
Investments held by insurance companies[1, 2, 3]	110,422	110,461	100,271	100,259[4]
Other assets[1, 2]	1,380	3,681	-6,281[4]	-2,108[4]
Liabilities				
Deposits from banks	137,444	133,957	166,002	157,037
Deposits from customers	1,033,200	1,031,878	1,032,861	1,030,913
Debt certificates issued including bonds	97,433	94,120	71,149	65,775
Hedging instruments (negative fair values)	624	624	442	442
Financial liabilities held for trading[2]	44,002	43,963	48,777	48,703
Provisions[5]	578	921	551	1,095
Other liabilities[2]	7,936	8,575	5,551[4]	6,698[4]
Subordinated capital	6,713	6,385	6,129	5,605

1 Carrying amounts less loss allowances.
2 Fair values and carrying amounts are only disclosed for financial instruments and for assets and liabilities held for sale.
3 Excluding investments in joint ventures and in associates.
4 Amount restated.
5 Provision for loan commitments and financial guarantee contracts.

In addition, there are the following differences, all of which were determined using simplified procedures. At BSH, there are net unrealized gains in the amount of €7.5 billion (2022: €10.0 billion) from collective building society operations, which result from the balance of the carrying amounts recorded for the home savings business of €-60.3 billion (2022: €-64.4 billion (surplus of liabilities)) and the present value of the home savings pool of €-52.9 billion (2022: €-54.5 billion) calculated using simulation models for building society operations. In addition, there are net unrealized losses in the amount of €1.4 billion (2022: €6.8 billion) from the investments of the cooperative banks and of MHB.

38. Maturity analysis

Balance as at Dec. 31, 2023

€ million	≤ 3 months	> 3 months - 1 year	> 1 year	Indefinite
Loans and advances to banks	18,105	4,387	24,134	220
Loans and advances to customers	55,759	79,895	891,599	20,747
Deposits from banks	36,400	14,985	89,578	184
Deposits from customers	819,808	79,963	72,641	63,765
Debt certificates issued including bonds	7,946	19,177	76,558	–

Balance as at Dec. 31, 2022

€ million	≤ 3 months	> 3 months - 1 year	> 1 year	Indefinite
Loans and advances to banks	21,562	4,577	24,375	339
Loans and advances to customers	54,143	76,464	875,615	16,537
Deposits from banks	41,139	21,638	105,312	610
Deposits from customers	889,598	26,514	53,837	66,683
Debt certificates issued including bonds	8,347	8,361	59,380	–

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

39. Capital requirements and regulatory indicators

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Total capital	**130,452**	**121,288**
Tier 1 capital	125,276	116,689[1]
of which: Common Equity Tier 1	124,994	116,463[1]
of which: Additional Tier 1 capital	282	226
Tier 2 capital	5,176	4,600[1]
Total risk exposure	**803,051**	**775,909**
Common Equity Tier 1 capital ratio (percent)	15.6	15.0[1]
Tier 1 capital ratio (percent)	15.6	15.0[1]
Total capital ratio (percent)	16.2	15.6[1]
Leverage ratio (percent)	8.0	7.4

1 Amount restated

The capital ratios as well as the leverage ratio have been calculated 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.

40. Financial guarantee contracts and loan commitments

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Financial guarantee contracts	24,067	24,039
Loan commitments	106,354	126,765
Total	**130,421**	**150,804**

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

41. Trust activities

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Trust assets	**3,239**	**3,579**
of which: trust loans	2,949	3,355
Trust liabilities	**3,239**	**3,579**
of which: trust loans	2,949	3,355

42. Defined benefit obligations

Funding status of defined benefit obligations

	Provisions		Other liabilities	
	Dec. 31, 2023 € million	Dec. 31, 2022 € million	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Present value of defined benefit obligations funded by plan assets	3,155	2,963	1,517	1,439
Present value of defined benefit obligations not funded by plan assets	5,474	4,888	56	58
Present value of defined benefit obligations	**8,629**	**7,851**	**1,573**	**1,497**
less fair value of plan assets	-2,832	-2,722	-1,715	-1,653
Asset ceiling	123	126	267	275
Defined benefit obligations (net)	**5,920**	**5,256**	**125**	**119**
Recognized surplus	18	19	–	–
Provisions for defined benefit plans	**5,939**	**5,276**	**125**	**119**

Defined benefit obligations (net)

Provisions

€ million	Present value of the defined benefit obligation	Fair value of plan assets	Asset ceiling	Defined benefit obligations (net)
Balance as at Jan. 1, 2022	**10,519**	**-3,358**	**54**	**7,215**
Current service cost	135	–	–	135
Interest income/expense	110	-37	–	73
Return on plan assets (excluding interest income)	–	696	–	696
Actuarial gains (–)/losses (+)	-2,579	–	–	-2,579
Changes in the effect from the asset ceiling	–	–	72	72
Past service cost	3	–	–	3
Contributions to plan assets	8	-112	–	-104
Pension benefits paid including plan settlements	-405	97	–	-308
Other changes	60	-8	–	52
Balance as at Dec. 31, 2022	**7,851**	**-2,722**	**126**	**5,256**
Current service cost	83	–	–	83
Interest income/expense	287	-99	5	193
Return on plan assets (excluding interest income)	–	-73	–	-73
Actuarial gains (–)/losses (+)	802	–	–	802
Changes in the effect from the asset ceiling	–	–	-8	-8
Contributions to plan assets	6	-38	–	-32
Pension benefits paid including plan settlements	-407	102	–	-305
Other changes	7	-5	–	2
Balance as at Dec. 31, 2023	**8,629**	**-2,832**	**123**	**5,920**

Other liabilities

€ million	Present value of the defined benefit obligation	Fair value of plan assets	Asset ceiling	Defined benefit obligations (net)
Balance as at Jan. 1, 2022	**2,091**	**-2,006**	**118**	**203**
Current service cost	44	–	–	44
Interest income/expense	23	-22	1	2
Return on plan assets (excluding interest income)	–	352	–	352
Actuarial gains (–)/losses (+)	-596	–	–	-596
Changes in the effect from the asset ceiling	–	–	156	156
Contributions to plan assets	1	-34	–	-33
Pension benefits paid including plan settlements	-66	57	–	-9
Balance as at Dec. 31, 2022	**1,497**	**-1,653**	**275**	**119**
Current service cost	25	–	–	25
Interest income/expense	54	-61	11	4
Return on plan assets (excluding interest income)	–	-24	–	-24
Actuarial gains (–)/losses (+)	64	–	–	64
Changes in the effect from the asset ceiling	–	–	-19	-19
Contributions to plan assets	–	-36	–	-36
Pension benefits paid including plan settlements	-68	59	–	-9
Balance as at Dec. 31, 2023	**1,573**	**-1,715**	**267**	**125**

Actuarial assumptions used for defined benefit obligations

	Provisions		Other liabilities	
	Dec. 31, 2023 (percent)	Dec. 31, 2022 (percent)	Dec. 31, 2023 (percent)	Dec. 31, 2022 (percent)
Weighted discount rate	3.20	3.70	3.20	3.70
Weighted salary increase	2.23	2.24	2.50	2.50
Weighted pension increase	2.20	2.21	2.30	2.30

43. Asset management by the Union Investment Group

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Fund assets	**417,221**	**376,835**
Other types of asset management	**53,888**	**51,683**
Unit-linked asset management	7,500	6,080
Institutional asset management	7,196	6,090
Advisory and outsourcing	39,192	39,513
Accounts managed by third parties	**-15,957**	**-15,403**
Total	**455,152**	**413,115**

As at the balance sheet date, the Union Investment Group (through Union Asset Management Holding AG) had total assets under management of €455,152 million (December 31, 2022: €413,115 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 German Investment Funds Association (BVI), Frankfurt/Main.

44. Leases

Finance leases with the Cooperative Financial Network as lessor

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Gross investment	**494**	**595**
Up to 1 year	170	225
More than 1 year and up to 2 years	117	149
More than 2 years and up to 3 years	89	93
More than 3 years and up to 4 years	58	65
More than 4 years and up to 5 years	32	32
More than 5 years	28	31
less unearned finance income	**-32**	**-29**
Net investment	**463**	**565**
less present value of unguaranteed residual values	**-13**	**-17**
Present value of minimum lease payment receivables	**449**	**548**

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

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

	Not allocated		Allocated		Total	
Home savings sum (€ million)	Number of contracts	Home savings sum	Number of contracts	Home savings sum	Number of contracts	Home savings sum
Balance as at Dec. 31, 2022	**6,750,416**	**297,449**	**499,096**	**15,570**	**7,249,512**	**313,019**
Additions in 2023 as a result of						
New contracts (redeemed contracts)[1]	449,610	30,879	–	–	449,610	30,879
Transfers	15,035	617	1,280	97	16,315	715
Allocation waivers and cancellations	5,139	228	–	–	5,139	228
Splitting	113,209	–	263	–	113,472	–
Allocations and acceptance of allocations	–	–	544,654	18,224	544,654	18,224
Other	92,980	4,161	48	4	93,028	4,165
Total	**675,973**	**35,886**	**546,245**	**18,325**	**1,222,218**	**54,211**
Disposals in 2023 as a result of						
Allocations and acceptance of allocations	-544,654	-18,224	–	–	-544,654	-18,224
Reductions	–	-1,062	–	–	–	-1,062
Termination	-263,157	-8,194	-393,891	-11,127	-657,048	-19,322
Transfers	-15,035	-617	-1,280	-97	-16,315	-715
Pooling[1]	-75,667	–	-1	–	-75,668	–
Expiration	–	–	-71,357	-1,943	-71,357	-1,943
Allocation waivers and cancellations	–	–	-5,139	-228	-5,139	-228
Other	-92,980	-4,161	-48	-4	-93,028	-4,165
Total	**-991,493**	**-32,259**	**-471,716**	**-13,400**	**-1,463,209**	**-45,659**
Net addition/disposal	-315,520	3,627	74,529	4,926	-240,991	8,552
Balance as at Dec. 31, 2023	**6,434,896**	**301,076**	**573,625**	**20,496**	**7,008,521**	**321,572**

1 Including increases

Volume of unredeemed contracts

Home savings sum (€ million)	Number of contracts	Home savings sum
Contracts signed prior to Jan. 1, 2023	51,120	4,771
Contracts signed in 2023	173,715	13,387

46. Changes in the allocation assets of Bausparkasse Schwäbisch Hall

	2023 € million
Additions	
Amounts carried forward from 2022 (surplus)	
Amounts not yet disbursed	63,360
Additions in 2023	
Savings deposits (including credited residential construction bonuses)	9,818
Repayable amounts (including credited residential construction bonuses)[1]	1,285
Interest on home savings deposits	772
Total	**75,234**
Withdrawals	
Withdrawals in 2023	
Amounts allocated (if disbursed)	
Home savings deposits	10,991
Home savings loans	3,224
Repayment of deposits on non-allocated home savings contracts	1,724
Surplus of additions	
(Amounts not yet disbursed) at the end of 2023[2]	59,295
Total	**75,234**

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: €136 million
b) undisbursed home savings loans from funds allocated: €3,016 million

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

	Mortgage Pfandbriefe		Public-sector Pfandbriefe	
	Dec. 31, 2023 € million	Dec. 31, 2022 € million	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Ordinary cover	**90,050**	**84,293**	**13,178**	**13,930**
Loans and advances to banks	43	32	315	202
of which: Mortgage loans	43	32	–	–
of which: Local authority loans	–	–	315	202
Loans and advances to customers	89,860	84,114	11,680	12,333
of which: Mortgage loans	89,860	84,114	23	27
of which: Local authority loans	–	–	11,657	12,306
Investments consisting of bonds and other fixed-income securities	–	–	1,183	1,395
Property, plant and equipment	147	147	–	–
Extended cover	**3,076**	**2,271**	**–**	**50**
Loans and advances to banks	135	225	–	–
Investments consisting of bonds and other fixed-income securities	2,941	2,046	–	50
Total cover	**93,126**	**86,564**	**13,178**	**13,980**
Pfandbriefe requiring cover	**-77,757**	**-72,579**	**-10,700**	**-10,920**
Nominal excess cover	**15,369**	**13,985**	**2,478**	**3,060**
Present value of excess cover	**17,417**	**16,286**	**2,499**	**2,895**
Risk-related present value of excess cover	**15,809**	**14,512**	**2,199**	**2,458**

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, 2023 € million	Dec. 31, 2022 € million
Mortgage Pfandbriefe	**77,757**	**72,579**
≤ 6 months	4,118	3,474
> 6 months and ≤ 12 months	3,237	2,474
> 12 months and ≤ 18 months	3,554	2,813
> 18 months and ≤ 2 years	4,143	2,456
> 2 years and ≤ 3 years	8,074	5,326
> 3 years and ≤ 4 years	8,785	6,777
> 4 years and ≤ 5 years	7,679	8,009
> 5 years and ≤ 10 years	22,278	24,043
> 10 years	15,889	17,207
Public-sector Pfandbriefe	**10,700**	**10,920**
≤ 6 months	590	515
> 6 months and ≤ 12 months	444	383
> 12 months and ≤ 18 months	795	588
> 18 months and ≤ 2 years	496	345
> 2 years and ≤ 3 years	872	1,323
> 3 years and ≤ 4 years	1,073	874
> 4 years and ≤ 5 years	771	574
> 5 years and ≤ 10 years	2,130	2,309
> 10 years	3,529	4,009

Fixed-interest periods of cover assets

	Dec. 31, 2023 € million	Dec. 31, 2022 € million
Mortgage Pfandbriefe	**93,126**	**86,564**
≤ 6 months	4,560	3,835
> 6 months and ≤ 12 months	4,084	4,135
> 12 months and ≤ 18 months	3,995	3,915
> 18 months and ≤ 2 years	5,371	3,570
> 2 years and ≤ 3 years	8,858	8,516
> 3 years and ≤ 4 years	8,974	7,554
> 4 years and ≤ 5 years	7,196	7,941
> 5 years and ≤ 10 years	27,877	26,963
> 10 years	22,211	20,135
Public-sector Pfandbriefe	**13,178**	**13,980**
≤ 6 months	588	628
> 6 months and ≤ 12 months	718	677
> 12 months and ≤ 18 months	489	572
> 18 months and ≤ 2 years	612	702
> 2 years and ≤ 3 years	1,325	1,169
> 3 years and ≤ 4 years	921	1,161
> 4 years and ≤ 5 years	894	879
> 5 years and ≤ 10 years	2,889	3,193
> 10 years	4,742	4,999

4 properties were in forced administration as at the reporting date (December 31, 2022: 11).

48. Board of Managing Directors of the BVR

Marija Kolak (President)

Dr. Andreas Martin (until June 30, 2023)

Tanja Müller-Ziegler (since April 1, 2023)

Daniel Quinten

Berlin, June 24, 2024

National Association of German Cooperative Banks BVR

Board of Managing Directors

Marija Kolak	Tanja Müller-Ziegler	Daniel Quinten

Annex: Significant Financial Reporting Principles

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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, 2023, to be prepared by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR), have 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, 2023 (pursuant to IAS 1.81A, IAS 1.81B, IAS 1.82 (b), IAS 1.82 (ca) to IAS 1.89, IAS 1.91 (b) and IAS 1.97 to IAS 1.105)
  - Statement of comprehensive income for the period January 1 to December 31, 2023 (pursuant to IAS 1.81A, IAS 1.81B, IAS 1.82 (b), IAS 1.82 (ca) to IAS 1.89, IAS 1.91 (b) and IAS 1.97 to IAS 1.105),
  - Balance sheet as at December 31, 2023 (pursuant to IAS 1.54 (a) to (d), (g) to (m) and (n) to (r), IAS 1.55 to IAS 1.78, IAS 1.79 (b) and IAS 1.80A),
  - Statement of changes in equity for the period from January 1 to December 31, 2023 (pursuant to IAS 1.106 to IAS 1.106A) and IAS 1.108 to IAS 1.110 sentences 1 to 3),
  - Statement of cash flows for the period January 1 to December 31, 2023 (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, 2023

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 not fully determined 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, Frankfurt/Main (DZ BANK), Münchener Hypothekenbank eG (MHB), the BVR protection scheme (BVR-SE), and BVR Institutssicherung GmbH (BVR-ISG).

Procedures of consolidation

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

As 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), it has to be assessed whether control or significant influence within the meaning of IFRS 10 and IFRS 11, respectively, can be assumed to exist or whether interests in companies overall have to be reported as other shareholdings under “Equity investments” in the balance sheet item “Investments.” In particular, this applies to the situation when control or significant influence would result solely from the aggregation of the shareholding ratio of individual consolidated companies without the possibility of control or significant influence being exercised by a consolidated company as a whole through direct or indirect ownership arising from the shareholdings. The following rules apply if there is evidence that control or significant influence exists.

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 generally 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 and financial assets that are acquired for the purpose of selling them in the near term. In addition, this sub-category comprises financial assets that are a component 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, and 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. Any changes in the fair value of instruments allocated to the category "financial assets mandatorily measured at fair value through profit or loss" have to be recognized in profit or loss.

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. All changes in the fair value have to be recognized in the category "Contingent considerations in a business combination."

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 not resulting from impairment or currency translation 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" covers financial liabilities that are issued with the intention of repaying them in the near term and financial liabilities that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that are not designated as hedging instruments also have to be included in this subcategory. Any changes in the fair value of instruments allocated to the category "financial liabilities mandatorily measured at fair value through profit or loss" have to be recognized in profit or loss.

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. All changes in the fair value have to be recognized in the category "Contingent considerations in a business combination."

Financial liabilities designated as at fair value through profit or loss (fair value option)

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

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

Financial liabilities measured at amortized cost (AC)

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

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

In accordance with IAS 32.15–32, shares in partnerships have to be classified normally as debt instruments. Given their subordinated status compared with the liabilities of the partnerships concerned, non-controlling interests in this case have to be reported as subordinated capital. Profit attributable to non-controlling interests and not yet distributed 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 discounted to the balance sheet date.

In addition, this category has to include liabilities from investment contracts that are not designated as unit-linked insurance products. There is no significant transfer of insurance risk in these invest-

ment contracts and they do not therefore satisfy the criteria for an insurance contract under IFRS 17.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 at the time the commitment is made 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 and liabilities generally have to be recognized and derecognized using settlement date accounting. In the case of consolidated investment funds and the issue of certain securities, the financial instruments have to be recognized on the trade date.

All financial instruments have to be measured at fair value on initial recognition. In the case of financial assets or financial liabilities 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 as well as for loan commitments and financial guarantee contracts. In contrast, equity instruments and derivatives 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

- Finance lease receivables that fall within the scope of IFRS 16
- Trade receivables and contract assets that fall within the scope of IFRS 15

The calculation generally has to be made on the basis of the regulatory model (probability of default, loss given default, and expected loan exposure at default), with adjustments made to the model to meet IFRS 9 requirements.

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 requiring an allocation to Stage 3. 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, individual contractual 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 and an allocation to Stage 3 is not required.

- Stage 3: Financial assets that are classified as credit-impaired due to objective evidence of impairment 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 coop-

erative 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 either on an individual or 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 measured 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 (except for the reserve from other comprehensive income) 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 no material effects compared with the application of average rates, the rate on the reporting date can be used. Any differences arising from currency translation have to be reported in the currency translation reserve.

Offsetting of financial assets and financial liabilities

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

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

Sale and repurchase agreements and securities lending transactions

Sale and repurchase agreements (repos) are transactions in which the parties agree the sale and subsequent repurchase of securities at a fixed price and time. The risks and rewards of ownership of the sold securities remain in full with the original seller, provided that the buyer is under an obligation to sell

back the securities. In case repos are entered into as original seller, the securities sold continue to be recognized on the balance sheet of the consolidated financial statements. A liability corresponding to the amount of the purchase price received is recognized. In case reverse repos are entered into as buyer, the securities purchased must not be recognized on the balance sheet of the consolidated financial statements. A receivable corresponding to the amount of the purchase price paid is recognized.

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

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

Collateral

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

Insurance business

General information on the accounting treatment of insurance business

Insurance contracts have to be recognized in accordance with the requirements of IFRS 17. Investment contracts 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 investments held by insurance companies and other assets held by insurance companies have to be deducted from the assets' carrying amounts or have to be reported in the reserve from other comprehensive income, respectively. The net presentation method applies to loss allowances 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 explanatory notes to the balance sheet items.

Other liabilities of insurance companies include the benefit obligations under investment contracts for which no material insurance risk is assumed when the policy is concluded. These have to be reported under liabilities from investment contracts

within payables and residual other liabilities. 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. As part of subsequent measurement, 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, based on the requirements of 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.

First-time application of IFRS 17

As of January 1, 2023, IFRS 17 Insurance Contracts replaced the previous standard for accounting for insurance contracts, IFRS 4 Insurance Contracts, and is mandatory for insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. IFRS 17 establishes the principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued.

The material difference between IFRS 17 and IFRS 4 is the uniform application of accounting policies in areas such as revenue recognition, the measurement of liabilities, and the realization of gains at the start of the contract. Under IFRS 4, entities were permitted to continue with their existing accounting approach. These approaches were shaped by various national accounting principles, making it almost impossible to compare financial statements.

IFRS 17 requires comparative information to be presented in the notes for the period immediately preceding the date of initial application of IFRS 17, i.e. for 2022 if initial application is in 2023. To calculate the comparative information, IFRS 17 requires fully retrospective application of the standard for insurance contract accounting in accordance with IAS 8. The fully retrospective approach stipulates that each group of insurance contracts (GIC) is recognized and measured at the transition date as if the insurance contracts had always been accounted for in accordance with IFRS 17. Any existing line items on the balance sheet that would not exist had IFRS 17 always applied must be derecognized and any resulting net differences must be recognized in equity. The idea is that the difference between balance sheet items under IFRS 4 and IFRS 17 is recognized in retained earnings, i.e. the IFRS 4 balance sheet items are derecognized, and the IFRS 17 balance sheet items recognized, in each case against retained earnings in other comprehensive income If the fully retrospective approach is impracticable, IFRS 17.C5 in conjunction with IFRS 17.C3

permits use of a modified retrospective approach or a fair value approach at the transition date.

The objective of the modified retrospective approach is to achieve the closest outcome to fully retrospective application possible using reasonable and supportable information available without undue cost or effort. If the entity cannot obtain the reasonable and supportable information necessary to apply the modified retrospective approach, it must apply the fair value approach.

When applying the fair value approach, the entity determines the contractual service margin (CSM) or loss component of the liability for remaining coverage at the transition date as the difference between the fair value of a GIC at that date and the fulfillment cash flows measured at that date. The fair value of the GIC is determined on the basis of the price that would be paid in an orderly transaction between market participants at the measurement date (exit price). In determining that fair value, the entity must not apply the rules on fair value measurement in IFRS 13.47. To measure the market-based fair value of future cash flows, various adjustments are made to calculate a risk premium and the discount factors. Such adjustments might be made, for example, to cover costs that cannot be allocated directly.

General measurement methods

IFRS 17 includes 3 measurement methods, the main one being the general measurement model. In addition, there is the premium allocation approach – a simplified approach used if no material differences are expected in the measurement of the benefit reserve compared to the general measurement model, or for short-term business with a maximum term of one year, as well as the variable fee approach for insurance contracts with direct participation features. All of the measurement models are used. However, the degree to which the measurement models are used in the individual business segments varies due to the differences in the nature of the aggregated business segments.

The general measurement model has to be used for inward reinsurance and for reinsurance contracts held (with the exception of the fire, property, and hail portfolios in inward reinsurance), the risk part of the casualty insurance with premium refund business in non-life insurance, and credit insurance as part of the personal insurance business.

The premium allocation approach has to be applied for the non-life insurance business (except for casualty insurance with premium refund), for the fire, property, and hail portfolios in inward reinsurance, for international travel healthcare insurance in personal insurance, and for reinsurance contracts held.

The variable fee approach has to be used for the personal insurance business (except for credit insurance and international travel healthcare insurance) and for the savings component in casualty insurance with premium refund in the non-life insurance business.

Insurance contract assets and liabilities

Benefit reserve

Fulfillment cash flows

For the non-life portfolios, cash flows – calculated using the general measurement model – for estimated future claims and the associated premiums and costs are needed to be able to determine the benefit reserve. The estimated future cash flows have to be determined using estimated ratios, realization patterns, estimated premiums written, and estimated premiums earned.

The following ratios have to be modeled:

- Estimated ultimate claims rates in order to model the future claims expenses for compensation payments, recourse, excess proceeds, and loss sharing agreements as well as external claim settlement costs,

- Expected ratios for internal claim settlement costs, insurance acquisition cash flows, administration costs, fire protection taxes, premium refunds, and lapse.

Various realization patterns have to be modeled for settlement purposes. The payment pattern for future compensation payments, recourse, excess proceeds, loss sharing agreements and claim settlement costs have to be derived from the settlement pattern used in the recognition of claims provisions. In addition, various payment patterns for the insurance acquisition cash flows, administration costs, fire protection taxes, and premium refunds have to be modeled.

In the personal insurance business, the fulfillment cash flows have to be based on a projection of future cash flows within the contract boundaries. This has to take account of all cash inflows and outflows that are needed to settle the insurance liabilities during their term to maturity. These have to comprise premium payments and related cash flows, all payments to policyholders and beneficiaries (including future policyholder participation), and all expenses incurred in order to fulfill the insurance obligations, where these can be allocated directly.

Premiums, guaranteed benefits, and costs have to be projected for the main portfolios on an individual contract basis until expiry. The stochastic measurement have to be primarily based on these deterministic cash flows, with other factors such as dynamic policyholder behavior also taken into account. Business that is not modeled on an individual contract basis has to be taken into account using an appropriate scaling approach.

In addition to the product and portfolio data at the start of the projection, assumptions about changes in the portfolio over the course of the projection also have to be incorporated. These are assumptions about biometrics and policyholder behavior, such as second-order mortality probabilities, probabilities for lump-sum payments, and lapse probabilities. Inflation assumptions have to be taken into account in the cost projection.

To measure the policyholder participation payments, the policyholder participation has to be allocated for each year of the projection depending on the funds available from the provision for premium refunds under HGB. The HGB provision for premium refunds is updated in accordance with the German Minimum Addition Regulation (MindZV).

The value of the options and guarantees have to be determined using stochastic simulation.

In inward reinsurance, the fulfillment cash flows – both for the benefit reserve and for the provision for claims outstanding – have to be measured using estimates of future cash flows determined in accordance with IFRS 17.33-35 and taking account of IFRS 17.B65, B66, and B66(a). A distinction has to be made in the modeling between cash flows related to premiums, cash flows related to benefits, and cash flows related to costs. The costs modeled have to include the administration costs that can be allocated and other insurance-related costs. IFRS 17.59(a) applies only if insurance acquisition cash flows within the meaning of IFRS 17 exist.

The estimates of future cash flows have to be determined for each GIC, broken down into items relating to premiums, claims, and costs, using a multi-stage model as a best estimate on the basis of past data and future forecasts. The future cash flows of the outstanding payments have to be generated using actuarial payment flow patterns. Changes to estimates of future cash flows predominantly have to be based on information from previous insurers and on historic and current data. Changes to estimates that are based on the exercise of judgment have to be documented separately. The modeling of the estimated cash flows has to be based on the 5 biggest currencies in terms of volume (euro, US dollar, pound sterling, Japanese yen, and South African rand).

The outstanding cash flows then have to be divided into those for coverage already provided (provision for claims outstanding) and those for coverage still outstanding (benefit reserve). The future cash flows have to be determined on an underwriting year basis, although forecasts of future claims and the settlement of claims incurred are combined. It is therefore necessary to allocate the remaining claims provision to future coverage and past coverage. The basis for this distribution has to be the breakdown of the total estimate of premiums at each balance sheet date. Analysis of the settlement year enables the premium payments to be allocated to the actual coverage provided by the previous insurer.

Risk adjustment for non-financial risks

A confidence level technique has to be used to determine the risk adjustment for non-financial risk. A uniform confidence level of 75 percent has to be set. The option to not split the change in the risk adjustment into an insurance service component and an insurance finance component may not be exercised. When determining the risk adjustment for each GIC, no risk compensation effects are taken into account that go beyond the level of the individual legal entity.

Discount rates

All cash flows have to be discounted with a risk-free yield curve that has been adjusted to reflect the liquidity characteristics of the insurance contracts. The liquidity of an insurance contract has to be determined by the predictability of its cash flows. The amount of the liquidity premium is derived from the liquidity of the reference market. Uncertainties in determining the discount rates and, in particular, the differences between different insurance contracts have to be taken into account in the measurement of the fulfillment cash flows at another point and are thus not taken into account by adjusting the yield curve. The relevant uncertainties arising from financial risk have to be factored into the estimate of the cash flows as part of a stochastic measurement that has to be based on up-to-date market prices of relevant hedging instruments. Non-financial uncertainties have to be reflected in the risk adjustment for non-financial risks. No further differentiation in terms of liquidity has to be made therefore in the measurement yield curve. The yield curve has to be determined for each currency using a bottom-up approach. In a two-step process, the risk-free and liquid basic yield curve has to be determined and then adjusted for an illiquidity premium.

The risk-free, liquid basic yield curve has to be determined using the risk-free, liquid swap rates based on 6M Euribor, which have to be derived from observable market prices and which have to be extrapolated for maturities for which no observable market prices can be determined. The Nelson Siegel method has to be used for the extrapolation. If no suitable discount rates are observable in the market, they have to be estimated in accordance with IFRS 17.B78. Market data that is fundamentally observable but cannot be obtained from liquid markets with sufficient transaction volumes may not be regarded as reliable. In this case, judgment has to be exercised in order to assess the degree of similarity between the features of the insurance contracts to be measured and the observable market prices.

To reflect the liquidity characteristics of the insurance contracts, the risk-free, liquid basic yield curve has to be adjusted for an illiquidity premium. As the complete illiquidity of a cash flow is, by definition, not observable in the market, it has to be determined only approximately from observable market data. This process of determination results in a lower-end barrier for the complete illiquidity premium and thus in an abstract, risk-free, and completely illiquid yield curve pursuant to IFRS 17.B84. Higher illiquidity premiums cannot be established due to a lack of available data and are thus not estimated on the basis of reliable data. To determine the illiquidity premium from market data, the yield differential between German Pfandbriefe and German government securities with 1, 5, and 10-year maturities as at the reporting date have to be used,

with interpolation between these maturities. Estimation uncertainties are also taken into account for longer yield differentials.

In inward reinsurance, there are transactions in foreign currencies for which yield curves for discounting also have to be provided in the following main currencies: US dollar, pound sterling, Japanese yen, and South African rand. The foreign currency curves have to be determined using a methodology that involves determining the difference between the risk-free interest rates and the risk-free euro yield curve and adjusting the euro IFRS 17 discount curve by the individual maturity-related interest-rate differentials.

Investment component

The investment component of a contract has to be determined by calculating the amount that has to be repaid to the policyholder in all scenarios that have commercial substance, irrespective of the occurrence of an insured event. Investment component payments may not be recognized as part of insurance revenue or insurance service expenses.

In personal insurance, the investment component has to be calculated as the cash surrender value defined in the contract terms and conditions less any fees due. Policyholder participation in the form of the interest-bearing accumulated amount or unit-linked policyholder participation also have to constitute an investment component.

In inward reinsurance, the amount of the guaranteed payment to the ceding insurer and thus the investment component have to be calculated as the minimum of the benefit and the contractual agreements if no claim is made. Owing to the nature of the reinsurance business, it has to be assumed that the guaranteed benefit if no claim is made is smaller than the benefits in a loss event. As the contractual terms and conditions are clearly defined, the amount of the investment component can be unequivocally determined when the contract is signed.

Contractual service margin (CSM)

At initial measurement, the CSM of a GIC essentially represents the unearned profit that has to be recognized in the future as the entity provides services under the insurance contracts in the group.

In the case of insurance contracts without direct participation features, the CSM has to be calculated at each reporting date from the carrying amount at the end of the preceding reporting period, adjusted by the following:

- The CSM for all new contracts added to the GIC over the course of the year,
- The interest accreted on the carrying amount of the CSM during the reporting period,
- The changes to the fulfillment cash flows relating to future services,
- The effect of any currency exchange differences on the CSM,
- The amount recognized as insurance revenue on the basis of the services performed during the year.

In the case of insurance contracts with direct participation features, the CSM has to be calculated at each reporting date from the carrying amount at the end of the preceding reporting period, adjusted by the following:

- The CSM for all new contracts added to the GIC over the course of the year,
- The change in the amount of the entity’s share of the fair value of the underlying items,
- The changes to the fulfillment cash flows relating to future services,
- The effect of any currency exchange differences on the CSM,
- The amount recognized as insurance revenue on the basis of the services performed during the year.

In each period, a share of the CSM of a GIC has to be recognized in profit or loss in order to reflect

the services provided on the basis of the number of coverage units provided in the year. At each reporting date, the coverage units have to be reviewed and updated for each contract, taking account of the scope of the services provided and the expected coverage period.

The projected risk result, which can be applied consistently across all life insurance product types, has to be used as a measure of the benefits provided by insurance coverage in life insurance. In health insurance, the total value – calculated for each rate scale – of the profile of benefit drawdown normalized to a single age has to be used. Both the projected risk result and the rate-scale-specific benefit drawdown constitute an adequate approximation for the rate-scale-specific insurance benefit payment. For investment-related services, the amounts invested in the capital markets have to be used. The projected benefit reserve under HGB has to be an equivalent value derived from the setting of insurance rates and HGB accounting principles.

In the case of biometric products, the relative weighting between the benefits provided by insurance coverage and the investment-related service is significantly different from that for savings-focused products. This difference reflects the character of the service being provided. Biometric protection predominates in the case of biometric products. By contrast, the investment-related service is a more important aspect in the case of savings-focused products, although biometric protection is not to be regarded as immaterial.

In the personal insurance business, policyholders of insurance contracts with direct participation features share in both the risk result and the gains and losses on investments. This participation can be structured as a variable fee paid to the entity for the services to be provided. The insurance coverage protection has to be weighted using the projected risk result, with the weighting determined in line with MindZV. The weighting of the investment-based service has to be based on the range determined for shareholders’ historical share of gains and losses on investments held by insurance companies from the projected HGB benefit reserve. Finally, the weighting factors have to be used to determine the ratio of the fees for the benefits provided by insurance coverage to the investment-related service.

In inward reinsurance, the settlement pattern for premiums earned has to be used to measure the coverage units and amortize the CSM. Due to the contract-specific, complex structure of reinsurance products, there is not a more objective method of quantifying the insurance benefit payment that could be used to compare and contrast the individual contracts. Using premiums earned rather than premiums written ensures that amounts are accrued and recognized accordingly.

Provision for claims outstanding

In non-life insurance, the provision for claims outstanding in respect of a GIC has to be recognized in the amount of the fulfillment cash flows related to claims incurred. The future cash flows have to be discounted at current discount rates.

To calculate the provision for claims outstanding, the following 3 components must be measured:

Claims provision

Claims provisions are provisions for known claims and claims incurred but not reported. The final amount of the claims and the timing of payment are not known. Claims provisions contain compensation payments, annuities that have not been accepted, external claim settlement costs, internal claim settlement costs, recourse, excess proceeds, and loss sharing agreements.

Claims provisions mainly have to be calculated using the chain ladder method or other actuarial loss reserving technique. The chain ladder method is an actuarial method of calculating claims provisions

on the basis of claim payments and claims expenses. This multiplicative reserving technique is the market standard in non-life insurance. It is based on the assumption that historical claim settlement patterns are indicative of future claim settlement patterns. It is also assumed that the individual years in which claims are incurred are independent of each other. Settlement for a particular year is based on a settlement pattern that is identical for all years. This settlement pattern is then used to estimate the expected future cash flows.

The very short period for the settlement of claims in the personal insurance business means that the claims provision in this business has to be calculated in the amount of the nominal values of the expected payments for claims incurred. In the life insurance business, benefits paid due to occupational incapacity or total unfitness for work are part of the liability for remaining coverage.

For calculation of the claims provision in inward reinsurance, please refer to the section on the liability for remaining coverage and the information on the difference between the liability for remaining coverage and the liability for incurred claims.

Provision for accepted annuities

Provisions for accepted annuities cover obligations from claims that previously had to be recognized in the claims provisions and were annuitized. Annuities can arise in the liability insurance, casualty insurance, and motor vehicle liability insurance businesses. These annuities have to be measured in the same way as in the life insurance business.

Risk adjustment

A confidence level technique has to be used to determine the risk adjustment. A uniform confidence level of 75 percent has to be set. The necessary distribution assumptions have to be determined on the basis of stochastic simulations and using market-standard distributions, particularly log-normal distribution The parameters used have to include the expected values and the forecasting errors in the recognition of claims provisions.

Recognition of onerous business on the balance sheet

If, for contracts not measured using the premium allocation approach, the increase in the fulfillment cash flows resulting from changes in estimates relating to remaining coverage exceeds the amount of the CSM, a loss has to be recognized in profit or loss in the amount of this difference. The loss component has to be recognized as part of the liability for remaining coverage and reduced to zero on a systematic basis over the coverage period. If, for contracts measured using the premium allocation approach, facts and circumstances indicate at any time during the coverage period that a GIC is onerous, the loss has to be recognized in profit or loss. The benefit reserve has to be increased by the amount by which the current estimates of the fulfillment cash flows relating to remaining coverage exceed the carrying amount of the benefit reserve. This difference also has to be reduced to zero on a systematic basis over the coverage period.

The change in the liability for remaining coverage due to onerous contracts also results in a pro rata change in the loss recovery component from reinsurance contracts held.

Option of presentation in other comprehensive income

The accounting policy choice to disaggregate and recognize the total insurance finance income or expenses in profit or loss and in other comprehensive income has to be exercised (option of recognition in other comprehensive income). Exercising this option pursuant to IFRS 17.89(b) for insurance contracts with direct participation features, the amount recognized in other comprehensive income at the transition date is equal to the cumulative amount of the underlying items recognized in other

comprehensive income. On subsequent measurement, insurance finance income or expenses has to be disaggregated in such a way that this amount combined with the income and expenses recognized in profit or loss for the underlying items gives a balance of zero for the items presented separately in profit or loss. Exercising the option of recognition in other comprehensive income in accordance with IFRS 17.88(b) for insurance contracts without direct participation features, the amount recognized in other comprehensive income in accordance with IFRS 17.C19(b)(i) has to be calculated on the basis of the discount rates determined at initial recognition of a GIC. On subsequent measurement, insurance finance income or expenses has to be disaggregated in such a way that the cumulative amount recognized in other comprehensive income always corresponds to the difference between the carrying amount of the GIC applying the yield curve valid as at the reporting date and the carrying amount of the GIC applying the yield curve valid at the time of initial recognition of the GIC (locked-in yield curve). The locked-in yield curve to be used for the claims provision for insurance contracts under the premium allocation approach is determined on the basis of when the claim is incurred.

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 other net operating 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 has to be recorded on the basis of the interest rate implicit in the lease or the lessee's incremental borrowing rate, the principal portion has to reduce the liability.

Income

Interest and dividends received

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

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

Interest income and interest expense arising in connection with derivatives that were not entered into for trading purposes or are used to hedge financial instruments for which the fair value option was exercised, have to be reported under net interest income.

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 ECB's TLTRO III program 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. Fees for administration and safe custody as part of the securities business and asset management as well as for the provision of financial guarantees are recognized over the period in which the related service is performed.

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 has to be 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

The amounts recognized in the income statement and statement of comprehensive income have to be disaggregated into other insurance gains and losses, and insurance finance income or expenses. Other insurance gains represent the amount recognized to depict the provision of services relating to the GIC in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these services. The other insurance gains

and losses recognized in profit or loss must not contain any investment components.

Insurance finance income or expenses generally has to comprise the changes in the carrying amount of the GIC arising from the effect of the time value of money, the effect of financial risk, and changes in these effects. The accounting policy choices of partial presentation in other comprehensive income pursuant to IFRS 17.88(b) and IFRS 17.89(b) have to be exercised consistently.

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 have to 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 categories "Financial assets measured at fair value through profit or loss" and "Financial liabilities 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 financial 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, investment shares, 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 immaterial 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.

Loss allowances also has to cover 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 also have to be 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, subsequently less cumulative depreciation and impairment losses.

Right-of-use assets from leases have to be recognized in accordance with lease accounting rules and have to be reduced subsequently 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 have to be recognized 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 in general for temporary differences between the carrying amounts recognized in the consolidated financial statements and those of assets and liabilities recognized in the financial statements for tax purposes. Deferred tax assets also have to be recognized in respect of as yet unused tax loss carryforwards, provided that utilization of these loss carryforwards is sufficiently probable. Deferred taxes are not required to be recognized for cooperative banks in case there is an excess of deferred tax assets. Deferred tax assets have to be measured using the national and company-specific tax rates expected to apply at the time of realization.

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

Other assets

Other assets comprise, among others, intangible assets and assets held for sale.

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

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

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

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

Assets and disposal groups classified as held for sale have to be shown on the balance sheet under other assets as assets and disposal groups classified as held for sale and in other liabilities as liabilities included in disposal groups classified as held for sale. Gains and losses arising on measurement as well as gains and losses on the sale of these assets or disposal groups that do not belong

to a discontinued operation have to be recognized in the income statement under other net operating income. If the assets or disposal groups belong to discontinued operations, all gains and losses arising from these assets and disposal groups must be shown separately as profit/loss from discontinued operations.

Deposits from banks and customers

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

Deposits from banks and customers generally 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 expenses 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 have to be 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. In Germany, the 2018 G mortality tables published by Professor Dr. Klaus Heubeck have to be used to estimate average life expectancy; the applicable mortality tables have to be used in foreign countries. 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 do not have to be included in this process.

Plan assets in accordance with IAS 19 have to include both the amount determined for the consolidated financial statements of DZ BANK and the amount that is offset against the pension obligations at the cooperative banks which are settled by R+V Pensionsversicherung a. G. The remaining plan assets reported by the cooperative banks may not be 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.

Some of the cooperative banks have transferred their pension obligations to a pension fund, R+V Pensionsfonds AG (indirect pension obligation). The resulting pension obligations are matched with guarantee assets in an equivalent amount. Offsetting is not applied. These indirect pension obligations have to be reported in the item "Liabilities from capitalization transactions" under "Other liabilities of insurance companies." The guarantee assets are reported as part of assets related to unit-linked contracts under investments held by insurance companies.

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, retained earnings, 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:

- Disclosure of information required pursuant to IFRS 12 “Disclosure of Interests in Other Entities”
- 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 pension 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). The disclosures in relation to own funds and capital requirements have to be based on the information of the extended aggregated calculation (EAC) in accordance with article 49 (3) CRR in conjunction with article 113 (7) CRR
  - As at December 31, 2023, the presentation of the leverage ratio of the bank-specific protection system of the Cooperative Financial Network has to comply with the requirements set out in article 429 CRR. Tier 1

capital has to be used as the capital measure pursuant to the extended aggregated calculation in accordance with article 49 (3) CRR, adjusted by any Tier 1 capital items of the members of the bank-specific protection system held internally within the Cooperative Financial Network. The exposure values have to be determined by aggregating the individual figures reported for the leverage ratio of all member institutions and adjusted by material items held internally within the Cooperative Financial Network.
  - The cooperative banks and Münchener Hypothekenbank have to be included on an individual basis using the respective reports. DZ BANK has to be taken into account based on its own reporting on a consolidated basis. The report submitted by the DZ BANK Group has to be based on the regulatory scope of consolidation.
- The underlying report forms of the members of the Institutional Protection Scheme (IPS) as at December 31, 2022 have to comply with the 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 insurance business in accordance with IFRS 17.130 and IFRS 17.132(b)
- 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 and of regulatory capital ratios.

The Volksbanken Raiffeisenbanken Cooperative Financial Network

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	no support	*
Outlook	Stable	Stable
Individual rating	aa–	a+

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

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